

APPENDIX 1.3

(referred to in paragraphs 6.282, 7.20, 7.41, 7.61 and Appendix 1.1, paragraph 5)

Public interest issues raised with credit card issuers

1. The matters described in the following paragraphs were raised with some, or all, of those bodies which issue credit cards or otherwise provide reference services. Where the matter was raised in relation to the activities of certain bodies only this is indicated by an appropriate footnote.

Charges to retailers (merchant service chargesMSCs)

2. Whether MSCs should be set at levels which reflect only:

(a) the costs of processing credit card transactions; and

(b) the benefits traders might expect to obtain from accepting credit cards, taking into account the comments of traders on the value of those benefits;

and which do not reflect the cost of credit advanced to cardholders, including the cost of any 'interest-free period', or of bad debts arising from the actions of credit cardholders, or the costs of setting up and operating accounts with credit cardholders, and do not necessarily make possible the payment of any significant level of interchange fee.

3. Whether the basis of charging should be changed to one of a flat rate per transaction instead of the present percentage of transaction value.

4. Whether the basis of calculation of MSCs (whatever methods are used) should be published.

5. Whether a maximum rate of MSC should be imposed (whether as a flat rate or a percentage) both to prevent smaller traders from paying excessive charges because of their very limited bargaining power, and to counter the effects of the limited competition in merchant acquiring (given that there are only two significant merchant acquirers, Barclays and the JCCC, with little prospect of new entrants).

No Discrimination

6. Whether the No Discrimination rules in Visa's Operating Regulations and in the Merchant Agreements between the JCCC and traders in the United Kingdom should be declared illegal so that traders could, as for all their other costs, decide how the MSC which they have to pay is reflected in the prices charged to some or all of their customers.

Terms and conditions applying to cardholders

Interest rates and other possible charges to cardholders

7. Whether the interest rates charged to cardholders have been and are too high:

(a) in relation to the costs to the banks concerned of obtaining the necessary funds; and

- (b) in relation to the rates (and other charges) for some of the other main forms of unsecured lending to private consumers by the banks concerned;

and whether this arises from the absence of competition in credit card interest rates between the United Kingdom Visa banks, between the Access banks, and between the United Kingdom Visa and Access banks, bearing in mind that the new entrant Visa card issuers have not offered significantly lower rates of interest except to particular groups of potential cardholders; whether therefore maximum rates of interest should be imposed.

8. Whether the costs of providing credit should be more equitably shared between cardholders, by making some or all of the following changes:

- (a) charging an initial and/or annual fee to some or all cardholders;
- (b) charging a transaction fee to cover the processing costs of individual transactions;
- (c) continuing with the present arrangement for the 'interest-free period' but reducing the period allowed for payment of the monthly account; and
- (d) charging different rates of interest to different groups of cardholders according to their creditworthiness.

9. Whether the JCCC's handling of all connected lender liability claims on behalf of all the Access banks prejudices the prospects of cardholder claimants in obtaining proper settlement of their claims.¹

Transparency of the credit card business

10. Given the legitimate degree of public concern both from traders and cardholders about the financial results of credit card operations whether credit card operators should publish supplementary financial information showing their revenue, costs and profit for these operations distinguishing, where applicable, between their card-issuing and merchant-acquiring operations.

The existence of the JCCC

11. Whether the JCCC should cease to exist, and whether that would:

- (a) promote competition between the Access banks in merchant acquisition, and especially in the negotiation of MSCs with traders; and
- (b) lead to an increase in competition between the Access banks in the recruitment of new cardholders, and in all aspects of the services provided to cardholders, as well as to a reduction in the costs of providing services.¹

Obstacles to new competitors

Obstacles to new competitors using the Access, MasterCard or Eurocard trade marks

12. Whether the arrangements of the Access scheme (including the requirement that members who are not shareholders of the JCCC should pay an annual fee calculated on the net book value of the JCCC's fixed assets) have deterred potential suppliers of credit card services from entering the United Kingdom market as users of Access, MasterCard or Eurocard trade marks, or may deter them in future.¹

¹ Raised with the JCCC, BoI, Lloyds, Midland, NAF, NatWest and RBS.

Obstacles to further Visa merchant acquirers

13. Whether the Commission should conclude that no United Kingdom member of Visa is likely to enter the United Kingdom credit card market for Visa merchant acquisition in competition with Barclays or TSB, particularly because of the inducement provided by the levels of interchange fees to leave merchant acquisition to the existing acquirers.¹

14. Whether Visa's rule, that a Visa member must, with certain exceptions, limit its card operations (except for cash advances) to the country in which it has its principal place of business, should be withdrawn, and whether in particular that might make more likely the entry into the United Kingdom credit card market of further foreign members of Visa, already acting as merchant acquirers in their own countries, who might also become merchant acquirers in the United Kingdom.¹

Obstacles to the introduction of a third major credit card

15. Whether the Commission should conclude that there is no realistic prospect of entry into the United Kingdom credit card market on any significant scale of new competitors, who are not members of Visa or Access, and who might provide significant competition against Visa and Access:

- (a) because no third supplier of international payments and credit authorisation services is available, in addition to Visa and MasterCard/Access, without which a third internationally-operating credit card group could not function;
- (b) because Visa and Access together hold such an overwhelming position in the United Kingdom credit card market as to deter any new entrant from offering an independent credit card, except on a small scale; and
- (c) because, as confirmation of (a) and (b) above, most recent new entrants into the market are issuing Visa cards.

Debit cards

16. Although debit cards fell outwith the Commission's terms of reference, the Commission provisionally concluded that the way in which Barclays had introduced its 'Connect' card, a Visa debit card, arose from the operation of the Visa complex monopoly. As a result the Commission raised the following issues:

- (a) whether, unless it can be shown that there are realistic prospects of United Kingdom Visa members issuing separate debit cards, the availability of which to traders would not be restricted by the Honour All Cards rule, it would be in the public interest that that rule should not be applied to Visa debit cards issued by United Kingdom Visa members; and
- (b) whether the application of the Honour All Cards rule, by restricting the number of traders who wish to accept Visa debit cards, might restrict the competition which the suppliers of credit card services would face from debit cards, in particular arising from the introduction of a national EftPos system, and from continued progress in the introduction of electronic systems of payment, both of which developments may lead to increases in the numbers of debit cards issued.²

¹Raised with Visa, Banco Bilbao Vizcaya, Bank of Cyprus (London) Ltd, BoS, Barclays, Beneficial, Chase, Co-op, Fleming, Girobank, Halifax, Hoare, Leeds Permanent, Lloyds, Midland, National & Provincial, Standard Chartered Bank, Town & Country, TSB and Yorkshire.

²Raised with Barclays, TSB and Visa.