

**Submission to Ministry of Business, Innovation and Employment (MBIE)
on Issues Paper on**

RETAIL PAYMENT SYSTEMS IN NEW ZEALAND

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Introduction

1. This submission is made by Dr Claire Matthews, in her capacity as Director Academic Programmes, of the Massey Business School, Massey University, Palmerston North.
2. Dr Matthews has been at Massey University since late 1996, having previously been employed in the banking sector for 12 years. Her first degree was in Economics and Mathematics, with Masters and PhD degrees in Banking from Massey University. A listing of recent research outputs and publications can be found at http://www.massey.ac.nz/massey/expertise/profile.cfm?stref=702430&_ga=1.24988839.9.82977159.1475702508.
3. Dr Matthews is also Chair of Co-op Money NZ and a director of NZCU Baywide.
4. The views expressed in this submission are solely those of Dr Matthews, and do not reflect the views of any organisations with which she is involved.
5. This submission is structured as responses to selected questions raised in the Issues Paper issued by MBIE in October 2016.

Response to Issues Paper Questions

6. [Q1] Yes, the objectives for the retail payment systems are appropriate.

7. [Q3] The decline in the revolve ratio on credit cards may reflect non-usage related factors, such as transfer inducements that encourage consumers to switch between cards, with the balance transferred attracting 0% interest rate for a period. It may also reflect ongoing efforts to educate consumers about the use of credit cards in ways that do not attract interest.
8. [Q4] I do not entirely agree with the explanation provided for the rationale for interchange. A better understanding of the relative price-sensitivities of merchants and cardholders may come from exploring payment choices where a surcharge is applied for credit card transactions.
9. [Q8] I do not believe the assessment regarding inefficiency in the credit card market fully covers credit card users' payment choices. A credit card user may have funds available in a bank account to cover the purchase being made, but those funds may not be accessible at the time of the purchase. In addition, there are circumstances, such as online purchases, where the use of a credit card is simpler and more convenient.
10. [Q11] It is possible that the negotiating power of merchants will change in the future. Younger generations make less use of credit cards. This is driven in part by the suite of payment options available to them when their banking relationship commenced, relative to the options available for older generations at a similar point. This is also why young people are much less likely to use cheques. In addition, they have grown up in an environment with a different attitude towards credit and credit cards. As a result, merchants may feel less compulsion to accept credit card payments in the future, particularly in market sectors with a higher proportion of customers from younger generations.
11. [Q12] At this stage, I am not convinced that the issues in the credit card market are of a scale that warrants intervention.
12. [Q14] I agree that there is little incentive to invest in proprietary EFTPOS.
13. [Q15] In the current market environment, I agree it is unlikely schemes will start imposing interchange on swiped/inserted scheme debit transactions.
14. [Q16] I agree that merchants facing a per-transaction charge for accepting debit payments is not an issue in itself.

15. [Q21] In my view, the take-up of contactless payment through mobile phones, such as Apple Pay, is likely to be a key driver in the evolution of the debit market. There is potential for such payment methods to become significant participants in the New Zealand payment market.
16. [Q25] I see no benefit in schemes publicly clarifying their intentions in relation to charging for swiped and inserted debit payments. Intentions will be accurate at the time they are reported, but any of a range of matters could change the basis on which those intentions were developed and lead to a scheme changing its intentions.
17. [Q26] I remain unconvinced that the benefits of interchange regulation will exceed the costs. It is not clear consumers would benefit from a reduction in MSFs, as there is no evidence that merchants would pass the MSFs on to their customers. If the benefit of reduced MSFs is retained by the merchant, the customer continues to pay the higher costs and also faces a cost in the form of less attractive reward schemes.