Why Regulatory Imposed Acquiring Price Comparison Tables Will Not Work In The UK

Regulatory investigations often try to improve the degree of competition within a market (see recent UK Payment Systems Regulator Interim review of UK Acquiring).

A typical recommendation is to mandate suppliers to increase price transparency by publishing their prices, enabling consumers and small business to shop around, easily compare and switch suppliers.

In many markets this is an effective way of encouraging competition. However, the model has several limitations when applied to the pricing of acquiring services for smaller business (SMEs).

SME research conducted by PSE Consulting in several EU countries suggests that many smaller merchants struggle to make a rationale choice of acquirer. A surprising proportion in France and Netherlands do not know their acquirer. Also, many do not know their current card and terminal rental fees with the UK one of the poorest performers.

Survey Questions	France	Netherlands	Spain	UK
Did not know current debit fees	25%	53%	40%	62%
Did not know terminal costs	14%	15%	27%	30%
Did not know their acquirer	25%	20%	0%	14%
Would switch to a higher price	53%	56%	56%	42%
Would not switch acquirer at any price	53%	40%	46%	24%

Most concerning is that when given a choice of a simple fee structure many would prefer even though they would end up paying a higher price and more per annum.

These worrying results suggest that acquiring costs although important are not top of mind for many small merchants. Pricing tables may help but it appears there is substantial lack of knowledge and inertia against switching acquirers. This can be for many reasons. Some have purchased EPOS terminals that are incompatible with a new acquirer's devices. Others may have acquiring and terminal rental contracts that do not synchronise. Others have a business banking line of credit linked to the acquiring contract which they do not want to lose.

The research feedback suggest that price comparison tables might help but also a need to improve SMEs understanding of their costs.

A second more important constraint to an open pricing regime is that acquiring services are not totally based on a cost-plus profit model. Pricing typically reflects an assessment of settlement risk given the acquirer takes the hit in the event of merchant bankruptcy. In normal trading times, bankruptcy risk is limited to a small number of sectors, such as travel, airlines and mail order. Much like a mini insurance policy per transaction acquirer's mark-up their rates based on their assessment of potential business failure, thus, enabling a buffer should the merchant collapse. Acquirer risk pricing can be by sector, but often acquirers price on a combination the merchants trading position, directors' guarantees, upfront deposits and extended settlement time frames

However, COV19 has radically changed the risk profile of nearly all merchants. Coffee shops, restaurants and beauty parlours who fail could default on refunds, monthly fees and terminal rental. Larger merchants and small chains, particularly those that take orders and deposits (furniture, garages) and import goods have high potential to generate substantial chargebacks which the acquirers may need to fund.

So, despite the regulator's efforts, Open Pricing may be difficult to implement over the next 2 years. Acquirers will struggle to provide meaningful standard pricing tables without exposing themselves to losses. Standard rates may be quoted but many merchants may find their final fees are substantially higher reflecting the new risks within the retail sector.