ACS Submission: Payments Landscape Review

1. ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the Payments Landscape Review. ACS represents 33,500 local shops and petrol forecourts including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Nisa and Costcutter. Further information about ACS is available at Annex A.

2. Convenience retailers make a valuable contribution to financial inclusion for communities across the country, providing bill payment services (76%), cashback (68%), free-to-use ATMs (49%), pay-to-use ATMs (22%) and Post Offices (22%)[1]. The convenience sector is also unique amongst business sectors by trading across all urban (37%), suburban (26%) and rural (37%) locations and drawing on custom from all socioeconomic and demographic backgrounds[2].

3. Convenience retailers operate consumer-led businesses which respond to changing demands for payment services from their customers. We do not support one payment method over another but want consumers to have their preferred payment options available to them. Convenience stores have a low average basket spend of £7.46[3] with 69% of transactions paid using cash in independent stores[4]. The predominant payment methods accepted are cash (in 100% of stores), debit (95%), contactless (88%) and mobile payments (80%)[5]. We can provide monthly trackers of trends in payment method use to HMT on request.

4. The payments mix and use of payment methods in the sector is diversifying rather than following a simplistic transition from cash to digital. Only 13% of retailers expect to handle more cash in five years' time, compared to 74% who either disagree or strongly disagree[6]. August 2020 polling of 1,210 retailers finds that for most the total cost of processing cash and card payments (including labour time, service charges and banking costs) is about the same (58%), with cash cheaper for 31% of stores and card cheaper for 11%[7].

5. We understand HMT intends to use this review to explore opportunities for further innovation on payments, but the Government should also ensure a continued focus on supporting businesses to manage escalating payments costs. Acquirer fees to process card transactions are rising significantly and remain higher for both small businesses and lower value payments. The Payment Systems Regulator should implement outcomes from its market review as soon as possible and we support the remedies identified in its interim report. The Government must also prioritise delivering legislation which secures long-term access to cash by restoring the independent setting of LINK interchange fees for ATMs. Both implementing the acquirer market review's recommendations and securing access to cash in this way will deliver better outcomes for retailers and consumers as end users, in line with the Government's key objectives.

For more information on this submission, please contact ACS Public Affairs Manager Steve Dowling via steve.dowling@acs.org.uk or 01252 533009.

[1] ACS Local Shop Report 2020
[2] ACS Local Shop Report 2020
[3] ACS Local Shop Report 2020
[4] Evolution of Payments in the UK's Independent Convenience Stores. The Retail Data Partnership. September 2020
[5] ACS Local Shop Report 2020
[6] ACS Voice of Local Shops Survey: May 2018
[7] ACS Voice of Local Shops Survey: August 2020

Q1) To what extent do you consider that the government's objective that UK payments networks operate for the benefit of end users has been met?

6. Important strategic and practical steps have been made towards the government's objective for payments networks to operate for the benefit of end users. However, regulators still need address access to cash and the card acquirer market.

Establishing the Payment Systems Regulator

7. ACS supported the establishment of the Payment Systems Regulator. Prior to the PSR, the self-regulated Payments Council was responsible for ensuring payments worked for all interested parties including retailers and ultimately consumers, despite decision-making processes which concentrated influence from banking interests which also predominantly owned payments infrastructure and set the criteria for access to payment systems[8]. ACS has worked closely with the PSR since shortly after its launch in 2015 and we have developed strong links with the policy and stakeholder engagement teams. The PSR has made clear progress towards its objective for end users but we would encourage its consultation processes to ensure appropriate weight is given to business and consumer stakeholder views as well as the financial industry.

Banning Payment Surcharges

8. The Payment Services Regulations 2017 were introduced mainly to stop excessive card payment charges by online retailers and service providers but were also relevant to bricks and mortar retailers including convenience stores by preventing retailers from charging customers based on their choice of payment method.

9. ACS published an advice guide to raise awareness and promote compliance amongst retailers[9]. Polling of 1,210 independent retailers via the November 2017 edition of ACS' Voice of Local Shops Survey showed that 13% were charging for card payments due to the disproportionately high cost of processing card payments for low value, low-margin transactions[10]. The February 2018 edition of the survey, gathered after the 13 January 2018 implementation of the ban, showed one-in-three (35%) convenience stores adopted minimum spend policies to use cards[11].

Capping Card Interchange Fees

10. The Payment Card Interchange Fee Regulations 2015 introduced caps on the interchange fees that may be charged by card schemes such as Visa and Mastercard per card transaction. Interchange fees form the largest part of Merchant Service Charges and were capped at 0.2% for debit cards and 0.3% for credit cards. This legislation was EU-derived but is an example where regulators did not adequately investigate concerns raised by stakeholders, including ACS, that the financial costs of price caps would be recuperated from additional charges elsewhere in the payments chain.

11. Since the regulations, unregulated card scheme fees have doubled and been fully passed through to merchants via acquirers. This could be an attempt by card schemes to recoup costs from charging smaller interchange fees to banks and building societies and is relevant to the ongoing work within the card acquirer market review. Regulators need to ensure card schemes do not abuse their duopoly via scheme fees.

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[8] Opening Up UK Payments: Response to Consultation HMT. October 2013.
[9] https://www.acs.org.uk/advice/payment-surcharging
[10] ACS Voice of Local Shops Survey: November 2017
[11] ACS Voice of Local Shops Survey: February 2018

Q2) What do you think industry, regulators and government should do in order to further ensure that UK payments networks operate for the benefit of end users?

12. The Payment Systems Regulator is currently building a strategy to guide its work programme based on the following three themes: innovation and future payment methods, competition, and choice and availability of payment methods. This forward-looking strategy should not detract from key forthcoming landmarks for the acquirer market review and access to cash.

13. Outcomes from the acquirer market review should be implemented as soon as possible after the existing consultation on remedies and access to cash legislation must be tabled early in the New Year before further related infrastructure is irreversibly lost. Imposing broad-brush requirements on retailers to accept cash or any payment method would distort incentives to improve the cash supply chain and the strategic infrastructure surrounding it, ultimately causing retailers to foot the bill and pass some of these costs indirectly onto all consumers.

Reviewing the Card Acquirer Market

14. We have identified the following key issues within the card acquirer market. These issues are collectively undermining the ability for retailers to minimise their costs associated with accepting card payments. These higher costs are then partly absorbed to remain competitive within a highly price sensitive grocery market and partly passed onto consumers where possible.

15. **Retailers cannot reasonably forecast bills –** The complexity of bills given to retailers by their acquirers undermines confidence to accurately compare with other providers. Some smaller retailers are still receiving 'blended' bills with no breakdown of costs, while retailers receiving 'interchange ++' pricing can struggle to forecast acquirer bills or account for costs outside the MSC when comparing acquirers.

16. **Bills are opaque –** Limited transparency about changes to charges affecting merchant billing is acting as a barrier to retailers understanding bills and comparing the wider acquiring market.

17. **Fee structures are diversifying** - Fees outside the MSC are adding to these costs, ranging from new acquirer authorisation fees, payment gateway fees, PCI compliance fees, setup fees, chargeback fees and minimum MSCs. These costs make it harder for merchants to compare the acquiring market and will influence how acquirers compete for merchants.

18. **The switching process is burdensome** - Switching card acquirers is a burdensome process for retailers, especially when handling possible changes in acquirer-supplied payment terminals and auditing PCI DSS compliance. These factors can prevent merchant switching behaviour.

19. The interim report aligns with ACS' evidence on the above and our full written evidence to the market review, finding that retailers with an annual turnover below £50m did not benefit from the interchange fee cap with scheme fees since doubling[12]. This has predominantly been due to the combined effect of blended billing, indefinite acquirer contracts and automatic renewals with high termination fees for associated POS equipment. Assessing retailer needs and accessing acquirer information is also a clear barrier to a functioning market with healthy switching activity.

20. The convenience sector would welcome swift action to implement the potential remedies suggested by the PSR. These include; requiring retailer contracts with acquirers to have an end date to prompt comparisons within the market, banning automatic renewals and reducing exit fees for hardware

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[12] Market review into the supply of card-acquiring services: Interim Report Payment Systems Regulator. September 2020.

contracts to accept card payments and making it easier for retailers to research and compare prices via price comparison tools and more accessible and interpretable pricing information

21. The acquirer market is the main contact point retailers have with the payments industry. Implementing these changes to the acquirer market should be prioritised to enable retailers to assess payments more practically for their businesses.

Ensuring Access to Cash via the LINK Scheme

22. Although consumers' use of payments is evolving towards a greater use of digital payments and lesser use of cash, reductions to LINK interchange fees implemented after breaking away from a cost-based and independent fee setting model have artificially accelerated this trend. This has driven ATM operators to convert considerable proportions of their FTU ATM estate hosted in independent retailers' stores to pay-to-use (PTU). This is dramatically changing ATM provision in the sector, reducing network costs for banks but to the detriment of access for consumers and national payments infrastructure.

23. Cash remains essential for a not insignificant proportion of the population; the Access to Cash Review found that 17% of the UK population, around 8 million adults, would struggle to cope in a cashless society[13]. Britain Thinks research commissioned by the Payment Systems Regulator also clearly demonstrates that consumers value cash. The research shows that 'the majority of consumers use cash regularly', with 83% of consumers using a free-to-use (FTU) ATM within the past month and 67% of consumers using cash more than once in the past week[14].

24. The PSR has been somewhat influential here with its Specific Direction, as well as the Financial Conduct Authority with its new guidance for ATM conversions. The JACS Group also has a valuable role to play to coordinate a full strategy on cash between the numerous regulators which can influence the future cash landscape.

Legislation

25. This includes the access to cash legislation committed to at Spring Budget 2020. Retailers should not be left to subsidise the ATM network while other machines are removed and access to cash blackspots are created.

26. Regulators need to ensure LINK sets interchange fees which account for operating costs for all stakeholders and supports a national, sustainable network. Specifically, we recommend the legislation mandates the setting of interchange fees via an independent cost study model; as was previously done by KPMG until 2016. Separately, an access to cash guarantee could be developed to ensure access is retained where exceptional circumstances do not lead to ATM deployment. This could be done, for example, by encouraging pilot and innovation programmes to provide solutions, a review of the LINK Financial Inclusion Programme or building on the Bristol University research by supplementing interchange fees for low transaction, isolated machines.

27. The fundamental reason LINK detracted from the independent cost study model was due to internal threats from its banking members to leave the scheme. To cover off this key issue, the legislation also needs to mandate bank participation within LINK to empower the scheme to effectively administer a sustainable and truly network which supplies access to cash.

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[13] Access to Cash Review December 2018.

[14] Britain Thinks. Access to cash research with consumers and small businesses July 2019.

28. Beyond legislation, regulators could play a valuable facilitatory role in repairing trust between ATM operators and retailers which will be fundamental to finding new host sites in access to cash blackspots. An industry-wide code of practice on ATM contracts could improve relationships between operators and potential retail partners by establishing clear standards, for example on fees and notifications before contract renewals.

Cashback

29. We are aware of ongoing pilot schemes aiming to incentivise retailer cashback services where access is limited. We support these schemes and have highlighted them to members; ultimately retailer participation is dependent on individual business assessments. The results of these trials should be looked at in detail, including any variance in the experience of different types of stores in different locations, to see where this model may be applicable in the future. As a principle, the Treasury's Access to Cash Review should ensure cashback services fully reimburse costs for retailers who provide this service without a purchase being required.

30. The trials and ongoing work to explore the viability of cashback should consider areas that retailers currently report as barriers, including the added costs they incur through card acquirer fees, the impact on queues, the impact on employee productivity by requiring a member of staff on the till, cash requirements in the till which can significantly increase business insurance premiums, and security risks. The aforementioned Britain Thinks research finds consumers overwhelmingly prefer using ATMs to access to cash for privacy and security reasons. Detailed analysis will help determine whether and to what degree cashback can supplement a national ATM network.

For more information on this submission, please contact ACS Public Affairs Manager Steve Dowling via steve.dowling@acs.org.uk or 01252 533009.

Annex A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.

WHO WE REPRESENT

INDEPENDENT RETAILERS

ACS represents almost 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES

ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES

ACS represents over 13,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR

In 2020, the total value of sales in the convenience sector was £44.7bn.

The average spend in a typical convenience store transaction is £7.46.

There are 46,955 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.

The convenience sector provides flexible employment for around 412,000 people.

13% of independent/symbol stores employ family members only.

22% of shop owners work more than 60 hours per week, while 24% take no holiday throughout the year.

72% of business owners are first time investors in the sector.

Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

80% of independent/symbol retailers have engaged in some form of community activity over the last year.

Between August 2019 and May 2020, the convenience sector invested over £585m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of around 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,700 stores. The Local Shop Report also draws on data from Lumina Intelligence, IGD, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit www.acs.org.uk