

# **Credit Card Services**

A report on the supply of credit card services  
in the United Kingdom



THE MONOPOLIES AND MERGERS COMMISSION

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A report on the supply of credit card  
services in the United Kingdom

**Presented to Parliament by the Secretary of State for  
Trade and Industry by Command of Her Majesty  
August 1989**

## **Members of the Monopolies and Mergers Commission as at 26 May 1989**

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Mr D G Richards (*Deputy Chairman*)  
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<sup>1</sup>These members formed the group which was responsible for this report under the chairmanship of Mr H H Hunt (see Appendix 1.1, paragraph 2).

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# 1 Summary

1.1. On 27 May 1987 we were asked to report on whether a monopoly situation existed in relation to the supply of credit card services in the United Kingdom. At that time there was in effect only one merchant acquirer in the United Kingdom for each of the two international payments systems (MasterCard/Eurocard and Visa). The banks issuing credit cards offered similar terms and conditions and charged similar rates of interest. We were struck by the absence of competition.

1.2. During the course of our inquiry, there have been significant changes in the credit card market which have increased competition and hold out the prospect of further increase. Major building societies have entered the market, some banks have offered credit cards which give effectively lower rates of interest, and leading banks which had previously belonged only to one international payments system have become members of both. American Express has entered the United Kingdom credit card market and increased competition has begun in merchant acquisition.

1.3. We welcome these changes, believing as we do that encouraging and enhancing new competition in this area is more likely to yield beneficial results than either regulation or imposed restructuring. It is against this background that we have framed our findings and recommendations. For our recommendations to be effective, traders and cardholders need to be alert to the opportunities presented by greater competition. In particular those who borrow should be ready to apply for cards which carry lower effective rates.

1.4. We have found that monopoly situations exist and, in making our assessment of the public interest, have paid particular attention to the following matters:

- (a) credit card profitability has been higher than might have been expected under normal competition;
- (b) average rates of merchant service charges paid by traders have been falling and the growing number of merchant acquirers entering the market is likely to increase competition;
- (c) although there has been a lack of competition on interest rates, a wider range has now become available;
- (d) the No Discrimination rule is undesirable because it restricts the freedom of retailers to set their own prices;
- (e) the Honour All Cards rule can result in the exploitation of monopoly power but, on balance, the rule is worth preserving; and
- (f) certain rules of MasterCard/Eurocard and Visa are restrictive and act as obstacles to competition.

1.5. We conclude that:

- (a) the past levels of profits of five of the main credit card issuers (which have been higher than those obtained on their other business) have been adverse to the public interest but we expect greater competition to remove this adverse effect; and

*(b)* the rules of the two international payments organisations requiring no discrimination and restricting the freedom of their members to act as merchant acquirers are adverse to the public interest and should not apply within the United Kingdom. This should result in enhanced competition and so help to consolidate the recent changes in the credit card market.

1.6. As to the future we neither advocate nor reject charges for cards, discounts for cash or shorter interest-free periods. Such matters, as well as rates of interest and merchant service charges, should be left to competition. Our recommendations have been framed to promote such competition.