

## Position Paper on the cost of payments

Ecommerce Europe is the united voice of the European digital commerce sector, representing the interests of merchants selling goods and services online to consumers in Europe.

Payments are the cornerstone of e-commerce and a driving force of the European digital economy. They enable businesses and consumers to sell and buy goods and services online in a seamless and secure way. E-commerce businesses are low-margin, navigating a difficult economic climate and facing increasing global competition. How consumers choose to pay, along with the associated costs, significantly impacts the overall profitability and resilience of the sector. In this context, the persistent rise in the cost of payments, a phenomenon observed by our members across Europe and over the years, has become a pressing concern for merchants and consumers.

This issue deserves urgent consideration and appropriate measures to ensure that merchant's concerns are adequately addressed. In this context, Ecommerce Europe welcomes recent legislative developments, such as the revision of the Payment Services Directive (PSD3) and introduction of the Payment Services Regulation (PSR), which will be instrumental in shaping the payments landscape across the Single Market. The entry into application of the Instant Payment Regulation (IPR) is also expected to positively impact the share of alternative payment methods in the European payments mix. Furthermore, Ecommerce Europe welcomes the creation and roll out of the digital euro. Under the right conditions<sup>1</sup>, a digital euro would represent a competitive and innovative payment method cross Europe.

However, despite these developments, further work is needed on other aspects of the European legislative framework to foster a competitive and dynamic payment ecosystem that works for all. Remaining concerns underlined in this paper include the **limited impact the Interchange Fee Regulation (IFR)** had on the competitiveness of the EU payments market, as well as the **dominant practices imposed by international card schemes (ICSS) on merchants**.

### Key Asks

- Reopen IFR to address the regulation of scheme fees.
- Increase and harmonise supervision of all actors at European level.
- Expand the IFR's scope to cover corporate cards, meal vouchers, electronic social and professional vouchers, and inter-regional payments.
- Impose transparency obligations on fees charged to merchants.
- Take urgent action against dominant practices imposed by international card schemes on merchants.

<sup>1</sup> <https://ecommerce-europe.eu/wp-content/uploads/2024/01/ECOM-Digital-euro-position-paper-Jan-2024-v2.pdf>

## I. Enhancing competition in the European Payments Market

Ecommerce Europe strives for a highly competitive European payment landscape that contributes to reducing transactions costs for merchants and consumer prices, especially as digital payments continue to rise. According to the European Central Bank (ECB)<sup>2</sup>, the share of online payments in consumers' non-recurring payments increased from 6% to 17% in 2022. However, despite innovations, alternative payment methods have yet to achieve the maturity needed to compete with traditional card payments.

The rise in card-based payments underlines a **strong dependency on dominant international card schemes**, which account for 64%<sup>3</sup> of all electronically initiated transactions with cards issued in the euro area. Visa and Mastercard remain the dominant schemes, with minimal differences in pricing or behaviour (scheme rules) between them. The network effects amplify their dominance, making their service more valuable as their user base expand. Due to their penetration, they are effectively “must take” for merchants at very high shares for online payments in many EU countries. For reference, as per the Worldpay Report 2024, Visa and Mastercard combined account for the vast majority of card issued in several Member States including 100% in the Netherlands, Ireland, Finland, and Poland, 99% in Sweden, 98% in Spain, and 62% in Italy, while Germany has a lower share at 22%. France and Belgium remain the exceptions due to their domestic schemes Carte Bancaire (CB), and Bancontact.

Currently, 13 out of 20 Eurozone Member States lack a domestic scheme, leaving the dominance of ICSs unchallenged. In Member States with local schemes, these providers lose market shares due to ICS' ability to secure exclusive card badging deals with issuers. This occurs despite domestic schemes being a preferred option because of consumer habits and lower fees for merchants. In order to compete with ICSs offering higher interchange fees, local schemes have increased their fees to encourage issuers to issue cards on their networks. This reverse competition, contrary to the usual price-disciplining effect, has led to an overall increase in fees for both international and local schemes, ultimately burdening merchants and consumers. Lastly, the dominance of ICS is further enhanced by a **highly fragmented European Payment Market**. For cross-border payments, ICSs remain unchallenged due to the domestic nature of local schemes and the absence of a unified and cost-effective pan-European solution.

### Key Recommendations

Support a competitive and innovative European Payments Market by:

- Continue lifting regulatory barriers to the development of open banking and A-2-A based alternative payment methods.
- Monitoring the impact of competition on local schemes to preserve the diversity of payment options.
- Designing a cost-effective and competitive digital euro.

<sup>2</sup> [https://www.ecb.europa.eu/stats/ecb\\_surveys/space/html/index.en.html](https://www.ecb.europa.eu/stats/ecb_surveys/space/html/index.en.html)

<sup>3</sup> <https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp240424~12ecb60e1b.en.html>

## II. Addressing existing gaps in the IFR

Ecommerce Europe advocates for a European payments market without direct or indirect obstacles, nor distinctions between local or cross-border, offline or online payments. In that regard, the IFR has been a significant step forward in the harmonisation of the internal market. However, Ecommerce Europe sees that the IFR had temporary and limited impact on the cost of payments. This is mainly due to (1) costs' evolution of other Merchant Service Charge (MSC) components beyond interchange fees, and (2) remaining exemptions to the IFR caps. Therefore, **Ecommerce Europe calls for a reopening of the IFR to address these limitations.**

### 1. Regulating costs beyond interchange fees

Over the years, and even more so recently, online merchants have witnessed an increase in the various components of the MSC. Research<sup>4</sup> on the effects of the IFR indicates that while the Regulation initially reduced interchange fees, **subsequent increases in other components of the MSC have surpassed the reductions achieved by the IFR.** As a result, the average cost of card payments in the EU has exceeded the levels observed at the time of the IFR's implementation in 2015, neutralising the intended benefits of the Regulation.

- **Rise in scheme fees**

The MSC is composed of interchange fees (regulated under the IFR), as well as scheme and processing fees that are uncapped and set unilaterally by ICSs without any prior consultation with merchants. Over the years, our members have witnessed **a substantial and steady rise in scheme fees** with some large merchants indicating an increase over 75% from 2016 to 2021, without reflecting any specific cost drivers or additional risks. Such increase seems uncorrelated with the rise in the volume or value of transactions observed over the years. An estimate by the ECB Payments Statistics<sup>5</sup> suggests that card schemes' revenues from MSCs in the euro area may have increased by more than €7 billion between 2018 and 2022, reflecting both the increase in fees per transaction and the increase in the value of card transactions. Recent Commission's study<sup>6</sup> also found that the average net MSC applied by card schemes in the EU almost doubled between 2018 and 2022 (from 0.27% to 0.44%).

Along with the rise in scheme fees, the introduction of new fees imposed by schemes, sometimes presented as optional but which are in effect mandatory, have further impacted the MSC<sup>7</sup>. For instance, the implementation of the Strong Customer Authentication (SCA) has resulted in new fees for every SCA option chosen by merchants (either for the use of authentication or for the use of an exemption) and have been maintained by ICSs after recovering the initial investments. Other examples include fees imposed on marketplaces for sales made by third-party sellers from outside Europe. But also "nuisance fees" like charge retry and charge decline fees, fees related to non-tokenisation or non-use of new scheme solutions. The post-Brexit change to cross-border treatment was another example where interchange on cross-border shopping increased by 5x, without a particular underlying increase in the schemes costs to operate or in

<sup>4</sup> <https://www.eurocommerce.eu/2020/12/benefit-of-interchange-fee-regulation-now-nullified-by-fee-increases/>

<sup>5</sup> <https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp240424~12ecb60e1b.en.html>

<sup>6</sup> Ibid

<sup>7</sup> <https://cmspi.com/eur/en/resources/content/the-new-ecommerce-fees-why-european-merchants-need-to-act/>

the risks to transact. New fees that seem to be seeking to monetise common practices keep being added against expectations that scale, efficiency and innovation would lower costs.

- **Lack of transparency and oversight**

There is a **critical need to impose transparency, simplification and information obligations on schemes and PSPs** to enable merchants, and in particular SMEs, make sense of the overly complicated pricing structure and billing information they receive. Schemes can have hundreds of fees, making it complicated to track, to compare the cost of accepting a provider over another, to understand which price is associated with which service and whether a price is justified or the result of unjustifiably inflated margins.

**Requiring adequate transparency for each component of the MSC, and justification for any price increase or pricing of a new service**, would encourage schemes and acquirers to base their prices on actual costs rather than inflated margins. It would also provide merchants with greater bargaining power, and more incentives to switch to the lowest cost options. A recent Market review<sup>8</sup> issued by UK's Payment Systems Regulator (PSR), proposes introducing measures such as **imposing an obligation on ICSs to consult with merchants** prior to deciding on fees increase or introduction of new fees. Also suggested by PSR, **Ecommerce Europe encourages the establishment of regulatory financial reporting on ICSs** to significantly facilitate regulatory oversight, allowing regulators to closely monitor the schemes' financial performance, and take adequate action when necessary. This would also help prevent behaviours such as ICSs creating new fines unilaterally in order to force merchants and their acquirers to adopt a new service.

Lastly, the challenges faced by merchants would be significantly reduced if ICSs were **adequately regulated and supervised at European level**. The current oversight landscape for these players is highly complex and fragmented, with responsibilities divided between EU institutions and multiple national competent authorities (NCAs). In Member States, NCAs (central banks, competition authorities, financial supervisory authorities, consumer authorities etc.) often have overlapping or unclear mandates, leading to inconsistencies in enforcement and supervision across Member States. ICSs are systemic players, yet they operate with very limited European-level scrutiny, leaving merchants exposed to practices that can undermine competition and fairness in the payment ecosystem. Establishing **stronger EU oversight** would ensure accountability and foster a more balanced playing field to the benefit of all.

## 2. Addressing remaining IFR exemptions

Since its entry into application in December 2015, the IFR has capped interchange fees for consumer debit card transactions at 0.2% and consumer credit card transactions at 0.3%. However, we see an urgent need to address several exemptions from the IFR which are creating significant distortions of competition.

- **Commercial cards**

Commercial cards refer to a payment card used for solely business expenses. The interchange fees associated with commercial card transactions are not subject to the caps imposed by the IFR, but are set way higher by the schemes. To add to the high fees, the level of issuance of commercial cards have been

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<sup>8</sup> <https://www.psr.org.uk/publications/market-reviews/mr2219-market-review-of-card-scheme-and-processing-fees-interim-report/>

on the rise, and merchants have witnessed a practice from ICSs to shift cardholders from consumer to commercial cards. The surge in the usage of commercial cards has been significantly affecting merchants, especially those with high transaction volumes in sectors such as transport, hospitality, car rentals, tourism, or retail. Merchants also struggle to understand what value or added service these cards bring to either customers or merchants which would justify the higher cost they carry.

- **Meal vouchers**

Meal vouchers are usually given by employers to employees as a form of remuneration that can be used to pay in participating restaurants and food shops. These vouchers are often processed through ICSs and although they function similarly to usual card-payments, they fall outside of the scope of the IFR. Similar to commercial cards, they are associated with higher costs (~4 to 8%) compared to regular debit or credit card transactions and their usage have been on the rise across Member States. Considering they use similar technologies and often piggyback on existing schemes, merchants find the pricing gap out of scope with the benefits brought by this payment method.

- **Electronic social and professional vouchers**

Electronic social vouchers and other forms of non-cash, non-bank card assistance funded by European or Resilience funds have become increasingly common across Member States. These tools are intended to provide financial support to vulnerable populations and certain professional categories (e.g., public education system employees). However, in some Member States, between 5-9% of the funds distributed to beneficiaries are absorbed by issuers in the form of various fees, predominantly as vouchers settlement fees or service fees equivalent to those practiced by ICS for commercial credit cards rather than social welfare programs. This issue raises concerns about the overall efficiency and equity of such assistance programs and the actual amount of EU support reaching the intended beneficiaries, calling for a closer examination of the cost structures associated with these programs.

- **Cards issued outside of the Union**

Ecommerce Europe welcomes the recent extension of the five-year antitrust commitments made by Visa and Mastercard for inter-regional interchange fees<sup>9</sup>. These commitments ensure that multilateral interchange fees (MIFs) remain capped at similar level than in IFR at 0,2% for debit cards and 0,3% for credit cards for offline transactions. However, for **online transactions**, the caps are set higher at 1,15% for debit cards and 1,5% for credit cards. Historically, higher interchange fees for online transactions were justified by perceived higher fraud risk. However, maturity in payment technology and improved security measures, such as SCA, have significantly contributed to the reduction of online payments' fraud rates over the years. Opportunistic behaviour by ICSs such as raising these fees when the UK left the EU show that these pricing decisions are disconnected from real risk levels. This distinction, absent from the IFR, seems unjustified in today's mature online transaction ecosystem. Indeed, a recent study by the EBA found that SCA-authenticated transactions have lower fraud rates compared to non-SCA transactions, particularly for card payments, both in terms of value and volume<sup>10</sup>. This growing evidence suggests that surcharges on online transactions can no longer be justified. Ecommerce Europe advocates for a fee structure that reflects

<sup>9</sup> [https://ec.europa.eu/commission/presscorner/detail/en/mex\\_24\\_3663](https://ec.europa.eu/commission/presscorner/detail/en/mex_24_3663)

<sup>10</sup> <https://www.eba.europa.eu/publications-and-media/press-releases/eba-and-ecb-release-joint-report-payment-fraud>

market realities, supports a competitive digital economy and only distinguishes costs based on credit or debit card transactions. **Ecommerce Europe calls for the IFR to cover all transactions where the payee's PSP is located in the EU, whether or not this is the case for the payer's PSP.**

### Key Recommendations

- Reopen the IFR to cap scheme fees.
- Increase and harmonise supervision of all actors at European level.
- Impose transparency obligations on fee structures and regulatory reporting on ICSs.
- Include commercial cards, meal vouchers, electronic social and professional vouchers, and inter-regional payments in the IFR's scope.

## III. Tackling dominant Practices imposed by schemes

In June 2024, Ecommerce Europe, along with other European associations wrote a letter to DG COMP and DG FISMA to express our continued concerns about the economic impact of the current lack of competition due to the practices and dominant size of ICSs in the EU<sup>11</sup>. To illustrate the challenges, other than rising fees, imposed by ICSs on merchants, we would like to raise a few examples in this paper.

- **Scheme tokenization for online transactions**

ICSs have imposed scheme tokenization for online transactions without providing proper justification, leading to additional costs per transaction that does not use the scheme tokens. For instance, starting in July 2022, Mastercard imposed an additional cost of 0.05% per non-compliant transaction, and from October 2024, Visa will impose a 0.10% charge per non-compliant transaction.

- **Commercial disputes**

In 2023, Visa unilaterally introduced new rules effective from April 2024 covering commercial disputes between consumers and merchants. Disputes can lead to chargebacks, consumers' contestations of payment operations for reasons such as non-receipt of goods or defective products. These chargebacks are currently dealt directly and exclusively on a bilateral basis between retailers and their customers within the framework of consumer law. However, under the new rules, Visa will allow chargebacks without providing PSPs and merchants with an opportunity to assess the legitimacy of the request or determine which party is responsible for the refund. As a result, merchants will lack visibility into the transactions affected and will have no means to mitigate these cases. We also expect such measure to strengthen fraud since customers will be able to contest operations, legitimately or not, and will be automatically reimbursed via Visa for a product or service they might have received or consumed. The amount will be charged to the

<sup>11</sup> <https://ecommerce-europe.eu/news-item/joint-call-for-action-on-eu-businesses-competitiveness-impacted-by-current-cards-payments-landscape/>



merchant who will lose the product or service and the amount of the transaction, and will have to pay the chargeback fees to Visa.

- **The choice of brand**

Article 8.6 IFR allows merchants to “*retain the option of installing automatic mechanisms in the equipment used at the point of sale which make a priority selection of a particular payment brand or payment application*”. IFR also stipulates that consumers must be allowed to override the automatic pre-selection. Merchants question the value of the choice of brands for consumers on co-badged cards. This is mainly due to the cardholder’s lack of understanding of the difference between the different schemes that payments may be routed on<sup>12</sup>. Cardholders do not pay any surcharge or experience any impact from which scheme is selected. Only the merchant would perceive a difference in total MSC paid. In light of these two factors, presenting customers with a choice is confusing and irrelevant as it does not increase benefits to the customer but can only increase costs to the merchant. **The choice of brand ought to be made by the entity which pays the price for that choice, which is the merchant.**

Moreover, the implementation of the choice of brand made by merchants since 2015 and facilitated by mechanisms such as drop-down menus or manual section options provided by PSPs is currently under threat. ICSs have been arguing that they have not been receiving equal treatment with other brands, and insist that when a co-badged card is used, the card’s brands should appear alongside the preferred brand chosen by the merchant to ensure visibility for consumers. From our assessment, such a measure is a breach to the IFR. Not only are the technical adjustments required to adapt checkout webpages very burdensome, but under license agreements between schemes and their members, schemes can impose very important non-compliance penalties on their members, which can be tripled if no remedial action is taken. These penalties pressure PSPs to implement the technical requirements dictated by the schemes, and the associated costs and fines may ultimately be passed on to merchants.

## Key Recommendations

- **Take urgent action against dominant practices imposed by ICSs.**
- **Ensure the proper enforcement of the rules at national and EU level.**

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<sup>12</sup> When 1000 ecommerce French users surveyed by 3rd party company Gfk were asked “do you know what CB (Cartes Bancaires) is?” 69.8% answered “the name given to all payment cards” while only 22.6% correctly answered it was a French payment scheme similar to Visa and Mastercard.