

Dear MBIE

I have read MBIE's Issues Paper on retail payment systems in New Zealand with great interest and wish to share my comments confidentially. I am not intending to respond formally to the consultation.

I have spent much of my career involved in regulation of retail payments, as a regulator (most recently, Executive Director of the UK Payment Systems Regulator) and in industry. I am currently a Specialist Adviser to the UK Parliament Treasury Committee on financial services regulation, and also an independent consultant.

The New Zealand Issues Paper provides some extremely useful market data and insights on payment systems, which will be greatly useful to UK and EU payments regulation.

In answer to the chief questions in the Issues Paper, based on experience in the UK, EU and US:

- retail payment systems are two-sided markets characterised by large network effects
- correspondingly, competition between payment systems focuses on the "single-homing" side of the market (typically consumers), whereas the "multi-homing" side of the market (typically merchants), becomes monopolised
- competition between card payment systems has therefore led to rising interchange fees, raising costs to merchants, incentives to cardholders and resulting cross-subsidy between card and non-card payment users
- interchange fee regulation has sought to address this problem, but the card schemes have responded by changing their corporate structure, to become public companies, so that interchange fee regulation has been largely ineffective in the UK, EU and US
- in particular, interchange fees have largely been replaced with new card scheme fees, so that merchants and consumers are now worse off after the interchange regulation than before.

There is still much regulatory discussion on this in the UK. I will be very pleased to share further thinking and evidence.

With kind regards
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