

Cody Cooper

cody@codycooper.co.nz

Re: Submission on “Retail payment systems in New Zealand”

Thank you for the opportunity to comment on this matter. I have a background in card payment systems and the matters for concern are something I am quite passionate about. My responses follow below:

1. Are consumers and merchants benefiting from ongoing innovation in payment systems?

No, there is nothing substantially different or innovative when comparing New Zealand to overseas payments systems. While we have in the past led the world in this market, it has now stagnated.

Card issuers say that “contactless” payments are just as safe as regular “card-present” transactions. If this is the case then the interchange rate should not be any higher than a card-present transaction, especially so considering that the card number generated by the contactless chip is unique to each transaction. Some retailers turn off their contactless functionality as a way of avoiding to bear this extra cost.

Unfortunately, this is not the case. For consumers using a new and “innovative” technology, merchants are charged a significantly higher interchange rate than if the consumer were to insert or swipe their card. It is my understanding that for contactless transactions, credit or debit, the interchange rate is the same. There is no good reason for this to be the case.

There is a distinct lack of “account to account” payment systems available in NZ, especially when compared with systems available overseas. Where such systems do exist in NZ they oftentimes exist without the support of the wider payments industry and may even be outright prohibited by the payments industries terms making their own existence somewhat dubious.

2. Are card payment systems being used efficiently?

No, new / small retailers face large setup and on-going costs when interfacing with card payment systems and these businesses may find it difficult to compete with already established businesses.

Some merchants are also opting to charge a surcharge for card payment systems, predominantly credit cards (and especially American Express) with some retailers charging upwards of 4.00%.

Interchange rates by themselves are not efficient. They cause confusion and can vary on every transaction between 5+ retailers. Some of the factors used to determine interchange are:

- by issuer (i.e. ANZ or Westpac)
- by card type (i.e. credit or debit)
- by card network (i.e. MasterCard or American Express)
- by payment method (i.e. chip & pin or contactless without PIN)
- by country they are used in (i.e. domestically (NZ) or overseas)
- by retailer (i.e. a nationwide supermarket or a corner dairy)

Interchange rates should be regulated and streamlined. They are confusing for merchants and serve to disenfranchise smaller merchants.

3. Are consumers and merchants bearing a fair share of the costs?

No, new / small retailers are facing large disparities in interchange rates when compared with larger businesses, even though the cost of the transaction does not increase measurably. As a result, a large number of these small business opt not to accept card payment systems, or not to accept credit cards.

“Points, consumers and interchange”

Consumers are now being lured away from traditional payment methods, such as cash and EFTPOS, into using Debit and Credit cards. This is important as traditionally EFTPOS has been offered at a very low costs, sometimes as low as \$0.01 (1 cent) per transaction. Card issuers pushing debit cards have a lot to gain by offering these cards as they earn a large amount of money from the interchange.

Some of the ways this is done are by offering signup bonuses and “rewards”, such as Airpoints Dollars and Fly Buys points. However, the true cost of these cards is not disclosed to consumers in that they are are being indirectly charged the “interchange” cost. The only instance most consumers would be aware of the costs would be when they are charged a surcharge for making the transaction.

As an example, the interchange rate charged to consumers can be higher than 2.00% of the total transaction cost. For instance, ANZ charges merchants 2.10% when consumers use their “Airpoints Platinum” card while giving the consumer Airpoints Dollars at a rate of APD\$1 per \$75 eligible spend. This equates to a “rewards” rate of 0.75%. However, it is unlikely that the average consumer would know that their merchant is being charged an extra 2% for the transaction as a result.

Card issuers in New Zealand, and across the globe, have been found to be acting anticompetitively.

“Can card issuers afford to reduce their interchange rate?”

Meanwhile overseas, the amounts charged to merchants, and therefore consumers, tends to be significantly less than what is currently the case in New Zealand. This clearly demonstrates that card issuers can afford to significantly lower their interchange rates without significant harm to their businesses.

One recent example of this was Australia which has recently introduced significantly lower limits on the interchange rates chargeable by card providers.

Thank you

Cody Cooper