



Issues paper: Regulating to reduce Merchant Service Fees

Payments NZ Limited submission

19 February 2021

1 Do you have any feedback on our proposed approach to this project?

Payments NZ does not have any feedback on the proposed approach to this project because the setting of merchant service fees by card schemes is outside the scope of Payments NZ's constitutional objectives and is not covered by its clearing system rules.

However, Payments NZ manages the rules for the consumer electronic clearing system, which govern domestic EFTPOS transactions. The consumer electronic clearing system operates within a network where multiple payment instruments and payment schemes share infrastructure and processes (including switches, terminals and form factors). On this basis, Payments NZ welcomes the opportunity to submit on those questions set out in the Issues Paper: Regulating to reduce merchant service fees, and which are relevant to its role.

2 Have we described the retail payments system accurately? Is there any additional information that you would like to provide?

The Issues Paper takes a very narrow view of the retail payment system. A retail payment system is broader than just card-based payments.

A retail payment system includes account to account payments, which capture payments between consumers, businesses, government, utilities, payroll etc. Within this broader context, card-based payments make up less than 5% of the value that flows through the retail payment system. And scheme routed transactions, which are the focus of the MBIE consultation, are a subset of this volume – and outside the mandate for Payments NZ.

Overall, the retail payment system is a key enabler of the NZ economy and any review of it needs to consider the efficiency of account to account payments as well as those initiated by consumers with a card.

It is also important to recognise the role which industry participants have played in the self-governance of the payment system and the impact this has had in creating the safe, efficient, open, interoperable and innovative retail payment system we have today.

Payments NZ is responsible for managing the rules for the payment system, which includes the following four clearing systems:

- Bulk Electronic Clearing System (direct debits, electronic credits, bill payments and automatic payments);
- Consumer Electronic Clearing System (EFTPOS transactions);
- High Value Clearing System (same day cleared payments, NZD cross-border payments); and
- Paper Clearing System (cheques).

Since its establishment in 2010, Payments NZ has delivered ongoing improvements within the payment system including:

- Agreed liability terms for EFTPOS transactions in 2011 – introducing rules to confirm that once the EFTPOS transaction is authorised, the payee has no further liability.

- The new retail payments system launched in 2012 – settlement before interchange (SBI), which clears and settles the intraday, hourly interchange of payment files with a value of over 1.4 trillion NZD annually.
- The introduction of the Cleared Funds rule in 2016 – which provides immediate access to funds once credited into a payee’s account.
- The establishment of the API Centre in 2019, which sets out to enable the delivery of innovative API based services through industry standards and streamlined partnering between banks and third parties.
- The initiation of the SBI 365 project which will see the implementation of significant system changes to enable the interchange of payments 7 days a week.

All of these initiatives are enablers for payment innovation. In addition to this, Payments NZ has an ongoing strategic programme of initiatives, working with the wider industry, to understand the evolving future of payments. This is the Payments Direction programme which aims to ensure that New Zealand continues to have a highly dynamic and competitive payment system which delivers long-term benefits for Kiwis and the New Zealand economy as a whole.

In relation to the consumer electronic clearing system, which governs domestic EFTPOS transactions, Payments NZ has worked with the industry to ensure the safe and efficient operation of the clearing system.

When banks originally set up the domestic EFTPOS scheme in the 1980s, they created a payment switch and, as we understand, agreed not to charge merchants interchange fees for EFTPOS transactions (to encourage market penetration with merchants). Banks did not, however, then set up the governance structures to manage domestic EFTPOS as a scheme even though it has all the characteristics of a four party scheme (and all the same economic drivers) with cardholders, issuers, merchants and acquirers (with a fifth party being the switch).

The New Zealand Bankers’ Association assumed responsibility for setting EFTPOS standards for cards and devices in 2003 before Payments NZ took on responsibility for this in 2010.

Since then, Payments NZ has regularly taken proactive steps to consider how best to meet the ongoing needs of retailers and consumers.

In 2012, and in liaison with the Reserve Bank, Payments NZ introduced rules providing certainty for retailers, cardholders, issuers and acquirers regarding the settlement of EFTPOS transactions. This reduced the risk for retailers and consumers arising from EFTPOS transactions that are accepted by merchants’ terminals but not yet settled between issuers and acquirers.

In 2013/2014, facilitated by Payments NZ, issuers, acquirers and retailers (including Retail NZ) proactively explored options on how best to respond to the declining relevance of domestic EFTPOS.

Following this review, a subsequent assessment through the Payments Direction programme on the strategic priorities for New Zealand’s domestic payments system led Payments NZ to

develop the API Centre. Payments NZ worked with its participants, members and other industry stakeholders to design the necessary frameworks and building blocks to enable this new ecosystem. The objectives of the API Centre address a number of the issues stated in the Issues Paper, in introducing a new set of modern payments and data connectors through standardised APIs in order to provide more choice and more competition in retail payments.

Providing this background of a broader payment system (managed within a self-governing model) is important context as it has delivered a safe, efficient, open, interoperable and innovative system. Using these objectives as a measure, the New Zealand payments system continues to compare favourably to other jurisdictions around the world. The highly banked population, the widespread use of electronic payments, the low use of cash and cheques are all hallmarks of an efficient system.

In our view the consultation paper places too much weight on merchant service fees as a benchmark for an efficient retail payment system – when this is only a characteristic of card schemes that operate outside of the Payments NZ model.

Maintaining a safe, efficient, open, interoperable and innovative system requires continued investment to ensure it meet the needs of its stakeholders. Without these attributes, end-users will not have the necessary trust in the system and will turn to alternative methods of payment.

It is noted that fees paid by issuers, acquirers, merchants and end-users enable ongoing investment in the system. We would encourage MBIE to consider what impact the regulation of fees might have on the broader objectives mentioned.

3 Please provide information on your understanding of the levels of merchant service fees in New Zealand, any trends in relation to those fees, and how they compare to merchant service fees in overseas jurisdictions.

MBIE is looking to recommend the regulation of merchant service fees payable by retailers for debit and credit card transactions. The Issues Paper is seeking information on the most appropriate approach for doing this. As stated above, Payments NZ is not in a position to comment directly on the issue of merchant service fees because card schemes are not participants in Payments NZ, and the setting of merchant service fees is outside the scope of Payments NZ's constitutional objectives and not covered by its clearing system rules.

We do recommend, however, that MBIE should consider the key attributes of an efficient payment system and the impact that the regulation of fees might have on the efficiency of the broader payment system.

4 What is your view on charges incurred by cardholders for the use of payment methods?

No feedback

5 What impacts do you believe rewards and inducements have on the retail payments system?

No feedback

6	What is your view on charges incurred by merchants for the use (acceptance) of payment methods?
	No feedback
7	Please provide your views on barriers to merchants steering consumers to lower cost payment methods and the extent that steering occurs?
	No feedback
8	Please provide your views on the barriers to merchants surcharging and the extent that surcharging occurs?
	No feedback
9	What is your view of the wealth transfer by merchants passing on merchant service fees in the price of goods and services to all their consumers?
	No feedback
10	What barriers do small businesses face to obtaining competitive merchant service fees?
	No feedback
11	What information or assistance would assist small business to obtain better deals?
	No feedback
12	What cost differences are there for providing merchant services to small businesses compared with larger businesses?
	No feedback
13	How much competitive discipline does EFTPOS provide on scheme debit card merchant service fees and are there any barriers to domestic EFTPOS providing more competitive discipline on merchant service fees?
	No feedback
14	What impact is product innovation having on merchant service fees?
	No feedback
15	Is open banking likely to provide sufficient competitive discipline on scheme debt and credit fees?

In New Zealand open banking is still in its early stages of development by both regulators (through a potential Consumer Data Right) and industry (through products and services). While the general concept of open banking may provide competitive discipline on scheme debit and credit fees, until open banking is further defined in the New Zealand context, it is too early to say if it will be sufficient.

The Payments NZ API Centre enables and opens the way for new products and services which could enable easier and potentially cheaper ways to make payments, with the secure sharing of information through standardised APIs. The API Centre contributes to the open banking ecosystem through its activities and seeks to, among other things, foster enhanced services. The promotion of a progressive and innovative API ecosystem will support the financial wellbeing of Kiwis.

16

Do you agree that there is a gap in regulatory governance of the retail payments system relating to promoting competition and outcomes that are in the long term benefits of end-users?

An objective of Payments NZ is to encourage and facilitate new entities becoming participants in clearing systems based on fair and reasonable public access criteria. This objective promotes competition and outcomes that, in the long term, benefit end-users.

As the consultation paper notes, entry to a payment system can be difficult because of the need for critical mass. But achieving critical mass does not simply rely on signing up large numbers of issuers and acquirers. It also requires a new entrant to meet the objectives listed within question 18 (contributing to a safe, efficient, reliable and interoperable system) along with delivering a proposition that meets the needs of individual stakeholders. These attributes will lead to trust and confidence in the new payment service and eventually enable critical mass.

If a payment service provider is able to develop a proposition that meets these criteria, then they will find the system is open and Payments NZ will be able to assist with direct access to the clearing systems.

But the purpose and structure of Payments NZ goes beyond encouraging access to the payments system. Our governance role extends to the more general objectives of promoting a safe, efficient, open, interoperable and innovative system. This is delivered through the Payments NZ rules which act as a multi-lateral contract between the participants in each of the clearing systems. These rules, managed by Payments NZ, require its governance committees to act in the best interests of the Company, and ultimately the best interests of the industry. This model has enabled the payments industry to deliver a range of enhancements, with some of the more significant projects highlighted in question 2.

17

Please feel free to provide information on any other issues of concern with the performance of the retail payments system.

No feedback

18 Do you agree with the objectives for the retail payments system in New Zealand?

Within the Issues Paper, MBIE describes the overall objective for the retail payment system as a system that delivers long-term benefits for end-users. The paper then goes on to list a range of subsequent requirements to meet this objective. Payments NZ considers the requirements of the payment system to be far broader than those listed. If a payment system is to deliver benefits for end-users, it must also be safe, efficient, open, interoperable and innovative.

As stated, in our view the consultation paper places too much weight on fees as a benchmark for an efficient payment system.

19 Please provide feedback on the aspects of the proposal for interchange regulation, including any changes that would improve the impact of it, with supporting evidence of any benefits or costs.

No feedback

20 Please provide feedback on which body or bodies would be best placed to act as the regulator for interchange fee regulation.

No feedback

21 Please provide your views on the impacts of the above classes of options, with supporting evidence of the benefits and costs.

No feedback

22 Please provide your views on any other feasible options that should be considered, with supporting evidence of the benefits and costs of these options.

No feedback

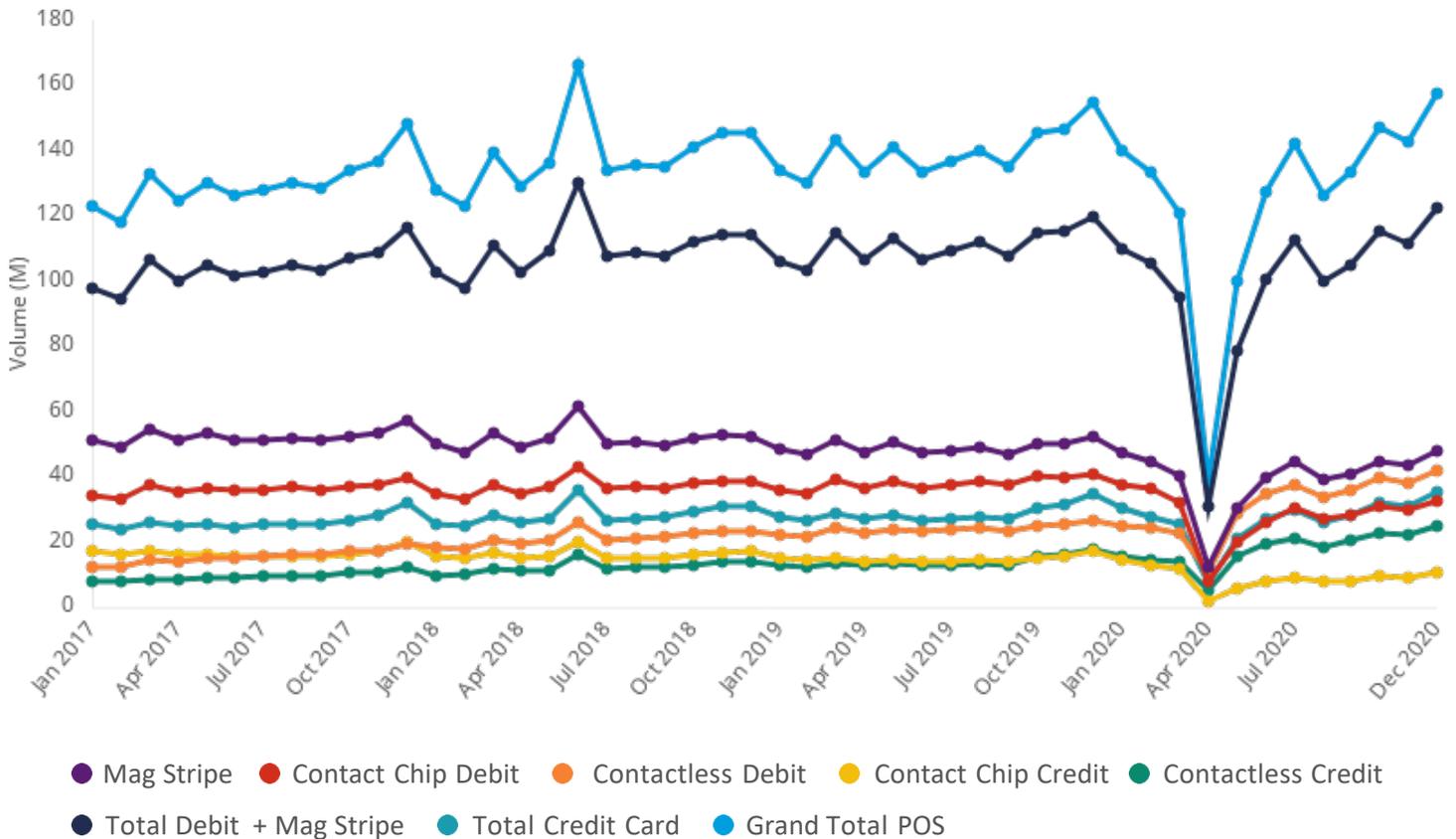
Other Comments

Payments NZ is aware that some of the reporting available on the use of debit and credit cards incorrectly classifies a scheme routed debit transaction (contactless) as a credit card transaction. If this report is then used to extrapolate the impact of merchant service fees on the retail community it may be misleading. To help MBIE with its consultation process, Payments NZ has attached its recently developed reporting which shows the trends of various card types across the retail payment system.

Consumer Electronics Clearing System (CECS) Performance Dashboard

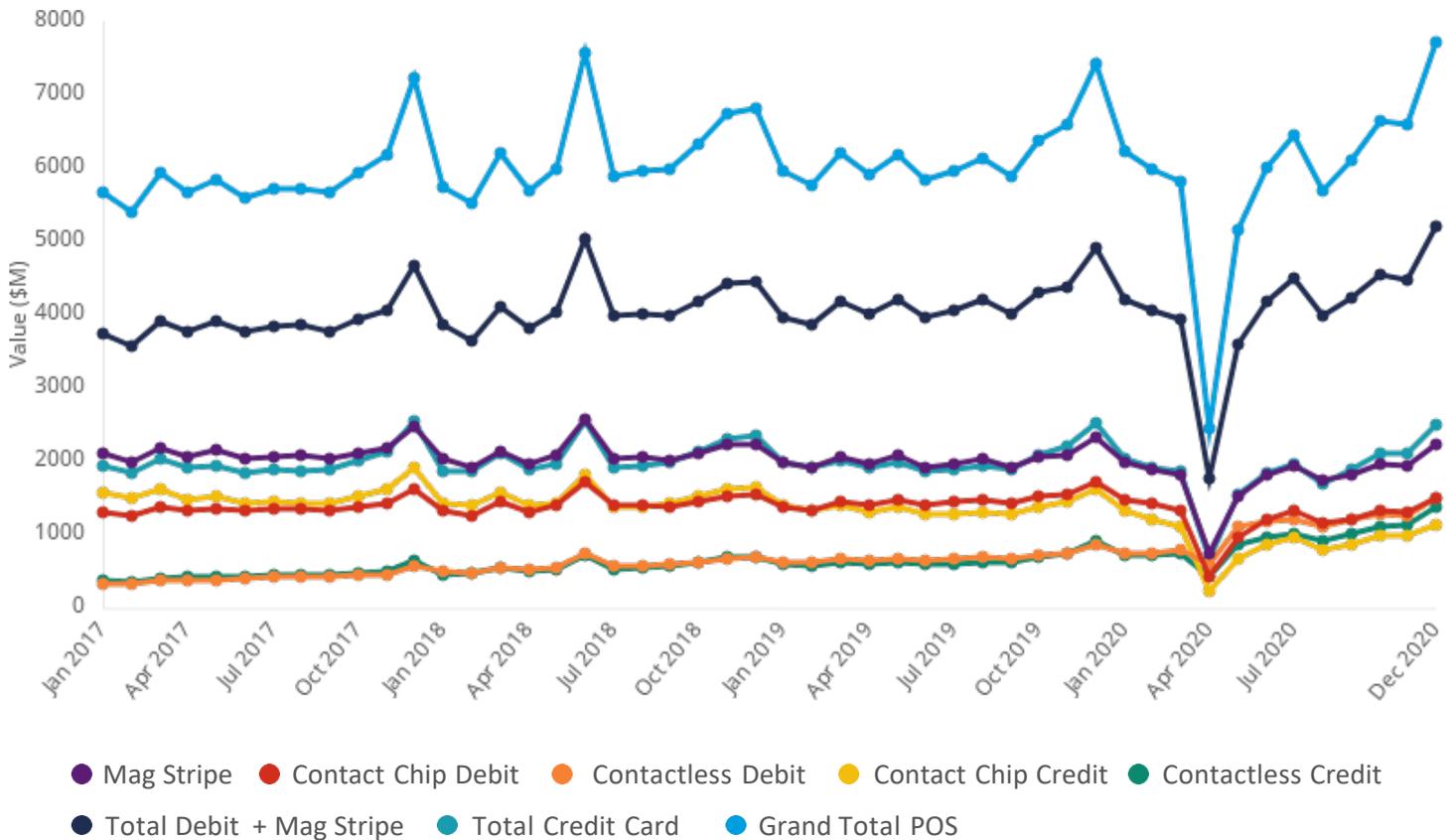
December 2020

Transactional Information - Volume



	DEC-20	NOV-20	OCT-20	DEC-19	DEC/DEC
Mag Stripe	47,738,510	43,482,922	44,807,823	52,216,174	-8.58%
Contact Chip Debit	32,765,362	30,058,193	31,046,404	41,021,865	-20.13%
Contactless Debit	41,912,525	37,977,421	39,462,531	26,682,218	57.08%
Total Debit + Mag Stripe	122,416,397	111,518,536	115,316,758	119,920,257	2.08%
Contact Chip Credit	10,459,458	9,140,861	9,314,010	17,136,334	-38.96%
Contactless Credit	24,908,556	22,055,328	22,596,526	17,554,574	41.89%
Total Credit Card	35,368,014	31,196,189	31,910,536	34,690,908	1.95%
Grand Total POS	157,784,411	142,714,725	147,227,294	154,611,165	2.05%

Transactional Information - Value

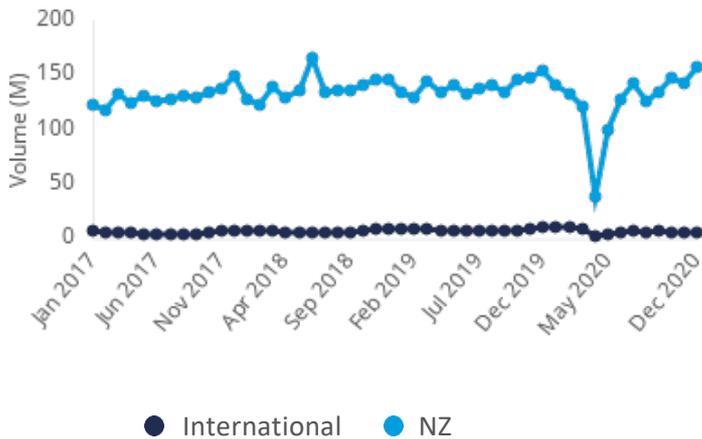


	DEC-20	NOV-20	OCT-20	DEC-19	DEC/DEC
Mag Stripe	2,216,062,007	1,931,021,462	1,947,954,833	2,316,151,904	-4.32%
Contact Chip Debit	1,485,663,341	1,293,727,771	1,315,490,304	1,722,705,125	-13.76%
Contactless Debit	1,500,598,557	1,252,708,578	1,282,834,810	855,844,511	75.34%
Total Debit + Mag Stripe	5,202,323,905	4,477,457,812	4,546,279,948	4,894,701,541	6.28%
Contact Chip Credit	1,120,397,008	991,846,595	980,632,058	1,628,307,444	-31.19%
Contactless Credit	1,373,115,761	1,123,749,935	1,117,052,988	903,205,698	52.03%
Total Credit Card	2,493,512,770	2,115,596,530	2,097,685,047	2,531,513,142	-1.50%
Grand Total POS	7,695,836,676	6,593,054,343	6,643,964,995	7,426,214,684	3.63%

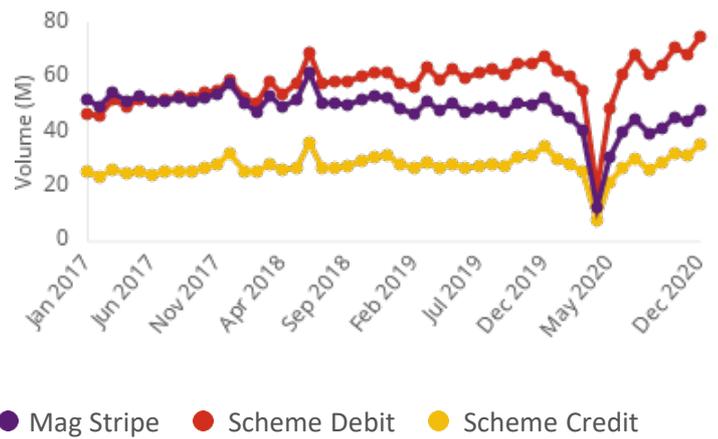
Key Comparisons

Volume

Total for NZ vs International



Mag Stripe vs Scheme Debit vs Scheme Credit

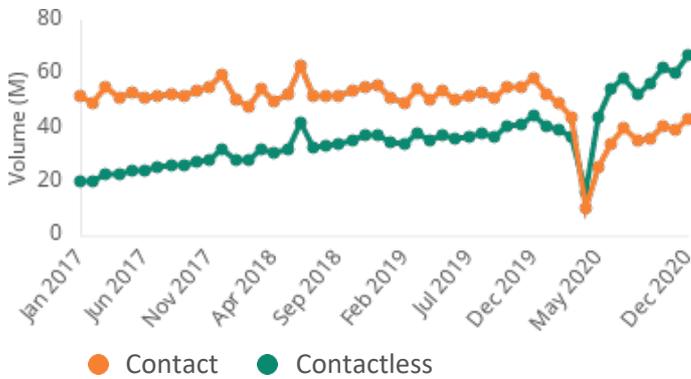


International - transactions using cards and payment applications issued by a financial institution located outside of NZ processed at merchants located in NZ

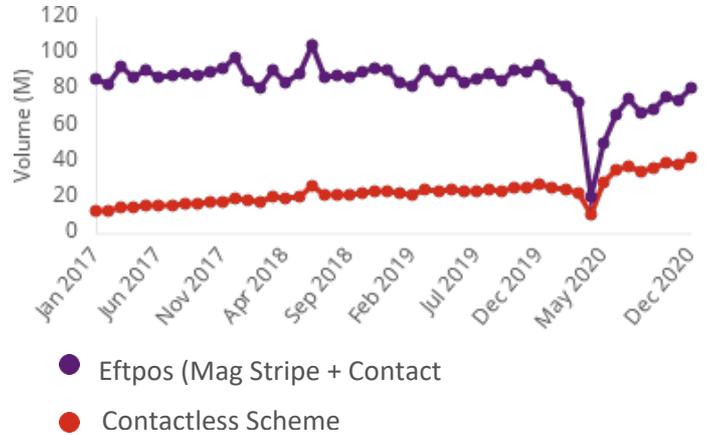
NZ - transactions using cards and payment applications issued by a financial institution located in NZ processed at merchants located in NZ

Key Comparisons

POS Contact vs Contactless

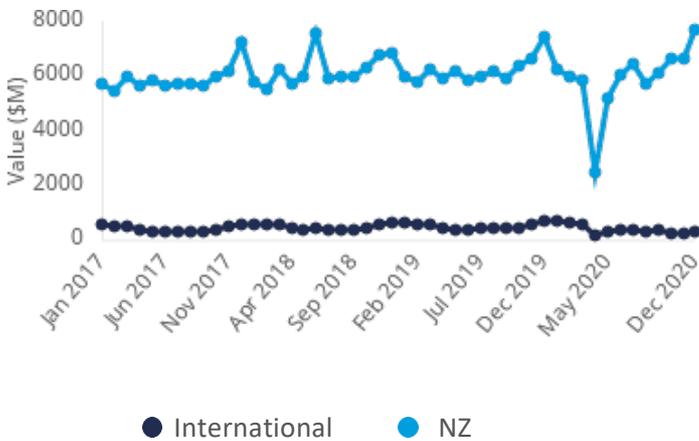


Eftpos (Mag Stripe + Contact Scheme Debit) vs Contactless Scheme Debit

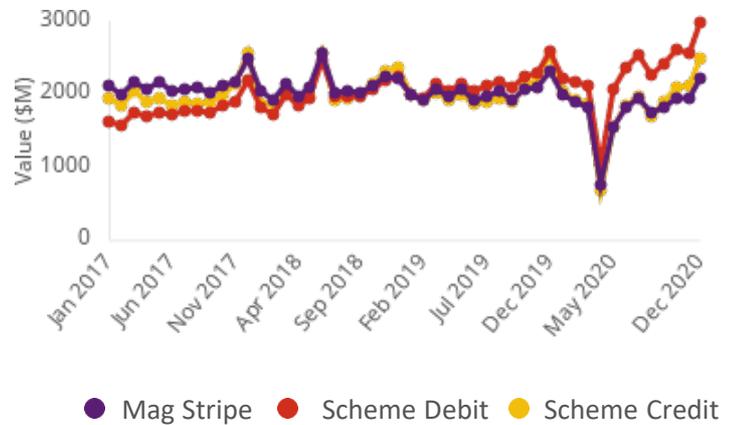


Value

Total for NZ vs International



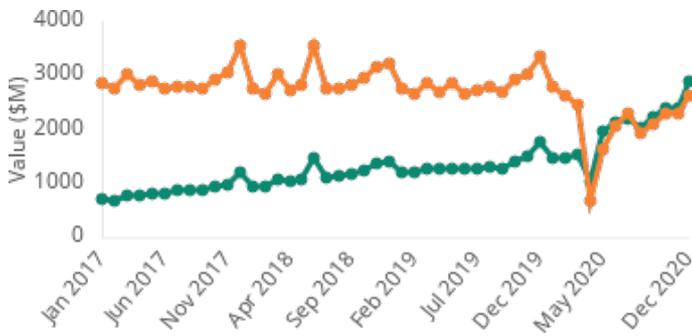
Mag Stripe vs Scheme Debit vs Scheme Credit



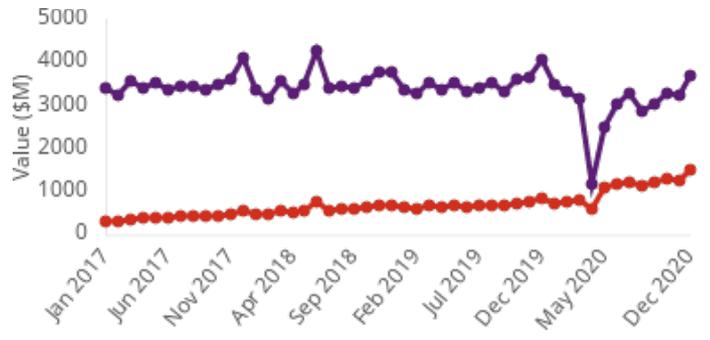
International - transactions using cards and payment applications issued by a financial institution located outside of NZ processed at merchants located in NZ

NZ - transactions using cards and payment applications issued by a financial institution located in NZ processed at merchants located in NZ

POS Contact vs Contactless



Eftpos (Mag Stripe + Contact Scheme Debit) vs Contactless Scheme Debit



- Eftpos (Mag Stripe + Contact)
- Contactless Scheme

Total NZ terminals

	DEC-20	NOV-20	OCT-20	DEC-19	DEC/DEC
Total Terminals (POS and mPOS)	152,262	152,527	151,170	165,068	-7.76%
Contactless Terminals	82,921	82,163	80,949	60,405	37.28%

Percentage of contactless

