

# Submission template

## Regulating to reduce Merchant Service Fees

### Your name and organisation

<b>Name</b>	
<b>Email</b>	
<b>Organisation/Iwi</b>	<p>Revolut Payments New Zealand Pty</p> <p>Revolut was launched in 2015 as a digital alternative to the big banks. Revolut's mission is to help its customers improve their financial health, provide them with greater control, and promote financial inclusion right across the communities in which it operates.</p> <p>Revolut is the UK's fastest-growing private technology company and one of Europe's largest FinTechs, with a customer base of over 15 million.</p> <p>Following the company's successful public launch in Australia in August 2020, Revolut is in the process of a phased rollout of services to New Zealand in the coming months.</p> <p>We set out below our answers to questions 6, 7, 9, 15, 19, 21 and 22. We do not have any specific submissions to make on the balance of the questions.</p> <p>We would welcome the opportunity to engage in any additional consultation that MBIE may undertake in relation to the issues addressed in its consultation paper, including specific regulatory proposals.</p>

[Double click on check boxes, then select 'checked' if you wish to select any of the following.]

The Privacy Act 1993 applies to submissions. Please check the box if you do not wish your name or other personal information to be included in any information about submissions that MBIE may publish.

MBIE intends to upload submissions received to MBIE's website at [www.mbie.govt.nz](http://www.mbie.govt.nz). If you do not want your submission to be placed on our website, please check the box and type an explanation below.

I do not want my submission placed on MBIE's website because... [Insert text]

**Please check if your submission contains confidential information:**

I would like my submission (or identified parts of my submission) to be kept confidential, and **have stated below** my reasons and grounds under the Official Information Act that I believe apply, for consideration by MBIE.

I would like my submission (or identified parts of my submission) to be kept confidential because...  
[Insert text]

1	Do you have any feedback on our proposed approach to this project?
	<i>[Insert response here]</i>
2	Have we described the retail payments system accurately? Is there any additional information that you would like to provide?
	<i>[Insert response here]</i>
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.
	<i>[Insert response here]</i>
4	What is your view on charges incurred by cardholders for the use of payment methods?
	<i>[Insert response here]</i>
5	What impacts do you believe rewards and inducements have on the retail payments system?
	<i>[Insert response here]</i>
6	What is your view on charges incurred by merchants for the use (acceptance) of payment methods?
	<i>As a matter of principle, it is appropriate that merchants are charged merchant service fees in exchange for the acquiring services they receive. Further, such fees need to be set at a level which encourages new market entry and further investment and innovation and which reflect the economics of offering card services in a relatively small economy, such as New Zealand. We discuss this point further below.</i>
7	Please provide your views on barriers to merchants steering consumers to lower cost payment methods and the extent that steering occurs?
	<p><i>The barriers which may be created by certain scheme rules, technological limitations of POS terminals, and pricing transparency described in this section are set out at a high level and the paper does not seek to quantify their actual impact on merchants' ability to steer consumers to lower cost payment methods and/or switch acquirers.</i></p> <p><i>We could encourage MBIE to gather further data on the impact of these barriers from merchants before reaching any concluded view on their impact.</i></p> <p><i>To the extent that those barriers are having a material impact, we would encourage MBIE to consider whether there are any regulatory options available for removing or minimising such barriers, and whether doing so would remove the need for direct regulation of interchange rates or other aspects of MSFs (at least in relation to acquirers who take steps to reduce those barriers).</i></p>
8	Please provide your views on the barriers to merchants surcharging and the extent that surcharging occurs?

*[Insert response here]*

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?

*Care needs to be taken in singling out scheme card MSFs as giving rise to a “wealth transfer” which requires specific regulatory attention.*

*First of all, it tends to suggest that other forms of payment are ‘cost free’ for merchants and therefore consumers. This is not necessarily the case - for instance, merchants who accept cash or cheques will typically be charged handling fees by their banks, and ‘Buy Now, Pay Later’ products attract fees merchants. These costs are spread among all customers.*

*Secondly, businesses will often choose to offer certain additional goods or services to customers at their own cost (e.g. free customer support, ‘Buy X, Get Y Free’ campaigns). Some consumers will get the benefit of these goods or services and others will not, but the cost is ultimately shared by all of them.*

*Thirdly, while certain cards may attract higher MSFs, accepting those cards increases overall consumer choice and expands a merchant’s potential customer base and therefore its overall revenue sources. Those benefits should be taken into account when considering any potential harm caused by the “wealth transfer” identified.*

*Finally, new and innovative product offerings (such as contactless payments and digital wallets) typically attract higher MSF fees. These higher MSFs tend to reflect the investment required to offer such products (and the commensurate need to make a return on that investment) and provide an incentive for firms to continue to innovate and offer new products in the future. The benefits of encouraging such innovation also need to be taken into account when considering any potential harm caused by the “wealth transfer” identified.*

10

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

*[Insert response here]*

11

What information or assistance would assist small business to obtain better deals?

*[Insert response here]*

12

What cost differences are there for providing merchant services to small businesses compared with larger businesses?

*[Insert response here]*

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?

*[Insert response here]*

14

What impact is product innovation having on merchant service fees?

*[Insert response here]*

15

Is open banking likely to provide sufficient competitive discipline on scheme debt and credit fees?

*All other things being equal, an open banking system which is widely adopted and provides for direct payments to merchants, or any other payment system that can operate outside scheme rails, is likely to provide an important competitive restraint on scheme fees, given that merchants should be able to steer customers to those other options*

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?

*[Insert response here]*

17

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

*[Insert response here]*

18

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

*[Insert response here]*

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.

*We have not, at this stage, formed a view on whether a hard cap or weighted average limit is likely to promote better outcomes.*

*However, in either case, it is important to ensure that the overall rate is not set at a level, or in such a way, which could prevent or deter new entrants from entering the NZ market (or smaller players from growing). Many such new entrants and smaller players will have a more limited product offering than the established big banks and their business models will rely heavily on MSF and/or interchange revenue. However, unlike the big banks, they will not have the ability to cross-subsidise any drop in revenue by increasing margins on other non- or less- regulated revenue streams (such as lending).*

*As such, careful consideration should be given to whether it is appropriate for any proposed interchange regulation to apply to new entrants and smaller players and, if so, on what basis.*

*Further, any rates set need to be sensitive to local market conditions in New Zealand. In particular, it is unlikely to be appropriate to directly compare or transpose rates set in other larger markets, given that participants in those markets will typically enjoy better economies of scale and therefore should be able to operate profitably at relatively lower MSF rates than New Zealand market participants.*

20

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

*[Insert response here]*

21

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

*It is obviously very important that MBIE identifies and addresses any unintended consequences of interchange regulation, including through supplementary measures. We have already discussed the importance of ensuring that any caps set do not deter or prevent new entry and/or the growth of smaller players.*

*In addition, it is important to consider whether any other payment channels which attract MSFs (such as 'Buy Now, Pay Later' products) ought to be regulated using one or more of the supplementary measures identified in the consultation papers. The risk is that, if they are not, incumbents will seek to engage in regulatory arbitrage by pushing customers to use those higher revenue generating channels instead, which will ultimately undermine the policy objectives of the proposed interchange regulation.*

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.

*MBIE may wish to look at the steps being taken in Australia to require acquirers to offer 'least cost routing' for debit cards, such that when a customer makes a contactless ('tap-and-go') payment, the merchant may choose to send the transaction via the network that costs them the least to accept.*

#### Other Comments

*[Insert response here]*