Bank of New Zealand's submission on Issues paper: Regulating to reduce Merchant Service Fees

19 February 2021

1 Introduction

1.1 Bank of New Zealand ('BNZ') has prepared this submission in response to the Ministry of Business, Innovation & Employment's Issues Paper: Regulating to reduce Merchant Service Fees ('Issues Paper'). BNZ considers this consultation is timely given the rapid evolution of merchant payment solutions in the New Zealand market and welcomes the opportunity to submit on the Issues Paper.

1.2 The focus of this submission is to provide our view on what we believe will assist in achieving the policy objective of reducing payment Merchant Service Fees (MSFs) but without compromising the existence of a high functioning payment ecosystem. It is our view that a stable and sustainable payment ecosystem requires user confidence, resilience, innovation, scalability, security, and trust. It must include a robust exception and dispute handling process to ensure consumer protection with fair processes for merchants. It also requires an efficient, transparent, and competitive market to encourage participation and development by both incumbent and new operators.

2 Executive Summary

2.1 BNZ notes the intention to regulate to reduce MSFs in the Issues Paper. BNZ supports a principles-based approach to regulation that is designed for the unique aspects of the New Zealand market. We believe it would be helpful to avoid highly prescriptive regulations, as seen in some overseas markets, that have had unintended consequences for business and consumers and have required multiple iterations.[1]

2.2 We acknowledge improvements can be made to the existing self-regulatory framework and believe a model similar to that used in Canada (MBIE page 38 – 39) may be appropriate for New Zealand. Such a model would include a combination of an independent regulatory body, guided by Government objectives, and industry self-regulation. The independent regulatory body would set clear targets for all payment forms, publish transparent reporting and monitor industry achievement of those targets, while industry, through self-regulation, would determine how best to deliver the targets. The Canadian example also provides for a non-scheme debit card product for which costs are recovered and monitored.

2.3 Such a Government and industry approach would maintain appropriate expertise while supporting the Government's focus on driving an efficient digital economy, fostering competition and innovation, and minimizing negative consumer impacts. In particular, we believe we should collectively aim to:

2.3.1 Maintain an overarching design principle that ensures access to digital payment forms for every New Zealander over the age of 13[2]. Equally Merchants should continue to have access to a wide variety of existing and emerging secure, reliable payment options and value-added services, including those provided by open banking.

[1] The Reserve Bank of Australia lists 21 Credit Card Regulatory decisions since 2001 and 21 Debit Card Regulatory Decisions since 2004.

[2] 13 is the age BNZ allows debit cards to be issued without parental supervision.

2.3.2 Create specifically defined achievable targets in cooperation with all participants in the payment industry and which include all 4-party payment schemes, 3-party schemes, and fixed fee payment forms.

2.3.3 Create a transparent, single source merchant cost reporting system (refer RBA reporting) that includes EFTPOS and cash and adds new payment forms as appropriate over time.

2.3.4 Support any independent supervisory body that is set up to oversee the industry, in alignment with the relevant government regulators.

2.3.5 Publish targeted and delivered consumer impacts, savings and benefits of any changes initiated.

2.3.6 Simplify the significant number of interchange types in the market by:

a) reducing the number of interchange and fee variables; and
b) reviewing international (overseas cardholder) interchange alongside domestic changes. (We note other markets have aligned interchange fees on international cards with the equivalent domestic card interchange rate.)

2.4 We have responded to each of the questions in the Issues Paper in the table below. However, our responses are shaped by 4 key themes that we believe are critical to getting the regulation of MSFs right. These are set out below:

1. **Single trusted data set**: It is critical that a new regulatory framework is based on a single source of data that reflects costs related to the whole payment system and this is made publicly available. A good example is the publication of total merchant fees for scheme Credit, Debit and EFTPOS in the RBA reporting in option C3 at this link: (https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html)

   In this regard Australia is often quoted as a reference point for retail payments pricing, specifically MSFs. On a like for like basis, based on information available from RBA and BNZ reviews of the costs to merchants (Argus Analytics 2019, MWE 2021) it is clear that, in aggregate, New Zealand costs to merchants for electronic payments can be compared favourably to most other markets, including Australia (MWE Appendix 1). New Zealand's MSF costs are reducing based on industry interchange reductions. However, we acknowledge that there are key pressure points related to contactless credit interchange, ecommerce growth and international point of sale (POS) interchange costs.

2. **Recognising the costs of EFTPOS and cash**: The international comparisons with New Zealand MSFs in the Issues Paper omit the costs of cash and EFTPOS, which are incorporated in reports in overseas markets to which comparisons are made. Neither EFTPOS nor cash are zero cost. BNZ challenges the view that the EFTPOS system is a positive force on payments costs (MBIE - page AA91); any downward pressure is

achieved artificially given that the zero costs to Merchants[3] are not from a zero-cost system. EFTPOS transaction processing costs are charged by the EFTPOS network operator and absorbed by participating banks as part of their costs of providing payment services. The revenue that the EFTPOS system operator receives can be used to run and develop the EFTPOS service, or other payment forms, as they choose.

The MBIE review provides an excellent opportunity for all forms of payment and their true costs to be considered when publishing comparisons within the New Zealand payments landscape and with overseas markets.

3. **Importance of promoting innovation:** Interchange fees play a key part in building and maintaining a secure, innovative payments ecosystem that enables POS and digital online payment models for businesses. The cost of providing this innovation and security, to support merchants and consumers, should be considered in any discussion about interchange levels. Examples of this innovation include: tokenisation; chip upgrades; 3D secure payment checks; chargeback infrastructure; and network upgrades for both card issuing and acquiring systems.

   Continued innovation is demanded by merchants and consumers and is important to all participants in the ecosystem. As such, it is important that any new regulations continue to enable the development of new payment forms and added-value services that meet consumer demand. And that regulation does not entrench any existing artificially low, or zero, price constructs that could distort the market.

4. **Ensuring access to competitive debit products:** A lesson from other markets, is that all consumers must have access to debit capability, to enable access to benefits provided by all channels - card present and card not present (e.g. ecommerce).

   It is crucial that debit products be competitive, innovative, and ubiquitously accepted and accessible: a regulatory focus on cost alone risks slowing the innovation required to achieve that. Internationally debit, with on-line access and contactless, as a payment form for all consumers is also a driver of the rapid and high adoption of better customer experience and acceptance in store; in mobile; on-line; and on transit. Many of the emerging services of start-ups and Fintech companies are based, in part or in full, on scheme networks and technology innovation.

   Wide contactless acceptance also drives new lower cost checkout experiences, further benefiting merchants, with a better customer experience and less time to serve at point of sale (POS). BNZ notes, that despite significant, voluntary reductions in debit and premium contactless interchange fees, the cost of contactless credit card use remains a concern to merchants with contactless enabled terminals and is a barrier to wider acceptance. In our view, credit contactless interchange fees should

[3] Note: there is typically monthly connection charge for merchants, but we understand that once paid, each transaction is free.

be reduced[4], to ensure the benefits of contactless technology are not further delayed through contactless functionality being supressed at point of sale.

BNZ appreciates being provided the opportunity to provide feedback on the issues paper and looks forward to continuing to work with Government, regulators, and the industry on these important issues for the benefit of New Zealand. Should MBIE have any questions in relation to this submission, please contact:

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[4] We note that in some circumstances contactless credit transactions may result in a lower interchange cost component than a contact chip read credit purchase, however this is often not clear to merchants, hence simplification of NZ interchange tables would also help to improve contactless acceptance.

3 Response to questions

1. Do you have any feedback on our proposed approach to this project?
BNZ supports the proposed approach to the project. We recommend the experiences of overseas regulators are considered to avoid similar mistakes. For example, in Australia multiple rounds of regulation were required to address un-intended consequences in initial regulation.[5] We recommend publishing aggregated single source comparative data reporting including all schemes and EFTPOS as part of setting regulatory targets. This reporting can then be used to track the delivery of those targets.
2. Have we described the retail payments system accurately? Is there any additional information that you would like to provide?
MBIE 31. We suggest the list of parties under clause be expanded to add: **Standards Body**: An organisation that sets the operation rules and technical standards for a payment system such as Payments New Zealand for the EFTPOS card payment system. In the case of Payments New Zealand, their involvement with the EFTPOS Card payment system is not equivalent to a scheme and it is not involved in the setting of fees or commercial arrangements. MBIE 32. The description of the two main business models adequately describes the card present payment scenario but less so the card not present/e-Commerce payment scenario. To that needs to be added Switch to Scheme and Merchant to Scheme rails. MBIE 36. We query the position that EFTPOS is essentially fee free for merchants. This statement ignores that EFTPOS does have a cost to NZ business as EFTPOS is not fee-free at its source. Specifically, the provider of the EFTPOS service charges banks a processing fee for EFTPOS transactions to maintain and develop the EFTPOS service. Those fees are, currently, not passed on to merchants (as they are in other countries with varying supervisory regimes such as Canada, Australia, Europe etc). There is also a monthly connection charge for merchants, but we understand that once paid, each transaction is free to merchants. MBIE 37. & 41. The diagram should add reward points and inducements of various types that flow from the merchant to the customer. Switch to Issuer inducements are not common so they should not appear in a 'typical' model. MBIE 52. BNZ disagrees that loyalty-based credit cards with 'inducements' incentivise consumers to use credit cards over EFTPOS. The key competitors to EFTPOS (and credit cards) are cash (that also carries handling costs and security implications for merchants and government) and scheme debit cards which do not compete on loyalty points but simply offer a more appealing customer user experience and product features. Debit (non-

[5] The Reserve Bank of Australia lists 21 Credit Card Regulatory Decisions since 2001 and 21 Debit Card Regulatory Decisions since 2004.

rewards) payment share growth is higher than credit cards payment share growth in both Australia and New Zealand (Appendix 1).

Internationally, debit with on-line access and contactless is also a driver of the rapid and high adoption of better customer experience and acceptance in store, in mobile, on-line and on transit. Many of the emerging new services of start-ups and Fintech companies are based, in part or in full, on scheme networks and technology innovation.

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.

The assumption that EFTPOS provides a downward force on pricing is not accurate. The pricing for EFTPOS distorts the market. An outcome of this review should be the creation of a single source of reporting that includes EFTPOS as part of the weighted calculation of total services provision costs to merchants.

On a like for like basis, based on information available from the RBA, New Zealand costs to merchants for electronic payments can be compared favorably to other markets.

To illustrate this, and as Australia is often quoted as a reference point for retail payments discussion, MWE was asked to provide a comparison of costs including EFTPOS. This comparison is set out in Appendix 1.

In summary MWE concluded

- *The allegation that an average merchant in New Zealand is paying significantly more in merchant service fees than they would in the regulated Australian market is not borne out by the available data.*

- *The average credit card fee in New Zealand is higher than the average in Australia but the average fee on total debit in New Zealand is lower than in Australia.*

- *On our (MWE) reckoning, there was only a marginal difference in overall merchant fees with the overall cost of card acceptance in New Zealand being around 3 basis points higher in 2019.*

- *The average card fees paid by merchants in Australia is estimated to have decreased by around 7 basis points in 2020, due to reductions in interchange but also influenced by a strong gain in share by debit. The interchange reduction accounted for 4 basis point of the reduction with the shift in share delivering 3 basis points.*

- *The total costs associated with the large growth in share of card payments on contactless debit in New Zealand have been offset by the decline in per transaction merchant fees on contactless debit which are now capped at 0.70% by 3 of the 4 major banks and at 0.60% from the other major bank.*

- *The cost to merchants of accepting credit and debit cards is significantly less than the cost to them of offering buy now pay later products.*

- *Our analysis indicates that the overall average card fee paid by merchants declined in 2020 from 2019 with the decrease being greater in Australia. The average overall card fee paid by a merchant in New Zealand in 2019 is estimated to have been 3 basis points higher than Australia in 2019 and 8 basis points higher in 2020. That represents an additional cost of just $300 on a card spend of $1 million in 2019 and $800 in 2020.*

As in overseas markets we note that growth is occurring in debit. Debit growth is a result of customer preferences and the emergence of value-add services including Buy Now Pay Later Schemes which provide credit on debit cards (and additional credit for credit card holders). To compete for customers, retailers may choose to pay more for these services than the MSF total for the transaction capability on which they run.

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

BNZ provides BNZ Flexi Debit Visa and BNZ Flexi Debit Visa for Business to customers at no charge. This ensures consumers have access to debit options that allow them to participate in the digital economy. Furthermore, EFTPOS capability is embedded as an option in all BNZ Visa debit and credit cards so holders of BNZ cards can choose their preferred method of payment from a single plastic card.

Credit cards across the market offer a wide variety of propositions and related fee levels reflecting the consumer's choice and benefits. The costs vary from zero fees to higher annual fees based on the benefits selected.

Credit card customers select, and move between products to suit their needs, life stage and priorities.

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

Ultimately consumers will use the payment methods that best meet their needs. Currently, debit cards are growing faster than credit cards, including credit cards with rewards incentives. In cards that provide both contactless and EFTPOS in one, customers elect the use of the most convenient method for them.

6. What is your view on charges incurred by merchants for the use (acceptance) of payment methods?

MSF rates are decreasing and compare favourably to other countries (refer Appendix 1). That said, there are areas - such as credit card contactless and ecommerce, and international acceptance costs - where progress can be further accelerated through setting of industry interchange targets supervised by an independent regulatory body.

However, the cost of all POS payment options including EFTPOS, cash and other network-based payment options at terminals should be included when setting new regulatory targets.

Consumer access to payment methods that provide access to all channels and benefits via different payment methods also needs to be considered. Some pricing, booking, discounts, and electronic coupons etc offered by retailers are not available without access to digital channels.

7. Please provide your views on barriers to merchants steering consumers to lower cost payment methods and the extent that steering occurs?

We consider that merchants currently steer consumers to lower cost payment methods via the "No Paywave" signs on their terminals. For BNZ cardholders, EFTPOS can be accessed from both scheme debit and credit cards – without the need for a dedicated EFTPOS card.

This steering towards no cost EFTPOS reduces the benefits consumers receive such as hygiene concerns during health events (COVID), ease of transactions at drive thru, faster processing times at events (rugby, concerts etc) and less friction for donations by charities etc.

It also discourages the emergence of new payment forms, including options that may result from a Consumer Data Right, that will provide innovation, new services and options for merchants and consumers alike.

8. Please provide your views on the barriers to merchants surcharging and the extent that surcharging occurs?

All the regulatory and commercial restrictions to surcharging were removed in 2009, and technology to enable those merchants who would like to surcharge is widely available. Competitive, customer relations, and check-out friction forces may have a downward pressure on some adoption. All of those are legitimate forces.

BNZ proposes that surcharging should be capped when the outcomes of MBIE's review are implemented. That is how regulation proceeded overseas. With interchange set to a reasonable level, there is reduced reason for merchants to surcharge for payment processing costs than there is for any other business input – many of which have costs that apply differently to different consumer choices.

If surcharges are allowed, they should be monitored to ensure that surcharges recover actual costs, rather than including a further margin. Surcharges should be no higher than the additional costs of accepting one payment method vs. alternative payment methods. The alternative methods all have costs, such that the surcharge should not be priced at the total cost of accepting, say, a credit card. (In practice, many credit card surcharges are set at 3%, which exceeds the MSF.) The current practice of applying surcharges above simple recovery of additional costs is a poor match for MBIE objectives b, c, and d.

Non-surcharged options, such as cash handling, incur costs as published in international reviews. Conversely, card-based payments facilitate more efficient merchant record keeping and accounting system integration. Therefore, if surcharging is permitted subject to limits, the limits should consider the alternative (i.e. cash handing,) by considering a formula based on actual cost of acceptance (MSF) less an NZ payments industry reported cost of non-surcharged alternatives (including but not limited to cash).

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?

There is no evidence that prices increase in growth channels where only electronic payments exist. In fact, enabling those more efficient ecommerce channel models with improved logistics and reduced rental costs for retail premises costs often provides better options and prices for customers.

Furthermore, in countries with regulated reductions in interchange, such as the UK and Australia, it is difficult to see that merchants are passing on the benefit of cost savings to consumers.

10. What barriers do small businesses face to obtaining competitive merchant service fees?

The mix of payment types vary significantly by merchant type, industry and payments accepted (domestic, ecommerce, international, contactless etc.). It is therefore hard for merchants to compare the costs they are paying with costs other merchants are paying.

We also note that interchange plus is generally offered and can be one option to assist SME's understanding billing mix changes. However, some SME prefer different billing types with more month to month certainty. The existence of a single source of MSF data is an important step to facilitating more competitive MSFs. We recommend: a. An independent regulatory body publishes a single source of MSF data as per RBA quarterly reporting to enable businesses of all sizes to see a comparison to their individual rates and requirements. b. Simplifying the size of the NZ interchange component schedule (reducing the number of rates, which currently cover many permutations based on industry, payment type, card type etc.)
11. What information or assistance would assist small business to obtain better deals?
BNZ's view is that a quarterly publication of average MSF costs that is based on similar reporting published by the RBA[6] including all payment forms (including EFTPOS) would achieve a transparent basis for small business to start negotiations. Merchants would then have better information to review and choose pricing options such as interchange plus, split by product, etc.
12. What cost differences are there for providing merchant services to small businesses compared with larger businesses?
[redacted] Pricing models to serve segments will vary by acquirer and merchant industry, including risk, service requirements, onboarding and authentication costs.
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?
EFTPOS is not a free service. The operator of EFTPOS charges transaction processing costs for the provision of the service. Those costs are currently not passed on to merchants by acquirers. This creates a market distortion as the costs of EFTPOS are not acknowledged in comparative reporting. As reflected in the RBA reporting, the EFTPOS cost to merchants should be reported in data of average merchant costs charged to merchants. Consistent single source data is important when comparing to international markets and evaluating market changes (Appendix 1). The biggest impediment to EFTPOS providing more competitive constraint on scheme cards is that EFTPOS does not offer the functionality consumers seek, so they do not naturally gravitate towards using it. That could be remedied by investing in updating the technology. We note that para 92 implies that Paymark Online EFTPOS is the same as EFTPOS. For clarity it is a completely different service option, offered through a different payment system, with a separate pricing structure. BNZ will offer Online EFTPOS to merchants by enabling it through Payments Industry API V2 in 2021.

[6] See C3 Average Merchant Fees for Debit, Credit and Charge Cards https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html

14. What impact is product innovation having on merchant service fees?
The four-party model has driven innovation, reliability, and security. Those developments have enabled new opportunities for merchants and consumers alike to use a wider range of payment channels (e.g. paywave, ecommerce, and others). The revenue from interchange fees has been a contributing factor to increased innovation. Many of the fintech banking services models here and overseas are also built and run on scheme rails that have maintained development, security and reliability on a global scale. [redacted] Chip and contactless options are potentially soon to be followed by international QR enabled options and other new local payment forms enabled by the wide industry roll-out of the API Centre payment initiation API standard V2.0 this year and into 2022. BNZ has recently deployed a new cloud-based payment platform with greater API connectivity to ensure we can meet the merchants needs for new competitive and compelling ways to be paid at an increasing pace. Concurrent to this development of payments around the world, interchange rates have been reducing. We believe there is opportunity to further reduce interchange in New Zealand, but it must be balanced with the need for continued innovation and security development of payment options. The range and complexity of cyber-security threats are continuously increasing, and payment channels need to remain secure against these.
15. Is open banking likely to provide sufficient competitive discipline on scheme debt and credit fees?
API's and open banking developments will enable new payment services from traditional and non-traditional participants. This will continue to expand competition and drive payments innovation to meet merchant and consumer needs. Some of these new services will provide price pressure but many will be added value services for which merchants and or consumers will choose to pay. We expect the pace of this to accelerate over coming years. These new developments will look to the market to determine their pricing to be adopted at scale. Prices will need to be attractive enough to appeal to merchants and drive market adoption while also covering the cost of investments made to create the new payment methods. The design of any Consumer Data Right regulation could also impact what competition is enabled and speed of adoption.
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?
In regard to the retail payments system, interchange and its impact on MSF rates we consider there is a role for an independent regulatory body to play an active part to ensure a simpler, more responsive, and equitable basis on which to compete. However, we also

consider that self-regulation – with appropriate transparency and commercial pressures - can continue to be a component of the future framework. Canada uses a combination of a supervisory body and self-regulation guided by government targets (MBIE page 38 – 39). That structure could be adapted by New Zealand to achieve the desired outcomes for merchants without need for, or time to create, prescriptive regulation. The Canadian example also provides for a national non scheme debit card product for which costs are recovered and monitored. Such a Government and industry approach would maintain appropriate expertise while supporting the Government's focus on driving an efficient digital economy, fostering competition and innovation, and minimizing negative consumer impacts. In particular, we believe we should collectively aim to: 1. Maintain an overarching design principle that ensures access to digital payment forms for every New Zealander over the age of 13 . Equally Merchants should continue to have access to a wide variety of existing and emerging secure, reliable payment options and value-added services to meet customer needs. 2. Create specifically defined achievable targets in cooperation with all participants in the payment industry and which include all 4-party payment schemes, 3-party schemes, and fixed fee payment forms. 3. Create a transparent, single source merchant cost reporting system (refer RBA reporting) that includes EFTPOS and cash and adds new payment forms as appropriate over time. 4. Support any independent supervisory body that is set up to oversee the industry, in alignment with the relevant government regulators. 5. Publish targeted and delivered consumer impacts, savings and benefits of any changes initiated. 6. Simplify the significant number of interchange types in the market by: a) reducing the number of interchange and fee variables; and b) reviewing international (overseas cardholder) interchange alongside domestic changes. (We note other markets have aligned interchange fees on international cards with the equivalent domestic card interchange rate.)
17. Please feel free to provide information on any other issues of concern with the performance of the retail payments system.
18. Do you agree with the objectives for the retail payments system in New Zealand?
Yes. However, for comparisons to other markets it is important that any review uses a holistic payments ecosystem view, including payment services provided without charge to merchants to achieve like for like comparisons for decision making.
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.
20. Please provide feedback on which body or bodies would be best placed to act as the regulator for interchange fee regulation.
As per our response to question 16, it is our view that, the best option is to form an

independent regulatory body to work alongside industry to ensure a core of simplicity and transparency for all retail payments system participants. That body could provide a framework to support the Government's focus on driving an efficient retail payments economy, fostering competition, efficiency, and innovation. Initially functioning as an interchange (MSF) review body it could publish reductions targets (annually) and information to guide industry actions and outcomes (refer question 16 above).
21. Please provide your views on the impacts of the above classes of options, with supporting evidence of the benefits and costs.
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.

Appendix 1

MWE Analysis of New Zealand Payment Costs

The Ministry of Business, Innovation and Employment (MBIE) has requested feedback to the matter of Merchant Service Fees in New Zealand. This is based principally on the premise that businesses in New Zealand are paying considerably more than regulated markets such as Australia and the UK.

As background, we make the following general points:

- All payments incur costs with the RBA having measured and published these for the Australian market. The costs associated with payment cards should not be viewed in isolation from the costs of accepting all payments, including cash.
- The costs of accepting payments should be considered in total and not as isolated component pieces.
- Labour is a material component of processing payments and the savings resulting from a reduction in time (and cost) at point of sale should be recognised for options such as contactless cards.
- Inter country comparisons should consider differences in such matters as scale, infrastructure costs, fraud and labour costs
- The cards data published by Statistics New Zealand significantly overstates the role of credit cards in the New Zealand market.

As a starting point, it would be necessary to establish an accurate picture of the payments mix in New Zealand. Some various metrics follow, noting that the Statistics New Zealand data overstates the share of value and volume on credit by counting contactless debit transactions as credit. The Australian metrics are derived from the payment tables published by the RBA and are included as a means of comparison.

Share of Value (a)

Year	Statistics NZ		MWE amended *		Payments NZ**		RBA	
	New Zealand						Australia	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
2010	42.6%	57.4%	51.6%	48.4%			62.8%	37.2%
2015	44.9%	55.1%	50.9%	49.1%			56.1%	43.9%
2019	55.8%	44.2%	51.6%	48.4%	32.7%	67.3%	49.7%	50.3%
2020	60.2%	39.8%	49.1%	50.9%	31.0%	69.0%	44.8%	55.2%

*****MWE amended the Statistics New Zealand numbers by embedding the RBNZ card present and card not present values for credit card use in New Zealand with the total value of purchases as measured by Statistics New Zealand.

**Excludes card not present transactions

Share of Value (b)

Year	Statistics NZ		MWE amended *		Payments NZ**		RBA	
	New Zealand						Australia	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit
2010	42.6%	57.4%	51.6%	48.4%			62.8%	37.2%
2015	44.9%	55.1%	50.9%	49.1%			56.1%	43.9%
2019	55.8%	44.2%	51.6%	48.4%	42.0%	58.0%	49.7%	50.3%
2020	60.2%	39.8%	49.1%	50.9%	41.0%	59.0%	44.8%	55.2%

*MWE amended the Statistics New Zealand numbers by embedding the RBNZ card present and card not present values for credit card use in New Zealand with the total value of purchases as measured by Statistics New Zealand.
**Amended to include estimated CNP purchases
The Statistics New Zealand and RBA data moved in diametrically opposite directions over the last ten years with the RBA showing credit down from 63% to 45% of value and Statistics New Zealand up from 43% to 60%. The data from Payments NZ suggests debit continues to be the dominant payment card in this market. In comparison, debit has moved from a minor position ten years ago in Australia to a majority of value and volume today.

Average Merchant Fees

In the following tables, the Australian fees are as reported by the RBA. The New Zealand fees are based upon discussions between MWE and New Zealand card acquirers and use the share of value based upon the Payments New Zealand data amended to include card present and card not present transactions.

New Zealand 2019

	Card Scheme	Average 2019 fee	Market Share	Average Fee
Credit & Charge	Total	1.5%	42%	1.5%
Debit	Contactless	0.9%	10%	
	eftpos	Nil	48%	
				0.15%
Total Market	Credit & Charge	1.5%	42%	
	Debit	0.15%	58%	
			100%	
Total Average Fee				0.72%

New Zealand 2020

	Card Scheme	Average 2020 fee	Market Share	Average Fee
Credit & Charge	Total	1.5%	41%	1.5%
Debit	Contactless	0.5%	17%	
	eftpos	Nil	42%	[redacted]
				0.14%
Total Market	Credit & Charge	1.5%	41%	
	Debit	0.14%	59%	
			100%	
Total Average Fee				0.70%

Australia 2019

	Card Scheme	Average 2019 fee	Market Share	Average Fee
Credit & Charge	Visa & MasterCard	0.91%	84.0%	
	American Express	1.39%	15.6%	
	Diners Club	1.78%	0.4%	
			100.0%	0.99%
Debit	Visa & MasterCard	0.51%	60%	
	eftpos	0.27%	40%	
			100%	0.41%
Total Market	Credit & Charge	0.99%	49%	

	Debit	0.41%	51%	
			100%	
Total Average Fee				0.69%

Australia 2020

	Card Scheme	Average 2020 fee	Market Share	Average Fee
Credit & Charge	Visa & MasterCard	0.86%	84.5%	
	American Express	1.33%	15.2%	
	Diners Club	1.89%	0.3%	
			100.0%	0.94%
Debit	Visa & MasterCard	0.45%	60%	
	eftpos	0.26%	40%	
			100%	0.37%
Total Market	Credit & Charge	0.94%	43%	
	Debit	0.37%	57%	
			100%	
Total Average Fee				0.62%

Conclusions

- The allegation that an average merchant in New Zealand is paying significantly more in merchant service fees than they would in the regulated Australian market is not borne out by the available data.

- The average credit card fee in New Zealand is higher than the average in Australia but the average fee on total debit in New Zealand is lower than in Australia.

- On our reckoning, there was only a marginal difference in overall merchant fees with the overall cost of card acceptance in New Zealand being around 3 basis points higher in 2019.

- The average card fees paid by merchants in Australia is estimated to have decreased by around 7 basis points in 2020, due to reductions in interchange but also influenced by a strong gain in share by debit. The interchange reduction accounted for 4 basis point of the reduction with the shift in share delivering 3 basis points.

- The total costs associated with the large growth in share of card payments on contactless debit in New Zealand have been offset by the decline in per transaction merchant fees on contactless debit which are now capped at 0.70% by 3 of the 4 major banks and at 0.60% from the other major bank.

- The cost to merchants of accepting credit and debit cards is significantly less than the cost to them of offering buy now pay later products.

- Our analysis indicates that the overall average card fee paid by merchants declined in 2020 from 2019 with the decrease being greater in Australia. The average overall card fee paid by a merchant in New Zealand in 2019 is estimated to have been 3 basis points higher than Australia in 2019 and 8 basis points higher in 2020. That represents an additional cost of just $300 on a card spend of $1 million in 2019 and $800 in 2020.

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