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## **Retail payment systems in New Zealand Issues Paper October 2016**

This document is the submission of Xero Limited (**Xero**) on the *Retail payment systems in New Zealand Issues Paper* released by the Ministry of Business, Innovation & Employment (**MBIE**).

Xero's submission is as follows:-

1. This paper captures the key issues around retail payment systems. We agree that the three key objectives outlined in para 44 (Innovation, system level efficiency and fair cost distribution) are appropriate for a retail payments system.
2. We suggest that the community of participants in the New Zealand payments environment contribute to a vision for our retail payment systems which could include the following core characteristics. The network should :-

- a. **Re-establish New Zealand as a FinTech Innovator.**

The Eftpos system was widely recognised as world-leading when it was introduced in New Zealand in the late 1980's. Since then, the lack of innovation has seen us yield FinTech pre-eminence to other countries.

Having a leading FinTech environment creates opportunities for inward investment by global brands seeking to test new services, contributes to New Zealand reputation and creates opportunities for New Zealand companies.

New Zealand's FinTech environment should promote competition and innovation for end users. Achieving this FinTech environment may require an open access payments infrastructure that allows new players to enter the market, moving away from the current monopolised market.

One outstanding example of recent FinTech innovation is MobilePay. MobilePay is a Danish payment app that transfers money between mobile phone numbers. More than 3 million Danes, Finns and Norwegians use the app regularly, with up to 800,000

transactions per day. MobilePay can be used in store, online or peer-to-peer. It was created by Danske Bank but 70% of app users are with other banks.

**b. Provide access to global systems and innovations.**

As New Zealanders travel overseas they are becoming increasingly aware of new payment services that are commonplace in other developed countries.

Other countries have digital payment solutions that are more advanced than those available in NZ and many global services are not broadly available here. When visitors arrive in New Zealand global systems should 'just work' too.

A big part of achieving and maintaining international competitiveness is the unceasing drive for efficiency. To achieve the best efficiency outcomes for New Zealand businesses and consumers, the New Zealand retail payments system should be open to the latest technological advances. e.g. Apple Pay.

However, as the issues paper suggests, the provision of open access (as acquirer or issuer) conflicts with the interests of the incumbent providers as it will disrupt the flow of fees and benefits between the parties.

**c. Provide real time payments with certainty.**

Accounts payable

Small businesses want to have certainty

1. That payments are being made to the right person,
2. Of when payments have been cleared, and
3. That payment transactions are final and will not be reversed.

One key difference between the domestic debit network and the scheme-based credit networks is that credit network charges might be reversed many weeks after the transaction.

Accounts Receivable

Extending and improving metadata being passed through the retail payments system will assist end-users to more clearly understand who has made a payment and what they are paying for. This will improve the bank reconciliation experience, particularly for small business.

Immediate clearance of payments will help with business cashflow and allow small businesses in particular to grow faster and create more jobs.

This enhanced metadata will assist the financial services industry in the mitigation of fraudulent payments.

**d. Low cost for credit services.**

As the Issues Paper has highlighted, the interchange fees on credit cards charged in New Zealand are much higher than the charges in some of our major trading partners (Australia, and EU in particular). The Issues Paper correctly concludes that this mismatch results in higher prices for New Zealand consumers.

We agree that the best way to resolve the issue of high-priced interchange fees is through regulation. We note that regulation in other jurisdictions generally takes the form of a cap on interchange fees.

**e. No surcharge.**

Surcharges by merchants are an attempt to correct the pricing distortion where high-reward cards are subsidised by low-reward or no-reward cards. If the objective of distributing cost fairly at an individual merchant and consumer level can be met, there should be no economic reason for a merchant to impose a surcharge on a transaction.

3. We point out that New Zealand is extremely passive in the regulation of payment networks. It is also our view that good regulation is driving significant innovation. The UK is emerging as the capital of FinTech innovation.
  - a. UK/Europe has Revised Payment Services Directive (PSD2) which opens up bank Application Programming Interfaces (API's)
  - b. UK Making Tax Digital project is encouraging additional transaction metadata to be based through banking transactions reducing tax compliance effort.
  - c. Australia has New Payments Platform (NPP) which aggregates customer payment data to drive real time payments
4. We therefore recommend MBIE undertakes a review of recent payment regulation initiatives, such as Payments UK to determine their background and objectives.
5. We would suggest a meeting with the banks to discuss the paper and understand why they are not delivering Contactless Domestic Debit. Technically they are close e.g. ASB Online EFT-POS.
6. There should be certainty on whether the banks will provide Contactless Domestic Debit or we undertake 'controlled demolition' of the domestic credit network and outsource to Visa/Mastercard with a regulated interchange rate.

7. It may be that 'free' EFT-POS moves to a low transaction fee. The move from free to revenue-generating may help overcome some of the issues in the New Zealand retail payments system that are a legacy of the initial decision to make EFT-POS free of transaction charges. Making EFT-POS free has led to a lack of return to the owners of the systems, which in turn has resulted in a lack of investment in innovation and improvement in the system.

The lack of proprietary EFT-POS contactless direct debit cards (non-scheme cards) appears to be a result of this ongoing under-investment. Without a proprietary alternative, consumers wishing to utilise contactless technology have no option but to take a scheme card. This gives the impression of a rise in demand for scheme contactless debit cards, but may be driven by the lack of alternative.

8. Adjacent to retail payments, online Business to Business (B2B) payments security is emerging as a key industry issue that the banks need to collaborate on. It would be useful to have a common approach to manage cross system fraud.
9. It is our opinion that Government should regulate to remove "honour all product" and "honour all card" scheme conditions.

To meet customer need, merchants will steer customers to the lowest-cost card available. Schemes have sought to counter that behaviour by the introduction of "honour all" requirements, which are clearly detrimental to consumers using no-reward or low-reward cards. Non-strategic merchants lack the individual bargaining power to negotiate their way out of these clauses. Competition between schemes is not resolving this problem, therefore it seems appropriate to protect consumers by regulation.

10. Separation of network ownership and usage could be considered. New Zealand has experienced similar infrastructure reform in the electricity and telecommunication sectors. In both cases, freeing up access to the physical network is designed to increase competition, drive innovation and lower prices.

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Thank you for the opportunity to submit on these matters. As part of this consultation process, we would like engage with Officials to discuss the points raised in this submission. I look forward to hearing from you to arrange this.

Yours sincerely

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