

Super-complaint: credit and debit surcharges

Introduction and summary

Which? is an independent, not-for-profit consumer organisation with around 700,000 members and is the largest consumer organisation in Europe. Which? is independent of government and industry, and is funded through the sale of Which? consumer magazines, subscription services and books.

Which?, as the Consumers Association, is a designated body under section 11 of the Enterprise Act 2002, able to make 'super-complaints' that 'any feature, or combination of features, of a market in the United Kingdom for goods or services is or appears to be significantly harming the interest of consumers.' This document and its annexes form a super-complaint, submitted to the OFT on 30 March 2011.

Which? announced on 11 February its intention to submit a super-complaint to end 'rip-off' charge on credit and debit card payments.¹ Since the launch Which? has received wide-spread support for this complaint, including over: 40,000 individual pledges of support, 1,000 responses from our Which? Connect email, 800 new friends on Facebook, 200 comments on Which? Conversation and 250 new followers on Twitter.

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¹ <http://www.which.co.uk/news/2011/02/which-to-launch-card-fee-super-complaint--244377/>

Summary of the complaint

Scope of this complaint

The subject of this super-complaint is the practice of applying surcharges on transactions using debit or credit cards - and in some cases other forms of payment - where consumers face no practicable alternative. This results in distortionary effects on competition, primarily through reducing the clarity of advertised prices in those markets where retailers make significant use of surcharges that are higher than the direct costs incurred by retailers to accept payment. As a result of the combination of the economics of the customer transaction processes, the structure of those processes, and consumer behavioural biases, significant consumer detriment is generated.

Which? considers that the price you see should be the price you pay. Nevertheless, if additional surcharges for how you pay are introduced later in the transaction these should not exceed the reasonable additional costs incurred by the retailer to accept that form of payment.

A key argument of this complaint is that *the practice of surcharging* itself is, in some circumstances, harmful to consumers' interests. This practice is found in a number of markets, including tour operators and travel agents, event ticketing and restaurants. However essential services such as insurance and utilities are also affected, alongside services to communities through surcharges by Local Authorities or their appointed agents, such as bailiffs. In many, if not most, cases these surcharges are many times the additional costs the retailer would incur. As a result, the surcharge is not paying for the specific payment method but is actually part of the price of the underlying good or service, and as such should be incorporated in the headline advertised price.

For the purposes of this super-complaint we have outlined specific evidence relating to the market for passenger travel services that demonstrates how surcharging practices are detrimental to consumers. We consider that surcharging may lead to similar harm across other markets. Given widespread concerns about surcharging and recent regulatory developments (such as the Consumer Rights Directive), a review of the issues presented in this complaint should consider the impact of surcharging across consumer markets as a whole, to ensure consumers get a fair deal, albeit that individual enforcement action may be necessary in some cases.

Features of the market and detriment

Which? considers that the following features individually, or in combination, significantly harms the interests of consumers:

- > The practice of advertising incomplete or partial prices, by, at least, omitting surcharges for payment method from advertised prices, which, due to behavioural biases, means consumers are unable to effectively and efficiently shop around and make like-for-like comparisons.
- > The lack of reasonably or practicably available alternatives to avoid or mitigate surcharges for payment method.
- > The conduct or practice of retailers that impose a surcharge for payment method, hidden or not, that exceeds a reasonable estimate of the costs for processing consumers' payments.

These features lead to widespread detriment, including:

- > Price comparisons being much harder so weaken the competitive process between retailers.
- > Consumers making poor choices between competing passenger travel services and between other alternative goods and services from which they may choose.
- > Consumers spending more time and money searching the market than should be the case.
- > Consumers often being misled over actual prices and being frustrated at being asked to 'pay for paying'.

Paying for goods or services is not, in Which?'s view, an additional or optional feature of a product but a necessary pre-requisite intrinsic to the conclusion of a contract. Even when the retailer offers a number of alternative payment methods, that retailer retains a monopoly on the setting of the prices that the customer will pay for different payment methods. Where these additional surcharges applied to customers exceed the differences in cost, retailers are using their monopoly to actually recover the costs of the primary goods or services. As a result, the advertised price excluding these additional fees does not actually reflect the price at which the retailer is willing to sell; and is therefore misleading.

Price transparency under effective competition

A properly functioning, competitive market would ensure that advertised prices reflect an accurate relative price, both between alternative products or services and between rival retailers.

This would therefore allow consumers to make efficient choices between what products and services they wished to consume and also where they wished to purchase them.

If any additional charges are to be introduced during the transaction, for payment method or other mandatory services, these should reflect only the reasonable additional costs incurred by the retailer as a result of the specific choice of payment method. This is because, under these conditions, both consumers and retailers expect and compete on the basis that advertised prices reflect the actual price that will be paid for the key elements of the goods or services offered. Consumers would in turn switch away from retailers that did not follow this practice. However, under real world market dynamics in a number of markets (including travel markets) this does not occur, and long term consumer detriment results.

Market distortions caused by surcharges

It has been established that 'price framing', the way in which prices are presented or revealed to consumers, has a material impact on consumers' ability to judge value and make like-for-like comparisons. This is because consumers are subject to behavioural biases - the fact that we rely upon rules of thumb and 'mental short-cuts' to make judgements that can lead to, from an economic perspective, irrational behaviour. These behavioural biases can result in consumers being misled over the relative or absolute value of goods or services. It can lead to a competitive outcome in which retailers do not compete on the basis of the clearest or most complete price offered to consumers, but actively obfuscate and misrepresent their prices.

However, even if consumers act economically rationally, the current practice of omitting practicably unavoidable charges from the advertised prices increases consumers' transaction costs. At present, the actual price is only revealed once consumers have committed themselves to the purchase. This incurs sunk costs - the time and effort spent searching one retailers' price offer and which must be repeated before being able to compare rival price offers. It also results in opportunity costs where consumers face time-limited offers, such as for scheduled service, where they may lose out on an offer while taking the time to search the market fully. This makes it more costly, and so less efficient, for consumers to search the market. It may also discourage effective (or any) searching by consumers, or innovations such as effective price comparison services, therefore sustaining an inefficient market dynamic.

Surcharging in the market for travel services

The market for passenger travel services comprises of at least: the services of scheduled and charter passenger airline travel; ferry operators; passenger rail services; and any third party supplying tickets for passenger travel where payment is affected by surcharges. The geographic scope of this issue relates to services purchased through a UK distribution channel where the payment methods offered attract a surcharge. This is largely limited to online or telephone distribution channels where the range of substitute payment methods is limited.

The purchase of passenger travel services has a number of characteristics that may exacerbate consumer detriment, including: infrequent purchase; time-constrained sales with a limited availability for scheduled services to a specific destination at a point in time; and they can be high-value purchases.

For passenger travel services, especially amongst airlines, prices advertised or relied upon by the retailer to attract customers are invariably not the prices that the customer ultimately pays. Competition is not therefore functioning as effectively as it should. A particular element of this failure is evidenced by the hidden, and in some cases excessive, surcharges imposed for the use of common payment methods. As a result consumers find it difficult and costly to properly compare rival offers and must pay surcharges that exceed the reasonable additional costs incurred by retailers as a result of the use of that payment method. This leads to considerable variation in the actual prices that consumers end up paying compared to the advertised price. Given the popularity of passenger travel service and wide-spread use of debit and credit cards to pay for these services, this detriment affects a significant number of consumers. For example, online booking is close to 100 per cent for airlines, of which nearly all payments will be by plastic card. In 2009, easyJet and Ryanair alone carried 100 million passengers.

Surcharging in other markets

However, notwithstanding the need to frame a super-complaint in relation to a specific market, the practice of charging people for how they pay is found across a far wider number of markets than passenger travel services alone. It appears to be most popular for services and for online transactions. Which? is therefore concerned that surcharge practices may develop that result in similar detrimental outcomes in these other markets, especially where surcharges do not reflect

the costs incurred and as shopping over the internet increases. It is clear that such practices are intensely disliked by consumers.

The rationale for regulatory intervention

Both consumers and retailers appear unable (or unwilling) to individually affect a significant improvement to the current market outcomes. This is likely a result of the current market dynamic that makes it extremely difficult for either individual retailers or consumers to act in ways that will improve the market. Retailers that advertise the actual prices customers will pay will lose out in any headline comparison of prices. For customers to 'punish' retailers with excessive additional (but in practice unavoidable for the consumer) surcharges they must individually incur significant additional search and transaction costs (which may be higher than their individual savings for as long as the overall market remains in this dynamic state). In the absence of requirements on retailers to behave differently, consumers will continue to struggle to make meaningful and informed comparisons of prices and pay inflated surcharges related to payment method.

The outcomes desired for consumers from this complaint

Surcharges have significant and serious effects for travel services, as outlined in this super-complaint. The practice of surcharging is a growing problem across many other services. The OFT should take the necessary steps to ensure:

- > Consumers can be confident that advertised prices are a true reflection of the price they may pay, regardless of payment method chosen;
- > Where the complexity of the product offer makes this difficult, that any surcharges related to payment method are limited to the reasonable additional costs incurred by the retailer;
- > If a comprehensive solution is not achievable, or foreseeable, by the OFT, but it considers payment surcharges are harmful to consumers, the reasons for this should be identified and proposals made to ensure fair treatment of consumers, including legislative change if necessary.

PART 1: Features of the market that significantly harm the interests of consumers

1.1. Surcharges for payment methods

- (1) It is a necessary pre-requisite for any business to offer customers a means to pay for the goods and services purchased. Businesses will choose which forms of payment to accept given their manner of trading (face-to-face, distance selling) and the needs of consumers. Making payments are not an optional extra for consumers, but an intrinsic element of the conclusion of a contract.
- (2) Increasingly, consumers are facing a range of surcharges linked to the form of payment offered. These surcharges are most commonly based on the type of card payment offered, but can extend to customers choosing to pay by direct bank transfer, by cheque or by other means. These surcharges are becoming widespread (see section 2.3), in particular in service markets or where sales are made predominately through online channels, where payment by cash or cheque is not practicable or would result in high additional costs to the customer. In contrast, surcharging has not arisen in those industries or markets where consumers are able to easily judge price and value and make regular purchases, such as groceries or even for DVDs, CDs or clothing (which are often sold online).
- (3) Retailers may impose a surcharge that is added to the price of goods or services, either as a fixed levy (pence per purchase) or an *ad valorem* charge based on transaction value. Surcharges may also be imposed in other ways, such as per person or per ticket, which does not reflect how card issuers charge retailers. This charge may be avoided if the retailer accepts another readily available means of payment on which it has decided not to levy a surcharge. However, surcharges that exceed the additional costs of using that payment method are usually, in practice, unavoidable.
- (4) Which? considers that surcharging, where this exceeds the additional costs incurred by the supplier, is harmful in three cases:
 - a Where the level of the surcharge, or the way it is levied, means that consumers rarely, if ever, pay the price advertised;

- b Where this practice prevents easy comparison of retailers' price for goods or services, or alternative goods and services that may be preferred; and
- c Where the supplier is dominant in the supply of the goods or services (e.g. government-supplied services).

- (5) Which? has described below the features and subsequent detrimental effect of such practices in the market for passenger travel services. However, a key argument of this complaint is that *the practice of surcharging* itself is, in some circumstances, harmful to consumers' interests. This practice is found in a number of markets, including tour operators and travel agents, event ticketing and restaurants. However essential services such as insurance and utilities are also affected alongside services to communities through surcharges by Local Authorities or their appointed agents, such as bailiffs. Section 2.3 sets out the cases where surcharges have been found and some of the views from consumers, which are presented in a supplementary document *'Rip-off' card surcharges: consumers speak out*.
- (6) A review of the issues presented in this complaint should consider the costs and benefits of payment method surcharging across consumer markets (or public services) as a whole, to ensure consumers get a fair deal, albeit that individual enforcement action may be necessary in some cases. It is simply the case that the most obvious detrimental practices can be found in the passenger travel market, and in particular amongst certain airlines, hence the evidence presented with this complaint.
- (7) The remaining sections of part 1 of this complaint are organised as follows. Section 1.2 defines the travel and payment card services relevant to this complaint. Section 1.3 summarises the features of the market and Section 1.4 describes the consumer detriment arising from these features. Parts 2 and 3 provide the supporting information and evidence.

1.2. Relevant markets and key characteristics

1.2.1. Conclusion on the relevant markets

- (8) The market for passenger travel services comprises at least: the services of scheduled and charter passenger airline travel; ferry operators; passenger rail services; and any third party supplying tickets for passenger travel where payment is affected by surcharges. The geographic scope of this issue relates to services purchased through a UK distribution channel where the payment methods offered attract a surcharge. This is largely limited to online or telephone distribution channels where the range of substitute payment methods is limited.

Passenger travel services

- (9) Section 2.1 describes consumers' use of passenger travel services, market structure and overall size in more details. Our reasons for the definition of passenger travel services are set out below.
- (10) Passenger travel services comprise at least:
- > Passenger airline services
 - > Passenger ferry services
 - > Passenger rail services
 - > Bus and coach services
 - > Taxi and private car hire services
- (11) In this case, it is only necessary to define these services to the extent it relates to payment surcharges. As a result, not all of these transport services are relevant. The main factors are those relating to common booking and payment practices:
- > The practice of advance booking of seats or tickets for a specific scheduled service
 - > The use of online or telephone services to make bookings
 - > The acceptance of payment cards
 - > No prohibition from charging customers for paying by card

- (12) More generally, the services with which we are concerned will be those that also exhibit the features of the market that Which? considers harm the interest of consumers. See section 1.3 for a detailed examination of these features. This leaves the following services, individually or in combination, whether purchased directly or through a third party intermediary to comprise the relevant market:
- > Passenger airline services
 - > Passenger ferry services
 - > International passenger rail services
- (13) Domestic passenger rail services are excluded, unless booked through an intermediary, because regulations do not permit surcharging above the face-value of the ticket (see paragraph (58)). Local bus services are excluded as these will not usually be booked in advance and there is no requirement to book specific scheduled services. Coach services may be included; however, we have found relatively few examples of surcharging, which limit its use as an illustration of the wider impact of surcharging practices on consumers.² Similarly, some taxi and private hire services may be relevant, but the character of the journeys taken (e.g. shorter distance, door-to-door, the unscheduled nature of services and relatively high charges given the distance covered) mean these are qualitatively different from the other travel services considered. We have not considered coaches or taxi and private hire services further, but do not exclude them from any conclusions on the use and level of surcharges.
- (14) For this case, the geographic market is the UK, where travel services are purchased through a UK distribution channel where the payment methods offered attract a surcharge. This is largely limited to online or telephone distribution channels where the range of substitute payment methods is limited.

The market for payment cards

- (15) Which? considers the following payment cards relevant to this complaint: debit cards; credit cards; charge cards; and pre-paid cards. Our reasons for this are set out below.
- (16) Payment cards, usually in the form of a plastic card, offer a ready alternative to cash or cheque where the retailer is prepared to accept the card issued under a specific branded or

trademarked payment scheme. Payment cards include the following types of card, which differ in terms of functionality, costs of holding the card and ability to access credit:

- > Debit cards
- > Credit cards
- > Charge cards
- > Cash-only cards
- > Pre-paid cards
- > Store/retailer cards

(17) Payment cards are popular in the UK. UK Cards estimates that 94 per cent of the UK adult population hold a debit, credit or ATM-only card.³ Ownership of card types varies, with debit and credit or charge cards by far the most common - above 70 per cent ownership. About 25 per cent holding store cards⁴ and very few (less than 1 per cent) own pre-paid cards.

(18) For this complaint, the key feature is whether a card allows in-person and 'card-holder not present', that is online or telephone, methods of payment, which is necessary to enable the purchase the passenger travel services considered. In addition, the type of card must be a commonly accepted payment method by the passenger travel industry. This results in the following relevant payment cards:

- > Debit cards
- > Credit cards
- > Charge cards
- > Pre-paid cards

(19) Store cards are usually only useable in the store in question, therefore are not relevant. Cash-only or ATM cards enable cash withdrawal from a bank account, often a basic bank account and will not usually allow payments directly at a retailer's store. Other alternative payment methods, such as cash or cheque, may be accepted. These may or may not attract a surcharge. However, these would rarely (if ever) be accepted for online or telephone sales, where payment is requested immediately or the retailer offers no physical store.

² National Express coaches impose a £1 charge for payment by credit card with no fee for debit card payments. Green Line, Megabus and Oxford Tube do not appear to charge surcharges for payment method.

³ Page 9, *UK Plastic Cards 2009: The Way We Pay*, The UK Cards Association.

⁴ Figure 5, *Credit and Debit Cards*, *Finance Intelligence*, July 2010, Mintel.

(20) Some forms of electronic payment may be commonly accessible to consumers, for example PayPal or Moneybookers.⁵ These alternatives can offer a functional alternative to pay for online transactions but, in the case of passenger travel services, are not widely accepted forms of payment. In addition, it is clear that consumers prefer to pay by either debit or credit card for online purchases, a channel through which a significant volume of passenger travel services are sold.⁶ We do not consider that alternative payment methods are significantly close substitutes for purchasing passenger travel services to form part of the relevant market definition.

⁵ In the case of Moneybookers, it offers a service to enable acceptance of a wide-range of payment methods, including the main debit and credit card schemes. These are in addition to its direct-to-consumer services such as money transfers and pre-paid cards (<http://www.moneybookers.com/ads/merchant-account/payment-options/>).

⁶ Source: Monitise/The Future Foundation/nVision, Base: 1,000 respondents aged 18+, UK, 2009. All respondents choose either credit or debit card when asked "What is your preferred method of payment for each of the following? An Online Purchase."

1.3. Features of the market

(21) The features that significantly harm the interests of consumers in the passenger travel market where payment surcharges are imposed include:

Feature 1: The practice of advertising incomplete or partial prices, by, at least, omitting surcharges for payment method from advertised prices, which, due to behavioural biases, means consumers are unable to effectively and efficiently shop around and make like-for-like comparisons.

Feature 2: the lack of *reasonably* or *practicably* available alternatives for consumers to avoid or mitigate surcharges for payment method.

Feature 3: the conduct or practice of retailers that impose a surcharge for payment method, hidden or not, that exceeds a reasonable estimate of the costs for processing consumers' payments.

1.3.1. Feature 1: Incomplete or partial prices

(22) Which? has reviewed the surcharges for payment method faced by consumers in the passenger travel market and the extent to which these affect prices and the advertising of prices. The results of this review are set out in section 3.1.1, which includes results of a general public survey commissioned by Which? on the extent and impact of surcharges on price comparison. In summary, it is clear that:

- > Surcharge policies across airlines and ferry operators vary significantly on the level and basis of charges to consumers such that it is difficult to accurately assess the actual fare in advance of booking;
- > The terms used for surcharges also vary, including terms such as booking fee, service charge or handling fee;
- > The full charge is not revealed until well into the booking process, usually on the last page (four - six 'clicks' into the booking process and *after* the consumer has invested significant time and energy in activities that are specific to that supplier);

- > It is not always clear what forms of payment will be accepted, although Visa and MasterCard are accepted across all airlines considered, but the 'free' method of payment (if available) varies from airline to airline;
- > In some cases there is a significant impact on the final price due to the payment method surcharge alone, representing up to 14 per cent of the final fare in the worst case;
- > Consumers report that surcharges make a significant difference to the advertised price and make it more difficult to compare prices; and
- > No airlines or ferry operators explicitly state their surcharges in advertisements, at best stating the existence of 'credit card charges', with half of firms' advertisements making no reference at all to the existence of surcharges.

(23) Which? considers that in all of the cases considered in this complaint the way in which surcharges are presented meet the criteria of a 'drip' or partitioned price, and that this is illustrative of practices across passenger travel services.⁷ Drip pricing is a method of structuring charges that reveals, incrementally, the full price through each stage of a sale or booking process. Surcharging for payment method is recognised by the OFT as a form of drip pricing.⁸ The detrimental effects of this practice are described in section 1.4.2.

(24) How prices are presented, and not just their level, is a key decision for a firm, as it can have a significant impact on convincing customers to purchase their goods or services.⁹ The OFT has noted that "there is now compelling evidence that price framing exerts a powerful effect, that the effect can lead to financial loss and other consumers harm when price frames are used in an inaccurate or mis-leading way, and that a significant proportion of the population have been affected."¹⁰ The OFT's study has reviewed consumers' attitudes toward drip pricing, finding a high degree of myopia about hidden pricing, with three out of four considering that optional charges made comparing prices more difficult.¹¹

(25) The OFT's consumer survey findings have been reflected in Which?'s survey results. Our general public survey explored how often and in what goods or services consumers face surcharges, how this affects price comparison and what steps consumers have taken to avoid

⁷ See OFT's market study *Advertising of Prices*, December 2010.

⁸ Paragraph 3.3, OFT's market study *Advertising of Prices*, December 2010.

⁹ See page 5 of *Pricing Practices: Their Effects on Consumer Behaviour and Welfare*, March 2010, Mountainview Learning.

¹⁰ Paragraph 2.11, OFT's market study *Advertising of Prices*, December 2010.

¹¹ Paragraph 3.13, OFT's market study *Advertising of Prices*, December 2010.

these charges.¹² Section 3.4 provides a summary of these responses. One third of respondents had experienced a surcharge for paying by credit or debit card. The majority of these charges were incurred for travel, but event tickets and general online retailers followed closely. Two-thirds stated that the fee was not clear until the closing stages of the transaction.

- (26) We asked consumers whether surcharges made a difference to advertised prices and to the difficulty of comparing the price of goods and services. Nearly two-thirds (62 per cent) agreed that surcharges made a significant difference to the advertised price.¹³ Just under half (49 per cent) agreed that surcharges made comparing prices more difficult, with only 17 per cent explicitly disagreeing.¹⁴

1.3.2. Feature 2: lack of *reasonably* or *practicably* available alternatives

- (27) We present the evidence to support our view that consumers have no practicable alternatives to avoid surcharges in section 3.1.2. The majority of passenger travel bookings are made online (see paragraphs (52) and (56)). Inevitably this requires the use of a card. It is clear that debit cards, issued by the principal high street banks, and credit cards are the most widely used method of payment. Debit cards have recently overtaken credit cards as the most popular means of online payment (see paragraph (72)). Survey evidence of consumer preferences also shows debit and credit cards as the most popular options. This is confirmed by our evidence, as all airlines and ferry operators accept credit cards.

- (28) To avoid surcharges three conditions must be met i) a 'free' method is offered in the UK by the retailer; ii) the customer must know, in advance of purchase, which payment methods are 'free' and iii) the customer must have the relevant 'free' method of payment available before entering the transaction. Instant access, therefore, to a range of 'free' payment methods is only available if consumers routinely carry the 'free' payment method. For many of these so-called 'free' methods we do not consider that these conditions hold.

¹² Which? commissioned a general public omnibus specifically to gather evidence on consumers' experience of payment method surcharging. 1,305 members of the UK general public participated in an online omnibus survey in January 2011. Most of the questions were answered by the 484 respondents who had encountered a fee for paying either by credit or debit card in the past 12 months. All responses were re-weighted to ensure the survey was representative of the UK adult population.

¹³ Question 6 of survey.

¹⁴ Question 6 of survey.

- (29) Which? recently reviewed Visa Electron accounts, and found four banks accounts offering that card, targeted at 16 - 18 year olds.¹⁵ In addition, some basic bank accounts offer a Visa Electron as a form of debit card; however, these accounts usually have limited functionality. As noted in paragraph (68) Electron cards account for less than 4 per cent of all cards (credit and debit) issued in 2009. Visa told us that "Visa Electron is only available in a minority of markets" and that many issuers were "upgrading Visa Electron to other Visa Debit products".¹⁶ Visa directly queried whether budget airlines offered Visa Electron as a fee-free option because it "is not actually used very often".
- (30) As set out at paragraph (67), pre-paid cards always include fees. Even those categorised as 'free pre-paid cards', had an array of different charges; from monthly fees, transaction charges or application or top-up fees.¹⁷ Concern has been raised about the transparency of the charges for pre-paid cards and the impact of these cards on certain consumers. For example, the Govan Law Centre stated "Pre-paid cards are wholly unsuitable for anyone on benefits or a low income. They come with a whole host of fees and charges."¹⁸
- (31) Overall, compared to the use of debit or credit cards, we do not consider that Electron or prepaid MasterCard are widely available enough to allow a significant proportion of consumers to switch payment method during the transaction. Retailers that offer one of these methods may, at any time, switch to accepting other cards or payment methods as 'free', as happened with Ryanair, which switched from accepting Electron as 'free' to prepaid MasterCard. Consumers would need a literal fistful of payment methods in order to avoid the array of charges that may be imposed by retailers, which themselves can change at short notice, and would then face the costs of holding those methods directly.

1.3.3. Feature 3: surcharges exceed a reasonable estimate of cost

- (32) A feature of surcharging practices, in particular in the passenger travel market, is that surcharges invariably exceed a reasonable estimate of the costs for processing customers' payments. This is symptomatic of distorted competition, as the price on which the firm depends to attract customers is not a true reflection of its willingness to actually sell at that price.

¹⁵ Source: Defaqto.

¹⁶ Correspondence with Visa, 17 February 2011.

¹⁷ <http://www.compareprepaid.co.uk/card.html>

(33) Section 3.1.3 sets out our review of the level of surcharges and compares them to our estimate of the likely costs incurred by retailers to process card payments, which would form the basis of a 'fair' surcharge. Section 3.2 presents our method and evidence for estimating the costs of processing card payments. In summary, for both airlines and for some ferry operators, surcharges for payment methods exceed Which?'s estimation of a reasonable surcharge:

- > There are significant variations in the level of charges and way in which they are calculated and applied to consumers.
- > Surcharges for all of the airlines considered exceed Which?'s estimate of a reasonable surcharge, which we estimate at 16 pence for debit cards and 1.8 per cent for credit cards.
- > Where charges for debit cards are levied, these significantly exceed the fair surcharge, by a factor of 250 in the worst case.
- > Airlines in some cases apply cost drivers that do not reflect how the card industry imposes costs upon retailers by multiplying charges by the number of people, tickets or journeys taken for a single transaction.
- > Additional evidence, such as airline company reports, suggests that 'ancillary revenues', of which surcharges for payment method form a part, are an important revenue stream and profit centre.

¹⁸ 'Concern over 'pre-paid card' fees, 23 January 2010, Govan Law Centre.

1.4. Consumer Detriment

1.4.1. Nature of the detriment to consumers

- (34) Which? considers that the features identified, affecting the market for passenger travel services, lead to at least the following consumer detriments:
- > Price comparisons are much harder, so weaken the competitive process between retailers.
 - > Consumers make poor choices between the competing passenger travel services and between other alternative goods and services from which they may choose.
 - > Consumers spend more time and money searching the market than should be the case.
 - > Consumers are often misled over actual prices, and frustrated at being asked to 'pay for paying'.
- (35) As noted above, accepting payment from customers, for supply of goods or services, is a necessary pre-requisite condition to trade as a business: you cannot sensibly operate as a business without being able to accept payments from customers. The costs incurred would ordinarily be recovered in the firm's upfront price or, if the advertised prices were accurate and competition effective, recovered from surcharges that reflected the reasonable additional costs of accepting particular payment methods. In addition, consumers would reasonably expect to pay with a commonly accepted form of payment or, if not the case, have the business make clear any exceptions to this at the beginning of the sales process. Given this, consumers may assume that surcharges are the same across all firms, in particular if purchases are made infrequently (once or twice a year) such that consumers do not recall the 'prevailing' level of charges or see how it differs between firms.¹⁹
- (36) Section 1.3 has established that consumers have difficulty comparing the prices offered, that little information is presented in advertisements on fees or surcharges (or even price) and that surcharges for payment method exceed a reasonable estimate of cost, itself symptomatic of distorted prices. We characterise surcharges as 'drip pricing' that leads to a significant variation between advertised or offered price and the final price actually achievable by consumers. Air travel services in particular are also subject to limited

¹⁹ Paragraph 3.18, OFT's market study *Advertising of Prices*, December 2010.

availability for specific scheduled services, therefore sales may also be characterised as time-constrained.

- (37) Consumers are not able to form reliable expectations as to the level of surcharges or its effect on final prices given the considerable variation between all firms, both of the level and method of calculation. Making an assessment of surcharges for a firm, or between firms, is therefore difficult. So, although consumers may anticipate the existence of a surcharge, they will not be able to form a reasonably accurate expectation of its impact on the final price in a way that allows meaningful comparison between firms.
- (38) The fact that very few consumers (no more than a third) recognise that retailers are responsible for setting surcharges, rather than banks for example, exacerbates a risk that consumers presume that surcharges are the same across all firms, undermining consumers' incentives to search or switch to better offers. It is also clear that surcharges are practicably unavoidable; where the majority of consumers will be unable to avoid surcharges without incurring some significant cost of time or money. Regardless of whether surcharges are avoidable, such practices will still make it difficult for consumers to compare the offers of rival passenger travel firms.
- (39) As noted in section 2.1.1, several hundred million passengers use airline and ferry services every year. In many cases, and nearly always for those that book travel online, they will pay by card. For no-frill airlines, online booking is nearly 100 per cent of all bookings. Practices may differ across full service airlines and ferry operators, but it is clear that all are moving toward an online sales model as a significant or predominant route to reach customers (see paragraphs (52) and (56)). On this basis, Which? therefore considers the detriment to be significant.

1.4.2. The impact of drip pricing

- (40) Which? considers that two types of price framing used in the passenger travel market lead to the significant detriment listed above: drip pricing and time-limited offers. The OFT's Price Advertising market study has established that drip pricing is the most harmful form of price framing of the five methods considered, with time-limited offers the second most harmful.

These methods exert a powerful effect that 'can lead to financial loss and other consumer harm when price frames are used in an inaccurate or misleading way.'²⁰

- (41) Drip-pricing works by exploiting consumers' 'mental short cuts' or 'rules of thumb', such as price anchoring and the 'commitment and consistency' principle, relied upon to help make judgements of complex information. For example, the presentation of an initial low price leads to consumers 'anchoring' their subsequent assessment of price or quality against this initial reference point and, as the price increases, failing to adjust their valuation to fully account for this.²¹ Drip pricing has been demonstrated to exploit these behavioural biases. It can also distort the behaviour of 'honest' traders, which may be at a significant competitive disadvantage if they advertise all compulsory or likely charges.²² The OFT has outlined two consequences of this that can lead to consumer harm:²³
- > Suggesting to consumers that goods or services are already good value, so increasing consumers' willingness to purchase from that firm and shop-around less; and
 - > Making it costly or difficult to shop around by making prices difficult to compare.
- (42) Which? considers that these price framing effects apply to passenger travel and, given the evidence of the features of the market, lead to the detriments outlined above. Our review of airline and ferry services has shown that surcharges are not fully visible until the final stages of the booking process. Airlines in particular use a number of confusing terms, such as 'administration charges' or 'handling fee', to describe what amount to unavoidable payment method surcharges. The surcharges can have a significant impact on final price, making comparison of the firm's own price or comparing between firms difficult and prone to error. Our review of in-print advertisements found only one explicit mention of the existence of 'credit card charges'. All of these features result in opaque pricing that exploits consumers' behavioural biases.
- (43) The way in which consumers purchase passenger travel services exhibit a number of characteristics likely to intensify or increase the risk of detriment from drip pricing or other methods that obfuscate the actual price. These include: infrequent purchase; time-constrained sales process with a limited availability for scheduled services to a specific destination at a point in time; and often high value purchases. These features broadly match

²⁰ Paragraph 2.11, *Price Advertising market study*, December 2010, OFT.

²¹ Paragraph 3.9, *Price Advertising market study*, December 2010, OFT.

²² Paragraph 3.11, OFT's market study *Advertising of Prices*, December 2010.

the criteria of the OFT for when a misleading price statement may be a priority for enforcement.²⁴

1.4.3. Consumers' views

- (44) On submission of this complaint over 40,000 individual pledges had been made supporting action against payment surcharges. We have received widespread support and a significant number of consumers have shared their experiences with us directly on this issue alone with over: 1,000 responses from our Which? Connect email, 800 new friends on Facebook, 200 comments on Which? Conversation and 250 new followers on Twitter. This illustrates the significant concern and frustration amongst consumers forced to pay surcharges.²⁵
- (45) Paragraphs (25) and (26) above outline the key results from our general public survey that confirms consumers find surcharges misleading. Our survey found that only 37 per cent of consumers recognise that retailers are responsible for setting fees. This supports the AUC's suspicion that many consumers may assume that additional charges are 'imposed' by third parties on firms, and therefore are the same or similar across the market, undermining the incentive to search for lower surcharges.²⁶

1.4.4. Other evidence

- (46) Since launching the super-complaint, a number of organisations have confirmed their support and raised considerable doubts of whether the level of surcharges can be justified.
- (47) Discussion with the UK cards industry has confirmed that the levels of surcharges often bear no relationship to the underlying costs incurred by retailers. Further, where 'free' methods are offered, these methods appear to cost no less for a retailer to accept than methods attracting a surcharge, raising doubts as to the justification over surcharging policies. In addition, a number of retailers in the passenger travel market, or offering travel services more generally, have specifically supported Which?'s opposition to existing surcharge practices. This includes Trailfinders, who trade on the basis of 'the price you see is the price

²³ Paragraph C.19, Appendix C, *Price Advertising market study*, December 2010, OFT.

²⁴ Paragraph 2.22, *Advertising of Prices*, December 2010, OFT.

²⁵ See Which?'s website at <http://www.which.co.uk/campaigns/personal-finance/card-surcharges/pledge-your-support/>

²⁶ AUC response to OFT's Price Advertising market study, which found that only 43% of passengers were aware the taxes, fees and charges differed across airlines (<http://www.auc.org.uk/default.aspx?catid=306&pagetype=90&pageid=11015>).

you pay'. Trailfinders confirmed that it is now usual practice for consumers to pay by card and that it is common that prices across travel firms exclude add-ons not previously mentioned in advertisements. In addition, Red Spotted Hanky, a third-party supplier of train tickets, has supported Which?'s stance. These firms are exceptions to the predominant practice of firms in the passenger travel market.

- (48) Concern with surcharging for how you pay is not a recent issue. In August 2009 the Consumer Council for Northern Ireland submitted a report, *The Cost of Paying*, to the OFT.²⁷ This outlined significant concerns by consumers forced to pay additional charges because of how they pay. The report noted "a number of companies, primarily landline telephone providers, airlines and ferry companies, charge consumers an additional fee if they choose to pay by one method rather than another" and "the Consumer Council contends that charges for actions that are not optional, such as paying, should be included in the overall cost that is presented to the consumer." The Council noted six features that lead to detriment: charges are non-optional; charges are hidden; charges did not appear to reflect costs; that 'free methods' were exploiting a loop-hole to avoid EC regulation on airline price transparency; charges were intrusive, with personal bank data supplied to firms that consumers did not trust and the most vulnerable consumers were excluded from the cheapest method largely due to not having a bank account. These concerns were raised at the beginning of the OFT's study into price advertising. There appears to have been no substantive response to the Consumer Council.

²⁷ 'The Cost of Paying, a report from the Consumer Council to the Office of Fair Trading', August 2009 (<http://www.consumercouncil.org.uk/publications/?id=421>).

PART 2: Background

2.1 Passenger travel services: structure and developments

2.1.1. Airlines

- (49) The deregulation of European airspace in the 1990s and granting of licences to new airlines meant that air travel grew significantly. The number of flights to overseas destinations grew from 28 million in 1996 to 56 million in 2008.²⁸ 'No-frills' airlines have enabled consumers to take short haul flights for less money than premium service operators. These airlines offer short haul, point-to-point only routes, often out of regional airports, and have established a business model that focuses on 'unbundling' the components of a flight and charging separately for both optional and non-optional services. This has led to a number of enforcement actions to improve the disclosure of price options and the clarity of price advertising on websites by UK and EC authorities.²⁹
- (50) The number of passengers for air travel is significant. UK based airlines alone carried 124 million passengers in 2009, with easyJet the biggest airline with 40 million passengers followed by British Airways with 31 million.³⁰ The ONS Travel Trends estimate the number of visits abroad by UK residents for air travel at 46.7 million visits, of which 74 per cent were to Europe (numbering 23.7 million visits for holiday travel).³¹

How consumers buy the service

- (51) Mintel has reported that 'no-frills' airlines made booking a holiday via the internet necessary for consumers.³² Before booking a holiday, 50 per cent of consumers will look online to see what flights are available.³³
- (52) When consumers buy flights with 'no-frills' airlines, such as easyJet or Ryanair, they predominately book directly from the airline's website, and occasionally over the phone.

²⁸ Office of National Statistics Travel Trends 2009

²⁹ This has included the recent action by the CAA under the ASR to agree improvements to the price information displayed by a number of airlines [X-REF PRESS RELEASE WHEN AVAILABLE].

³⁰ Source: DfT <http://www.dft.gov.uk/pgr/statistics/datatablespublications/tsqb/latest/tsqb2010aviation.pdf>

³¹ The ONS defines visits as UK residents returning to the UK, it is therefore a single leg journey. Return visits may be approximated from doubling this number.

³² Mintel - Holiday Booking Process, March 2010. (p.15)

Where agents do book these flights, the consumer pays a fee to the agent who enters the consumer's details directly on to the booking screen of the airline. Mintel report that 98 per cent of easyJet's sales are via the internet, and in the year that ended September 2009 easyJet carried over 45.2 million passengers.³⁴ Nearly all of Ryanair's flights were booked online in 2009 and carried 58.6 million passengers in the year ending March 2009.³⁵ Monarch, another no-frills airline, launched online booking in 2001 and reached 90 per cent online sales just a few years later in March 2007.³⁶

Are consumers dependent on card payments?

(53) When booking online, and over the phone, airline customers are largely if not wholly dependent on being able to make payment by card. Which? has surveyed the booking methods available to consumers for the ten most popular airlines in Europe (see section 3.1.1). Excluding corporate travel payment arrangements (UATP and AirPlus), the vast majority of the top 10 only made provisions for customers to pay online using credit or debit cards. The exceptions are: Ryanair, who accepts 3V Visa Prepaid Vouchers (the use of this payment method is charged at the same rate as debit and credit cards); airberlin, who accept payment by direct debit (but only if you have a German, Dutch or Austrian bank account); British Airways, who accept payment by PayPal (this is still charged at £4.50 per passenger); and Lufthansa, who allow payment by PayPal and do not charge for it. Credit and debit cards therefore dominate the payment methods available to customers of the most popular airlines.

2.1.2. Ferry Services

(54) We have reviewed the charging practices of the main ferry operators for car and foot passengers offering services from the UK to the continent via the 'Short Sea' (the English Channel), North Sea and Western Channel; and to Ireland and for domestic crossings.

³³ Mintel - Holiday Booking Process, March 2010. (p.79)

³⁴ Mintel - Holiday Booking Process, March 2010. (p.41)

³⁵ Mintel - Holiday Booking Process, March 2010. (p.46)

³⁶ Mintel - Holiday Booking Process, March 2010. (p.45)

Numbers of users

- (55) According to the Passenger Shipping Association, in 2009, 39.9 million passengers were carried from the UK on ferries. The majority of these were to the Continent (18.4 million), followed by domestic trips (16.6 million) and the UK to Ireland route (5 million). The total number of cars carried was 8.7 million.³⁷

How consumers buy the service

- (56) Like airlines ferry operators are moving towards online distribution, with Mintel estimating that many ferry operators are selling 50-60 per cent of trips over the internet.³⁸ For example, Brittany Ferries was moving towards an online distribution model, with online booking levels at around 60 per cent in 2007-08. Brittany Ferries is the market leader for the Western Channel route, and carries around 2.7 million passengers every year.³⁹ Around 60 per cent of DFDS Seaways' sales came via the internet. P&O Ferries was moving towards online distribution, which stood at just under 50 per cent.⁴⁰ Since the Mintel report, it appears likely that ferry operators will have grown their online sales channel, in preference to telephone or through travel agents.

Are consumers dependent on card payments?

- (57) As noted above, internet sales form a substantial part of the business model of many ferry operators. For online sales card payment is by far the most preferred option for consumers (see paragraph (72)). Of the ten ferry operators we looked at, only one provided a payment option online that wasn't a credit or debit card. This was Norfolkline, whose customers have the 'fee free' choice of using PayPal. Only two ferry operators did not surcharge at all; and all of the remaining seven charged for payments by credit card, with three also charging for debit cards.

2.1.3. Rail Services

- (58) Train companies are unable to surcharge passengers who buy tickets directly from the operator. This is because the inter-operator agreement, known as the Ticketing &

³⁷ 8,689,000 cars in total, with the Continent and domestic destinations the most popular, Passenger Shipping Association, 2010.

³⁸ Mintel, Ferry and Tunnel Crossings, February 2008. (p.25)

³⁹ Mintel, Ferry and Tunnel Crossings, February 2008. (p.47)

⁴⁰ Mintel, Ferry and Tunnel Crossings, February 2008. (p.49)

Settlement Agreement (TSA), prevents a train operator from selling a 'rail product' - and this includes a rail ticket - for more than its face-value. This applies to all sales - including by telephone and online. This means that a train operator is unable to add a credit or debit card fee for the sale of a rail ticket.

- (59) Certain parties are not affected by the TSA: third party retailers of train tickets; international rail travel providers. This means that, for example, thetrainline.com is able to and does impose a surcharge on customers who pay by certain payment methods, as does Eurostar.

Numbers of users

- (60) A Which?-commissioned general public survey found that 64 per cent of people had travelled by train in the UK in the previous 12 months.⁴¹ For 57 per cent of people surveyed this was for leisure purposes.
- (61) Mintel's report on domestic rail travel included figures on passenger journeys 2007-08 by train operating company.⁴²

Table 1: Passenger numbers by train operating company, 2007-08.⁴³

Train operating company	Passenger journeys 2007-8 (m)
South West Trains	174.7
Southeastern	145.9
Southern	142.9
First Capital Connect	84.9
First ScotRail	81.3
First Great Western	76.3
Northern Rail	78.8
London Midland	49.5
Merseyrail	31.3
c2c	29.9
Arriva Trains Wales	21.8
Virgin Trains	19.8
National Express East Coast (now East Coast)	18.7
Chiltern Railways	16.1
Eurostar	9.1

⁴¹ 2,572 GB adults aged 16+ were surveyed online between 16th and 29th November 2010 inclusive.

⁴² Mintel, Domestic Rail Travel, January 2010.

⁴³ No data was available for CrossCountry, East Midlands, London Overground, National Express East Anglia, First Hull Trains, Grand Central, Heathrow Connect or Express, Wrexham & Shropshire.

(62) Eurostar reports on their website that 9.2 million travellers used their services in 2009.⁴⁴

How consumers buy the service

(63) Which? commissioned a general public survey in December 2010. Of those buying tickets for business and leisure purposes, 39 per cent preferred to book tickets online. Eurostar services can be purchased online, over the phone, in person at St Pancras International and through third parties/travel agents. As an internet company, thetrainline.com provides only one way to purchase tickets. Their website states that "since 1999 we have sold to 3.3 m travellers, making over 14m transactions, with over 8.4 million registered users."⁴⁵ We expect other online third party ticket vendors to operate in a similar fashion.

Are consumers dependent on card payments?

(64) Purchases for domestic travel can be made in person at any station, with a wide range of payment options accepted. However, when making online purchases a card is the principal means of payment. When purchasing Eurostar tickets online, card payments are the only options available, with surcharges levied on credit card payments. Third party booking agents are generally online-only services. For example, when purchasing train tickets through thetrainline.com, consumers must pay by credit card, which attracts a fee, or debit card, which has no fee.

⁴⁴ http://www.eurostar.com/UK/uk/leisure/about_eurostar/company_information/traveller_numbers_traveller_care.jsp

⁴⁵ <http://www.thetrainline.com/about-us/index.shtml>

2.2 Payment cards

(65) Payment cards, including debit, credit and charge cards, are a significant form of payment method for UK consumers. Payment cards allow consumers to make purchases with any retailer that accepts payments from the specified card scheme. There are four debit card schemes and two credit card schemes. Consumers have some choice over the schemes under which their card operates. In particular, as credit cards are not linked to a personal current account consumers may hold a number of cards with different characteristics; but there is little evidence that the payment card scheme is a relevant factor affecting consumer choice. Retailers must join a specific scheme, abide by its rules and pay relevant fees in order to accept payment by card. Once a scheme is joined, retailers are prevented by scheme rules from refusing acceptance of a card with the specific trademark (the 'honour all cards rule'), but may surcharge for use of a card. These arrangements are described below.

Types of payment cards and their features

- (66) There are a range of payment card types. Those that fall within the scope of payment cards for this complaint include debit cards, credit cards, charge cards and pre-paid cards. Debit cards are linked to a personal current account, and allow the holder to withdraw cash and make electronic payments in person (often via a chip & pin device), remotely by telephone or online. Electron and Solo cards are a type of debit card, often with more limited function (for example, not allowing cash withdrawals from a branch), that are supplied for young persons' bank accounts or for basic bank accounts.
- (67) Credit cards and charge cards offer similar functions to a debit card but include a credit facility. Charge cards must be paid off in full at regular points, usually monthly, while a credit card provides access to a line of interest bearing credit. Pre-paid cards require the consumer to pre-load money onto their card that can then be used to make purchases (face-to-face, by telephone or online) or withdraw cash from ATMs. Customers must apply for the card and usually face a range of fees: application fee, monthly service charge, helpline charge, loading fee, deposit fee, ATM withdrawal fee, internet transaction and purchase fee, termination fee, inactivity fee, renewal and replacement fee, charge for multiple cards, and charges for redeeming funds on the card. Pre-paid cards may be reloadable or non-reloadable (often used as gift cards or for carrying foreign currency in place of travellers

cheques). Pre-paid cards may also be 'open-loop' where they are scheme-badged under Visa or MasterCard and useable at most places that accept cards under those schemes.

Consumers' use of cards

- (68) UK Cards estimate that 94 per cent of the UK adult population hold a debit, credit or ATM-only card.⁴⁶ In addition to debit and credit cards, a significant minority (25 per cent) also hold a store card, but very few people hold a form of pre-paid card (about 1.3 per cent).⁴⁷ Cash remains significant, about 59 per cent of all transactions by volume, but is used principally for small value purchases. The UK Cards Association report on the number of cards in issue.⁴⁸ Its figures confirm that Visa and MasterCard (Maestro) branded cards are significantly more popular than Visa Electron or Solo cards, which account for only 6.7 per cent and 4.2 per cent of all issued debit cards and less than 4 per cent and 3 per cent of all cards (also see table 2 below that sets out shares by volume and value of transactions which reflect these findings).⁴⁹
- (69) Measured by value, payment cards account for a greater share of payments than cash alone. Consumers spent a total of £388.9 billion using plastic (debit and credit) cards in 2009, of which 68 per cent was spent using debit cards.⁵⁰ The annual growth of cards as a payment method, in particular debit cards, is strongly positive. For example the growth in value of purchases by card was 4.7 per cent in 2009, compared to -0.4 per cent for cash.⁵¹ Credit cards tend to be used for higher value purchases than debit cards.⁵²
- (70) Innovations such as contactless payments or pre-paid cards may make paying by card more common in future. Pre-paid cards are growing in popularity, with an increase of 55 per cent in number of cards available for use from 2008 to 2009, but remain niche products.⁵³ The UK Cards Association notes these cards "are aimed at a variety of niche areas including those without debit or credit card, e.g. the young, the unbanked, the migrant worker population,

⁴⁶ Page 9, *UK Plastic Cards 2009: The Way We Pay*, The UK Cards Association.

⁴⁷ Figure 18, *Credit and Debit Cards*, *Finance Intelligence*, July 2010, Mintel.

⁴⁸ Table 7.1 UK Payment Statistics 2010, UK Cards Association.

⁴⁹ 79.3 million debit cards of all types were issues, of which Visa Debit and Maestro account for 70.6 million (source: UK Cards Association).

⁵⁰ UK Cards Association, statistical release dated 9 September 2010.

⁵¹ Statistical release, 6 July 2010, The UK Cards Association and *The Way We Pay 2010: The UK's Payment Revolution*, Payments Council.

⁵² *Credit and Debit Cards*, *Finance Intelligence*, July 2010, Mintel.

⁵³ Page 27, UK Plastic Cards 2010.

foreign students and others whose only other payment option is cash.”⁵⁴ The value of purchases and cash acquisition with pre-paid cards was £1.4 billion in 2009 (less than 0.4 per cent of the value spent on debit and credit cards), of which about 80 per cent were made in the UK. Pre-paid cards can offer some advantages to consumers, such as no credit checks, widespread acceptance and use for obtaining cash or making online transactions. However, consumers face some significant problems with pre-paid cards: a lack of transparency of fees and how lost or stolen cards are treated; costly access to ‘trapped balances’ (residual amounts on a card); data protection and fraud risks.⁵⁵

- (71) Consumers select cards on the basis of the features offered by the card issuer and functionality of the card. Features that consumers look for include cash back or reward schemes offered by issuers, good customer service, zero per cent introductory or balance transfer rates (for credit cards) and subsequent competitive rates.⁵⁶ Consumers do not appear to consider or account for the actual costs of using their cards that may be imposed by a retailer. Surcharges are not a visible or significant feature affecting competition between payment card issuers.

Use of cards for online transactions

- (72) Survey evidence of how consumers expect to pay suggests that many consider card payments to be the most convenient method.⁵⁷ In particular, consumers prefer to use cards for major purchases and nearly all consumers reported preferring to use a payment card for purchases made online.⁵⁸ Use of the internet for purchasing goods and services is now common in the UK, with 84 per cent of people recently surveyed by Which? having made a purchase online (base 1361, survey December 2010). The UK Cards Association estimates that 33.9 million adults purchased goods and services over the internet, equating to 67 per cent of the adult population. Data from the Payments Council shows that:

“Two thirds of all adults (32 million) now use the internet to buy things, although a fifth of these are heavy shoppers, responsible for three fifths of all purchases. They are mainly younger, wealthier people. Eighty per cent of purchasers use a card, and in 2009 more

⁵⁴ Page 26, UK Plastic Cards 2010.

⁵⁵ Pages 7 - 8, *review of the contactless and prepaid card markets, summary of findings and actions*, May 2010, Payments Council.

⁵⁶ Figure 61 and 62, *Credit and Debit Cards, Finance Intelligence*, July 2010, Mintel.

⁵⁷ Source Monitise/The Future Foundation/nVision (Future Foundation Survey), survey data of 1000 respondents, 2009: “The most convenient way to pay for goods / services is by card”, over 60% agreed or agreed strongly with this statement.

people used debit cards than credit cards online for the first time, although they are still preferred by older people shopping online. Credit cards offer added peace of mind to wary shoppers in the form of additional consumer protection on goods. Furthermore, if a fraud did take place, the cash flow effect of it hitting a current account would be potentially much more serious than on a credit card. PayPal has carved a niche in the online environment particularly amongst 25-34 year old shoppers; half of whom use it." ⁵⁹

Card issuers and schemes

- (73) Cards are issued primarily by the main high street banks. Debit cards reflect the shares of banks supplying personal current accounts, with the Big 5 banks dominating the provision of debit cards accounting for 85 per cent of issuers.⁶⁰ Credit card issuers are slightly more diverse, for example including non-banks such as MBNA, American Express and Capital One. Despite this, Lloyds Banking Group, Barclaycard and RBS Group account for a significant proportion of card issuing.⁶¹ None of the main high street banks currently offer a pre-paid card. Of the main pre-paid card issuers reviewed by Which? we identified Clydesdale Bank PLC and Newcastle Building Society. However, other issuers include Advanced Payment Solutions Financial Ltd; Ixaris Systems Ltd; FBME Card Services; IDT Finance; Raphaels Bank; Prepaid Financial Services and Tuxedo MoneyPlus amongst others. These all supply e-money, which does not necessarily require authorisation with the Financial Services Authority, but simply to be certified or regulated as e-money issuers or payment services institutions.⁶²
- (74) Two schemes dominate provision of debit cards: Visa Debit and Maestro. Two other schemes offer debit cards: Electron and Solo. For credit cards two schemes operate: Visa and MasterCard. In addition, Amex and Diners Club offer credit and charge cards as both issuer and acquirer (a three party model). The 2008-09 the share by transaction volume and value for debit and credit cards is set out in Table 2.

⁵⁸ Future Foundation Survey, approximately 62 % of respondents reported preferring to use a debit or credit card to make major purchases, with all respondents stating they preferred debit or credit cards to make online purchases.

⁵⁹ http://www.paymentscouncil.org.uk/files/payments_council/the_way_we_pay_2010_final.pdf

⁶⁰ The Big 5 are Lloyds Banking Group, RBS Group, HSBC, Barclays and Santander (see figure 37 *Credit and Debit Cards, Finance Intelligence*, July 2010, Mintel).

⁶¹ Figure 38, *Credit and Debit Cards, Finance Intelligence*, July 2010, Mintel.

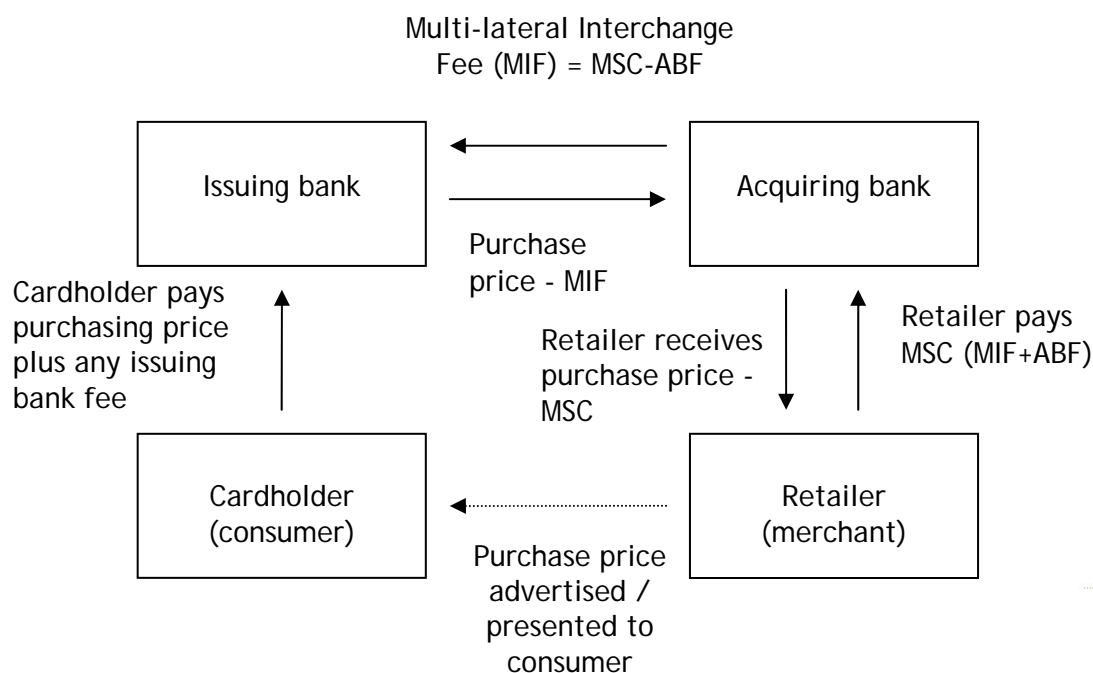
⁶² Consumer protection, especially from insolvency, will vary so that, in the worse case, credit held on a pre-paid card is not protected at all.

Table 2: Scheme shares by transaction volume and value for debit and credit cards⁶³

		Debit cards				Credit cards	
		Visa Debit	Electron	Maestro	Solo	MasterCard	Visa
2008	Volume	57%	6%	34%	4%	60%	40%
	Value	58%	5%	33%	4%	59%	41%
2009	Volume	65%	5%	26%	3%	64%	36%
	Value	65%	5%	27%	3%	63%	37%

(75) Card schemes operate a number of models, but the four party model provides an illustration of how fees are generated and transmitted through the scheme. Figure 1 sets out the four party model.

Figure 1 - the flow of payments in a four-party card payment scheme



(76) In this case costs arise from the acquiring bank (the acquiring bank fee, ABF), and the issuing bank (the multi-lateral interchange fee, MIF). These costs are passed to the retailer through the Merchant Service Charge (MSC). Cardholders will also pay any fees for holding cards (not

⁶³ Figures 31 - 34, *Credit and Debit Cards, Finance Intelligence*, July 2010, Mintel.

including the interest charged for offering credit) and banks a fee to card schemes. In the UK very few card issuers charge a fee to the card holder.

Retailers' relationship with card schemes

- (77) Retailers' relationship with card schemes is through an appointed acquiring bank, with charges transmitted via the MSC. A retailer's merchant account held with an acquiring bank grants the retailer the ability to accept payments by card. Retailers must abide by a number of obligations, imposed by their acquirer, to ensure proper use of cards and to minimise fraud; for example the steps that should be taken if a payment is not authorised. The acquirer credits the retailer's bank account once payment has been received from the card issuer, usually within two to three days.⁶⁴ Charges from the acquirer, based on the value and volume of transactions, are often collected in arrears on a specific day of the month. Retailers will receive a statement giving a breakdown of the transaction volumes and amount broken down by card scheme, brand (e.g. MasterCard or Maestro) and by product (consumer credit card, commercial credit cards etc). The retailer receives a final price for goods and services paid for via a card that is net of the MSC (purchase price - MSC) plus any surcharge that the retailer recovers directly from the customer.
- (78) Retailers must choose which forms of payment method to accept. This choice may, in effect, be determined for the retailer given the popularity of certain payment methods and the preferences of consumers. Retailers that accept cards must process the payments, and there are a number of routes for this. First, retailers can use a merchant acquiring bank that accepts card payments and processes them on behalf of the retailer through the relevant card schemes. Second, the retailer may choose a third party card-processing site. These sites offer card processing facilities, but usually for online transactions alone. Examples include: Sage Pay; Netbanx or Nochex.⁶⁵ Other suppliers also offer access to chip & pin payment terminals or additional services such as fraud protection.⁶⁶

⁶⁴ Section 5, HSBC Merchant Services, *Card Processing Guide, Merchant Operating Instructions*

(<http://www.business.hsbc.co.uk/1/2/business-banking/business-payment-processing/business-debit-and-credit-card-processing>)

⁶⁵ See the websites of these firms at: <http://www.sagepay.com/>; <http://www1.netbanx.com/glossary/debit-card-processing>;
<http://www.nochex.com/>

⁶⁶ See the websites of some of these firms at: <http://www.pciprocessing.co.uk/>;
<http://www.chipandpinsolutions.com/default.asp?contentid=6>.

2.3 Surcharging practices across markets in the UK

- (79) Which? has reviewed a number of candidate markets where surcharges have been observed, the results are set out in Table 3. We have also invited members of the general public to share their experiences. From these examples we can see:
- > The range of charges, and basis on which charges are made, varies widely, as does the prevalence of firms in any specific market that choose to surcharge or not. However, in a number of cases it has not been possible to establish whether a charge arises or not.
 - > Charges also arise for other types of payment method, not just for payment by card.
 - > For some goods or services, like books, music or clothing, retailers may operate a pure online distribution model - similar to airlines. However, there is little or no use of surcharging for payment method in these cases.
 - > In some of these markets, higher fees may be justified if genuinely facing higher charges from acquiring banks, but there is no transparency as to how these charges are determined or justified.
 - > In a number of cases, when Which? has challenged surcharging, firms state that it is necessary to do so in order to make their prices comparable to rivals'. For example, Thomson told us "[g]enerally debit cards attract considerably lower merchant service charges than credit cards. We are therefore currently able to absorb these costs in most business streams with the exception of flight only. The flight-only market is slightly different due to its competitive nature and the requirement for us to be able to provide customers with a price that can be compared directly to prices from low-cost carriers."⁶⁷ This appears a somewhat perverse outcome.
 - > A notable case is that of IKEA, which levied a charge of 70 pence for credit card payments, but in July 2010 stopped levying charges due to complaints from customers. In a response to Which?, IKEA noted that "even after six years, many of our customers are angry with this approach and we cannot afford to alienate customers."⁶⁸ Other markets, such as passenger travel services, appear able to surcharge regardless of the objection of most customers.

⁶⁷ Response to Which? information request dated 13 January 2011.

⁶⁸ email of 3 February 2011.

- (80) Overall, Which? sees little obvious clarity or rationale for why charges are prevalent in some markets but not others, and we are concerned that this practice results in widespread detriment where surcharging is (or becoming) common.
- (81) Our magazine research has highlighted other examples. For example, surcharges levied by bailiffs appointed by Local Authorities, with one bailiff firm that works for 150 Authorities levying a £2 charge for debit card payments. Which? has also received unprecedented support directly from consumers for this complaint. We have received over 1,100 submissions from consumers sharing their experiences of when and where they have been surprised, or dismayed, to face a surcharge. These have covered eight broad sectors, with travel accounting for over a third of poor experiences but with holidays and tickets for events also significant. We have summarised just a sample of these in our document *'Rip-off' card surcharges: consumers speak out*, some examples include:

"Recently took out a new car insurance policy with Marks and Spencer with two payment options - pay monthly with the usual added interest, or pay the whole premium by card. Opted for the latter and discovered at the very last minute that there is a £5 charge for paying by card. So in fact the premium you have agreed to pay for the policy is not the actual cost at all!"

"I was charged an extra £4 for using a debit card by energy supplier First Utility on a bill of £77. I wasn't told about the charge beforehand."

"I cannot believe how many are jumping on this bandwagon, my dentist charged me a surcharge of £15 on a £250 bill last week and that was a debit card. Fee for credit card was £30!!! The only payment that did not incur a fee was cash - BIG rip off!!!"

Table 3 - Other examples of payment method surcharges

Goods / services	Firm and typical level of charges
Auction houses	Charges for credit cards only: Bonhams 3.0% Brightwells, Leominster 3.0% Cotswold Auctions 2.53% Wellers, Chertsey 2.5% Gardiner Houlgate, Bath 2.0% Nigel Ward, Pontrilas 2.0%

	Christies 1.5%
Broadband/internet services	Virgin: Anything other Direct Debit results in a £5 monthly handling fee. BT: Anything other than Direct Debit results in a 'payment processing fee' of £1.50 a month/£4.50 a quarter. Sky: Anything other than Direct Debit incurs a surcharge
Car dealership	Car Dealerships based in Manchester, charging for credit cards: Oldham Motors - 2% CC Volkswagen - 2% over £1000 CC Audi - 1% CC Seat - 2.25% over £5000 CC Nissan - 3% CC Evans Halshaw, Ford - 1.3% over £1000 CC Polar Ford - 2% CC Volvo - 2% over £2000 CC Premier Car Centre - 3% CC
Car hire	easyCar: Debit cards charge £3.99. Credit cards charge £4.99. Information given when make payment.
Car parks	NCP: £1.50 for credit cards. Debit cards - no charge BCP: £1.50 for credit cards. Debit cards - no charge
Cinema	Odeon: £0.75 per ticket. Vue: £0.70 per ticket (up to £4.20). Cineworld: £0.70 per ticket (up to £4.20).
Cruise operators	Virgin: Credit cards 2.5%, Debit card 0% and American Express Card 3.5%. Info found in booking conditions & FAQs. Cannot book online. Royal Caribbean: Taxes and fees included in price.
Estate agents - letting services for private rental	Foxtons - 2.3% credit card (CC), 0.575% debit card (DC) Winkworth - £5 for CC and DC Knight Frank - 2% CC, 0.5% DC Hampton - 2% CC Ludlow Thompsons - 2% CC KFH - 1.75% CC Chesterton Humbert - 2% CC Marsh and Parsons - 2% CC Hurford Salvi-Carr - DC £2.50, CC 2% Haart - 2% CC Savills - 2% CC Keatons - 2% CC LDG - 3% CC Spencer Thomas - 3% CC John D. Wood - 2.75% CC Currell - 2.5%CC Aspire - 3% CC 1% DC Goldschmidt and Howland - £1 DC and 2.15% CC
Event tickets: popular music, theatre, sport	Seetickets: Accept Visa, Delta, MasterCard, JCB, Electron, Switch and Solo. Credit card charge included in service charge. This 'transaction fee' is £2.50. Ambassador (theatres): Accepts Visa, MasterCard, Maestro, Solo and

	American Express. Transaction fee of £3
Florists	Interflora: Debit - no charge. Credit card - £1 (though Amex is £2)
Government agencies: DVLA	The DVLA charge a fixed sum of £2.50
Home insurance	Endsleigh: £2.50 credit card transaction fee
Hotels	Travelodge and Premier Inn both charge £2 for credit cards
Local authorities	The most common charge is 2%, ranging between 1 - 3%, with Bath and North-East Somerset and Oxfordshire councils the most expensive at 3% for credit cards
Mobile phones (monthly/contract)	O2: Do not appear to charge to pay monthly by card, but not clear Orange: Monthly charge of £3.58 if not paying by Direct Debit. T mobile: £3 fee if not Direct Debit or paying online/via telephone (presume monthly)
Online travel booking agents	Thomson: 2.5% for credit cards. Don't charge for debit cards (except flight only - £2.95). Coop Travel: 2.5% for credit cards. Thomas Cook: No longer accept Amex. Credit card charge is 2.5% up to maximum £50.
Taxis	Dial-a-Cab: 12.5% (min £2) handling fee applied to all card payments.
Telephone (fixed line)	BT: Anything other than Direct Debit results in a 'payment processing fee' of £1.50 a month/£4.50 a quarter. Talk Talk: Don't allow credit card payments unless Direct Debit declined (then charged up to £10 for failed Direct Debit).
Utilities	Scottish Power: Debit card only Npower: No details on if you can pay by card SSE (Southern Electric): Don't say if they charge for card payments British Gas: Don't say if they charge for card payments EON: Don't say if they charge for card payments EDF: No details on if you can pay by card

2.4. Regulatory environment

- (82) Retailers have a wide degree of discretion in how they structure their prices subject to overall consumer and competition law. Surcharging for payment by credit card is specifically allowed, following a reference by the OFT of the market for credit cards to the Monopolies and Mergers Commission (MMC).⁶⁹ At this time the market for merchant acquiring services and card issuing was highly concentrated. This situation changed during the course of the inquiry. The MMC concluded that certain rules of Visa and MasterCard were adverse to the public interest:
- > The 'No Discrimination' rule that prohibited merchants of a card scheme from refusing to accept an issued card and to charge customers the same price for goods paid with a credit card than those paid by other means (cash, cheque); and
 - > Restrictions by the schemes as to whom could act as a merchant acquirer.
- (83) The remedies proposed resulted in two statutory instruments to amend these practices. The Credit Cards (Price Discrimination) Order 1990 (SI 1990 No 2159) ended the 'No Discrimination' rule. The Order enabled differential charges for credit card and other types of payment by preventing agreements between retailers and any other party that limited retailers' freedom to set prices based on payment method but it does not impose any constraints on these differential prices. Given the unintended detrimental consequences arising from surcharging, there may be a case for the Competition Commission to be asked to review its Order.
- (84) The passenger travel industry itself is subject to a range of specific regulation:
- > Air services are regulated by the Civil Aviation Authority, which now has a range of specific consumer enforcement powers under the Enterprise Act 2002.
 - > The Office of Rail Regulation oversees rail services and, it appears, ticketing regulations prohibit the use of payment surcharges by train operating companies but not by third party ticket vendors.
 - > There is no sector-specific consumer or competition regulation that applies to ferry operators.

⁶⁹ See the MMC's report at: http://www.competition-commission.org.uk/rep_pub/reports/1989/255creditcard.htm#full

- (85) All retailers must also ensure their marketing (wherever it appears) complies with the CAP advertising codes, as enforced by the Advertising Standards Agency (ASA). These codes incorporate the key provisions of the Consumer Protection from Unfair Trading Regulations 2008, which prohibits misleading marketing communications (whether they are simply untrue, mislead by omission or due to the deceptive, untimely or ambiguous presentation of material information). Despite the positive move of extending the ASA's remit to include all online advertising⁷⁰, we feel the regulatory regime for advertising is not the appropriate mechanism to address our concerns, for example because: (i) the ASA's approach is one based on resolving individual complaints rather than addressing cross-cutting issues (although the ASA does produce guidance from time to time); (ii) the issues identified are not limited to the advertising sphere; (iii) ASA enforcement is based on a principles-based approach which promulgates uncertainty and necessitates a case-by-case approach; and (iv) the ASA system is based on self-regulation and so relies on the goodwill of the advertising industry.
- (86) There are some significant developments at European level to address the transparency of prices and impact of surcharges. The Air Services Regulation (ASR) (1008/2008) requires all mandatory charges to be included in the air fare. This has improved the transparency of prices. However, surcharges related to payment methods are often excluded, in part it appears because some payment 'options' do not attract a charge. As set out above, Which? is clearly of the view that charges for payment method are practicably unavoidable, and that that the practice of some airlines to offer a 'free' payment method suggests a convenient way of avoiding the obligations of the ASR. Which? considers that if only a minority of consumers can in fact avoid a charge it is in the spirit of the ASR for such charges to be included in initial price information to consumers. This may warrant a review of how the ASR is interpreted and applied.
- (87) A recent amendment to the Consumer Rights Directive (CRD) proposed a specific limit of the level of charges for payment method. Amendment Article 22b(3) proposed:

"Member States shall prohibit traders from charging consumers in respect to the use of a given means of payment fees that exceed the cost borne by the trader for the use of such means."

⁷⁰ The ASA's remit was extended with effect from 1 March 2011. Prior to this much of the relevant advertising was found in non-paid for

(88) This clause is currently being debated at the European parliament and it may of course not be maintained. However, if the CRD maintains some measure to address surcharges it will be transposed into UK law. There is significant benefit in establishing what this clause may mean should this legislation take effect. However, the strength of feeling from consumers on this issue is such that it clearly indicates widespread concern with how surcharges for payment method are applied. Nothing prevents the UK taking independent action to solve this problem.

advertising space online and was so beyond the scope of the ASA's jurisdiction.

2.5. Which?'s work on this issue

(89) We have reported in detail on surcharges in *Which?* magazine; these articles can be found in part 3 below. In addition, our engagement with consumers and Which? members has clearly demonstrated the strength of feeling that these charges are opaque, excessive and unjustified. We have also received support at a European level, where we have supported proposed clauses of the Consumer Rights Directive to directly address the level of payment method surcharges.

2.6. Action against surcharging in other jurisdictions

- (90) Consumer groups in a number of member states have taken actions under national law. The introduction of the ASR encouraged the German consumer federation Verbraucherzentrale Bundesverband (VZBV) to challenge airlines on card surcharges, based on the German General Terms and Conditions Act, arguing that card surcharges were an unfair term of contract where they cannot reasonably be avoided. Other national law allowed a challenge on the basis of transparency of terms and conditions prior to concluding a contract and the default setting used by airlines. The results of this action are so far inconclusive. Ryanair, for example, has changed to offering services in Germany on the basis of Irish contract law, thereby avoiding actions under national law and reverting solely to EC-wide legislation. VZBV is continuing to fight for consumers' interests.⁷¹
- (91) Recently, it was reported that the Catalan Consumers Agency (ACC) fined four no-frills airlines, including Ryanair and easyJet, for 'abusive practices'. These practices included "charging more than the price advertised by adding a charge for luggage and for putting a surcharge on the use of credit cards."⁷² Ryanair was fined and required to refund consumers' costs for paying by credit card. The ACC went on to rule that 'airlines have to establish an alternative system for payment which is free for the consumer. If they want to add a charge for a credit card, this charge cannot be higher than what it actually costs the airline to accept the payment by the card.'
- (92) Choice, the Australian consumer association, was asked by New South Wales Fair Trading to review consumers' experience of surcharging practices.⁷³ This followed widespread concern about surcharges and the perception that they are excessive. Surcharging was allowed after regulatory intervention by the Reserve Bank of Australia, which both removed prohibitions on surcharging and reduced the level of interchange fees. Choice surveyed consumers to understand their experience of surcharging, where surcharges were encountered, the transparency of surcharges and levels of surcharges consumers face.

⁷¹ See this link for a list of airlines against which VZBV is taking action:

http://www.vzbv.de/mediapics/fluggastrechte_verfahren_vzbv.pdf

⁷² http://www.typicallyspanish.com/news/publish/article_27447.shtml

⁷³ The Choice report is available at:

http://www.fairtrading.nsw.gov.au/About_us/Reviews_and_reports/Consumer_and_trader_research_and_issues/Credit_card_surcharging_in_australia_2010.html

Choice found:

- > Widespread disapproval of and opposition to surcharges with 68 per cent of survey respondents considering that retailers and other businesses should not be allowed to charge customers extra when they pay with their credit card.
- > Consumers did not understand the reason for the surcharges and the benefits have not been properly explained.
- > Markets where credit card surcharges were most often experienced were in air travel, telecommunications, holiday travel, restaurants, utilities, taxis and petrol stations.
- > Retailers needed to fully disclose their surcharges upfront.
- > It was very difficult for consumers to know if surcharges were fair and reasonable.
- > Credit card companies themselves believed that some retailers are surcharging over and above the cost of accepting a credit card.

2.7. Remedies and next steps

- (93) The OFT will be aware that it is not incumbent upon Which? to propose specific remedies when making a super-complaint. It is clear that surcharges have significant and serious effects for travel services and that the practice of surcharging is a growing problem affecting many other markets. Consumers have expressed strong support for this complaint and legislative measures are being considered at a European level. Neither is this a new issue, concerns with payment surcharges were raised in advance of the OFT's report into price advertising.
- (94) Which? consider the OFT should take the necessary steps to ensure:
- > Consumers can be confident that advertised prices are a true reflection of the price they may pay regardless of payment method chosen;
 - > Where the complexity of the product offer makes this difficult that any surcharges related to payment method are limited to the reasonable additional costs incurred by the retailer;
 - > If a comprehensive solution is not achievable or foreseeable, the reasons for this should be identified and proposals made to ensure fair treatment of consumers, including legislative change if necessary.
- (95) Individual examples of conduct in the passenger travel market may warrant specific enforcement action or a wider sectoral regulatory response. However, given the widespread concern these measures may not be sufficient to address this practice comprehensively. A wide range of stakeholders will clearly have an interest in the development of remedies. However, if the OFT finds at an early stage of its enquiry that it is unable to directly address concerns with payment surcharges comprehensively, it should be clear about why and outline the additional powers or sanctions that should be made available.

PART 3: Detailed evidence and supporting material

3.1. Features of the market

3.1.1 Feature 1: the practice of advertising incomplete or partial prices, by, at least, omitting surcharges for payment method from advertised prices, which, due to consumers' behavioural biases, means consumers are unable to effectively and efficiently shop around and make like for like comparisons

- (96) Which? has reviewed the surcharges for payment method faced by consumers in the passenger travel market and the extent to which these affect prices and the advertising of prices. In summary, it is clear that:
- > Surcharge policies across airlines and ferry operators vary significantly on the level and basis of charges to consumers such that it is difficult to accurately assess the actual fare in advance of booking;
 - > The terms used for surcharges also vary, including terms such as booking fee, service charge or handling fee;
 - > The full charge is not revealed until well into the booking process, usually on the last page (4 - 6 'clicks' into the booking process and *after* the consumer has invested significant time and energy in activities that are specific to that supplier);
 - > It is not always clear what forms of payment will be accepted, although Visa and MasterCard are accepted across all airlines considered, but the 'free' method of payment (if available) varies from airline to airline;
 - > In some cases there is a significant impact on the final price due to the payment method surcharge alone, representing up to 14 per cent of the final fare in the worst case;
 - > Consumers report that surcharges make a significant difference to the advertised price and make it more difficult to compare prices; and
 - > No airlines or ferry operators explicitly state their surcharges in advertisements, at best stating the existence of 'credit card charges', with half of firms' advertising making no reference at all to the existence of surcharges.
- (97) Paying for a service is not an optional extra but a necessary pre-requisite to using a service (or doing business). Therefore, consumers would expect to be offered a payment method that is readily accepted. For passenger travel services this often means payment methods

accepted for online transactions, which are predominately card payments. There is a risk that consumers will assume that surcharges are the same across all firms that levy similar types of charges, in particular if purchases are made infrequently (once or twice a year) such that consumers do not recall the 'prevailing' level of charges or see how it differs between firms.⁷⁴

- (98) As explained at paragraph (36) above, Which? considers that in all of the cases considered in this complaint the way in which surcharges are presented meet the criteria of a 'drip' or partitioned price and that this is illustrative of practices across passenger travel services.⁷⁵ The following sections present the evidence gathered on the surcharging practices of airlines, ferry operators and rail services, the extent to which charges are made clear, consumers' views on price comparisons in the presence of surcharges and the final impact on advertised prices.

Airline surcharging policies

- (99) Which? has reviewed, in detail, the surcharging policies of ten leading airlines operating services in the UK. A summary of our findings are presented in Table 5. We have found:
- > Significant variations in surcharging policies of airlines, including the basis on which charges are determined (the cost drivers): for example ranging from fixed charges of £5 *per person, per leg of journey*, to percentage charges based on transaction value; and £0 charge for debit cards or specific forms of payment such as Visa Electron.
 - > Variations in the types of payment method accepted: including cash payments (accepted only at airports), Direct Debits (but often only if holding a foreign bank account), credit card only, or a wide range of different cards.
 - > Significant variation in whether any 'free' payment options are offered at all or the form of free methods. For example, 'free' methods include cash (paid at the airport before date of travel), prepaid MasterCard, Visa Electron, Carte Bleue, PayPal and Debit cards.
- (100) Table 4 summarises the number airlines in our sample that accept or charge for certain payment methods

⁷⁴ Paragraph 3.18, OFT's market study *Advertising of Prices*, December 2010.

⁷⁵ See OFT's market study *Advertising of Prices*, December 2010.

Table 4 - sample airline payment method and charging

Payment method	Accept payment method	Charge for method	'Free' payment method
Visa / MasterCard Debit cards	4	2	2
Electron / Solo card	5	1	4
Other debit (Carte Bleue)	1	-	1
Visa / MasterCard Credit cards	9	8	1
Other credit cards (Amex etc)	7	6	1
Pre-paid cards	1	-	1
Other (cash, direct bank debit, PayPal etc)	5	2	3

NB: Of the top 10 airlines the above does not include Turkish Airlines where the policy is not clear enough.

Table 5 - Surcharge policy and payment method options by airline.

Operator	Surcharge Policy	Booking Methods	Payment Methods Accepted	Notes
Ryanair	Standard rate of £5 per passenger, per leg of the journey. The only exception is a Prepaid MasterCard which attracts no surcharge.	Online	1 Ryanair MasterCard 2 Ryanair Visa 3 3V Visa Prepaid Vouchers 4 Visa Connect 5 Visa Debit/Delta 6 MasterCard	See: http://www.ryanair.com/en/questions/able-of-fees Ryanair state that the fee "relates to the costs associated with Ryanair's booking system."
		Telephone	7 MasterCard Prepaid 8 UK Maestro 9 Solo 10 Visa Electron 11 Visa	
easyJet	A transaction fee applies to payments made with all payment cards other than Carte Bleue and Visa Electron. All online bookings (unless by Carte Bleue or Visa Electron) incur a fee of £5.50. When payment is made by credit card an additional fee of 2.5% of the total transaction value, with a minimum charge of £4.95, whichever is greater, is added. When the booking is made over the phone the charge incurred is £7.50 per passenger, per leg of the journey.	Online	1 American Express 2 Visa Connect 3 Visa Delta 4 Diners 5 MasterCard	See: http://easyjet.custhelp.com/app/answers/detail/a_id/4304/c/1661/r_id/166 and http://www.easyjet.com/EN/Book/paymentoptions.html NB: It is not clear whether in person payment by card attracts a surcharge.
		Telephone	6 Maestro 7 Solo 8 Carte Bleue 9 Visa Electron	
		In person: sales desk at the airport	10 Cash payments (airport only)	

Operator	Surcharge Policy	Booking Methods	Payment Methods Accepted	Notes
Lufthansa Group	The surcharge policy is £4 per person online. There is no surcharge for payment by PayPal.	Online	1 PayPal (online only) 2 Visa 3 MasterCard 4 American Express	Payment options, see: http://www.lufthansa.com/online/portal/lh/uk/info_and_services/partner?nodeid=2758947&l=en There would appear to be no option to pay by debit card.
	It is not clear whether the same surcharge policy applies to telephone bookings.	Telephone	5 Diners Club 6 JCB Card 7 AirPlus Company Account/UATP	
Iberia	There is no surcharge for online payments.	Online	1 Visa 2 American Express 3 UATP/AirPlus 4 Diners Club 5 MasterCard 6 Carte Blanche 7 Access	There would appear to be no option to pay by debit card.
AirFrance/KLM	There is a surcharge of £4.50 per passenger for payment by credit card online. There is no charge for debit cards online.	Online	1 American Express 2 Diners Club 3 Maestro 4 Solo 5 MasterCard 6 Eurocard 7 UATP Card 8 Visa 9 Visa Debit	For KLM's policy see: http://www.klm.com/travel/gb_en/plan_and_book/ticket_information/surcharges_explained/index.htm#p4 They state: "More and more air travellers are using a credit card to pay for their tickets. This increasing credit card usage has resulted in rising costs for KLM. To compensate for these costs, we are forced to charge a surcharge of £4.50 per person (with the exception of infants) for tickets booked by credit card."
	Booking a ticket over the phone incurs a £13 charge per ticket.	Telephone		
	Booking a ticket in a ticket office incurs a £20 charge per ticket.	Ticket office		

Operator	Surcharge Policy	Booking Methods	Payment Methods Accepted	Notes
Air Berlin	There is a surcharge of 10 EURO per passenger when a payment is made with an airberlin Visa or MasterCard. Payment by all other credit cards carries a 17 EURO per passenger surcharge.	Online Telephone	1 MasterCard 2 airberlin Visa 3 airberlin Euro 6000 MasterCard 4 Visa 5 American Express 6 Diners Club 7 AirPlus/UATP 8 Direct debit (German, Austrian or Dutch bank account ONLY)	There would appear to be no option to pay by debit card.
British Airways	BA charge £4.50 per passenger for payment by PayPal. Payment by credit card also incurs a £4.50 per passenger surcharge. There is no surcharge for debit card payments.	Online Telephone	1 PayPal (online only) 2 Visa Debit 3 Electron 4 Switch 5 Maestro 6 Solo 7 MasterCard Debit 8 Visa Credit 9 MasterCard Credit 10 Discover 11 Diners Club 12 American Express 13 AirPlus/UATP	

Operator	Surcharge Policy	Booking Methods	Payment Methods Accepted	Notes
TUI Group Airlines	<p>There is no surcharge for paying by Visa Electron. There is a surcharge of 2.5% of the transaction value for paying by credit card. There is a surcharge of £2.95 for paying by debit card - this is a flat rate regardless of number of passengers.</p> <p>NB: I could not see anything specifically relating to in store or telephone bookings regarding charges.</p>	<p>Online</p> <p>Telephone</p> <p>In store</p>	<p>2 Maestro</p> <p>3 MasterCard Credit</p> <p>4 MasterCard Debit</p> <p>5 Visa</p> <p>6 Visa Electron</p> <p>7 Visa Purchasing</p> <p>8 Visa Debit</p> <p>9 Delta Debit</p>	<p>The mix between calculating a surcharge based on a flat amount versus a percentage charge for credit cards could confuse consumers.</p> <p>A surcharge is not mentioned until the final stage. Given all the extras that a family might add to their booking a percentage charge could work out to be high.</p>
SAS Group	<p>It is not made clear if and whether the £2 "service fee" is for payment. However, the only payment options are credit card, and we know from testing the website that the £2 fee is added per person booking on to the flight.</p>	<p>Online</p>	<p>1 MasterCard</p> <p>2 Visa</p> <p>3 American Express</p> <p>4 Diners Club</p> <p>5 Discover</p>	<p>SAS advertise that they have no hidden fees and that what you see is the total price. However, the £2 per passenger charge is added to the total. See: http://www.flysas.com/en/uk/Promotions-and-prices/NEW-Reasons-to-choose-SAS/No-Hidden-fees/?vst=true</p>
Turkish Airlines	<p>Unclear what the actual policy is.</p> <p>It would appear to vary depending on:</p> <ul style="list-style-type: none"> > Number of passengers > Type of flight (short haul, long haul) > Departure country and destination country 	<p>Online</p> <p>Telephone</p>	<p>1 Visa</p> <p>2 MasterCard</p> <p>3 American Express</p>	<p>There is no option to pay by means other than credit card.</p> <p>It is unclear how the charges are applied.</p>

Table 6 - Examples of card payment surcharging and effect on price.

Operator	Flight details	Payment Methods	Example 1 - 1 person, return flight		Example 2 - 4 people, return flight		When does the surcharge appear in the booking process?	Comments
			Total cost, incl. surcharge	Surcharge	Total cost, incl. surcharge	Surcharge		
Ryanair	London Gatwick LGW - Madrid MAD Out: 04/02/2011 Return: 07/02/2011 Details noted: 27/01/2011	Prepaid MasterCard	£63.98	£0	£255.92	£0	4 clicks. The surcharge is added after you've reached the end of the booking process and selected your payment method.	The surcharge policy is straightforward. A fees page is easily accessible from the homepage.
		All other payment cards	£73.98	£10	£295.92	£40		
easyJet	London Gatwick LGW - Madrid MAD Out: 04/02/2011 Return: 07/02/2011 Details noted: 27/01/2011	Visa Electron	£62.98	£0	£255.92	£0	5 clicks. A range of totals appears towards the end of the booking process, highlighting that surcharges vary depending on payment method.	The surcharge policy is confusing. Having more than one total appear is also confusing.
		Visa Debit card	£68.48	£5.50	£261.42	£5.50		
		Credit cards	£73.43	£10.45	£267.82	£11.90		

Operator	Flight details	Payment Methods	Example 1 - 1 person, return flight		Example 2 - 4 people, return flight		When does the surcharge appear in the booking process?	Comments
			Total cost, incl. surcharge	Surcharge	Total cost, incl. surcharge	Surcharge		
Lufthansa	London Heathrow LHR - Düsseldorf - Madrid MAD Out: 04/02/2011 Return: 07/02/2011 Details noted: 27/01/2011	Credit Card	£144.23	£4.00	£576.92	£16.00	1 click. Information on the surcharge policy appears onscreen. 4 clicks. The surcharge you will pay is added to your total once the payment method is selected.	The surcharge policy that appears after 1 click indicates that a £4 reduction from the total will be made if the customer opts to use the fee free PayPal payment option. This is incorrect, and in fact £4 is added to the total once the customer opts to pay by credit card. This makes application of the policy confusing.

Operator	Flight details	Payment Methods	Example 1 - 1 person, return flight		Example 2 - 4 people, return flight		When does the surcharge appear in the booking process?	Comments
			Total cost, incl. surcharge	Surcharge	Total cost, incl. surcharge	Surcharge		
Iberia	London Heathrow LHR - Madrid MAD Out: 04/02/2011 Return: 07/02/2011 Details noted: 27/01/2011	All card types available	£199.60	£0	£798.40	£0	N/A	Payment by credit card is the only option, but there is no surcharge attached.
AirFrance	London Heathrow LHR - Amsterdam - Madrid MAD Out: 04/02/2011 Return: 07/02/2011 Details noted: 27/01/2011	Maestro / Solo / Visa Debit	£181.63	£0	£726.52	£0	4 clicks. The charge is added once you select your payment method.	The policy is straightforward.
		Credit cards	£186.13	£4.50	£744.52	£18.00		

Operator	Flight details	Payment Methods	Example 1 - 1 person, return flight		Example 2 - 4 people, return flight		When does the surcharge appear in the booking process?	Comments
			Total cost, incl. surcharge	Surcharge	Total cost, incl. surcharge	Surcharge		
Air Berlin	London Gatwick LGW - Dusseldorf - Berlin TXL Out: 04/02/2011 Return: 07/02/2011 Details noted: 27/01/2011	airberlin VISA Card or airberlin MasterCard 6000	289.98 EURO	10 EURO	1159.92 EURO	40 EURO	1 click. The lower surcharge is added to the total at this point. 3 clicks. The surcharge that will apply to your payment is added once you select your payment option.	There is potential for confusion. The lower surcharge is automatically added but given that this is only available when paying with airberlin Visa or MasterCard most customers are likely to have to pay the higher charge.
		All other card types available	296.98 EURO	17 EURO	1187.92 EURO	68 EURO		
British Airways	London Heathrow LHR - Madrid MAD Out: 04/02/2011 Return: 07/02/2011 Details noted: 27/01/2011	Visa Debit / Electron / Switch / Solo / Maestro / MasterCard Debit	£167.60	£0	£670.40	£0	1 click. Surcharge policy is made apparent. 4 clicks. The surcharge is added to your total once you specify your payment method.	BA looks like they have tried to be helpful but the end result is still confusing. BA give an approx range of fees the customer might encounter, but this is all fees
		All other card types available	£172.10	£4.50	£688.40	£18.00		

Operator	Flight details	Payment Methods	Example 1 - 1 person, return flight		Example 2 - 4 people, return flight		When does the surcharge appear in the booking process?	Comments
			Total cost, incl. surcharge	Surcharge	Total cost, incl. surcharge	Surcharge		
								and not a varying range of surcharges. The effect on total price is not indicated.
TUI Group Airlines - Thomson flight	London Gatwick LGW - Malaga AGP Out: 04/02/2011 Return: 06/02/2011 Details noted: 27/01/2011	Visa Electron	£88.00	£0	£352.00	£0	4 clicks. Reference to a surcharge only appears at the final stages and is added when you select your payment method.	
		MasterCard Credit / Visa / Visa Purchasing	£90.20	£2.20	£360.80	£8.80		
		Maestro / MasterCard Debit / Visa Debit / Delta	£90.95	£2.95	£354.95	£2.95		
SAS Group - Scandinavian Airlines flight	London Heathrow LHR - Copenhagen CPH Out: 04/02/2011 Return: 06/02/2011 Details noted: 27/01/2011	All card types	£107.00	£2.00	£428.00	£8.00	1 click. £2 service fee is added.	

Operator	Flight details	Payment Methods	Example 1 - 1 person, return flight		Example 2 - 4 people, return flight		When does the surcharge appear in the booking process?	Comments
			Total cost, incl. surcharge	Surcharge	Total cost, incl. surcharge	Surcharge		
Turkish Airlines	London - Istanbul Out: 04/02/2011 Return: 07/02/2011 Details noted: 31/01/2011	All payment options	£186.30	£8.50	£711.20	£33.98	2 clicks. It seems to be added indiscriminately as a "ticketing service charge" and does not vary at all with different payment options.	These charges were not clearly labelled as a payment method surcharge.

Ferry service surcharge policies

(101) Table 7 sets out the surcharge policy for ferry operators servicing three UK routes. Like airlines, the policies of ferry operators differ significantly. Two operators do not levy any charges at all for payment method. Three operators do not charge for debit cards. For credit cards policies vary, from fixed charges to *ad valorem*. A significant difference is that no operator charges passengers per ticket or passenger.

Table 7 - Operators in the ferry market, surcharging policy

Ferry service	Surcharge policy
Short Channel:	
Norfolkline Irish Sea Ferries	A £5 charge for all cards except Visa Electron
P&O Ferries	No charge for debit cards, £4 for credit cards per booking
SeaFrance	No surcharge
LD Lines/Transmanche	Charges vary by type of card: Solo, Maestro, MasterCard Debit and Visa Debit - £1 per booking; Visa and MasterCard credit cards - £3.62 per booking
Western Channel:	
Brittany Ferries	£5 charge for credit cards and non-UK debit cards
LD Lines/Transmanche	As above
P&O Ferries	As above
Condor Ferries	No charge for payment method
DFDS Seaways	A fee of 2.5% of the transaction value, minimum charge £4.00 maximum charge of £25 will be levied on each credit card transaction over £20 in value. (Including amendments and add-ons to a booking).
Stena Line	A £5 transaction charge will be applied to MasterCard, Visa and American Express credit cards. There is no charge for Visa Debit and UK Maestro debit cards
Irish Sea:	
Irish Ferries	As above
Stena Line	As above
Norfolkline Irish Sea Ferries	Charges for all cards in GBP but not Euros
P&O Ferries	As above
IOM Steam Packet	Bookings paid for by credit/charge card are subject to a non-refundable £3/€4 credit charge per booking. No charge for using debit card.

Source: Mintel/Which? research

(102) Table 13 shows when the surcharge levied by ferry operators appears in the booking process. In all cases when a surcharge is applied it is not clear until at least the fourth stage of the booking process, and usually not until the final stage when the final price is displayed.

Railways

(103) Train operating companies of mainline rail services in the UK are prohibited from charging a surcharge. However, intermediary booking sites are not. Data from the Passenger Focus passenger survey indicates about 9 per cent of passengers nationally bought a ticket over the internet.⁷⁶ However, a Which? general public survey in December 2010 found 39 per cent of consumers preferred to book tickets online.

(104) Table 8 sets out a summary of the key intermediary websites and their current surcharge policy. In a number of cases the actual nature of the surcharge is not clear, for example with Rail Saver, but a number have adopted a common charge for credit cards of 4.5 per cent. Overall, of the ten intermediaries considered, eight levy charges for credit card, five for debit card.

Table 8 - Rail ticket intermediary websites

Operator	Surcharge Policy (eg per person per leg/or per transaction etc)	Payments Accepted	Transparency of surcharge?	Date reviewed
The Trainline	"If paying by credit card then there will be an additional charge of £3.50. This can be avoided by paying by debit card."	Visa Credit - £3.50 Visa Debit - free Visa Electron - free MasterCard - £3.50 American Express - £3.50 Diners Club - £3.50 Maestro - free	On page after logging into basket: "you wish to pay by credit card a credit card fee will apply. This fee will be added on the next page. This can be avoided by using a debit card."	25.01.11
Rail Saver (powered by Rail Easy)	Credit card fee is variable depending on the price of ticket and other charges Debit card fee is £0.75 whatever the ticket price.	MasterCard - variable Visa (credit) - variable Visa (debit) - £0.75 Electron - £0.75 Maestro UK/Solo - £0.75	On page after selecting 'Buy Ticket': Total ticket cost (Will be subject to a debit/credit card charge). Actual charges shown on payment page	25.01.11

⁷⁶ See page 93, Consultees Reports, National Passenger Survey, Wave 23 Autumn 2010 (<http://www.passengerfocus.org.uk/news-and-publications/document-search/document.asp?dsid=4965>)

Operator	Surcharge Policy (eg per person per leg/or per transaction etc)	Payments Accepted	Transparency of surcharge?	Date reviewed
Rail Easy	Credit card fee is variable depending on the price of ticket and other charges Debit card fee is £0.75 whatever the ticket price.	MasterCard - variable Visa (credit) - variable Visa (debit) - £0.75 Electron - £0.75 Maestro UK/Solo - £0.75	On page after selecting 'Buy Ticket': Total ticket cost (Will be subject to a debit/credit card charge)	25.01.11
Qjump (now part of The Trainline)	"Like many travel agency businesses we can rely less and less on commission on ticket sales to cover our costs and regrettably this puts us in a position where we need to pass on some of those costs to our customers in order to continue to provide the best possible service. The following charges have been introduced: • £0.50 debit card fee • £3.50 credit card fee"	Maestro - free Visa Debit - free Visa Electron - free Visa Credit - £3.50 MasterCard - £3.50 American Express - £3.50 Diners Club - £.50	On page after logging into basket: "If you wish to pay by credit card a credit card fee will apply. This fee will be added on the next page. This can be avoided by using a debit card."	25.01.11
My Train Ticket	Credit/charge card fee of 2.25%. No card fee when paying with debit cards, including Visa Electron, Maestro and Solo.	Maestro - free Solo - free Visa Debit - free Visa Electron - free Visa Credit - 2.25% MasterCard - 2.25% American Express - 2.25%	On payment page [Pls note: my example on 25.01.11 came up with all cards free due to a time-limited promotion!]	25.01.11
Britain Express (powered by Rail Easy)	Credit card fee is variable depending on the price of ticket and other charges Debit card fee is £0.75 whatever the ticket price.	MasterCard - variable Visa (credit) - variable Visa (debit) - £0.75 Electron - £0.75 Maestro UK/Solo - £0.75	On page after selecting 'Buy Ticket': Total ticket cost (Will be subject to a debit/credit card charge). Actual charges shown on payment page	25.01.11

Operator	Surcharge Policy (eg per person per leg/or per transaction etc)	Payments Accepted	Transparency of surcharge?	Date reviewed
Rail Europe (powered by Rail Easy)	Credit card fee is variable depending on the price of ticket and other charges Debit card fee is £0.75 whatever the ticket price.	MasterCard - variable Visa (credit) - variable Visa (debit) - £0.75 Electron - £0.75 Maestro UK/Solo - £0.75	On page after selecting 'Buy Ticket': Total ticket cost (Will be subject to a debit/credit card charge). Actual charges shown on payment page	25.01.11
Megatrain (part of Stagecoach)	Doesn't appear to be any charges, but if part of Stagecoach may come under the not being able to charge policy	MasterCard Visa credit Visa debit Electron Maestro JCB Solo PayPal Uses RBS WorldPay	N/A	25.01.11
Quno	No information given on the website other than at payment stage	Solo - £0.50 Visa debit/Delta/Electron - £0.50 American Express - £2.50 Visa (credit) - £2.50 MasterCard - £2.50	On traveller information page states that price does not include fees.	25.01.11
Red Spotted Hanky	No charges			

Source: Which? analysis

Consumers' experience of surcharges

(105) Which? has conducted a general public survey to explore how often and in what goods or services consumers face a surcharges, how this affects their ability to compare prices and what steps consumers have been able to take to avoid these charges.⁷⁷ See section 3.4 for a summary of these results.

⁷⁷ Which? commissioned a general public omnibus specifically to gather evidence on consumers' experience of payment method surcharging. 1305 members of the UK general public participated in an online omnibus survey in January 2011. Most of the questions were answered by the 484 respondents who had encountered a fee for paying either by credit or debit card in the past 12 months. All responses were re-weighted to ensure the survey was representative of the UK adult population.

(106) One third of respondents had experienced a surcharge for paying by credit or debit card. The majority of these charges were incurred for travel, but event tickets and general online retailers followed closely. Two-thirds stated that the fee was not clear until the closing stages of the transaction.

(107) We asked consumers whether surcharges made a difference to advertised prices and to the difficulty of comparing the price of goods and services. Nearly two-thirds (62 per cent) agreed that surcharges made a significant difference to the advertised price.⁷⁸ Just under half (49 per cent) agreed that surcharges made comparing prices more difficult, with only 17 per cent explicitly disagreeing.⁷⁹

(108) Our survey also asked consumers if they knew who set the surcharges:⁸⁰

- > 37 per cent said "retailers themselves set the fees"
- > 23 per cent said "banks/card issuers/card schemes set these fees"
- > 25 per cent said "both of the above set the fees between themselves"
- > 7 per cent didn't know
- > 6 per cent said "regulators/government set the fee"
- > 2 per cent said "none of the above apply"

(109) With only 37 per cent of consumers recognising that retailers choose the level of payment method surcharges, and whether to charge at all, we agree with the AUC's suspicion that many consumers may assume that additional charges are 'imposed' by third parties on retailers.⁸¹ This would risk consumers assuming that these charges are the same or similar across retailers (as they assume a third-party set them) and would undermine consumers' incentives to search or switch to a better offer. Overall, two-third of respondents agreed that surcharges should be included in the price quoted before payment and 80 per cent stated there should be no additional fees for paying by card.

Disclosure of surcharges and advertising of price offers

(110) Table 6 notes the point at which the surcharge is fully transparent on airlines' websites: usually on the last page of the booking process. In addition, these charges are given a

⁷⁸ Question 6 of survey.

⁷⁹ Question 6 of survey.

⁸⁰ Question 11 of survey.

number of different terms: administrative charges, handling fee, booking fees, service charges. For ferry operators, surcharges are also disclosed at the end of the booking process.

(111) The confusion is exacerbated if retailers insist that these are not charges for paying by card. Which? sent a questionnaire to the ten airlines above asking about their surcharge policies: only three responded. airberlin stated "As we do not charge a credit card fee to our customers, airberlin is not an appropriate contact for your questionnaire." We asked airberlin to clarify its position given the statement during airberlin's booking process that *"The price includes the fare, taxes and charges, as well as a handling fee (service charge) of € 10 for direct debit payment. The handling fee for all other payment methods is € 17 per person, which means that the price including the handling charge is then € 7 more than the price shown above."* airberlin did not respond. Which? considers that 'payment methods' would include a credit card, and therefore a 'handling fee' could legitimately be characterised as a 'payment method surcharge.' Since launching this super-complaint Ryanair has made similar comments.⁸²

(112) Some airlines include a link to their charging policies from their first webpage. For example, Ryanair's charges are relatively easy to locate if you know what to look for. In addition their policy is relatively simple (at fixed charge per person per leg of journey). However, even with this knowledge consumers may still be influenced by the price framing effects, reinforced by the advertising and branding of no-frills airlines, which can distort consumers' judgement of value.

(113) We have reviewed a small sample of advertisements from the top 3 tabloids and top 3 broadsheets from the weekend of 22 and 23 January 2011 for airlines and ferry companies.⁸³ Table 9 summarises our findings.

⁸¹ AUC response to OFT's Price Advertising market study, which found that only 43% of passengers were aware the taxes, fees and charges differed across airlines (<http://www.auc.org.uk/default.aspx?catid=306&pagetype=90&pageid=11015>).

⁸² See 'Which? targets no-frill airlines over card surcharges' LSE, (<http://www.londonstockexchange.com/exchange/news/sharecast/news-detail.html?newsId=4043454>).

⁸³ The Sun, Daily Mail, Daily Mirror, Daily Telegraph, The Times, The Guardian, News of the World, The Mail on Sunday, Sunday Mirror, The Sunday Times, The Sunday Telegraph and The Observer.

Table 9 - airline and ferry operator advertisements, January 2011

		Price information given:			Fee information given:			
		No reference to price	'From' price given	Other - e.g. £30 off	Says that credit card charges apply	Says it includes all fees, taxes and charges	Says it excludes all fees, taxes and charges	No reference to fees and charges
Airlines	12	3 (includes 2 references to a 'sale')	8 (includes 3 references to a 'sale')	1 (with reference to a 'sale')	1	4	1	6
Ferries	2	-	1	1	-	-	-	2

Source: Which? research

(114) Half of the advertisements for airlines make no explicit reference to any charges at all for payment method, but at least five of these airlines charge for credit or debit card payment.⁸⁴ We do not consider that surcharges, or in some cases even fares, receive the prominence that should to enable consumers to compare firms' full or actual charges.

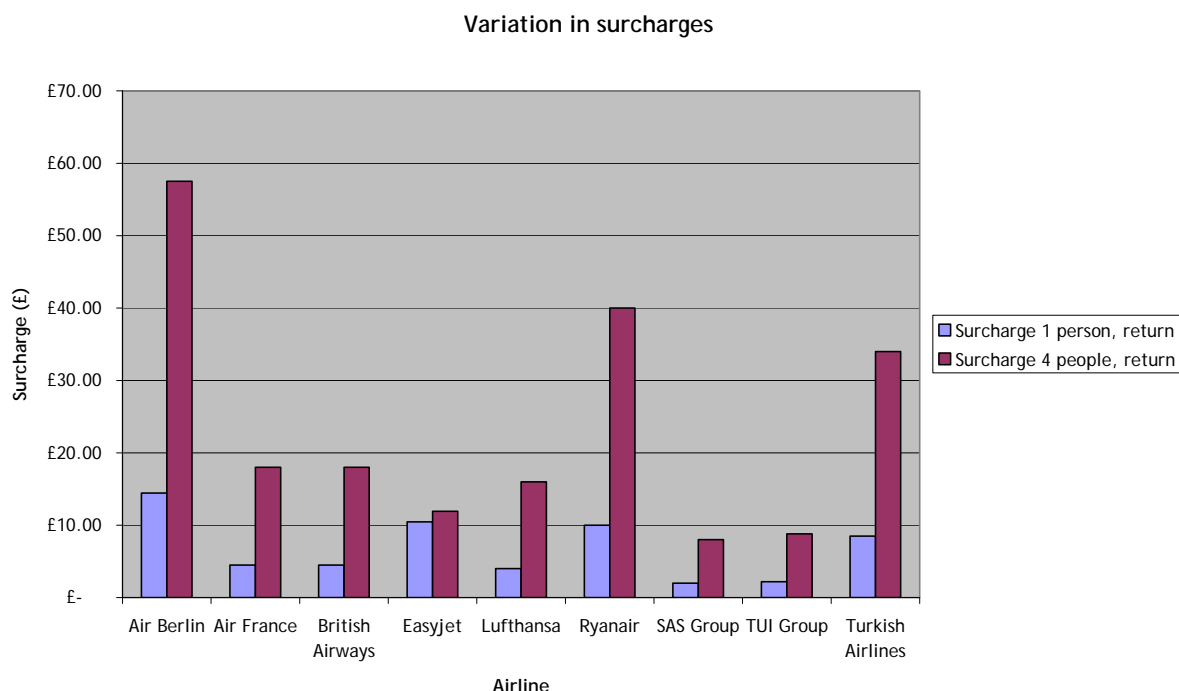
Variation in surcharges

Consumers face a significant and material variation in surcharge policies

(115) Consumers facing payment method surcharges must understand the different policies across each firm if they are to estimate with reasonable accuracy the level of the charge and its relative contribution to the overall fare. As set out in Tables 5 and 7, these policies for airlines and ferry operators vary considerably on the level of charge and how the charge may change with multiple passengers.

⁸⁴ Emirates airlines make no mention of surcharging up to the final booking webpage and therefore may not surcharge.

Graph 1 - variation of credit card surcharges across sample airlines



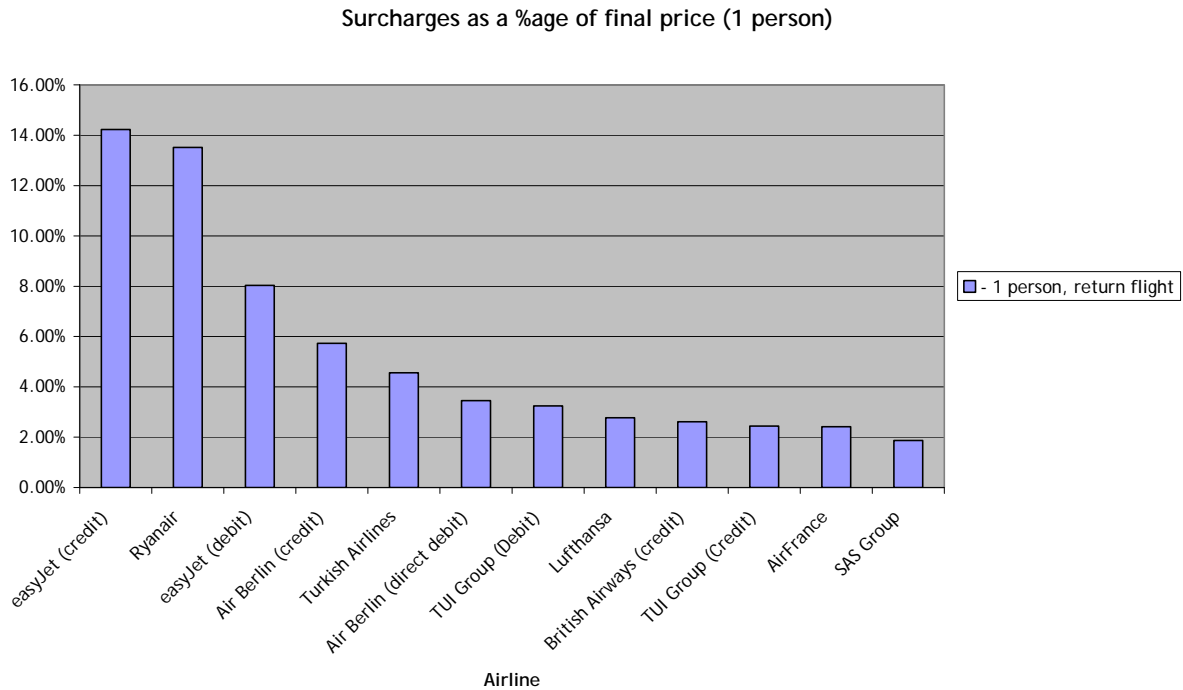
(116) Graph 1 demonstrates the significant variation in the level of surcharges, and the difference in surcharges where multiple passengers purchase tickets under one booking. Only easyJet, with a policy based on a fixed price plus a percentage of the transaction value, has a relatively flat charging structure between one and four passengers. In contrast, Ryanair, airberlin and Turkish Airlines stand out with a surcharge that significantly exploits multiple passengers flying under a single booking.

Impact of surcharges on air fare

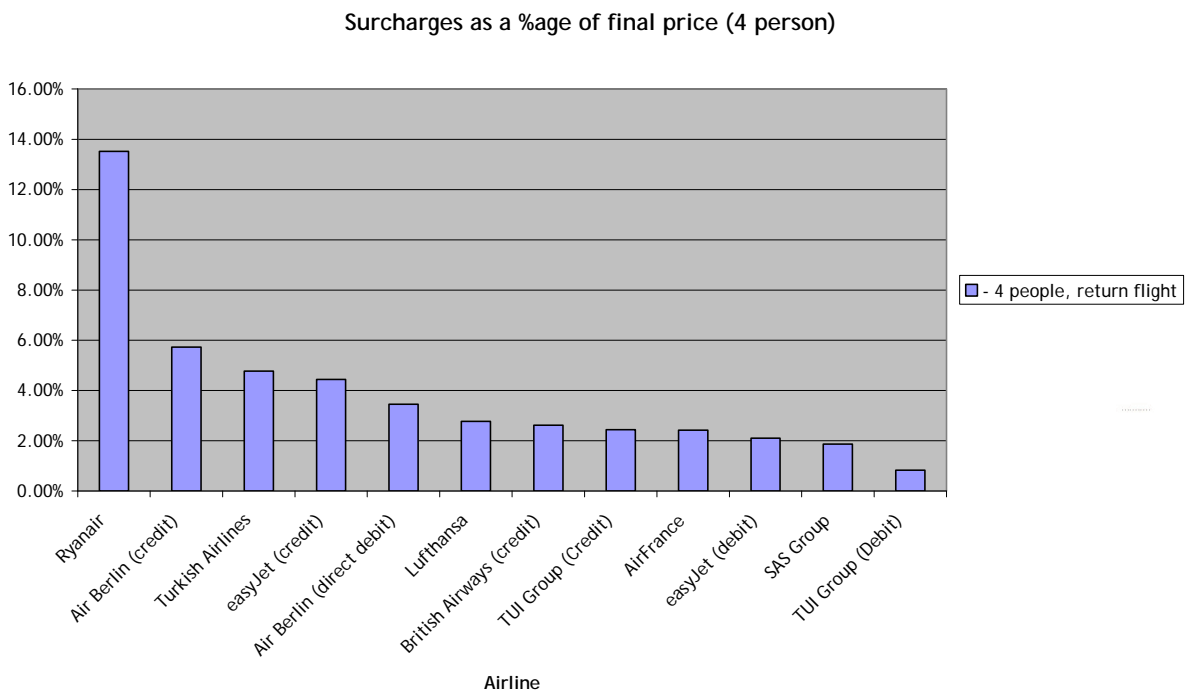
At most surcharges represent over 14 per cent of the fare, with the average surcharge for this sample representing 4.6 per cent for one passenger and 3.8 per cent of the fare with four passengers

(117) Of the airlines considered, the proportion of the overall price represented by surcharges, is illustrated in Graphs 2 and 3.

Graph 2 - Example 1, 1 person



Graph 3 - Example 2, 4 persons



(118) In all instances the surcharge of Ryanair represents the most significant proportion of final price. The TUI Group, SAS and Air France have surcharges that represent the least proportion of final price (at 2.44 per cent or less). The contribution to the overall fare varies across airlines, but in some cases forms a significant part of the final price, in excess of 5 per cent in four. This represents a magnitude of price that competition authorities would usually consider has a significant affect on consumers' decisions to switch supplier.⁸⁵

3.1.2 Feature 2: the lack of *reasonably* or *practicably* available alternatives to avoid or mitigate surcharges for payment method

(119) We have demonstrated that in many cases the full details, or the impact on final prices, of payment method surcharges is not known until the final step of the booking process. We consider that for the great majority of consumers alternative payment methods are not practicably available to allow them to avoid or mitigate payment method surcharges.

(120) As set out in section 2.1, many bookings are made online. Inevitably this requires the use of a card. It is clear that debit cards, issued by the principal high street banks, and credit cards are the most widely used method of payment and debit cards have recently overtaken credit cards as the most popular means of online payment. Survey evidence of consumer preferences also shows debit and credit cards as the most popular options.

(121) To avoid surcharges paying surcharges three condition must be met: i) a 'free' method needs to be offered (in the UK) by the retailer; ii) the customer must know, in advance of purchase, which payment methods are 'free'; and iii) the customer must have the relevant 'free' method of payment available before entering the transaction. Instant access, to a range of 'free' payment methods is only available if consumers carry the 'free' payment method as a matter of routine. We do not consider that these conditions hold for passenger travel services.

(122) Most purchases for travel are time-bound. The availability of a seat or journey on a specific scheduled service alters rapidly, as will the overall price a customer may pay. The availability to the consumer of an alternative payment option, at the exact time of booking, is therefore vital.

⁸⁵ Competition authorities, when defining markets, often rely upon a 'small but significant non-transitory increase in price' (or SSNIP test), that considers the reaction of customers to a hypothetical monopolist raising its prices by between 5 - 10 percent.

(123) When consumers encountered a fee we asked what their response was:⁸⁶

- > 56 per cent bought the item and paid the fee
- > 25 per cent bought the item but paid with an alternative payment method
- > 9 per cent bought the item from a different provider not charging a fee
- > 4 per cent didn't end up buying the item they'd planned to buy

(124) Over half proceeded with the transaction and only one-quarter had access to an acceptable alternative. It should be noted that these results relate to any good or service where a surcharge was encountered; we expect consumers have far fewer practicable options to avoid fees for the reasons described below. Where consumers took steps to avoid the surcharges just over half stated it cost them more time. There was a strong view that not paying the fee allowed a cost saving.⁸⁷

(125) For the sample of airlines considered, the 'free' payment options are all niche products, with the obvious exception of debit cards issued by principal banks. Debit cards are the most popular method for online payments and are amongst the cheapest available for a retailer to accept.

(126) The two examples of niche payment method are:

- > Visa Electron
- > Prepaid MasterCard

We have assessed these alternatives against the criteria in Table 10.

⁸⁶ Question 7 of the general public survey

⁸⁷ This may be on the basis that consumers were comparing a known cash cost with the less clear cash costs of using alternatives.

Table 10 - analysis of availability of 'free' payment methods

Criteria	Visa Electron	Pre-paid cards
Are payment methods already widely held by UK consumers?	No. Of the 5.3 million cards issued in 2009, just 3.7% were Electron. ⁸⁸ Electron cards are issued solely for basic bank accounts and for youth or student bank accounts.	No. These cards remain a niche product, suitable mainly for young people or those without a UK personal current account.
Can consumers switch to this method immediately?	No. Consumers must apply for a card, if they can find an available supplier, before making a purchase.	No. Consumers must apply for a card before making a purchase, although there appear to be a greater number of suppliers than for Electron.
Can all consumers access the payment method?	No. Electron accounts appear to only be available to those without a mainstream bank account.	Yes. Any person may apply for a card from a range of different providers.
Is holding this payment method free to consumers?	Yes. These cards are usually available with a young persons' or basic bank account and incur no direct charge.	No. All pre-paid cards require payment of a fee at some stage.
Is the payment method widely accepted amongst other service providers?	No. Retailers must specifically opt to accept Electron cards. Electron is becoming less popular with retailers.	Yes. If the pre-paid card is 'open-loop' and branded with a Visa or MasterCard logo it will be acceptable at any retailer that is part of those payment schemes.

(127) Compared to the use of debit or credit cards, we do not consider Electron or prepaid MasterCard are widely available to allow a significant proportion of consumers to switch payment method during the transaction. Additionally, retailers that offer one of these methods may, at any time, switch to accepting other cards or payment methods as 'free'. This happened with Ryanair, which changed their 'free' payment method from Electron to prepaid MasterCard.

⁸⁸ Page 30, UK Payment Statistics 2010, UK Cards Association

3.1.3 Feature 3: the conduct or practice of retailers that impose a surcharge for payment method, hidden or not, that exceeds a reasonable estimate of the costs for processing consumers' payments

(128) A feature of surcharging practices, in particular in the passenger travel market, is that surcharges invariably exceed a reasonable estimate of the costs for processing customers' payments. This is symptomatic of distorted competition, as the price on which the firm depends to attract customers is not a true reflection of its willingness to sell at that price. We review the surcharge practices of airlines and ferry services and demonstrate that many charges exceed an estimate of reasonable cost.

(129) For both airlines and for some ferry operators, surcharges for payment methods exceed Which?'s estimation of a reasonable surcharge, **16 pence per transaction for debit card and 1.8 per cent of the total transaction value for credit card** (see Section 3.2 for a fuller explanation).

- > There are significant variations in the level of charges and way in which they are calculated and applied to consumers.
- > Surcharges for all of the airlines considered exceed Which?'s estimate of a reasonable surcharge.
- > Where charges for debit cards are levied, these significantly exceed the fair surcharge, by a factor of 250 in the worst case.
- > Airlines in some cases apply cost drivers that do not reflect how the card industry imposes costs upon retailers by multiplying charges by the number of people, tickets or journeys taken for a single transaction.
- > Additional evidence, such as airline company reports, suggests that 'ancillary revenues', of which surcharges for payment method form a part, are an important profit centre.

(130) For surcharges to be 'fair', Which? considers they should reasonably reflect the costs of accepting that payment method. Surcharges specific to a payment method, clearly imply that such charges are a cost pass-through: they do not form a key part of the price on which firms compete because they are excluded from price advertising. We consider that charges which are clearly linked (explicitly or implicitly) to the form of payment method presented by the consumer should reflect only those additional and specific costs incurred from third parties to enable acceptance of payment by card. These are the costs that can be directly

attributable to a specific payment method and which would not otherwise be incurred by a firm in its day-to-day business.

The impact of airline policies on the level of surcharges

(131) Air fares are extremely variable, depending on route and the time leading up to date of departure. We have therefore considered the effects of airlines' surcharge policies on overall fares, and the extent to which surcharges reflect a reasonable cost, using two examples. We looked at two illustrative bookings for each of the airlines, presented in Table 6. Example 1 is based on one person travelling on a return trip. Example 2, for the same routes, is based on four people travelling under one booking.

(132) The analysis of airlines surcharges set out in Table 11. In summary:

Credit cards

- > Attract, on average, surcharges of 5 - 6 per cent, significantly higher than Which?'s estimate of a fair surcharge.
- > The average overpayment was £4.16 for a single person and £13.81 in the case of four people travelling.
- > The highest implied surcharge was 14 per cent, leading to a significant overpayment of about £35 for four people. The lowest was 1.9 per cent.
- > This suggests credit card surcharges are about three times greater than the fair level.

Debit cards

- > The number of debit cards accepted, or where a fee was charged, was far fewer with only three out of ten examples.
- > The level of overpayment averaged £6 and £16 in Examples 1 and 2 respectively.
- > Given the very low costs of processing debit card transactions, the average charge was 100 times greater than a fair surcharge. In the case of Ryanair it was 200 times greater for four people travelling.

(133) In conclusion, practices vary across airlines but overall all the airlines in our sample overcharge for credit cards, and in those cases where surcharges for debit cards are made these significantly exceed a fair surcharge. The worst airlines in our sample are airberlin, Ryanair and easyJet.

Table 11 - Airlines, impact of surcharges on customers

Airlines Example 1 - One person travelling on a return trip

Credit cards

Airline	Level of surcharge payment (fixed value)	Actual airfare inc. surcharge
Ryanair	£ 10.00	£ 73.98
easyJet	£ 10.45	£ 73.43
Lufthansa	£ 4.00	£ 144.23
Air France	£ 4.50	£ 186.13
airberlin	£ 14.43	£ 252.02
British Airways	£ 4.50	£ 172.10
TUI Group	£ 2.20	£ 90.20
SAS Group	£ 2.00	£ 107.00
Turkish Airlines	£ 8.50	£ 186.30
Average	£ 6.73	£ 142.82

Impact on customers

Average surcharge (actual or implied)	Level of surcharge payment at 'fair' level	Overpayment (£) of surcharge above 'fair' level	Ratio of surcharge above fair level	Implied ticket price if fair surcharge applied
14%	£ 1.15	£ 8.67	8.68	£ 555.56
14%	£ 1.13	£ 9.13	9.22	£ 580.56
3%	£ 2.52	£ 1.40	1.58	£ 222.22
2%	£ 3.27	£ 1.15	1.38	£ 250.00
6%	£ 4.28	£ 9.89	3.37	£ 801.67
3%	£ 3.02	£ 1.40	1.49	£ 250.00
2%	£ 1.58	£ 0.58	1.39	£ 122.22
2%	£ 1.89	£ 0.07	1.06	£ 111.11
5%	£ 3.20	£ 5.15	2.66	£ 472.22
6%		£ 4.16	3.43	£ 373.95

Debit cards

Airline	Level of surcharge payment (fixed value)	Actual airfare inc. surcharge
Ryanair	£ 10.00	£ 73.98
easyJet	£ 5.50	£ 68.48
TUI Group	£ 2.95	£ 90.95
Average	£ 6.15	£ 77.80

Level of surcharge payment at 'fair' level	Overpayment (£) of surcharge above 'fair' level	Ratio of surcharge above fair level
£ 0.16	£ 9.84	62.50
£ 0.16	£ 5.34	34.38
£ 0.16	£ 2.79	18.44
£ 0.16	£ 5.99	38.44

Airlines Example 2 - Four people travelling on a return trip under one booking

Credit cards

Airline	Level of surcharge payment (fixed value)	Actual airfare inc. surcharge
Ryanair	£ 40.00	£ 295.92
easyJet	£ 11.90	£ 267.82
Lufthansa	£ 16.00	£ 576.92
Air France	£ 18.00	£ 744.52
airberlin	£ 57.50	£ 1,008.07
British Airways	£ 18.00	£ 488.40
TUI Group	£ 8.80	£ 360.80
SAS Group	£ 8.00	£ 428.00
Turkish Airlines	£ 33.98	£ 711.20
Average	£23.58	£ 542.41

Impact on customers

Average surcharge (actual or implied)	Level of surcharge payment at 'fair' level	Overpayment (£) of surcharge above 'fair' level	Ratio of surcharge above fair level	Implied ticket price if fair surcharge applied
14%	£ 4.61	£ 34.67	8.68	£ 2,222.22
4%	£ 4.61	£ 7.08	2.58	£ 661.11
3%	£ 10.10	£ 5.62	1.58	£ 888.89
2%	£ 13.08	£ 4.60	1.38	£ 1,000.00
6%	£ 17.11	£ 39.35	3.36	£ 3,194.44
4%	£ 8.47	£ 9.21	2.13	£ 1,000.00
2%	£ 6.34	£ 2.31	1.39	£ 488.89
2%	£ 7.56	£ 0.30	1.06	£ 444.44
5%	£ 12.19	£ 21.18	2.79	£ 1,887.78
5%		£ 13.81	2.77	£1,309.75

Debit cards

Airline	Level of surcharge payment (fixed value)	Actual airfare inc. surcharge
Ryanair	£ 40.00	£ 295.92
easyJet	£ 5.50	£ 261.42
TUI Group	£ 2.95	£ 354.95
Average	£16.15	£ 304.10

Level of surcharge payment at 'fair' level	Overpayment (£) of surcharge above 'fair' level	Ratio of surcharge above fair level
£ 0.16	£ 39.84	250.00
£ 0.16	£ 5.34	34.38
£ 0.16	£ 2.79	18.44
	£ 15.99	100.94

Airline accounting information

(134) Which? reviewed the half yearly results and other company report data of the airlines in our sample, for information relating to revenues and costs of accepting payments by card method. There is no explicit detail on the revenues associated with surcharges for payment methods, and only one reference to costs for ‘merchant fees and commissions’ by easyJet, which appears to relate in part to payment method surcharges. However, two points are clear:

- > ‘Ancillary’ revenues, which are those revenues not directly driven by air fares and appear to include revenues associated with payment method surcharges, have grown more quickly than fares; and
- > These revenues appear to be a profit centre for some airlines rather than acting as a pure cost pass-through, with airlines using ‘yield-management’ or ‘price-optimisation’ of these fees and charges.

(135) For example, Ryanair notes that “Ancillary revenues increased by 22 per cent to €423.8m, faster than the 10 per cent increase in passenger volume, due to an 11 per cent rise in average spend per passenger primarily due to a combination of higher onboard spend (which was helped by longer sector length), improved product mix, and higher internet related revenues.”⁸⁹

(136) easyJet reports similar increases in revenue “Ancillary revenues grew in the year by 43 pence per seat to £10.20 despite regulatory changes to the sales process for insurance products which led to a reduction in insurance income of £8 million in the year and changes in VAT legislation which negatively impacted in-flight income by £2 million. There were improved performances in fees and charges and bag revenue.”⁹⁰

(137) Of particular interest is the only reference in the business accounts reviewed of the revenues and costs per seat, including for ‘merchant fees and commissions’, which although not defined would appear to be for charges to acquirers:

⁸⁹ See page 11 of Ryanair half year results 2011 (http://www.ryanair.com/doc/investor/2011/q2_2011_doc.pdf).

⁹⁰ See page 7, Easyjet full year results statement 2010 (<http://corporate.easyjet.com/investors/results-centre/-/media/Files/E/easyJet/pdf/media/latest-news/2010/2010-11-16.pdf>).

Revenue⁹¹

	2010			2009		
	£ million	£ per seat	Pence per ASK	£ million	£ per seat	Pence per ASK
Passenger revenue	2,401.7	42.87	3.81	2,150.5	40.70	3.69
Ancillary revenue	571.4	10.20	0.91	516.3	9.77	0.89
Total revenue	2,973.1	53.07	4.72	2,666.8	50.47	4.58

Costs⁹² (except from operating costs)

	2010			2009		
	£ million	£ per seat	Pence per ASK	£ million	£ per seat	Pence per ASK
Merchant fees and commissions	42.4	0.75	0.06	33.5	0.64	0.06

(138) For easyJet, ancillary revenues contributed to 19 per cent of total revenue. In contrast, merchant fees and commissions were only 2.3 per cent of total operating costs. Clearly, other operating costs, and some specific services, would be covered by ancillary revenues but these results support the concern that revenues from additional charges exceed reasonable costs.

Historical levels of surcharges

(139) The Air Transport Users Council (AUC) issued a report on taxes, fees and charges in 2005.⁹³ At the time, there was considerable concern that the prices displayed by airlines excluded a number of clearly unavoidable costs, which would be added to the price at the end of the booking process. The AUC were concerned that consumers' may assume that these sorts of add-on charges were identical across airlines, when in fact its research demonstrated considerable variation. As part of its report the AUC published a small sample of prevailing credit and debit card fees (Table 12).

⁹¹ Page 13 Easyjet full year results statement 2010.

⁹² Page 14 Easyjet full year results statement 2010.

⁹³ *Taxes, Fee and Charges: An AUC report on pricing on airlines' websites* (<http://www.auc.org.uk/docs/306/Taxes,%20fees%20and%20charges.pdf>)

Table 12 - Comparison of the credit and debit card charges by various airlines (at February 2004)

Airline	Credit card fee	Debit card
Ryanair	£1.75 per person, per leg	£0.40 per person, per leg
easyJet	£4 per booking	No charge
Flybe	£1.75 per person, per leg	£0.40 per person, per leg
BA	No charge	No charge
BMI	£4	No charge

(140) Since the AUC reported, it is clear there has been a considerable shift in the policy of airlines, to both introduce surcharges and a significant increase in the level of surcharges. For example, in the six years since the AUC's report, charges for debit cards have increased 12-fold in the case of Ryanair, and other airlines have followed suit.

(141) The British Retail Consortium has reported a rising cost to retailers for the processing of credit and debit card payments, for example noting an increase from 6 pence to 8 pence when many issuing banks shifted to Visa Debit from Maestro (a 33 per cent rise).⁹⁴ Although costs may have risen, Which? finds it implausible that costs in the airline industry have increased by 1150 per cent.

Ferry services

(142) As with airlines, we have looked at some illustrative examples of the impact of surcharge policies on ferry operators' fares on a sample route, booked for a return trip in February 2011 for four adults and one car. Table 13 summarises the results, including the point at which the surcharge is made clear in the booking process.

⁹⁴ *The rising cost of accepting card payments*, Retail Week, 24 September 2010.

Table 13 - Ferry operators fares and surcharges on sample routes

Operator	Date website booking	Route	Fare (inc. surcharge)	Surcharge	When does the surcharge appear in the booking process?
P&O	1 February 2011	Dover-Calais	£58	£4 credit card	At the end of the booking process, when selecting payment option.
Transmanche	1 February 2011	Le Harve - Portsmouth	£148.62	£3.62 credit card ⁹⁵	At the end of the booking process when selecting payment option.
Stena	2 February 2011	Fishguard - Rosslare	£358	£5 credit card	Sixth step in booking process.
DFDS Seaways	2 February 2011	Harwich - Esbjerg	£530	£13.25 credit card	Final stage in booking process; amount is calculated and added only after payment card details have been entered.
Brittany Ferries	2 February 2011	Plymouth - Roscoff	£273	£5 credit card ⁹⁶	Final stage in booking process when selecting payment method.
Irish Ferries	2 February 2011	Holyhead - Dublin City	£363	£5 all cards except Visa Electron	Final stage in booking process when selecting payment method.
IOM Steam Packet	2 February 2011	Birkenhead - Isle of Mann	£191	£3 credit card	Added in stage 4/6 of the booking process, when payment details are entered.

Source: Which? research

(143) We have estimated the level above fair surcharges, based on Which? estimates, for each of the examples above. The full results, shown in Table 14, are summarised below:

- > Four of the seven operators impose credit card surcharges that exceed our estimate for a fair surcharge, with the highest implied surcharge at 6.9 per cent (for P&O Ferries).
- > Only two of the seven operators levy a surcharge for debit card payments. However, these charges are significantly above the fair costs, at £1 and £5.
- > Surcharges average £5.55, with the highest at £13.25, but the method of charging, based solely of a single transaction, means that charges do not multiply to the levels seen amongst some airlines;
- > As with airlines, there remains significant variation in the policy, and in one case the final impact of the surcharge is only known once the full price of the ticket has been calculated.

⁹⁵ The surcharge is £1 for debit cards.

⁹⁶ And non UK debit cards



Table 14 - Ferries, impact of credit card surcharges on customers

Ferry operator	Level of surcharge payment	Actual fare inc. surcharge	Average surcharge (implied)	Level of surcharge payment at 'fair' level	Overpayment (£) of surcharge above 'fair' level	Ratio of surcharge above fair level	Implied mark-up for surcharge over Which? estimate of fair surcharge	Implied ticket price if fair surcharge applied
P&O Dover - Calais	£ 4.00	£ 58.00	6.90%	£ 0.97	£ 2.96	4.12	283%	£ 222.22
Transmarche	£ 3.62	£ 148.62	2.44%	£ 2.61	£ 0.94	1.39	35%	£ 201.11
Stena	£5.00	£ 358.00	1.40%	£ 6.35	-£ 1.44	0.79	-22%	£ 277.78
DFDS Seaways	£ 13.25	£ 530.00	2.50%	£ 9.30	£ 3.71	1.42	39%	£ 736.11
Brittany Ferries	£ 5.00	£ 273.00	1.83%	£ 4.82	£ 0.09	1.04	2%	£ 277.78
Irish Ferries	£ 5.00	£ 363.00	1.38%	£ 6.44	-£ 1.53	0.78	-23%	£ 277.78
IOM Steam Packet	£ 3.00	£ 191.00	1.57%	£ 3.38	-£ 0.44	0.89	-13%	£ 166.67

3.2 Estimating a 'fair' surcharge

(144) We consider various estimates of the costs incurred by retailers: both direct estimates and those based on published multi-lateral interchange fees (MIF) that forms a significant component of the merchant service charge (MSC) paid to acquiring banks. Given these findings we estimate a range of values for a fair surcharge, which reflects the direct costs borne by retailers in processing payments through a merchant acquirer.

Payment cards and costs

(145) Payment cards rely on a network of systems and agreements to enable retailers to accept a specifically branded card as payment for goods or services. These networks results in cost, from the card issuers, card scheme and acquirer, recovered through the MIF and specific scheme fees levied on acquiring banks.⁹⁷ To process the payment the retailer (also referred to as 'merchant') must pay a fee to an acquiring bank: the MSC. The acquiring bank handles the processing of card payments, often to multiple card schemes, for the retailer. The MSC can differ depending upon the type of transaction; for example chip and pin or online transactions, and the type of card. The fee may also include ancillary services such as chip and pin devices, fraud protection etc, and are often linked to a business account with a principal bank. Consumers holding a card may also pay a fee to the issuer of the credit card.

The form and structure of charges to retailers

(146) Charges to retailers for credit card processing are usually *ad valorem*, that is a percentage charge based on the value of the transaction. In the UK charges for debit cards are levied on a fixed amount per transaction.

(147) The scope of negotiation over the level of surcharges appears to vary. Card schemes may set charges to reflect specific types of card or type of transaction, for example via a chip & pin device or cardholder-not-present transactions. Acquiring banks may offer a range of MSC charges to reflect differences in MIF, including 'blended' rates that apply the same charge to

⁹⁷ Scheme fees are the charges from card schemes to acquiring banks. These fees are not transparent and Which? is not aware of any publicly available information on the level or significance of these fees. To date, the level and nature of MIF has been the focus of regulatory enquiries. This is the most visible charge and has therefore been used by Which? as an indication of the level and magnitude of costs passed through by merchant acquirers.

any credit card or to any debit card (but not blending credit and debit cards together), with the retailer charged the same MSC regardless of the scheme to which a customer's card belongs.

(148) In addition to the cost of processing cards, recovered via the MSC, retailers may face additional costs for provision of chip and pin devices or other services that support payment collection. The EC sector enquiry into retail banking reported that practices varied across countries and acquiring banks of whether these costs are recovered separately or included in the MSC.⁹⁸

Direct estimates of the costs to process card payments

(149) The British Retail Consortium (BRC) has estimated the costs of handling different payment methods through its cost of collection survey:⁹⁹

- > Cash costs 2.1 pence per transaction to handle.
- > Debit cards costs 8.5 pence per transaction to handle.
- > Credit cards are a charged on an *ad valorem* rate based on the value of the transaction, costing 33 pence on the average transaction value.

(150) The BRC's survey estimates the average value debit card transaction was £31.45 and £37.32 for credit cards in 2009. In comparison, Mintel estimated the average transaction value for debit cards and credit cards at £45 and £57 respectively in 2009.¹⁰⁰ It is clear that the cost of handling payment cards tend to be higher for smaller rather than larger retailers.

(151) The direct costs of handling debit card payments, based on different sizes of retailer (and the average transaction value associated with those retailers) is:

- > Small retailer (£1 billion turnover) - £0.1012.
- > Medium (£1 - 4 billion turnover) - £0.0902.
- > Large (>£4 billion turnover) - £0.0844.

⁹⁸ http://ec.europa.eu/competition/sectors/financial_services/inquiries/retail.html.

⁹⁹ The BRC Cost of Payment Collection Survey, 2009, covered 53% of total retail sales (circa 21,500 retail outlets), and surveys members on the costs of handling plastic cards, cheques and cash. See <http://www.brc.org.uk/details04.asp?id=1755&kCat=&kData=1> with summary of results available to journalists (that has been supplied to Which?).

¹⁰⁰ Figure 25, Average Transaction Value for UK purchases, *Credit and Debit Cards*, *Finance Intelligence*, July 2010, Mintel.

(152) The average of these results across different sized retailers is £0.085. These are the approximate level of charges faced by retailers from third parties to accept debit card payments.

(153) Based on the BRC data, we have also estimated a range of values for the direct cost to accept credit card payments (Table 15). These represent the MSC that certain sized retailers may pay, and therefore an approximate size of any surcharge for credit card payment.¹⁰¹

Table 15 - Implied percentage surcharge for credit cards, for size of retailer and average transaction value

Avg transaction value (£) (firm size)

Card type	Processing / transaction cost	Avg	Small	Medium	Large	Mintel data	Firm Size
		37.32	49.82	44.97	36.1	57	
Credit cards	£ 0.3330	0.89%				0.58%	Average
	£ 0.5625		1.13%				Small (<£1 bn turnover)
	£ 0.3870			0.86%			Medium (£1 - £4 bn)
	£ 0.3217				0.89%		Large (>£4 bn)

Source: Which? Analysis of the BRC cost of Payment Collection survey 2009

(154) These results imply a cost per transaction, and therefore a surcharge, of between 8.5p to 10p for debit cards and 0.86 - 1.13 per cent for credit cards. These results represent an overall estimation of average processing costs, without accounting for different card schemes. However, these results are significant: respondents to BRC's survey represent over half of UK retail sales, which accounts for nearly half of all spend on payment cards, and cover a wide range of business types processing millions of card transactions every week. It should be noted that at present none of the BRC members impose surcharges upon their customers.

¹⁰¹ It should be noted that our approach to estimating surcharges assumes that the costs of accepting alternative forms of payment is zero. If this is not the case, a fair surcharge is perhaps best estimated on the basis of the difference between accepting a card and the next best alternative for the retailer. Our estimate of surcharges may therefore be too generous, and if accepting the next alternative is more expensive then this should be discounted in the prices paid.

(155) In addition, Which? asked local authorities (LAs) a number of questions about their practices with credit and debit card surcharging. We have reviewed the response to understand:

- > the range of charges levied;
- > the method of surcharging, specifically whether a fixed sum, a percentage or some other method; and
- > whether the income is solely devoted to paying the costs of processing card transactions incurred by LAs from their merchant acquirer.

(156) We sent FoIA requests to 208 councils, with responses from 170 councils - 56 of whom surcharged for payment by credit or debit card. From the results, Which? has distinguished between those LAs that appear to only pass-through those costs imposed by their acquiring bank and those that recover additional administration costs:

- > The average credit card surcharge where LAs only pass-through costs (32 LAs) is 1.60 per cent (compared to 1.76 per cent overall);¹⁰²
- > Only four LAs surcharge for debit card payments, but rates varied widely from 50p to £1 and in one case appear to be levied at the same rate as credit cards (1.5 per cent).

(157) Most LAs offered, in effect, a 'blended' rate, without distinguishing between card type and scheme, with their rate based on the average charges made to them by their acquiring bank. For example Bournemouth Borough Council told us "The 2% represents an average recover [*sic*] charge to ensure that all bank charges are met from larger credit card payments." In addition, most LAs do not find it worthwhile to charge a specific additional cost to cover the cost of processing debit card payments. Only two LAs specifically distinguished between type of card and had much lower charges than average for consumer credit cards:

- > East Lothian Council charges 1.9 per cent for Visa and MasterCard and 2.6 per cent for commercial cards.
- > The Royal Borough of Windsor and Maidenhead charge 1.18 per cent for Visa and MasterCard credit card, 1.88 per cent for Corporate Visa and MasterCard and 4 per cent for American Express.

(158) It is clear that LAs process relatively few payments by card, numbering in the thousands each year at most but often fewer. This helps to explain why, on average, their surcharges are

¹⁰² These results are for 47 LAs that do not differentiate charges by types of card, or only charge a fixed surcharge.

higher than the average processing costs found in the retail industry and supports the view that scale matters when establishing the level of the MSC.

(159) Which? wrote to firms in the travel industry, credit card issuers, card schemes and acquiring banks during the course of its investigation, however, none supplied specific information as to the costs of accepting card payments.

(160) Direct estimates of the MSC or pass-through of MSC via surcharges gives a range of 0.89 - 1.8 per cent for typical processing credit card payments, although higher in individual cases, and 8.5p - 10p for debit cards.

Other estimates of the MSC

(161) The EC's retail banking study examined MSC across 25 Member States.¹⁰³ Its findings were based on data collected over 2000 - 2004, therefore MSC may have changed since the EC study and will not reflect recent announcements by the EC that Visa and MasterCard have undertaken to reduce their MIF (see below).

(162) The main findings of the EC study were:

- > For credit cards the MSC charges varied significantly between Member States: for Visa ranging from 0.77 - 3.10 per cent and for MasterCard between 0.95 - 2.98 per cent.
- > Within a country, the rates for Visa and MasterCard were often quite similar (e.g. both being high or low).
- > The levels of MSC for credit cards tend to be higher for smaller retailers than for large retailers, on average 70 per cent higher.
- > Debit card MSC varied across Member States: for Visa this ranged from 0.32 - 1.9 per cent and for MasterCard 0.36 - >2 per cent.¹⁰⁴
- > As with credit cards, smaller merchants pay a premium to access debit card networks, with MSC charges between 60 - 70 per cent higher than large retailers.
- > The bulk of costs for MSC charges arise from the interchange fee of the relevant card schemes.

¹⁰³ Pages 103 - 104, *Report on the retail banking sector inquiry, Commission staff working document*, 31 January 2007.

¹⁰⁴ European continental practice is to levy debit card MSC as a percentage ad-valorem charge.

(163) As seen above, it is also likely the absolute charge faced by retailers is different depending upon their size and the type of industry the retailer operates in. The EC's study found the weighted average MSC, across all card schemes, was higher for car rentals, restaurants, hotels, membership and service providers. The lowest MSC was for charitable organisations and schools, fuel companies, governmental services and wholesale trade companies.¹⁰⁵ Airlines fall into the 3rd quartile and incur a moderate MSC of about 1.8 - 1.9 per cent with other transport services falling below airlines in terms of average MSC.¹⁰⁶ Again, these figures do not reflect the significant reductions announced in 2009 and 2010 by MasterCard and Visa to their cross-border, and in some cases domestic, MIF.

(164) Recently the Australian consumer body Choice published their findings into credit card surcharging.¹⁰⁷ It reported average merchant services fees (equivalent to MSC), as reported by the Australian Reserve Bank, for credit cards of 0.86 per cent for MasterCard and Visa, 1.93 per cent for American Express and 2.11 per cent for Diners Club. Choice notes that smaller retailers may face higher charges than these averages. These fees include merchant costs, annual fees, payment terminal fees, terminal rentals, monthly fees, joining fees and other associated costs charged to merchants.

Estimates of the MIF

(165) Which? understands that about 60 - 90 per cent of the MSC is made up of the MIF, transmitted through the relevant schemes (VISA, MasterCard, Amex or Diners Club). This view has been set out to Which? in its meetings with retailers and the card industry, and is supported by the EC sector study into retail banking. Which? therefore expects that the MIF should form a significant proportion of any costs recovered from customers, and the absolute level of MIF charges will help to indicate the baseline for a fair surcharge.

(166) The MIF is levied as a percentage of the transaction value or as a fixed rate (for debit cards). As noted above, there is not a single MIF. Instead, there are many MIF rates that may apply depending upon the nature and type of credit card presented by the consumer. Both Visa

¹⁰⁵ Page 41, Interim Report I, sector inquiry in retail banking, 12 April 2006.

¹⁰⁶ Graph 18, page 41, Interim Report I, sector inquiry in retail banking, 12 April 2006.

¹⁰⁷ Page 13, Choice report *Credit Card Surcharging in Australia*

(http://www.fairtrading.nsw.gov.au/About_us/Reviews_and_reports/Consumer_and_trader_research_and_issues/Credit_card_surcharging_in_australia_2010.html).

and MasterCard publish their MIF rates in the UK, following intervention by the EC.¹⁰⁸ These rates are default rates where an acquiring bank has not negotiated a bilateral rate with a card scheme. It is likely that the published rates represent amongst the highest levels of MIF. These published fee rates demonstrate the complexity of MIF charges, with different rates applying to different forms of transactions, such as Card Not Present compared to EMV Chip cards¹⁰⁹, in addition to differences between debit, credit and charge card. The published fees for 'consumer cards' for each scheme range from:

Scheme	Debit card	Credit / charge card
Visa	1 - 18 pence	0.65% - 1.3%
MasterCard	0 - 18 pence	0% - 1.9%

(167) In April 2009 the Commission announced that MasterCard had cut its cross-border MIF and repealed recent fee increases.¹¹⁰ These agreements were made as part of the long-running investigation into interchange fees by the EC, and a number of national competition authorities, with significant concerns that the fees are set anti-competitively. MasterCard agreed to reduce the average weighted MIF to 0.3 per cent for credit cards and 0.2 per cent for debit cards. Previously the MIF ranged from 0.8 - 1.9 per cent for credit cards and between 0.4 - 0.75 per cent for debit cards. This represents a maximum reduction of 84 per cent in the level of the MIF.

(168) In December 2010 the Commission entered into legally binding commitments with Visa Europe to cut its MIF for debit card transactions.¹¹¹ Visa has agreed the weighted average MIF for cross border and domestic transactions (where Visa sets the MIF) of 0.2 per cent. This represents a 30 per cent cut in cross-border rates and 60 per cent for domestic debit card transactions. Other measures relate to the unblending MIF charges and transparency over the MIF rates.

¹⁰⁸ Visa Europe MIF rate can be found at: <http://www.visaeurope.com/idoc.ashx?docid=f19054cc-d32d-42a8-a5bb-28b55bc23996&version=-1>; and MasterCard MIF rates found at <http://www.mastercard.com/us/company/en/whatwedo/interchange/Country.html>.

¹⁰⁹ EMV is Europay, MasterCard and Visa shared standard to allow inter-operability between point of sale or other devices and cards presented by customers.

¹¹⁰ Press release IP/09/515, 1 April 2009, (<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/515>).

¹¹¹ Press release IP/10/1684, 8 December 2010 (<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1684&format=HTML&aged=0&language=EN&guiLanguage=en>).

(169) Which? has estimated the level of surcharge, based on current published MIF rates, assuming that the MIF represents 90 or 70 per cent of the costs underlying the MSC.¹¹² The results are set out in Table 16.

Table 16 - Estimation of the MSC based on reported levels or ranges of MIF for Visa and MasterCard

Weighted for market share

		MIF as a percentage of total MSC costs		
Debit cards		0.9	0.70	Source / basis of estimation
Best (%)	0.2%	0.22	0.29	EC agreement with Visa and MasterCard on x-border MIF
Average £	£ 0.07	£ 0.08	£ 0.11	UK published rates - chip & pin
Worst £	£ 0.14	£ 0.16	£ 0.21	UK published rates - cardholder not present
Credit cards				
Best (%)	0.3%	0.33	0.43	EC agreement with Visa and MasterCard on x-border MIF
Average (%)	0.79%	0.88	1.13	UK published rates - chip & pin
Worst (%)	1.14%	1.27	1.63	UK published rates - cardholder not present

Source: MasterCard and Visa published MIF rates; EC notices on changes to cross-border MIF with MasterCard (April 2009) and Visa (December 2010); market shares based on Mintel data (July 2010).

Notes:

1. Assumed that the MIF accounts for 90% and 70% of merchant service and other costs passed on by acquiring bank to retailers.
2. Best case debit cards presented as percentage, as this is the most common form of charge on the continent.
3. Average and best results based on processing a consumer card with chip & pin (average scenario) or online card-not-present (or worst rate available) (worst scenario).

(170) The three scenarios, best, average and worst, reflect either a full adoption of cross-border interchange fees,¹¹³ the costs of processing a payment via a secure chip and pin device (which reduces risk of fraud) or, in the worst case, the cost of processing a cardholder not present transaction (as a proxy for online transactions).¹¹⁴ These results do not reflect the costs of different types of card scheme and are based solely on Visa and MasterCard. Which?,

¹¹² The rates were based on Visa's published MIF rates valid from 17 July 2010 and MasterCard's MIF rates valid from 15 October 2010.

¹¹³ It is not clear to Which? why there is such a significant difference between inter-country MIF rates and intra-country MIF rates, for example, there appear to be no additional services or benefits involved in the processing of a payment domestically compared to those across EU borders.

however, considers this reasonable given the widespread use of blended rates in setting MSC and the popularity of Visa and MasterCard payment schemes over rivals such as Amex or Diners Club.

(171) Previously, before the changes outlined above came into effect, the EC sector study estimated cross-border and domestic rates over 2000 - 2004:

- > For credit cards the cross border MIF ranged between 1.05 - 1.20 per cent in 2004 and between 1.1 - 1.15 per cent for domestic rates on the Visa and MasterCard schemes.¹¹⁵
- > Rates had fallen consistently for Visa over that time and, by the end of the period, had also fallen for MasterCard.
- > Rates across Member States varied considerably, from 0.50 - 2.50 per cent.¹¹⁶
- > The EC study found that debit cards rates for the Visa and MasterCard schemes had fallen slightly over the same period to nearly 0.7 per cent for Visa and just under 0.9 per cent for MasterCard.¹¹⁷

(172) Since this research was published as noted above the EC has reached agreement with Visa and MasterCard in respect of their cross-border rates.

(173) Choice's study into surcharges also looked into the interchange rates for debit cards. Choice found that these were fixed rate charges and range of 6.6 - 13.2 cents (lower for the EFTPOS payment system).¹¹⁸ This equates to approximately 4p - 8p in sterling, a level below or at our other estimates of debit card MIF.¹¹⁹

Conclusions on reasonable level of surcharges by retailers

(174) The review of available data on the level of costs incurred by retailers, set out above, allows us to estimate a range of charges that would reflect a fair surcharge: specifically, a charge that reflects the additional costs over and above the routine costs of accepting payment that a retailer may bear in order to enable customers to pay by card.

¹¹⁴ The specific rates used for the average and worst scenario were: Visa EMV Chip and Card Not Present; and MasterCard Chip & Pin and Base. See scheme's published schedule of charges. The rates were weighted by market share based on figures 32, 34, Credit and Debit Card July 2010, Mintel.

¹¹⁵ Graph 4 and 6, page 24, Interim Report I, sector inquiry in retail banking, 12 April 2006.

¹¹⁶ Graph 7, page 25, Interim Report I, sector inquiry in retail banking, 12 April 2006.

¹¹⁷ Graph 5, page 22, Interim Report I, sector inquiry in retail banking, 12 April 2006.

¹¹⁸ Page 13, Choice report *Credit Card Surcharging in Australia*. The EFTPOS is a system for processing payments through terminals at points of sale.

(175) Which? has estimated a range of fair surcharges (Table 17).¹²⁰

Table 17 - Which?'s estimate of a fair surcharge

Card type	Best case	Average	Worst case
Debit card	8p	11p	16p
Credit card	0.88%	1.34%	1.8%

(176) These rates do not distinguish between card schemes and draw principally on the rates levied by Visa and MasterCard; for example Amex often attracts very much high charges than those set out here. These rates are therefore a proxy for a 'blended' rate that a medium to large scale retailer may pay.

(177) The 'best case' scenario presumes factors that lower the costs to the retailer. The average costs represent an estimate of the typical costs faced by a medium sized retailer, processing circa 500,000 transactions. The worst case considers factors that would raise the acquiring bank's charge to the retailer, such as handling mainly card-holder not present transactions. In each case the estimates are based on a judgement of what the typical rate may be given the evidence. Factors that affect the most appropriate case for a retailer are:

- > costs will tend to be lower for larger retailers or those processing a significant number of transactions; and
- > costs will be lower for those processing face-to-face transactions, via Chip & Pin, than for online transactions where the risk of fraud may be greater.

(178) Which? also notes that, based on the findings of the EC retail banking sector study, airlines and the travel industry in general may attract higher charges from acquiring banks. Which? has uncovered no direct evidence or explanation of why this is.

(179) For the time being, to make the fairest and most reasonable assessment, Which? has used the Worst case scenario above as an estimation of fair surcharges for the passenger travel market: airlines in particular process millions of transaction per firm, suggesting their

¹¹⁹ Based on an exchange rate of \$1 AUD = £0.62360 as of 18 January 2011 (<http://markets.ft.com/ft/markets/currencies.asp>).

¹²⁰ This estimate exclude the effects of AMEX and Diners Club: we found little evidence that specific surcharges are levied, instead blended rates are most common, and between them Visa and MasterCard appear to dominate the consumer credit card market, to the exclusion of rival card schemes with estimated shares of less than 3% (Page 39, http://ec.europa.eu/competition/antitrust/cases/dec_docs/34579/34579_1889_1.pdf).

acquiring costs should be low, but this industry may face higher acquiring costs than many high-street firms.

(180) However, Which? is also aware that the airline industry has often failed to be fully transparent about its prices, requiring several regulatory interventions at an industry and firm level to improve practices for advertising of prices. If airlines or other parts of the passenger travel industry consider they form a special case and face significantly higher costs from acquiring banks, they may evidence these arguments at the appropriate time.

3.3 Review of print advertisement by passenger travel firms

The top 3 tabloids and top 3 broadsheets from the weekend of 22 and 23 January 2011 were checked for adverts for airlines and ferry companies.

These were:

Daily	Sunday
The Sun	News of the World
Daily Mail	The Mail on Sunday
Daily Mirror	Sunday Mirror
Daily Telegraph	The Sunday Times
The Times	The Sunday Telegraph
The Guardian	The Observer

Source: http://en.wikipedia.org/wiki/List_of_newspapers_in_the_United_Kingdom_by_circulation

Summary of information given:

Number of companies advertising:		Price information given:			Fee information given:			
		No reference to price	'From' price given	Other - e.g. £30 off	Says that credit card charges apply	Says it includes all fees, taxes and charges	Says it excludes all fees, taxes and charges	No reference to fees and charges
Airlines	12	3 (includes 2 references to a 'sale')	8 (includes 3 references to a 'sale')	1 (with reference to a 'sale')	1	4	1	6
Ferries	2	-	1	1	-	-	-	2

Airlines

Air Canada

"North America. Brought to you by the Canadians."

- > 'From' prices shown
- > "Fares include all taxes, fees, charges and surcharges"

Advertised in:

- > Mail on Sunday - 23 January

bmibaby

“Massive discounts, baby!”

- > No flight prices shown.
- > No information on credit card charges given.

Advertised in:

- > Daily Mail - 22 January
- > Telegraph - 22 January
- > Mirror - 22 January
- > The Sun - 22 January

British Airways

“The very very big sale at ba.com”

- > No flight prices shown.
- > No information on credit card charges given.

Advertised in:

- > News of the World - 23 January
- > Sunday Telegraph - 23 January
- > Sunday Times - 23 January

Emirates

Advert A:

“There’s nothing like sailing through a postcard”

- > “From just £699”
- > No information on credit card charges given.

Advertised in:

- > The Times - 22 January

Advert B:

“There’s nothing like the front row seats to an outdoor theatre”

- > “From just £775”
- > No information on credit card charges given.

Advertised in:

- > Telegraph - 22 January

Flybe

“Prices unpacked. Sale now on!”

- > No prices shown.
- > No information on credit card charges given.

Advertised in:

- > Guardian - 22 January
- > The Sun - 22 January
- > Sunday Times - 23 January
- > Mail on Sunday - 23 January

Monarch

“Biggest sale ever”

- > “Guaranteed £30 off all return flights...”
- > No information on credit card charges given.

Advertised in:

- > The Times - 22 January
- > Observer - 23 January

Norwegian

“London Gatwick - Ålesund from £50 one way”

- > No information on credit card charges given.

Advertised in:

- > The Times - 22 January

Quantas

“Over 400 in-flight entertainment options”

- > ‘From’ prices shown.
- > “All fares are inclusive of taxes and fees...”

Advertised in:

- > Telegraph - 22 January
- > Mail on Sunday

Ryanair

"Sale travel Feb-Mar"

- > "One way, from £7"
- > No information on credit card charges given. "Fares exclude optional fees/charges"

Advertised in:

- > Guardian - 22 January
- > Observer - 23 January

SAS

"Extended offer" Super sale to Scandinavia!"

- > 'From' prices shown
- > "Example fares... incl. taxes and charges..."

Advertised in:

- > Telegraph - 22 January
- > Sunday Times - 23 January

Singapore Airlines

"Enjoy great fares at singaporeair.com"

- > 'From' prices shown
- > "Advertised fares are inclusive of all taxes and surcharges..."

Advertised in:

- > Observer - 23 January

Virgin Atlantic

"Final Call. Sale ends Tuesday"

- > 'From' prices shown for a number of routes.
- > "Credit card charges apply"

Advertised in:

- > News of the World - 23 January
- > Daily Mail - 22 January
- > The Times - 22 January
- > The Sun - 22 January
- > Mail on Sunday - 23 January

Ferries

SeaFrance

“Don’t miss the boat!”

- > ‘From’ prices shown.
- > No information on credit card charges given.

Advertised in:

- > Daily Mail - 22 January
- > Guardian - 22 January
- > Telegraph - 22 January

P&O Ferries

“Expect something big from us today”

- > No prices shown
- > No information on credit card charges given.

Advertised in:

- > Guardian - 22 January

3.4 General public survey results



Payment fees

General Public survey

FINAL REPORT
January 2011

Background & Methodology



Which? is looking to explore the degree to which the general public experiences fees for paying by credit or debit card and their attitudes in this area. This research is designed to feed into our campaign in the area of card fees and the 'super-complaint' being prepared in this area

Our research: 1,305 members of the UK general public participating in an online omnibus survey in January 2011

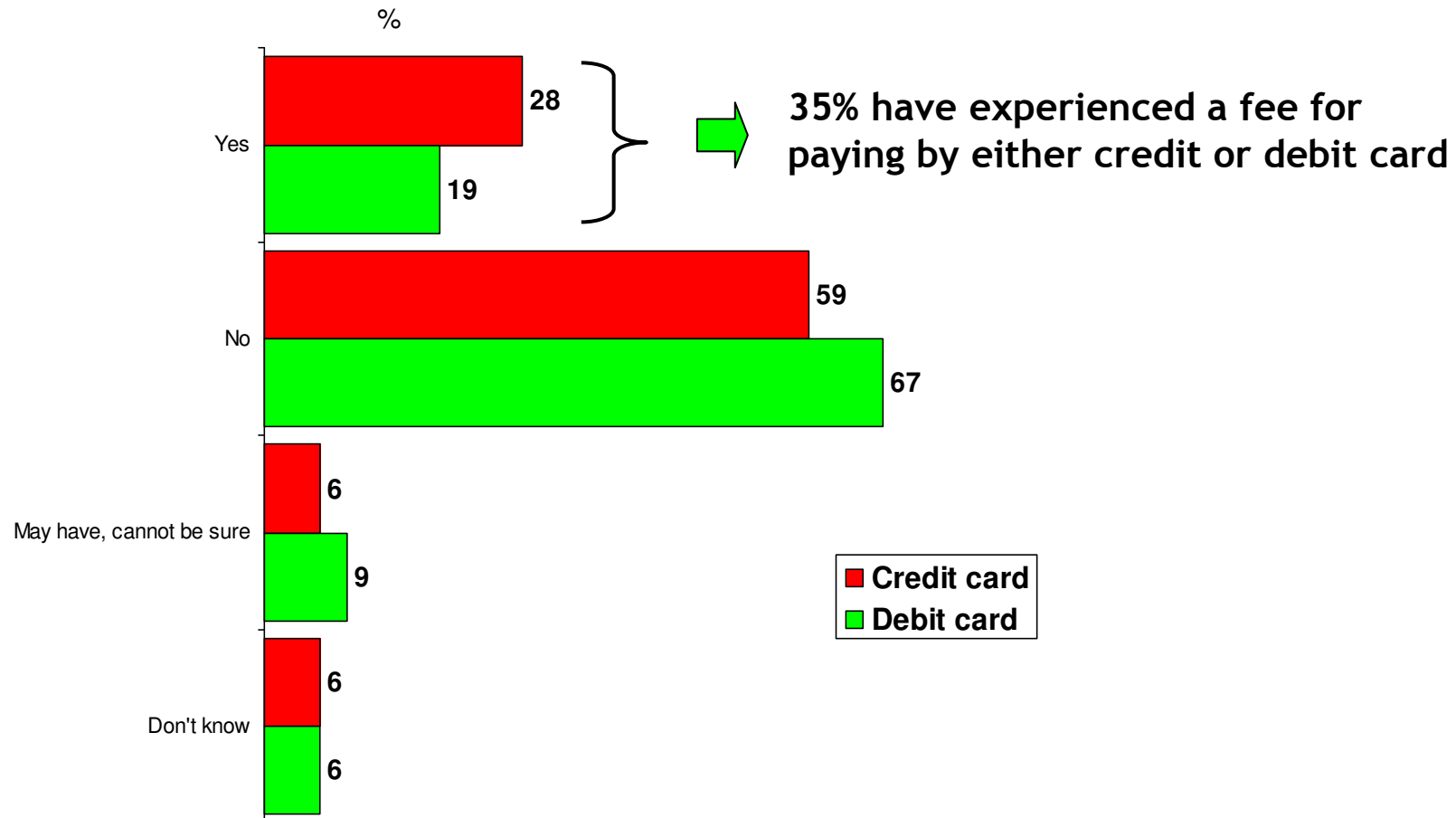
All responses are re-weighted to ensure the survey is representative of the UK adult population

Key Insights



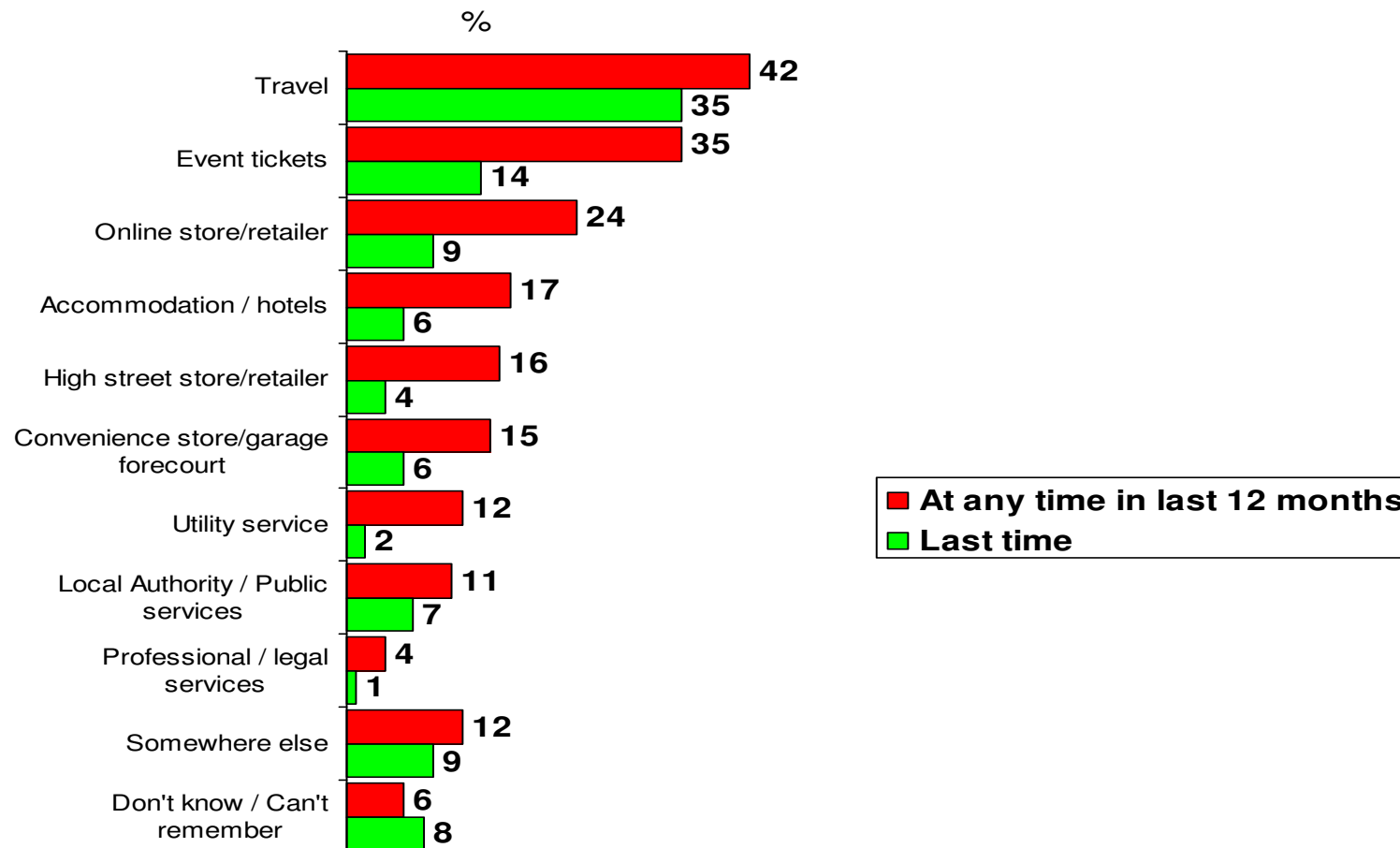
- A third (35%) have experienced a fee for paying by credit / debit card in the past year - travel was the most common sector where fees were encountered, followed by event tickets
- Nearly half (48%) paid a flat charge last time, with slightly fewer paying some form of percentage (41%), although recall of exact amounts was patchy
- Over half (56%) proceeded with the transaction despite the fee - 2 in 5 said they did not end up paying it
- Nearly two thirds (62%) felt the fee made a significant difference to the advertised price - half (49%) felt it made comparing providers more difficult
- 54% felt not paying the fee cost them time - with a smaller proportion saying it cost them money (26%). Nearly half said that not paying the fee made their purchase more difficult
- Less than half felt that the fees were made clear at the beginning of the transaction, and for nearly two thirds the fees were only apparent at the closing stages of the transaction
- 7 in 10 felt it that is unfair for retailers to add a separate and additional fee to transactions and a similar amount (two thirds) felt that additional fees should be included in the price quoted prior to payment
- The vast majority (79%) also felt that there shouldn't be any additional fees charged for paying by card
- Retailers were seen, more than any other party, as the ones responsible for the charging of fees - 37% see them as responsible versus 28% for banks / card issuers

A third have experienced a fee for paying by credit / debit card in the past year



Q1. In the last 12 months have you encountered a fee for paying for something by credit or debit card (even if you did not process with the transaction)?
(Base: all respondents, 1305)

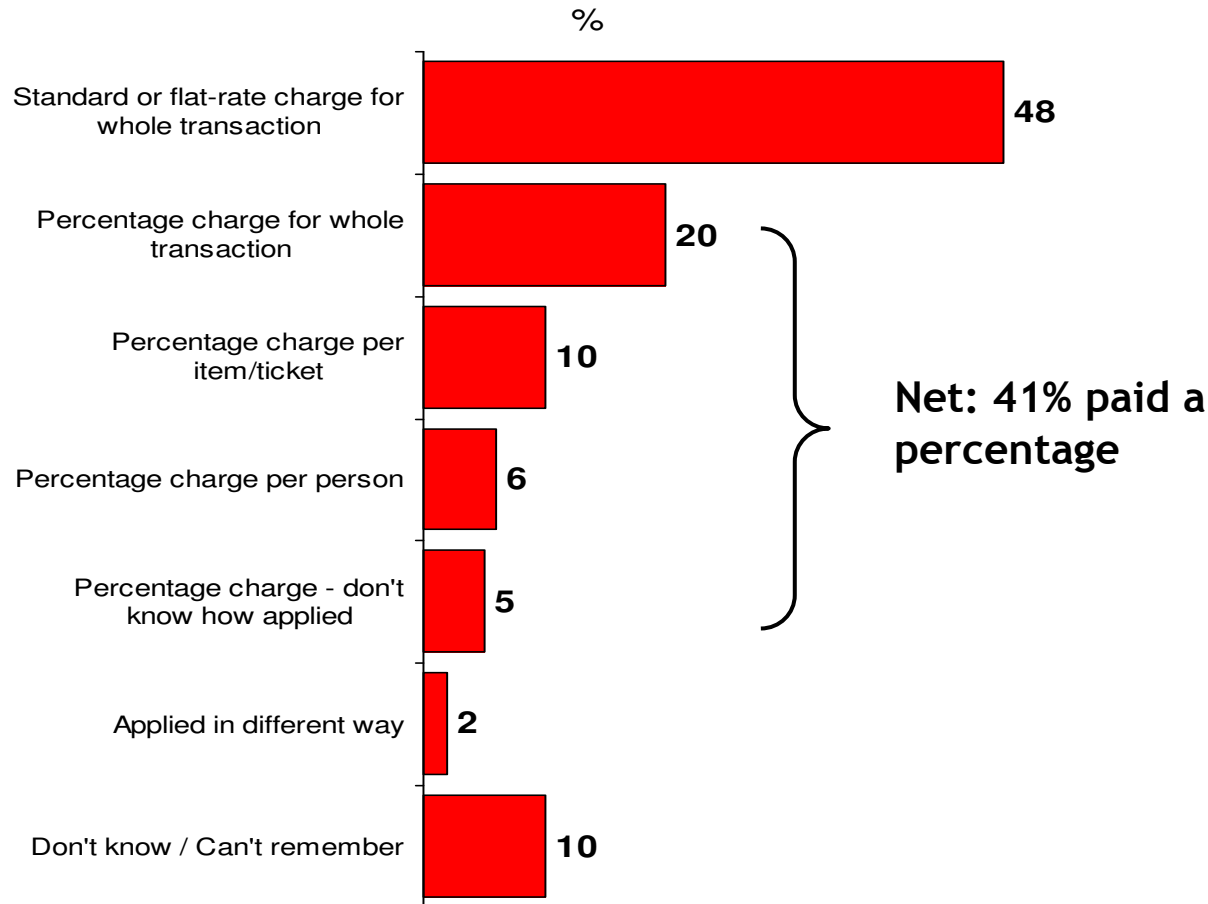
Travel was the most common sector where fees were encountered - by over 2 in 5 experienced this in the past year



Q2. In which of the following industries or sectors have you encountered such a fee in the last 12 months? Q4. Thinking about just the last time you encountered a fee for paying by credit or debit card, in which of the following industries or sectors did this apply on this particular occasion? (Base: all who have encountered a fee in last 12 months, 484)



Nearly half paid a flat charge last time, with slightly fewer paying some form of percentage



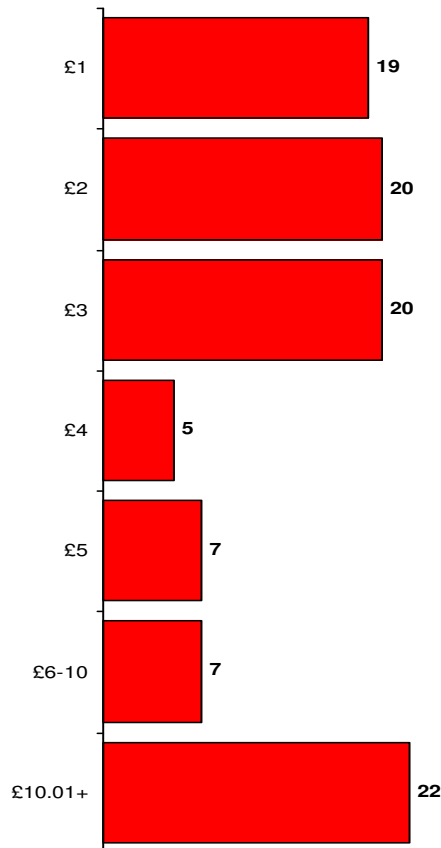
Q3. Thinking about just the last time you encountered a fee for paying by credit or debit card, which of the following best describes how the charge would have been applied? (Base: all who have encountered a fee in last 12 months, 484)

Over two thirds paid no more than 3% - more than half paid up to £3 (based on those who remember)



Amount paid (where known)

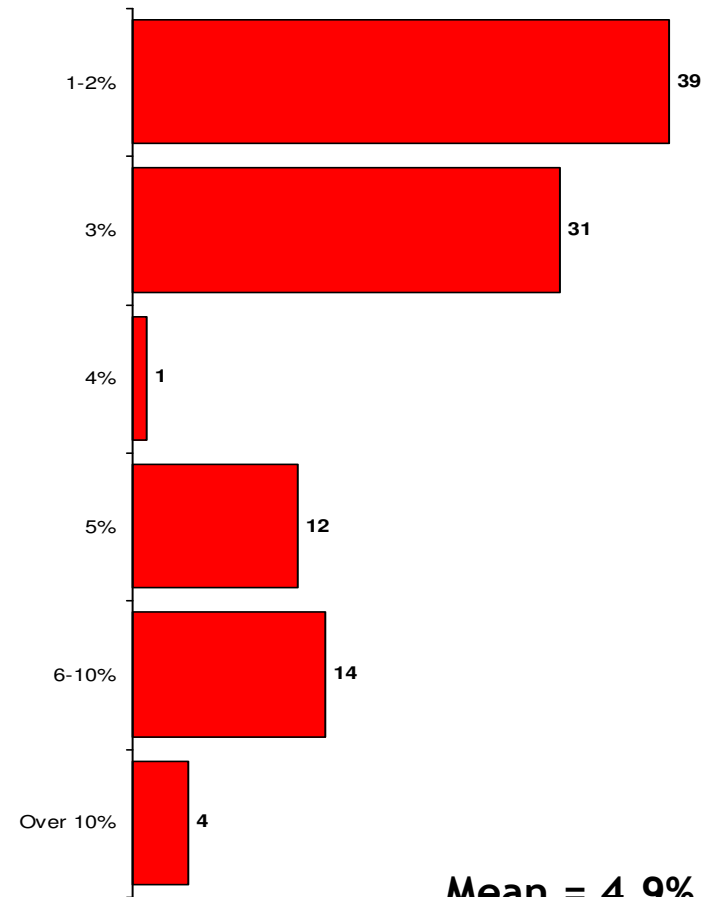
Sample = 180
%



Mean = £7.04

Percentage paid (where known)

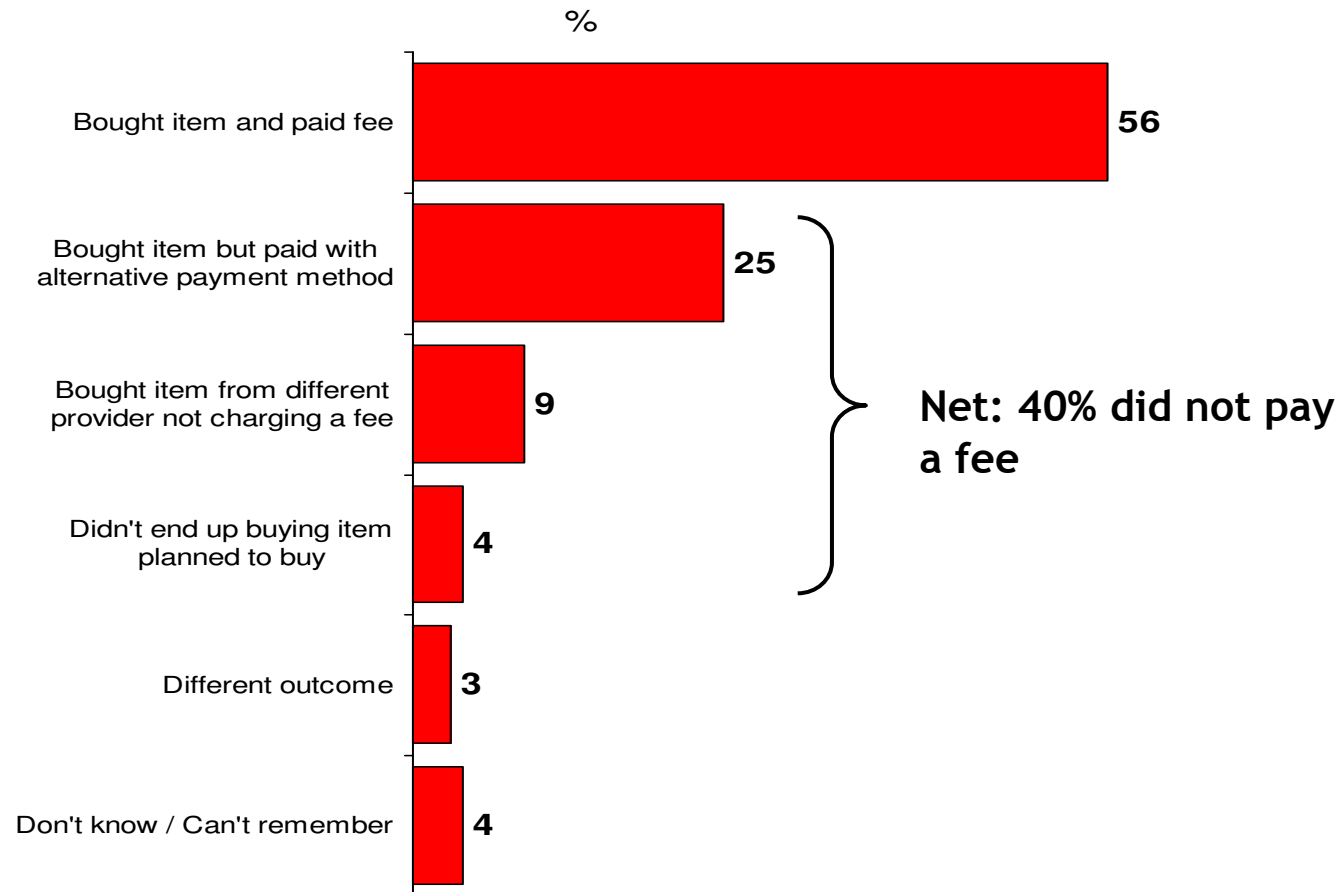
Sample = 118
%



Mean = 4.9%

Q5. Thinking about the last time you encountered a fee for paying by credit or debit card, what was the actual level of charge? (Base: all who have encountered a fee in last 12 months and know how fee was applied, excludes those who don't know the amount or percentage)

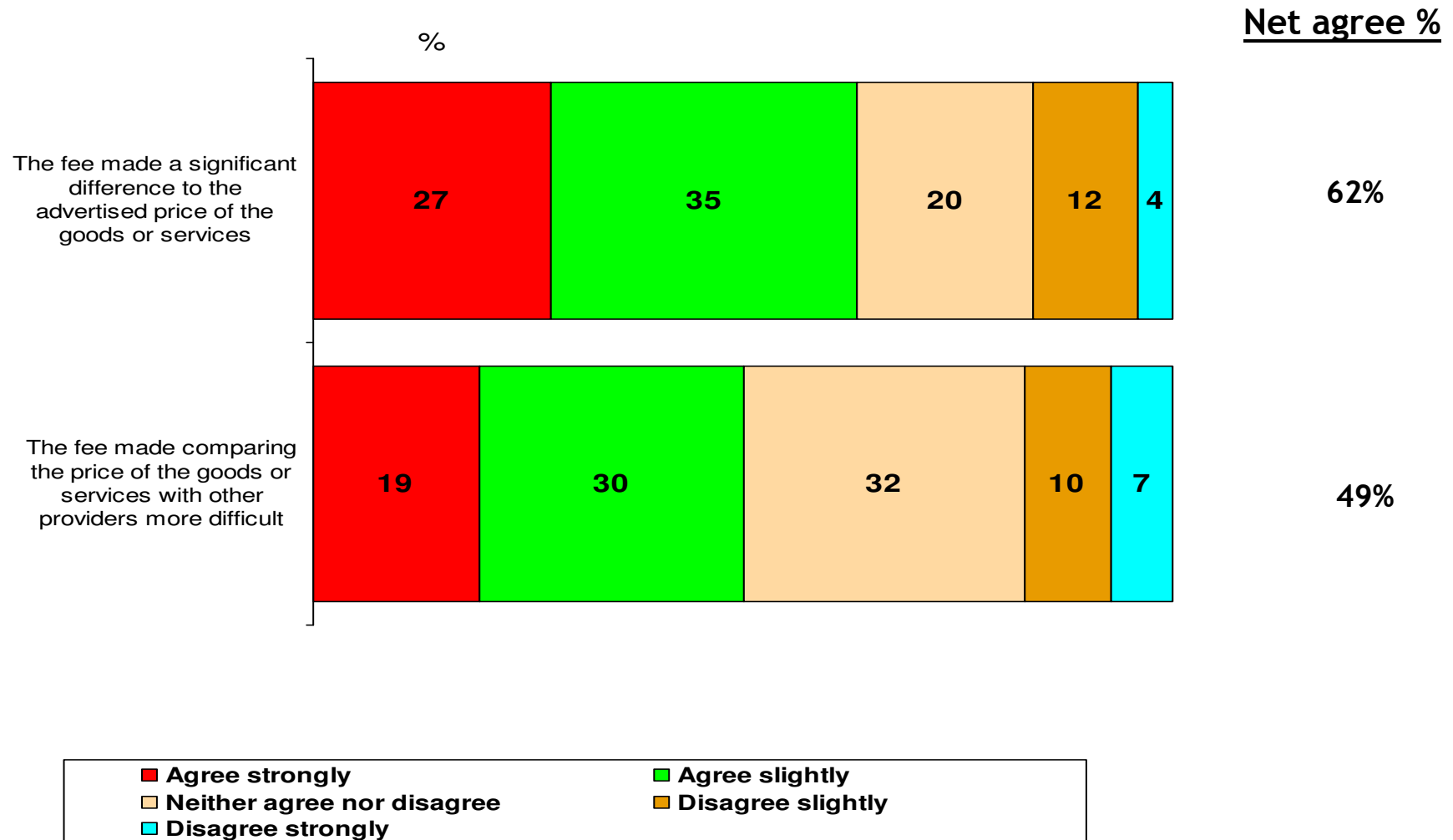
Over half proceeded with the transaction despite the fee - 2 in 5 did not end up paying it



Q7. Thinking once more about the last time you encountered a fee for paying by credit or debit card, which of the following best describes what you proceeded to do? (Base: all who have encountered a fee in last 12 months, 484)



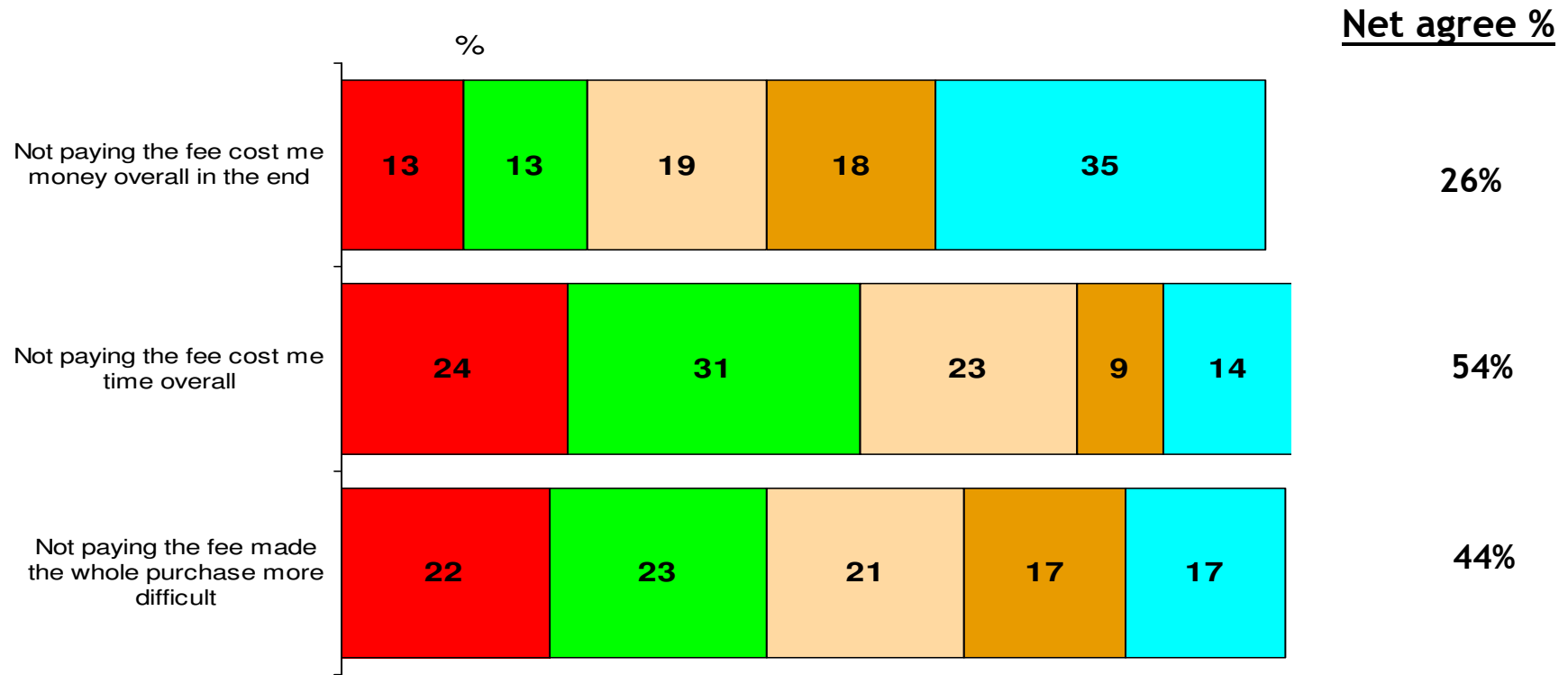
Nearly two thirds felt the fee made a significant difference to the advertised price - half felt it made comparing providers more difficult



Q6. How much would you say you agree or disagree with the following in relation to the last time you encountered a fee for paying by credit or debit card? (Base: all who have encountered a fee in last 12 months, 484) - balance up to 100% Did not know



Not paying the fee was more likely to be viewed as costing time than money - more people felt it made the transaction more difficult than not



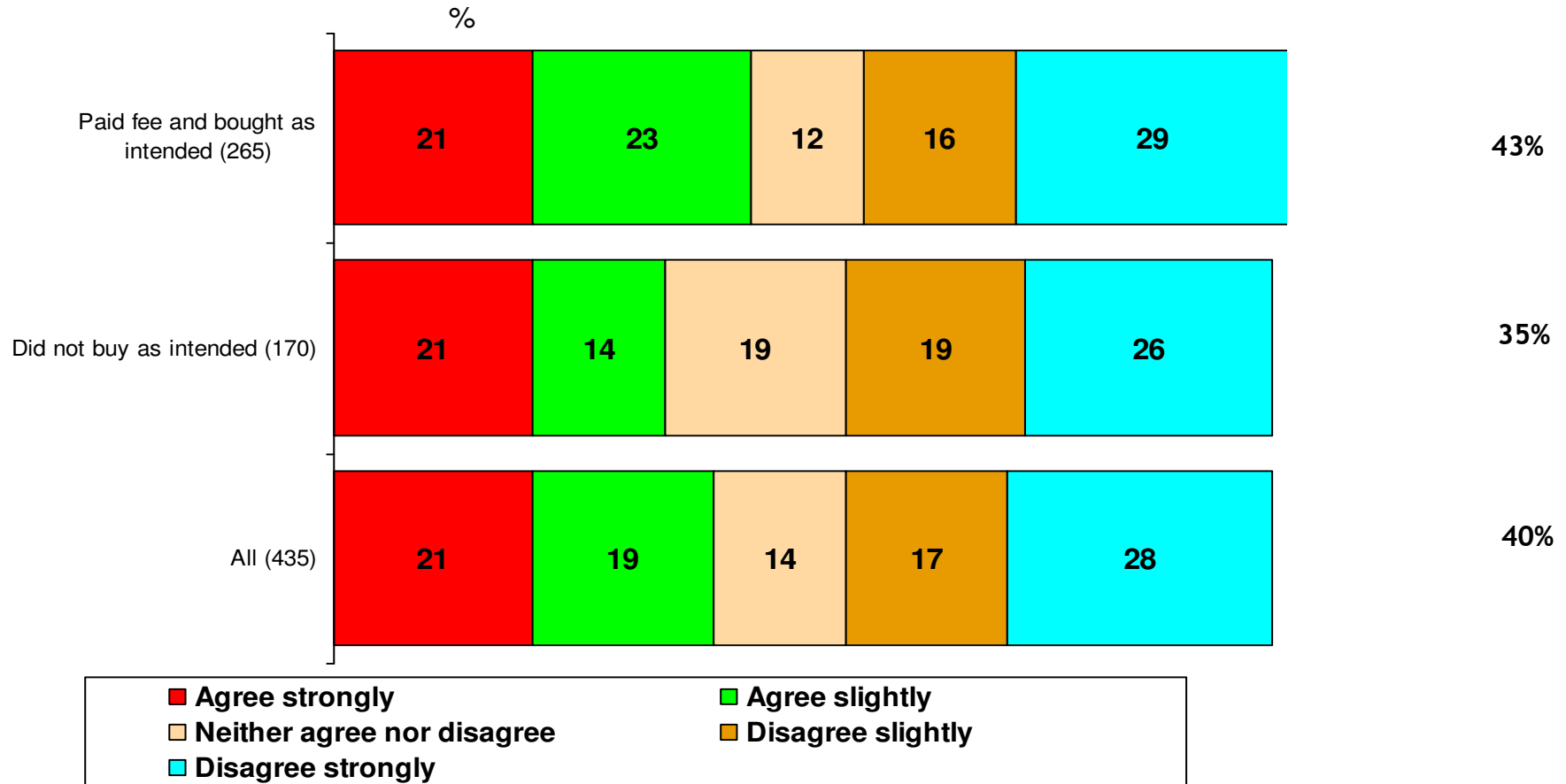
Q8. How much do you agree or disagree with the following statements, when considering the last time you did not pay the fee? (Base: all who last time they encountered a fee did not buy as planned / pay the fee, 170)

Less than half felt that the fees were made clear at the beginning of the transaction



The fees involved were made clear to me from the beginning of the transaction

Net agree %



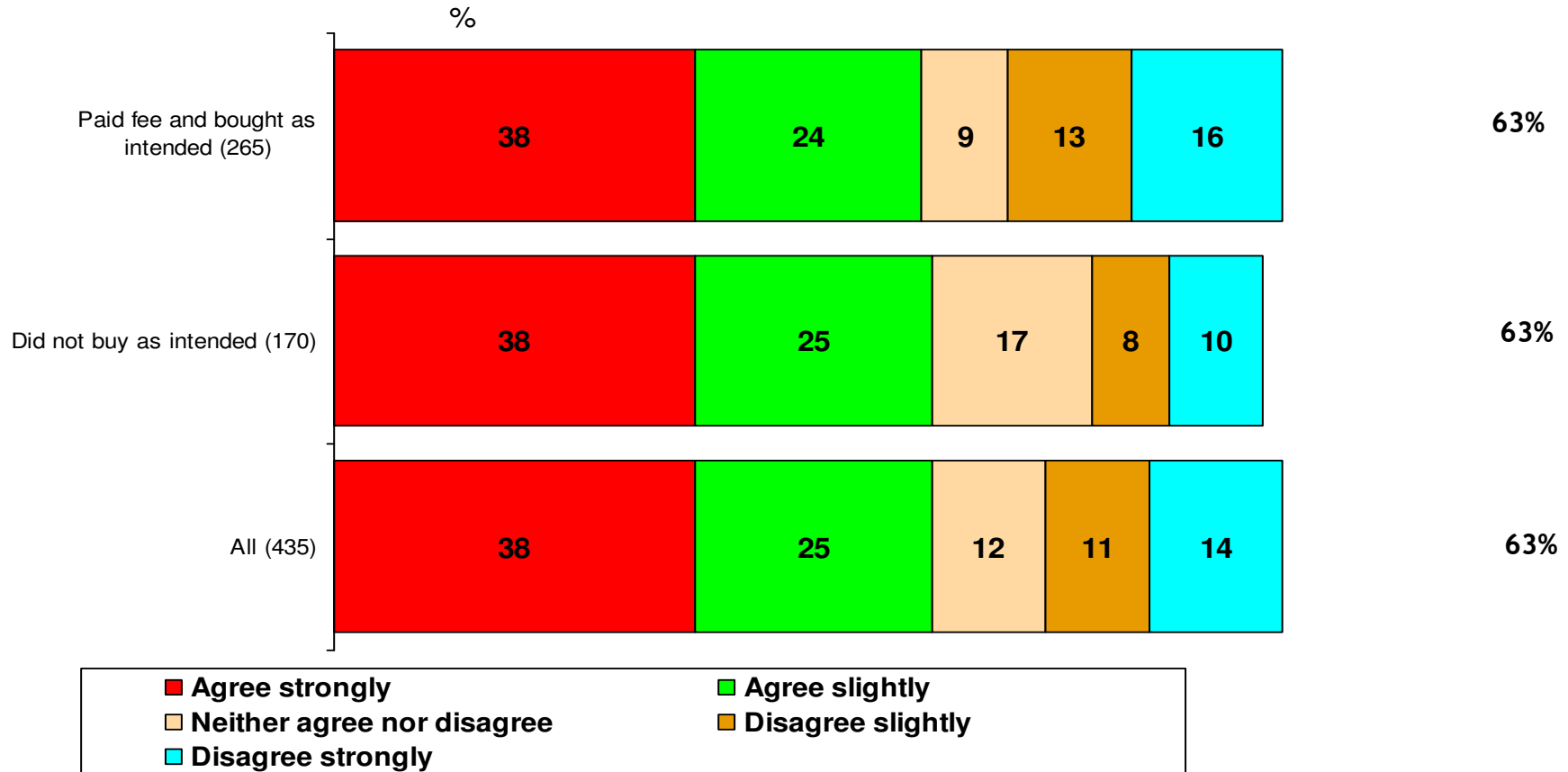
Q8/9. How much do you agree or disagree with the following statements, when considering the last time you did not pay the fee / did pay the fee?
 (Base: all who encountered a fee, sub-bases shown, excludes those who did not know outcome or who had a 'different outcome' from above)

For nearly two thirds the fees were only apparent at the closing stages of the transaction



The fees were only apparent at the closing stages of the transaction

Net agree %



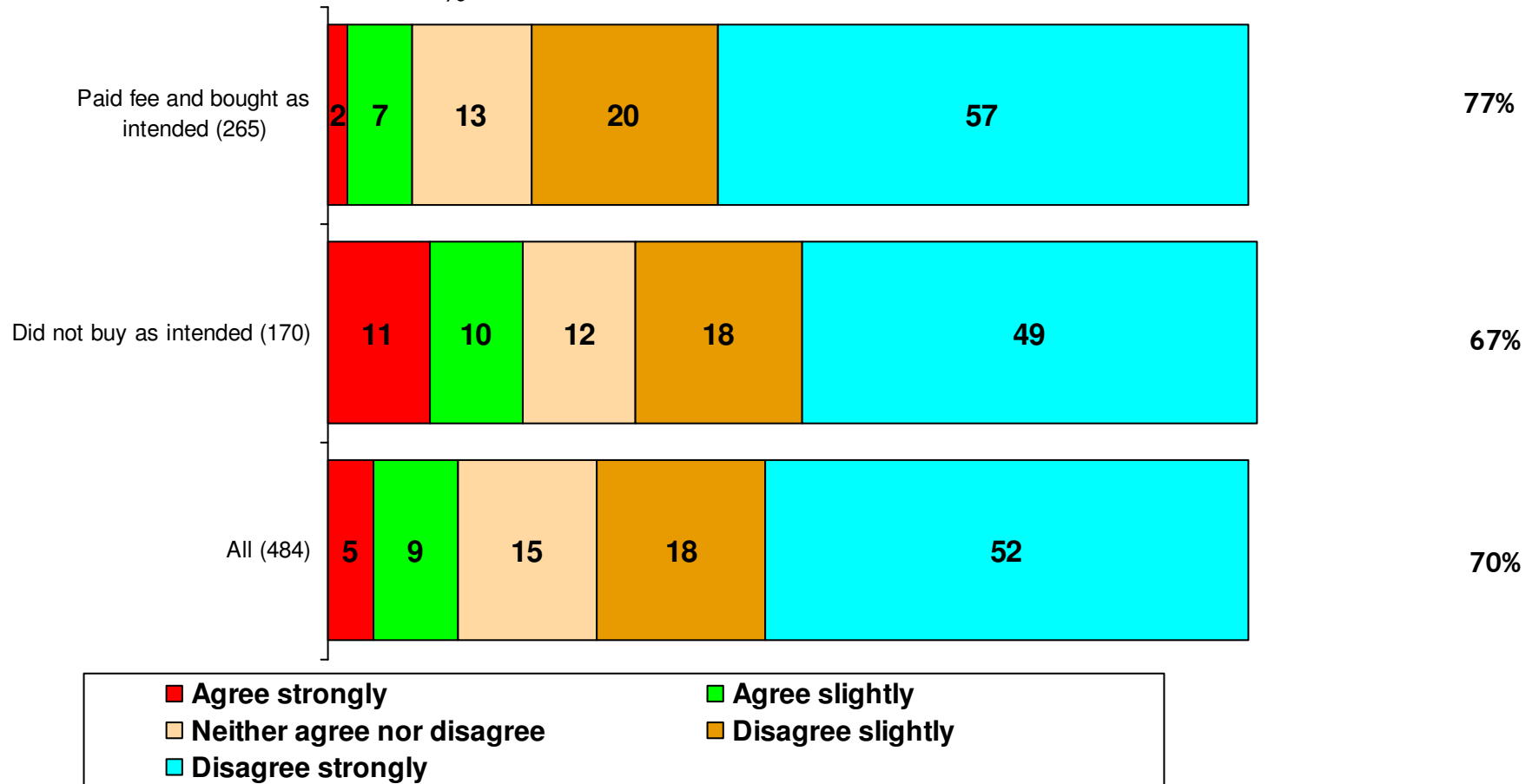
Q8/9. How much do you agree or disagree with the following statements, when considering the last time you did not pay the fee / did pay the fee? (Base: all who encountered a fee, sub-bases shown, excludes those who did not know outcome or who had a 'different outcome' from above)

The vast majority feel it is unfair for retailers to add a separate and additional fee to transactions



It is fair for a retailer to add a separate and additional fee when you pay by credit or debit card

Net disagree %



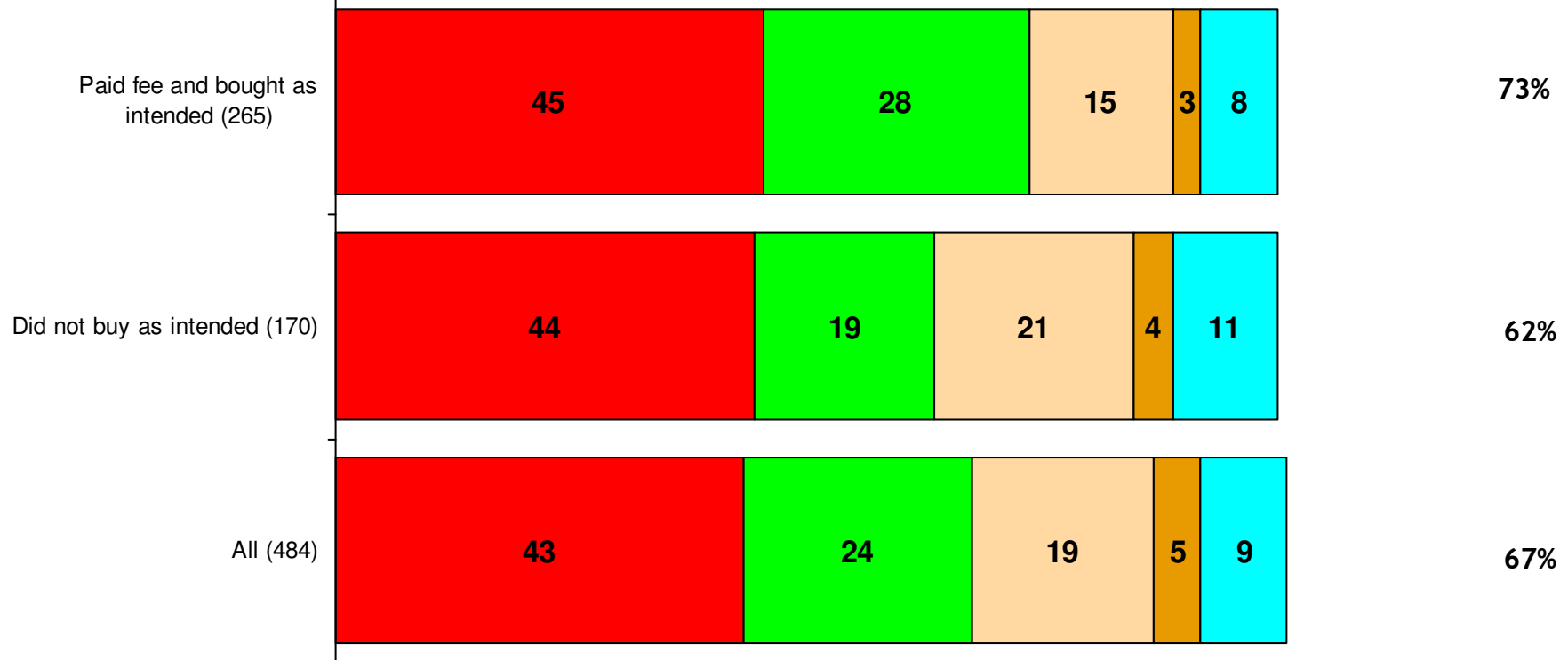
Q10. The following are some statements people have made about the application of fees in relation to credit and debit cards. How much would you say you agree or disagree with the following? (Base: all who encountered a fee, sub-bases shown) "All" also includes those who said they didn't know outcome or had a 'different outcome' from those identified above

Two thirds feel that additional fees should be included in the price quoted prior to payment



Additional fees for paying by credit or debit card should already be included in the price you are quoted prior to payment

Net agree %



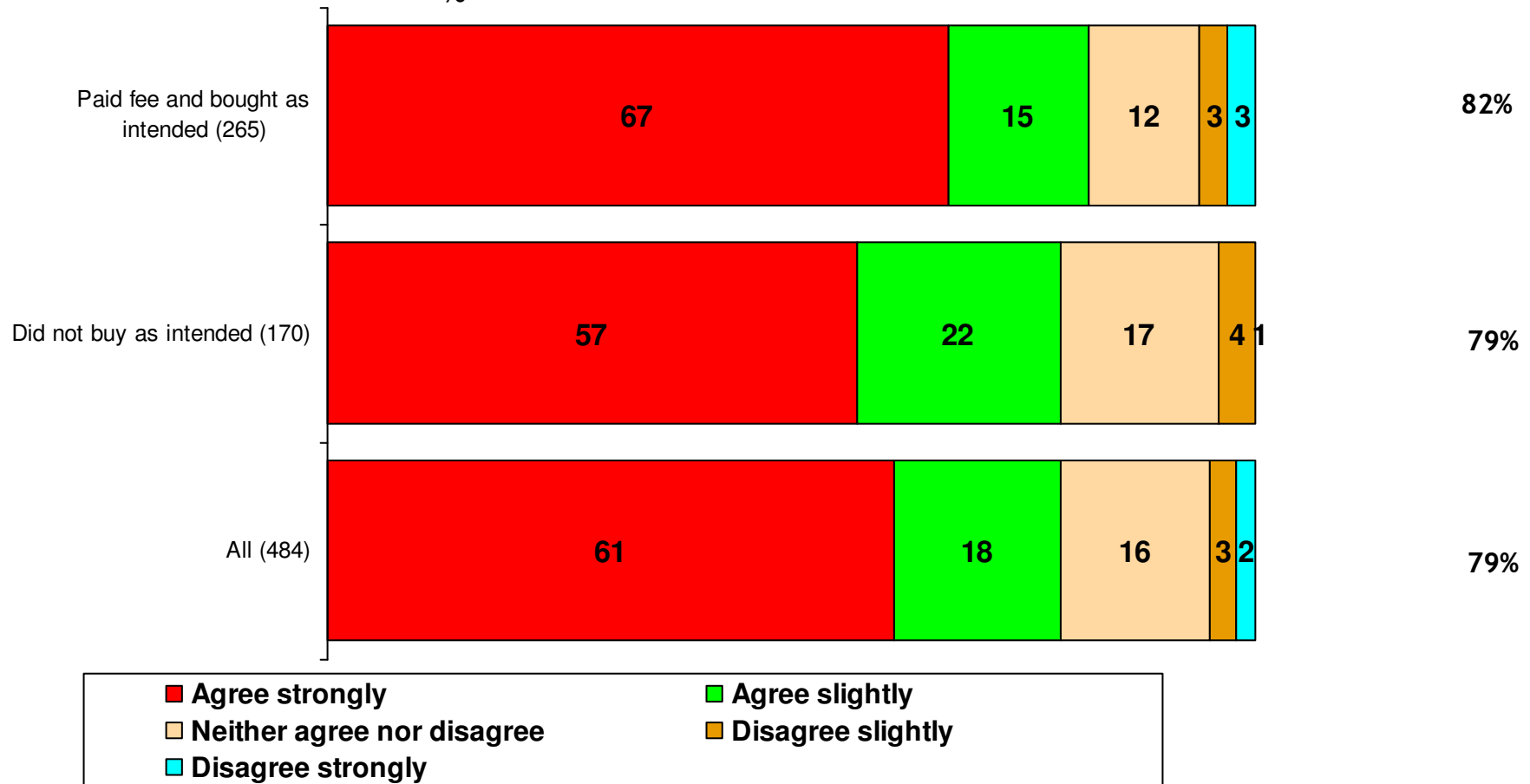
Q10. The following are some statements people have made about the application of fees in relation to credit and debit cards. How much would you say you agree or disagree with the following? (Base: all who encountered a fee, sub-bases shown) "All" also includes those who said they didn't know outcome or had a 'different outcome' from those identified above

The vast majority also feel there shouldn't be any additional fees charged for paying by card



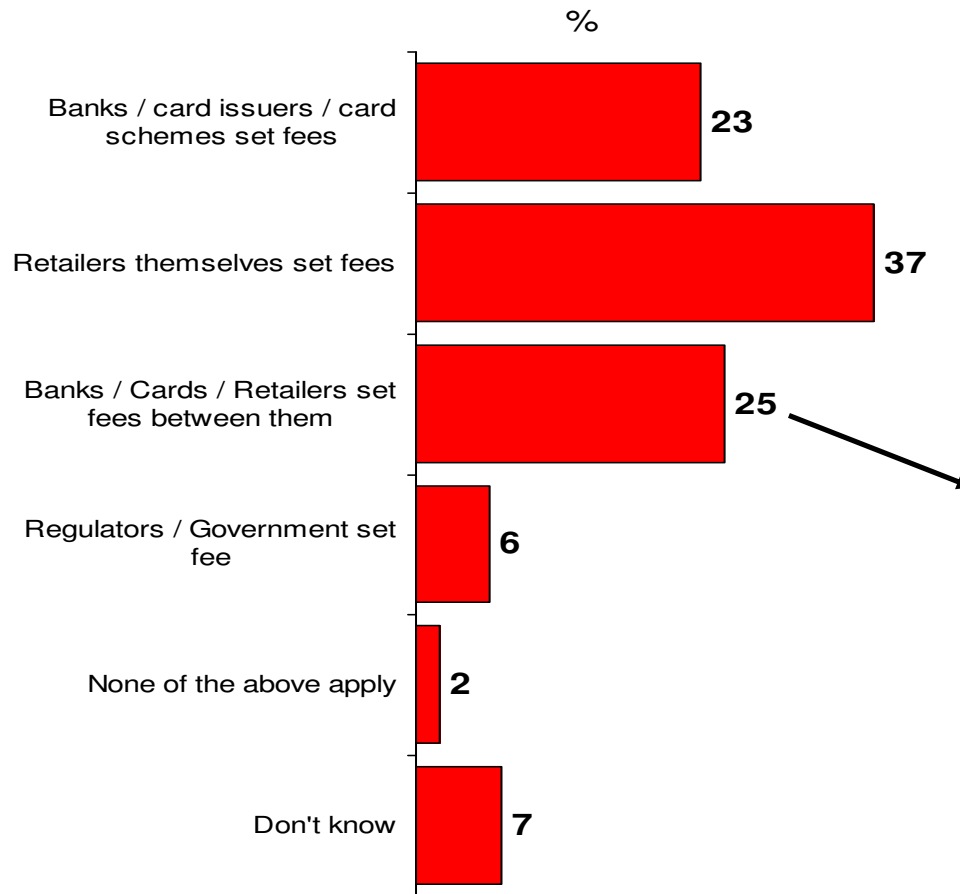
There shouldn't be any additional fees charged to consumers for paying by credit or debit card

Net agree %



Q10. The following are some statements people have made about the application of fees in relation to credit and debit cards. How much would you say you agree or disagree with the following? (Base: all who encountered a fee, sub-bases shown) "All" also includes those who said they didn't know outcome or had a 'different outcome' from those identified above

Retailers are seen, more than any other party, as the ones responsible for the charging of fees



Those who did not buy as planned are more likely to feel both card issuers and retailers set fees between them (38% vs. 16% of those who proceed with the transaction)

3.5 Which? magazine news articles

The price of paying by plastic

Consumers dislike it, card operators frown on it and in much of Europe, it's already outlawed. So why do we tolerate being charged to pay by credit or debit card?

WHAT YOU'LL LEARN

- Which companies charge you for paying by card
- What the true cost of paying by card is for retailers
- What you can do to try and avoid extortionate credit and debit card charges



Once upon a time, the price you saw on a tag was the price you paid. Today, however, consumers are approaching some purchases fully expecting their costs to creep up – and there are no hidden fees more irritating than charges for making a payment by card.

Which? Money research shows that while the travel sector storms ahead in imposing card surcharges, local authorities, cinemas and even the DVLA are all in on the act. We found that buying a £19,000 cruise of a lifetime with Saga could leave you with a £470 credit card surcharge, while a £1.70 train ticket from thetrainline.com could result in a £3.50 fee.

Which? is also concerned that some card surcharges may go beyond the cost of processing payments, incorporating additional costs that we believe the merchant – not the consumer – should

bear. Some 80% of Which? members we surveyed disagreed with card surcharges, while only 1% agreed with the practice. But much as Which? members dislike card surcharges, it's not stopping them from gritting their teeth and paying them – only 2% abandoned a purchase after being confronted by a surcharge.

It seems card surcharges have become an accepted fact of life – but who imposes them, why are they imposed and how are they calculated?

What is a card surcharge?

Card surcharges come in various guises – some as a percentage, some as a flat fee. Costs start at around 25p per transaction, while percentage surcharges can run into hundreds of pounds. Many retailers who impose these charges said they did so to recover the costs involved in processing customers' card payments.

Banks charge retailers a 'merchant service fee' for processing payments received by credit and debit card. Although debit and credit cards incur costs for merchants, credit cards are more expensive due to the costs associated with borrowing. The retailer negotiates these 'service fees' in advance with their bank, which may go on to affect surcharges that customers face.

While most retailers said the surcharges reflected card processing costs, their reasons for passing these costs on to their customers varied widely. For Co-operative Travel, Stena Line Ferries and Travelodge it's a simple matter of economics. Co-op Travel said: 'With travel margins being so fine, it's difficult to absorb these costs.' Travelodge and Stena told us that they'd be unable to offer 'millions of cheap hotel rooms' or 'competitive' fares without imposing card surcharges.

Monarch Airlines and Thomas Cook said they imposed charges to make customers aware of the costs incurred, while budget airline BMI Baby and Eurostar drew our attention to competitors who imposed similar charges.

How much is too much?

As merchant service fees vary between companies, it's difficult to set a benchmark for what a reasonable surcharge should be. Visa said it'd be unusual for a merchant service fee to be double their 'interchange fee' (fees paid between the merchant's bank and your card provider). At the time of going to press, a typical interchange fee was 0.1p per debit card for an online transaction and 0.8% on a credit card.

However, our research found that card surcharges seem to be open to abuse. They are applied arbitrarily in some purchases and not others. They can also be excessive. And in some cases, such as Easyjet and Odeon cinemas, the same cost are applied to debit cards as credit cards, despite the fact that the latter incur higher interchange fees.

There is also no uniformity between countries on surcharging. In many cases, using your card abroad means you'd be less likely to incur charges. There are surcharging bans in Austria, France, Italy, Bulgaria, Latvia, Lithuania, Portugal, Romania, Slovakia and Sweden, and surcharging-limiting measures in Denmark, Germany, Greece, Hungary and Spain.

WHO APPLIES SURCHARGES?

From travel to entertainment and councils, there's a surcharge round every corner.

Charge of the flight brigade

If you've ever travelled with a budget airline there's a good chance you've been stung by surcharges. Most shocking was the size of the card surcharges set by some airlines. Monarch Airlines charges 5% for credit card payments and 3.5% for debit cards, excluding Visa Electron. For some budget airline fares, flat-fee charges can account for an even bigger slice of the money you hand over – when buying a £7 flight to Aarhus with Ryanair (including taxes), an additional card fee of £5 would account for 42% of the total transaction value.

Worse still, many airlines have increased surcharges since we checked in July 2009. Last year, paying by credit card for a £300 flight with Monarch would've cost £11.70 in surcharges – it's now £15. The surcharge for the same transaction value with EasyJet would've cost £7.50 last year, now it's £11.

Several airlines levy card fees per item, rather than per transaction – BMI Baby and Ryanair both charge card fees per passenger per flight. MasterCard spokesperson Christoph Baert said: 'Surcharges should be in proportion to the total amount paid. Applying a surcharge per ticket is illogical as the banks would still treat it as one single transaction.'

"SURCHARGING RARELY REFLECTS THE COST OF PAYMENT PROCESSING"

Planes, trains and automobiles

Airlines aside, the majority of members named companies elsewhere in the travel and transport sector that imposed surcharges. Travel agents, hotels, ferry companies, cruise companies, car park operators and train companies were all among the offenders cited – but exactly why these charges are so widespread in the travel industry isn't easily explained.

ABTA – the travel association representative – confirmed there were

no reasons why the travel industry should impose card charges where other sectors – such as high street shops and supermarkets – choose not to. 'Charges for paying by card have become standard in the travel industry and consumers buy flights and holidays expecting to be hit by these fees,' says *Which? Holiday's* Rochelle Turner.

A handful of travel companies don't impose card surcharges on customers. Where Brittany Ferries, DFDS, Irish Ferries, P&O and Stena all levy card surcharges, SeaFrance said it felt 'that hidden charges are confusing for the customer.' Travel company Trailfinders also avoids card surcharging, telling us it felt it was important that 'the price you see is the price you pay.'

Not a pretty picture

One surprising area where our members experienced surcharges was buying cinema tickets online. Vue and Odeon both impose an unavoidable 'card handling fee' of 70p and 75p per ticket respectively.

Although the terms and conditions for Vue and Odeon state that the fee is 'in consideration for processing your credit/debit card transaction,' Vue subsequently told us the cost was based on 'maintaining facilities used throughout the booking process,' while Odeon said the charge was

partly based on costs associated with the 'minimization of fraud.' Which? believes that these are costs companies should bear themselves, without passing them on to consumers as itemised charges.

With some airlines, too, we found that surcharges strayed beyond the cost of processing card payments. EasyJet told us its fees 'involved admin charges to help with bookings in addition to the cost of processing payments.'

Councils that charge

Perhaps the most unlikely area where we encountered card surcharges was local authorities. We sent a Freedom of Information request to local authorities around the UK, and at the time of going to press, had found 55 councils that charged customers to pay by card.

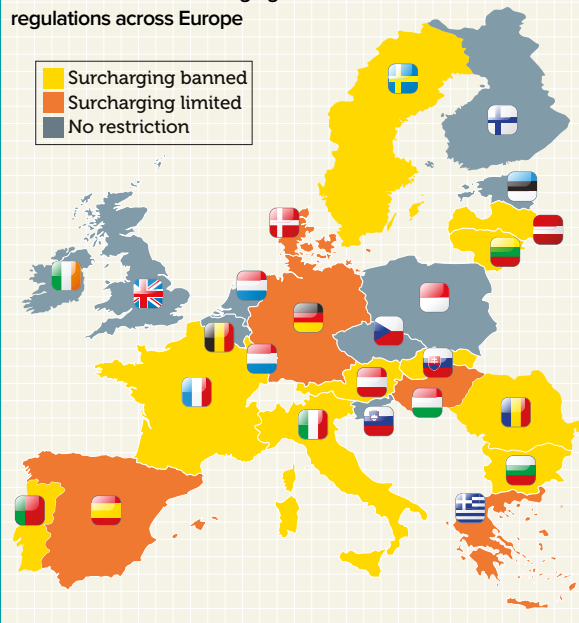
Although the way surcharges are applied varies depending on the authority, payments incurring surcharges included council tax, housing rent and even car parking and dog fouling penalties.

The total amount of money generated across the councils we surveyed was in excess of £450,000. The highest surcharge was 3% charged by Bath and North East Somerset Council. Seven councils told us card surcharges had been implemented within the last year.

European surcharging regulations

Varied credit card surcharging regulations across Europe

- Surcharging banned
- Surcharging limited
- No restriction




Which? online 

Visit www.which.co.uk/creditcards for more information on credit cards, WRP and Best Rate tables.

Which? research 

We surveyed 1,492 members of the Which? online Connect Community in May and June 2010

Have your Say 

If you feel that card charges are unfair. We'd like to hear from you at money-letters@which.co.uk 

Which? says

Which? believes that, in many cases, charges for paying by credit and debit cards are unfair.

While there may be some arguments for surcharging – namely, section 75 protection – we think that these charges should be transparent, consistent and reflective of cost.

In addition, we'd like the sectors which are most responsible (see table, right) to be clear on why they charge what they charge and to make customers aware of why they are charging additional amounts on debit cards while other companies in the same sectors don't.

These charges make it much harder for customers to compare prices. In some cases, charges go beyond the costs that companies incur when processing card payments. This blurs the line between card surcharges and other types of fee – such as booking fees.

Companies that offer customers 'free' payment options with niche card types – such as Visa Electron and prepaid MasterCard – are also discriminating against consumers, as it's inconvenient to apply and wait for a new card when you want to make a purchase on the spot.

What you can do

One way to beat card fees is to avoid online or telephone bookings. Odeon, Vue and Travelodge won't impose card fees on those who pay in person.

If you're looking to get section 75 protection – for example on a holiday – but don't want big percentage charges, you could pay for a portion of the sum on your credit card and the remainder using a payment method that won't charge extra. This way, you'd be entitled to section 75 protection on the whole purchase without incurring the fee on the whole amount, but this won't work if the surcharge is a flat fee.

Many companies imposing charges are offering services without alternatives – for example, a flight on another day, or a film screening at a particular time. The only way to see whether it's worth paying surcharges is to bear in mind the overall cost of the transaction.

Credit and debit card surcharges

We asked Which? members where they most regularly encountered card surcharges and they named some of the companies listed below.

This list is not exhaustive and is intended as a snapshot of a range of industries. Among the offenders named but not featured are many smaller travel agents, independent hotels, insurance

providers, taxi cabs, auction houses, garages, florists, a wood yard and even a dentist.

For further information on the councils that charge for payments by credit card and debit card, see the Money News page of this month's edition of *Which?*, where we reveal which authorities charge you for paying parking penalties by card.

	CREDIT CARD CHARGE	DEBIT CARD CHARGE	NOTES
AIRLINES			
BMI	£4.50	-	-
BMI BABY	£4.50/passenger/flight	£3/passenger/flight	Visa Electron exempt from fees
EASYJET	£3.50 +2.5% or £4.50 ^a	£3.50	Visa Electron exempt from fees
EMIRATES	£3.50/ticket	-	-
MONARCH	5%	3.5%	Visa Electron exempt from fees ^b
RYANAIR	£5/passenger/flight	£5/passenger/flight	Prepaid Mastercard exempt from fees
THOMAS COOK	2.5%	-	Capped at £50
THOMSON	2.5%	£2.95	Visa electron exempt from fees. Capped at £70
VIRGIN ATLANTIC	1.5%	-	-
CINEMAS			
ODEON	75p (per ticket) online	75p (per ticket) online	Capped to a max of £4.50 ^c
VUE	70p (per ticket) online	70p (per ticket) online	Capped to a max of £4.20 ^c
FERRIES			
BRITTANY	£5	-	-
DFDS	2.5%	-	Fees apply to transactions over £20 ^d
IRISH FERRIES	£5	£5	Visa Electron exempt from fees
P&O	£3	-	-
STENA	£5	-	-
TRAINS			
EUROSTAR	£3	-	-
TRAINLINE	£3.50	-	-
TRAVEL AGENTS			
CO-OPERATIVE	2.25% - 2.5%	-	-
FIRST CHOICE/THOMSON	2.5%	-	Capped at £70
KUONI	2%	-	-
LASTMINUTE	2%	-	Capped at £15
SAGA HOLIDAYS	2.5%	-	Saga credit cards charge 1.5%
THOMAS COOK	2.5%	-	Capped at £50
VIRGIN HOLIDAY	2%	-	-
OTHERS			
DVLA	£2.50	-	Only applies to tax disc purchases
NCP	2.5% / £1.50 / 25p	-	Varies depending on location
PREMIER INN	£2	-	-
TRAVELODGE	£2	-	^c

^a Whichever is greater ^b Credit card minimum £5.49, debit card minimum £2.44 ^c Not applied on location ^d Capped at £25



Below the belt

From booking fees to baggage, *Which? Money* looks at the charges added by airlines that customers say can be unexpected, unavoidable and unfair

WHAT YOU'LL LEARN

- Which airlines charge what
- Costs for paying by debit or credit card
- Cards you can use to avoid fees

When the world's first airlines took to the skies, the price on the ticket was the price you paid. These days, however, nothing is quite so straightforward. *Which? Money* found that while choosing a £9.99 air ticket with Jet2 seemed simple enough, by the time unavoidable supplements had been bolted on to the bill, the fare ballooned to nearly 10 times its original price.

Paying to take a family of four from London to Glasgow and back with Ryanair is, at first glance, a snip at £48

including taxes. But if you don't have a prepaid MasterCard, Ryanair will charge you £40 to process your card payment – a charge that we estimate is some 200 times too much, and would leave you with a fare costing £88.

Unfair fares

More than any other industry, budget airlines are well known for their fees and charges. Despite the Office of Fair Trading clamping down on 13 budget airlines advertising unobtainable prices in 2007, *Which? Money* research shows that Ryanair and Jet2 still allow their online customers to pick between base fares that don't include compulsory taxes. These fares can often swell once

they are selected. Clicking on a £21 flight with Ryanair to Marrakech sounds too good to be true but once taxes have been added in, the price almost trebles to £57.

Even after taxes were factored in, we found that Jet2 can add a compulsory £2 online-check-in fee and a £4 fuel supplement at a later stage in its online booking process – the latter was added completely unannounced. Take a bag, and the online check-in jumps to £4.

Pay attention

Fortunately, pressure from the Civil Aviation Authority means that Jet2 and Ryanair will have to show the full price up front by April and June respectively. However, no-frills

airlines still have plenty of other tricks up their sleeves to make sure the price you pay keeps creeping up.

Bolting on optional extras is another part of their strategy. FlyBe, Thomson, Monarch and Jet2 will all automatically opt you in to buying baggage allowance during an online booking. Jet2 also automatically opts you in to taking out insurance and an in-flight meal, while Thomson preselects buying a meal and even a charity donation on your behalf. If you're not paying close attention during the online booking process, it's easy to end up spending big money on add-ons you didn't want.

Most budget airlines will now also charge you for checking in bags, and the prices can be astronomical. We found that in some cases Monarch could charge you £3.09 per kilo, Easyjet £4.20 per kilo, and Air Berlin as much as €5 per kilo.

Card charges

Charges for paying by credit and debit cards come in all shapes and sizes: some as a percentage, some as a flat fee, some even as a mix of the two. They are known mostly as booking fees but also referred to as transaction fees, service charges, administration fees and handling fees.

These surcharges have just one thing in common – they are usually completely out of proportion to the cost to the airline of processing your payment. *Which?* Money estimates that the cost to an airline processing a debit-card payment should be no more than 20p, and no more than 2% of the transaction value for a credit card. In spite of this, some budget airlines are charging consumers exorbitant amounts for card payments, and where surcharges are levied per passenger per journey, those booking for bigger groups are among the hardest hit.

BMI Baby says it wants to be 'open and honest' with its customers and claims its charges 'help cover the administration and financial costs when processing bookings'. But paying for a return flight for a family of four by debit card would incur fees of £24 – a charge that's 120 times bigger than our estimate of a fair processing cost. FlyBe claims fares can be as low as £0.00 and the airline says it charges for card payments 'to defray the substantial administration and financial services costs we incur

when processing credit and debit cards'. But pay for a similar return flight for a family of four by debit card and you'll have to pay £36 in surcharges – 180 times too much according to our estimate.

Perhaps unsurprisingly, the worst offender is Ryanair, whose £40 administration fees will be 200 times more than what we estimate the airline pays when booking return flights by debit card for a family of four.

Silliest surcharges

The ways that surcharges are applied can often make no sense at all. Book a long-haul flight with Monarch to Tobago and you'll be charged nothing for paying by debit card, and 2% by credit card. But book a short-haul flight to Alicante and you'll pay 3.5% for debit-card bookings, and a massive 5% for using a credit card.

Even airlines would struggle to argue their fees reflect the cost of accepting your payment. Easyjet charges £5.50 to pay by debit card, with an extra 2.5% on top for credit cards. Yet operating costs from its 2010 annual report show that 'merchant fees and commissions' work out as just £0.75 per seat.

In some cases, you might even get stung by a card surcharge twice. We found that when booking an Easyjet flight through flight aggregator Opodo, you still get hit by a £4.50 booking fee, before being faced with a further £4.95 debit-card fee or a £9.90 credit-card charge from Opodo.

Perhaps understandably, some budget airlines like to keep their surcharges under wraps; of the 11 budget airlines we checked, all but two added their surcharges to the total cost on the last page of the transaction. GermanWings even lists 'transaction fees' below 'pet transport' in its terms and conditions.

Free payment methods

Budget airlines say they don't incorporate card surcharges in the total cost of a ticket because they offer certain free payment methods. But *Which?* research shows these methods can be tricky to get your hands on and are expensive to boot.

Airline credit cards

With some budget airlines, getting the magic card that beats the fees will be impossible for most UK residents. Only

those with a Wizz credit card, available in Hungary or Romania, will avoid Wizz's booking fees, while only German residents can take out a GermanWings credit card to bypass its transaction fees. Air Berlin points to its 'transparent prices' and will happily reduce its £15 service fee per person to 10 euros, but you'll need an Air Berlin credit card, available only in Germany.

Electron and Solo

The most common 'free' payment method is the Visa Electron card.

Price dripping

So why are budget airlines resorting to these sneaky tactics? Studies by the Office of Fair Trading show that adding on extras – a practice known as price dripping – seriously impedes the consumer's ability to make informed purchasing decisions. For example, a fare showing £40 plus £10 in taxes can seem more enticing to a customer than a round £50 price tag.

In spite of this, price dripping shows no signs of stopping. Last year's annual reports from Easyjet and Flybe announced they were making more money from these fees and charges,

while Jet2's report from 2009 said it planned to 'maximise its revenue' from fees and charges in 2010.

The EU's Air Services Regulation states, 'The final price to be paid shall at all times be indicated and shall include the air fare, as well as all applicable taxes, surcharges and fees.'

But, unfortunately, as there's often nothing the consumer can do about this, *Which?* is taking a supercomplaint (see p10) to the Office of Fair Trading to put a stop to what we think is the most damaging price-dripping tactic of all, the card surcharge.



The hidden costs of budget airlines

The table shows how no-frills airline costs creep up from the first price you click on to the real price you pay. Prices were checked in January 2011, and are

based on a single person travelling on a one-way flight to Alicante or Prague. In some cases, we were unable to pick the exact same dates, however the

table is intended to show how costs creep up, rather than a comparison of air fares. Baggage costs refer to the worst case baggage costs per kilo.

HOW PRICES CHANGE WHEN YOU PAY BY CARD

	FIRST PRICE YOU SELECT	TOTAL PRICE IF YOU PAY BY VISA DEBIT CARD	CARDS THAT AVOID FEES	DEBIT CARD FEE	CREDIT CARD FEE	BAGGAGE COSTS (PER KG)
UK FLIGHTS TO PRAGUE, 9 JULY 2011						
EASYJET	£49.99	£55.49	Electron	£5.50	£5.50 + 2.5% (minimum £4.95)	£4.20
WIZZ	£50.99	£54.99	Wizz Card ^a	£4 pf/pp	£4 pf/pp ^b	£2.46
GERMANWINGS	£54.99	£61.99	German Wings card ^c	£7, plus £1 pf/pp for groups	£7, plus £1 pf/pp for groups	£1.80
JET2	£16.99	£56.98	Electron, Solo	3.5%	3.5% + 2.95%	£0.99
UK FLIGHTS TO ALICANTE, 9 JULY 2011						
BMI BABY	£36.54	£63.49	Electron	£3 pf/pp	£4.50 pf/pp	£2.87
AIR BERLIN	£165	£180	Air Berlin card ^d	£15	£15	€5
THOMAS COOK	£72	£74.50	Electron, Solo, Prepaid M/C	£2.50	£2.50	£2.08
RYANAIR	£29.99	£71.42	Prepaid M/C	£5 pf/pp	£5 pf/pp	£1.50
MONARCH	£84.99	£87.96	Electron, Solo	3.5%	5%	£3.09
THOMSON	£100	£102.95	Electron	£2.95	2.5%	£2
FLYBE	£142.47	£147.97	Electron	£4.50 pf/pp	£5 pf/pp	£2.14

M/C MasterCard pf Per Flight pp Per Person

a Only available for residents of Romania and Hungary b £2 per flight per passenger for bank transfer c Only available for residents of Germany. Direct debit (from German bank accounts) also free d Air Berlin card reduces service charge. Only available for residents of Germany. Direct debit (from German Dutch Austrian bank accounts) also free.

Easyjet, BMI Baby, Jet2, Thomas Cook, Monarch, Thomson and FlyBe will all drop their surcharges if you pay using one of these.

But the number of Visa Electron cards issued has nearly halved since 2006, now accounting for less than 3.7% of the payment cards in circulation in the UK, according to the most recent figures from the UK Cards Association. Worse still, new Visa Electron cards are hard to come by, with most only being available with teenage bank accounts. Even Visa itself says Electron 'isn't used very often'.

Jet2, Thomas Cook and Monarch accept Solo cards as a 'free' payment method, but we couldn't find any companies issuing new Solo cards, which, according to the most recent figures, account for just 2.3% of payment cards in the UK.

Prepaid MasterCard

Since early 2010, Ryanair has bucked the trend, only allowing fee-free payments for passengers with a prepaid MasterCard. It

even charges an 'administration fee' to customers who use its own Ryanair-brand credit card. But MasterCard told us that the costs of processing these prepaid cards aren't any lower than processing debit-card payments. It believes that airlines such as Ryanair choose prepaid MasterCard as a free payment method as there are still relatively few of these cards in circulation in the UK.

Unlike Electron or Solo cards, a prepaid MasterCard is easy to get hold of, but they're not necessarily cheap to run. We found that these cards can cost as much as £150 a year to take out, without factoring in extras such as transaction fees, dormancy fees and charges for loading them with funds.

However, we did find one card on the market – the Kalixa prepaid card – which only costs £5 to buy, and doesn't charge for loading. So, if you're travelling with Ryanair regularly and want to avoid card fees, the Kalixa prepaid card is worth considering.



Which? online

If you want to pledge your support to our campaign to stop card charges, visit www.which.co.uk/ripoff

Our supercomplaint

Which? believes that the surcharging tactics practiced by some of the budget airlines are unfair and need to stop now. That's why we're taking a supercomplaint to the Office of Fair Trading.

We're one of seven UK consumer bodies that has the power to launch a supercomplaint, and this forces the Office of Fair Trading to investigate the issue. We don't use these powers lightly. In fact, it's the first time we've used them since 2007. But in a market where consumers usually have no option but to put up with these fees, we think it's time for a regulatory or legislative change.

Some airlines argue that these charges include other administration costs beyond processing your payment, but these costs are part of doing business and shouldn't be affected by the way you choose to pay. They also affect your ability to compare flights across the market.



THE GREAT CARD SURCHARGE “RIP-OFF”

Fed up of debit card fees and frustrated by credit card charges? Which? is launching a super complaint to the OFT to try to pull the plug on the “rip-off” card surcharges that unfairly put you out of pocket

Choosing between two airlines flying to Copenhagen may seem a simple enough decision – Easyjet costs £61, SAS costs £64. But what if the lower price actually works out to be more expensive after you’ve paid a hefty fee for the privilege of paying by plastic? That’s because Easyjet is charging you 25 times more than our estimated processing costs for a debit card payment.

Airlines are the just tip of the iceberg. Our research shows that across various industries, charges for paying by card are making it harder for consumers to compare prices – and are going way beyond the cost of processing payments.

Book a £27 ticket with Irish Ferries using a debit card and we estimate the £5 handling fee you’ll pay will be 25 times larger than the real cost to the company of accepting your money. Pay for a £2.80 train ticket by credit card with the Thetrainline.com and, chances are, the £3.50 fee you’ll pay will be up to 63 times greater than the card processing costs.

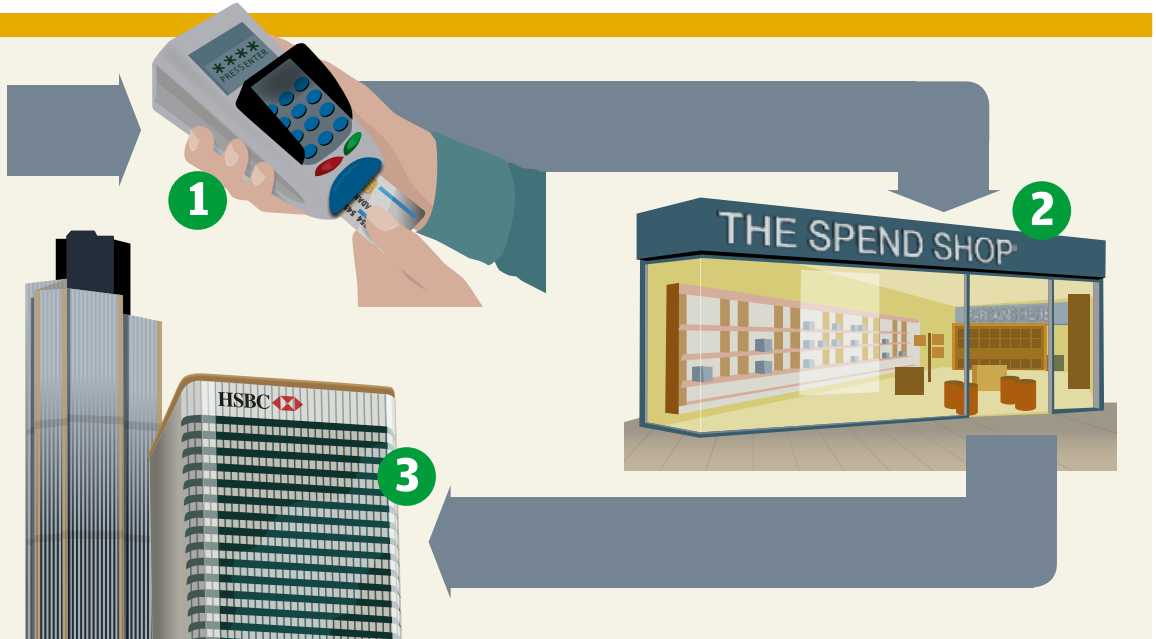
PHOTOGRAPHY BY: XXXXXXXXXXXXXXXX

HOW SURCHARGES AFFECT YOU

1 Retailers levy card surcharges to recover the cost of processing your payment.

2 Retailers incur these costs because their bank charges them to process payments.

3 The retailer's bank will have to pay fees imposed by your card issuer.



EXPERT VIEW EXCESSIVE CHARGES

oliver
smith
pic here

The surcharging issue isn't always black and white – we understand that smaller companies in particular will struggle to swallow the cost of processing credit card payments.

At the same time, the confusion surrounding surcharges shouldn't be seen as an opportunity to shoehorn in other costs that the retailer – not the consumer – should clearly bear.

Vue told us its surcharges help 'maintain facilities used throughout the booking process', while BMI Baby, FlyBe and Ryanair all point to 'administration' costs. Charges like these might be linked to the way you choose to pay, but they can have no relation to the actual cost of processing your payment.

Our super complaint to the OFT focuses on the airline and ferry companies who we feel are imposing high fees that are difficult to dodge. In bolting-on these fees late in the booking process, they're making it harder for you to make informed comparisons – this is bad for competition and bad for consumers.

OLIVER SMITH
Which? Money Expert
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Card charges seem to be on the rise. Eurostar now charges £4 for paying by credit card – up from £3 last year – while Easyjet will charge a minimum of £5.50 to pay by debit card – that's up from £3.50 last year.

Currently, there's very little consumers can do to escape the surcharge trap. So Which? has decided to launch a super complaint to the Office of Fair Trading (OFT) in order to try to put a stop to "rip-off" surcharges.

Which? is one of the few organisations that have the power to launch a super complaint. So far, our campaign has received more than 30,000 pledges of support from the public, and the backing of organisations including UK Cards and Trailfinders. Show your support and sign up today at www.which.co.uk/ripoff.

WHAT IS A CARD SURCHARGE?

Our research* shows that charging to pay by card may be unpopular – but it's not stopping you from paying up. Only 17% of members we surveyed had abandoned a transaction after being faced with a charge for paying by card.

This may be because it's not always easy to tell when you're about to get stung by a surcharge. Over half of you felt that card charges weren't made clear from the start of a transaction when making purchases online.

Card surcharges are shrouded in misunderstanding – our research shows just a third of the public understood that it's retailers – not banks or card issuers – who impose charges for paying by credit and debit card.

Surcharges arise when retailers attempt to recoup the costs of processing your payment.

Which? estimates that the cost of a merchant accepting your debit card payment should be no more than 20p, and for a credit card payment it should be no more than 2% of the transaction value – credit cards tend to be more expensive due to the costs associated with borrowing.

But Which? is concerned that some retailers are levying surcharges that go well beyond the cost of processing your payment. Easyjet can charge you £5.50 to pay for a flight by debit and more than £10.45 to pay by credit card. But data from its annual reports show that 'merchant fees and commissions' work out as just 75p per seat.

SENSELESS SURCHARGES

Which? thinks that charges for paying by card should bear a reasonable relationship to the actual cost of processing your payment. But all too often, the way surcharges are applied makes no sense at all. In some cases, retailers calculate charges by the number of items you've purchased – despite this having nothing to do with the cost of accepting your money.

With budget airlines, larger groups are often the hardest hit – FlyBe, BMI Baby and Ryanair all levy surcharges per passenger per journey. With a return flight for a family of four, you'll get stung by surcharges eight times for a single transaction – book the flights with Ryanair using debit and its £40 surcharge will be 200 times greater than our estimate for processing costs.

Odeon and Vue also calculate 'card fees' by the number of tickets purchased. Pay online by debit card for tickets for a family of four to Vue, and we estimate the 70p fee you'll be charged per person could be 14 times too high.

Some companies aren't consistent in the way they impose surcharges. Odeon, like Vue and Travelodge, doesn't impose these surcharges if you pay in person.

Thomas Cook will charge you £2.50 to pay for a flight by debit card – but book a whole holiday and they won't charge you anything at all to use the same method of payment.

To add to the confusion, Monarch's chartered flights are free for debit card payments and incur a 2% surcharge for credit cards – but a hefty 3.5% is added to scheduled flights for debit card payments and a massive 5% to pay by credit card. Booking £500 worth of scheduled flights with Monarch will incur a £17.50 debit card surcharge – we estimate that's 88 times higher than the real cost of accepting your payment.

BUDGET AIRLINES

Budget airlines are infamous for exorbitant card surcharges. Many gloss over the steep debit and credit card fees, pointing to 'free' payment options that avoid the charges – such as Visa Electron, Solo and Prepaid Mastercard.

AT TIMES, RETAILERS
CALCULATE CHARGES
BY THE NUMBER OF
ITEMS BOUGHT

But Which? research shows that for many of us, some of these cards aren't an easy option. Visa Electron accounts for less than 3.7% of payment cards in the UK, according to data from UK Payments Association, and it's almost halved in circulation since 2006.

BMI Baby, Easyjet, FlyBe, Jet2, Monarch, Thomas Cook and Thomson all accept fee-free Electron payments – a product Visa says is 'not actually used very often'. And Mastercard told us it believed airlines, such as Ryanair, chose their prepaid product as a 'free' payment method as there are still relatively few of these cards in circulation.

Jet2, Monarch and Thomas Cook all accept Solo cards as a 'free' payment method – but we couldn't find any companies issuing new Solo cards, which now account for just 2.3% of payment cards in the UK. Worst of all, Air Berlin, German Wings and Wizz all offer own-brand credit cards as a 'free payment' option – but none of these are available to UK residents.

THE TRAVEL INDUSTRY

Budget airlines aren't the only ones in the travel sector imposing excessive surcharges – travel agents, ferry companies and hotels are cited by our members. In fact, 42% of you told us you'd been hit by a card surcharge from a company in the travel sector within the past year, and industry regulator ABTA told us there were no reasons why those within the travel sector should charge for payments by card while other sectors don't.

The Co-operative Travel told us that with 'travel margins being so fine, it's difficult to absorb the cost of credit card payments', while Travelodge told us that unless they levied credit card surcharges they 'would be unable to offer millions of rooms at £19 or less'.

Some rail companies – such as East Midland Trains and Virgin Trains – advertise a 'no card fee' policy – but this is because the Department of Transport prohibits rail operators from imposing card surcharges.

THE DVLA AND LOCAL COUNCILS

It's not just private companies that levy card surcharges. Which? found that the DVLA collected £8.5 million in credit card surcharges in the tax year 2009/2010 – that's twice as much as they collected five years ago. The DVLA currently levies a £2.50 credit card surcharge for buying a tax disc.

When we checked in October 2010, we also found that local authorities had collected over £450,000 in credit card surcharges in the last financial year, with payments including council tax, meals on wheels and even dog fouling and street-littering penalties all liable. Bath and North East Somerset council levied the highest charges we found, charging 3% for credit card payments.

Which? is concerned that local authorities may be employing bailiffs who place levies on both debit and credit card surcharges to vulnerable people when collecting debts. We spoke to five bailiff companies who collected debts for local councils, all of which charged for both debit and credit card payments.

One of the biggest companies, Jacobs Bailiffs, claims it works with 150 councils across the UK – charging £2 for debit card payments and 3% for credit card payments.

OTHER INDUSTRIES

The list is endless – florists, dentists, car parks, car dealerships, insurers and estate agents are among the companies where our members told us they'd been hit by debit or credit card

	DEBIT CARD	CREDIT CARD
AIRLINES		
RYANAIR	£5 per flight pp	£5 per flight pp
BMI BABY	£3 per flight pp	£4.50 per flight pp
FLYBE	£5 per flight pp	£4.50 per flight pp
EASYJET	£5.50	£5.50 + 2.5% (min £4.95)
MONARCH	3.5%	5%
JET2	3.5%	6.45%
FERRIES		
IRISH FERRIES	£5	£5
P&O	-	£4
STENA LINE	-	£5
BRITANNY FERRIES	-	£5
CINEMAS		
VUE	70p per ticket	70p per ticket
ODEON	75p per ticket	75p per ticket
TRAVEL AGENTS		
FIRST CHOICE/THOMSON	-	2.5%
THOMAS COOK	-	2.5%
SAGA HOLIDAYS	-	2.5%
COOPERATIVE TRAVEL	-	2.5%
ESTATE AGENTS		
FOXTONS	0.5%	2%
TRAIN BOOKING SITES		
EUROSTAR	-	£4
THE TRAINLINE	-	£3.50
RAILEASY	75p	4.7%
LOCAL COUNCILS		
BATH & NE SOMERSET	-	3%
INSURANCE		
ADMIRAL	-	£5.95
SWINTON	-	2.5%
HOTELS		
TRAVELODGE	-	£2
PREMIER INN	-	£2
BROADBAND		
AOL	£1.99	£1.99
OTHER		
DVLA	-	£2.50

surcharges. When percentage payments are levied, the bigger the transaction the more costly the surcharge – for example, paying a £5,000 deposit to rent a flat through Foxtons estate agents would leave you with a £100 credit card surcharge or a £25 debit card surcharge.

Thankfully, it's unlikely that you'll see credit and debit card surcharges appearing among high street shops any time soon. These retailers also have to cover the cost of processing your payment, but choose not to surcharge customers who might easily take their business elsewhere. Ikea recently withdrew its 70p credit card surcharge, telling us that it 'could not afford to alienate customers'.



MAKE A DIFFERENCE AND PLEDGE YOUR SUPPORT If you're fed up of being overcharged for paying by card, go online and show us your support. We're lodging a super complaint to the Office of Fair Trading to put an end to unfair airline surcharges. Visit www.which.co.uk/ripoff