

# Retail Payment System

## Merchant Research Observations

Published alongside Kantar's Merchant Research Report

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## Associated documents

Publication date	Reference	Title
20 March 2023	-	Retail Payment System – work programme update
2 May 2023	ISBN 978-1-99-101292-0	Our role under the Retail Payment System Act 2022
4 May 2023	-	Kantar’s Merchant Research Report
4 May 2023	-	Open letter to Payment Service Providers – payment surcharges

Commerce Commission  
Wellington, New Zealand

## Glossary

Term	Definition
<b>The Act</b>	Retail Payment System Act 2022
<b>Acquirer</b>	Enables the merchant to access the retail payment system by processing retail payments. This can be a bank or a non-bank acquirer. Each type provides various additional services. There are many acquirers in New Zealand but for the purpose of this report, we have focused on the larger bank and non-bank acquirers
<b>Interchange fee</b>	Has the meaning under cl 1 of Schedule 1 of the Act
<b>IPS</b>	Initial pricing standard under cl 7 of Schedule 1 of the Act
<b>Merchant</b>	A supplier (within the meaning of the Fair Trading Act 1986) of goods or services to consumers, as defined in s 7 of the Act
<b>MSF</b>	Merchant service fee. The merchant service fee (or MSF) is the fee the merchant pays to their acquirer (also known as a payment service provider) for accepting certain means of payment
<b>SME</b>	Small and medium sized enterprises

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# Chapter 1 Overview of this document

## Purpose of this document

- 1.1 This paper sets out some of our observations relating to how merchants engage with the retail payment system and highlights that merchants are not always well served by the sector. The observations have been informed by research that we have published alongside this paper and some of our initial monitoring work.
- 1.2 Our observations have informed our work programme as we seek to promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers.<sup>1</sup> We consider this report will be of interest to merchants and their representatives, payment service providers and terminal providers.

## Our role in the Act

- 1.3 Payments are the most used financial services in Aotearoa New Zealand. Anytime anyone buys something, gets paid, transfers money, or uses an ATM, they are using the retail payment system.
- 1.4 The Retail Payment System Act 2022 (**the Act**) allows us to monitor the retail payment system and regulate designated retail payment networks for the long-term benefit of New Zealand businesses.
- 1.5 In deciding whether to exercise our functions and powers we must consider, to the extent we consider them relevant, the principles that:
  - 1.5.1 merchants and consumers should pay no more than reasonable fees for the supply of payment services; and
  - 1.5.2 the retail payment system provides a reasonable degree of transparency.
- 1.6 Our core functions are market monitoring and information dissemination, regulation-making and compliance and enforcement.<sup>2</sup>

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<sup>1</sup> Commerce Commission “Retail Payment System – work programme update” (20 March 2023) available at - <https://comcom.govt.nz/regulated-industries/retail-payment-system>

<sup>2</sup> Commerce Commission “Our role under the Retail Payment System Act 2022” (2 May 2023) summarises the purpose and principles of the Act and our key functions, available at: <https://comcom.govt.nz/regulated-industries/retail-payment-system>

### Background to this paper

- 1.7 Following the commencement of the Act in 2022, we have engaged with various stakeholders involved in the retail payment system and begun initial monitoring work.<sup>3</sup>
- 1.8 In 2022, we commissioned a research report on merchant’s experiences with the retail payment system and surcharging. Kantar Public conducted this research which involved a survey of just over 1100 businesses and organisations that accept payments from customers. We have published Kantar’s Merchant Research Report (**Research Report**) alongside this paper.<sup>4</sup>
- 1.9 The observations and underpinning analysis have been informed by our stakeholder engagement and monitoring activities and the findings of the Research Report. We have published this paper and the Research Report under s 6(c) of the Act.

### Structure of this paper

- 1.10 This observations paper introduces the Research Report and recent monitoring, (**Chapter 2**) and our observations and next steps (**Chapter 3**), this looks at:
- 1.10.1 merchant service fee (**MSF**) transparency and understanding;
  - 1.10.2 switching merchant service providers; and
  - 1.10.3 use of and levels of surcharging.

### Future work and next steps in these areas

- 1.11 As detailed in our 20 March 2023 work programme update, we are currently working on a range of initiatives. Some of these initiatives have been informed by our observations outlined in this paper including our work to improve the transparency of the retail payment system and appropriate merchant surcharging.

### *Staying in the loop*

- 1.12 As our work on the retail payment system continues, we will publish updates on our website. Please email [retailpaymentsystem@comcom.govt.nz](mailto:retailpaymentsystem@comcom.govt.nz) with the subject line ‘**Subscribe RPS**’ if you would like to receive email updates on what we publish.

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<sup>3</sup> As outlined in our letter “Notification of initial monitoring under the Retail Payment System Act 2022” (25 October 2022) available at - <https://comcom.govt.nz/regulated-industries/retail-payment-system>

<sup>4</sup> Kantar Public “Kantar’s Merchant Research Report” (November 2022) available here - <https://comcom.govt.nz/regulated-industries/retail-payment-system>

## Chapter 2 Introduction to the Research Report and recent monitoring

### The purpose of the Research Report

- 2.1 Following the passing of the Act, we wanted to increase our understanding of how merchants experience the retail payment system. That is, what are their challenges with payments, what factors into their decision-making, and their attitudes and sensitivities.
- 2.2 In July 2022, the Commission engaged Kantar Public to undertake research across a wide range of merchants that operate business-to-consumer (eg, by size, industry and category). The purpose was to gain initial insight as to:
  - 2.2.1 what is important to merchants;
  - 2.2.2 how merchants understand the retail payment system;
  - 2.2.3 how merchants pass on costs; and
  - 2.2.4 the use of surcharging.

### Scope of Kantar's Merchant Research Report

- 2.3 The Research Report looked at merchants:
  - 2.3.1 **Current payment arrangements:** payment methods offered to the consumer, overall satisfaction with acquirer, satisfaction with the payment methods used, importance of payment features (eg, security).
  - 2.3.2 **Decision-making progress:** customer expectations on payment methods offered and any impact the COVID-19 pandemic has had on this.
  - 2.3.3 **Payment service providers:** choice in acquirer (bank vs non-bank) and how often merchants change acquirer, ability to compare and perceived difference between acquirers.
  - 2.3.4 **Merchant fees:** understanding of rates, perceived rates charged, whether these rates have changed recently.
  - 2.3.5 **Payment surcharging:** volume of merchants currently surcharging, what payment options are surcharged, surcharging rates and steering customers to certain payment methods.

### *Who was surveyed?*

- 2.4 Kantar Public undertook a nationwide online survey which was conducted between September – October 2022 with over 1,100 participants across various industries. The survey was distributed via a range of industry associations including Motor Trade Association, Restaurant Association, Retail NZ, Hospitality Association, and others. We appreciate the assistance of these organisations in helping with this research.

### **Limitations of the research**

- 2.5 Over half (58%) of those surveyed were sole operators and 66% were doing less than one transaction per hour, with over 41% having annual turnover of less than \$100,000.
- 2.6 The entire sample was weighted to be nationally representative for industry, number of employees and region according to Statistics NZ data. We note that the research has predominantly captured the small end of the scale of merchants.
- 2.7 The sample and weighting methodology may not fully represent the population of retail transactions. Nonetheless, we think it provides useful insights and avenues for further study and investigation.

### **Our recent monitoring and engagement work**

- 2.8 On 25 October 2022 we notified the sector that we had commenced our initial monitoring of the retail payment system.<sup>5</sup> Our initial monitoring work is mostly focused on the designated networks but also considers other main retail payment networks. This includes Eftpos, American Express, buy now pay later networks and the interbank transfer network. This recent monitoring involves information gathering, analysis and engagement with various stakeholders.
- 2.9 To date, this has helped us build on our understanding of the main retail payment networks, the participants, and their offerings. We appreciate the effort some participants have gone to in providing information to us in a timely manner.

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<sup>5</sup> Commerce Commission “Notification of initial monitoring under the Retail Payment System Act 2022” (25 October 2022) available at - <https://comcom.govt.nz/regulated-industries/retail-payment-system>



## Chapter 3 Our observations

### Purpose of this chapter

3.1 This chapter provides our observations and how they relate to our short and medium-term work programme. Analysis of the Research Report, information collected in this initial monitoring alongside engagement with various participants of the retail payment system have informed our observations.

### Summary of our observations and next steps

3.2 **Table 3.1** provides our observations from the Research Report, alongside our recent monitoring.

3.3 Underlying several of the observations is a degree of confusion amongst merchants, reinforcing the need for greater transparency. One of the principles in the Act is that the retail payment system provides a reasonable degree of transparency.<sup>6</sup>

**Table 3.1 Our observations**

Observation	Overview	Reference in document
1	The interchange fee caps introduced in November 2022 will have automatically resulted in lower merchant service fee rates for merchants on interchange plus pricing plans. Merchants on other pricing plans may have received reduced rates but this depends on their acquirer and their circumstances.	Page 10
2	Some acquirers do not publish their blended MSF rates and most do not publish interchange plus rates making it difficult for merchants to ensure they are getting the most competitive price.	Page 12
3	Many merchants think they are paying higher MSFs than they are.	Page 14
4	Cost (perceived or actual) is the largest driver for the payment methods offered by merchants and has led to merchants stopping acceptance of credit cards and contactless payments.	Page 15
5	Merchants (especially small merchants) are unlikely to actively seek out better rates and switch acquirers. Some may never switch in their business life cycle.	Page 16

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<sup>6</sup> Section 4(2)(b) of the Act.

6	Merchant services are usually bundled with other non-payment services. This can impact both likelihood of switching acquirers and ability to compare services.	Page 18
7	Surcharging appears less prevalent for in person transactions.	Page 19
8	Surcharging is most often done using a single rate. With many merchants on interchange plus pricing, it is unlikely the surcharge is reflective of the cost of that payment method.	Page 20
9	Many factors feed into a merchant's ability to correctly surcharge. This includes a lack of understanding of what they are being charged, variability across rates and bundling.	Page 22
10	Bank transfers are an important payment method for many small merchants but are not currently a viable option for many payment situations.	Page 23

## MSF transparency and understanding

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**Observation one:** The interchange fee caps introduced in November 2022 will have automatically resulted in lower merchant service fee rates for merchants on interchange plus pricing plans. Merchants on other pricing plans may have received reduced rates but this depends on their acquirer and their circumstances.

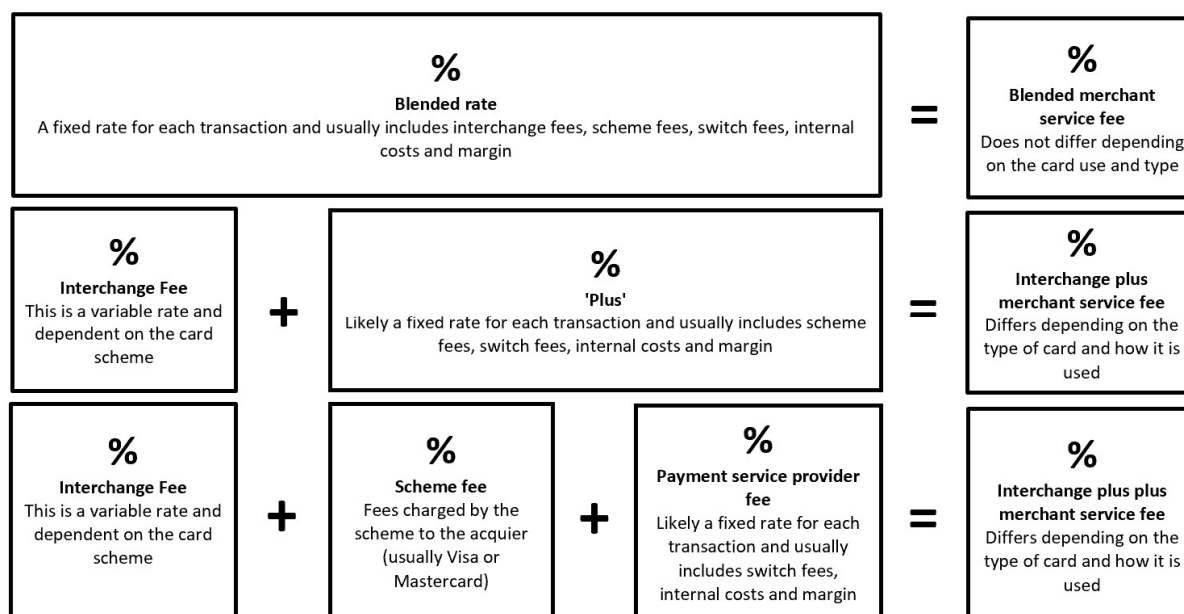
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### *Blended versus interchange plus pricing*

- 3.4 The costs to merchants of Mastercard and Visa payments are dependent on the acquiring pricing plans chosen by the merchant. The merchant service fee charged by the acquirer is generally a percentage of the transaction value for credit, online debit, and contactless debit card transactions. At a high level, there are two main types of plan that determine the merchant service fee rates the merchant pays:
- 3.4.1 **Blended or fixed rates:** one or few rates depending on factors such as the card or transaction types (eg, different rates for debit and credit or different rates for online vs in person). This is especially common with non-bank acquirers.
  - 3.4.2 **Unblended or interchange plus:** the merchant is charged the interchange fee plus an acquirer margin. The interchange fee generally differs depending on the type of merchant, the network type (eg, debit or credit), card type (standard or premium), payment method (eg, online, contactless or in person), and other factors such as whether it is a foreign issued card.

- 3.5 **Figure 3.1** shows the components of MSFs for the common pricing plans – blended rate, interchange plus and interchange plus plus. For those merchants on a blended rate, the fee components may vary depending on the payment method used, but the MSF would remain the same.

**Figure 3.1 Components of the MSF**



- 3.6 From our recent monitoring, we understand that many bank acquirers offer and prefer their merchants to be on interchange plus pricing. One advantage of this pricing model is the MSF rate is more closely aligned with the cost of the transaction. For other pricing methods (eg, blended pricing) there will be some transactions that are below cost and others that are above cost.
- 3.7 Interchange plus pricing also means that if the interchange fees change, the change flows through to the MSF automatically. In November 2022, there was a reduction to many of the interchange fees as the interchange fee regulation came into force. Merchants on interchange plus pricing should have therefore seen a reduction in their MSF rates.
- 3.8 Merchants on other pricing plans may have received reductions in their merchant service fee rates, but these would have required repricing from their acquirer. Our current monitoring work is seeking to further understand how MSF rates have been impacted by the interchange fee reductions.<sup>7</sup>

<sup>7</sup> Commerce Commission "Notification of next phase of initial monitoring under the Retail Payment System Act 2022 (15 March 2022) available at - <https://comcom.govt.nz/regulated-industries/retail-payment-system>

- 3.9 In addition to MSFs, merchants also generally have other (largely fixed) costs in providing payment options to customers. These include the rental or purchase of a payment terminal and a network connection and are also required to accept Eftpos payments.

### Lack of MSF visibility

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**Observation two:** Some acquirers do not publish their blended MSF rates and most do not publish interchange plus rates making it difficult for merchants to ensure they are getting the most competitive price.

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- 3.10 The Research Report shows that of those merchants that considered a change of acquirer, one in four considered it too hard to compare offers.<sup>8</sup> There is not a lot of visibility online of the MSF pricing plans available, nor a clear picture of the additional costs for merchants to provide various payment options to their customers, eg, terminal costs, gateways and integration capability.
- 3.11 It can be difficult for merchants, especially small and medium sized enterprises (**SMEs**) that lack allocated resourcing, to determine what is appropriate MSF pricing. This is because it depends on the various payment methods and card types used by their customers and where the transaction is made, eg, in person or online or both.
- 3.12 Most acquirers do not display interchange plus pricing rates, even though these appear to be the preferred pricing plan for many merchants. We have collated the merchant service fees as advertised on acquirer websites in **Figure 3.2**. This was a difficult task with many rates only searchable when the product name or type was known eg, mobile payment solution.

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<sup>8</sup> Further discussed in Switching of services beginning in paragraph 3.25.

**Figure 3.2 Merchant service fees as advertised on acquirer websites<sup>9</sup>**

3.13 According to the Research Report, non-bank acquirers were used by only 9% of the merchants surveyed. These acquirers usually have much higher fees as they are generally offering a bundle of services including, for example, an integrated payment platform. Most also charge an additional flat fee per transaction as shown in **Table 3.2**.

**Table 3.2 Public rates of non-bank acquirers<sup>10</sup>**

Non-bank acquirer	Public MSF	Additional flat fee per transaction
<b>Adyen</b>	Not listed, interchange plus pricing is offered to all merchants.	13c
<b>Stripe</b>	2.70%	30c
<b>Windcave</b>	2.30%	30c

<sup>9</sup> Taken from acquirers' websites 26 April 2023. Those acquirers marked with a "\*" also charge a fixed flat fee per transaction as outlined in Table 3.2.

<sup>10</sup> Taken from non-bank acquirer websites 26 April 2023.

## Average MSFs

- 3.14 We understand that the average MSFs for Mastercard and Visa payments, across credit, online debit and contactless debit for large bank acquirers are close to 1%.<sup>11</sup> This average includes the larger strategic merchants that will have negotiated lower rates eg, supermarkets. From what we have seen in our initial monitoring, it is likely that average MSFs for SMEs from large bank acquirers are around 1.5% but this will vary depending on the type of business, share of online sales and share of international cards accepted.
- 3.15 Payments made by inserting or swiping a Visa or Mastercard debit card and Eftpos card payments do not incur a MSF. When these payment types are included in the average, it drops significantly. Merchants that only accept inserted or swiped Mastercard and Visa debit card and Eftpos card payments will have much lower costs for accepting payments.
- 3.16 Merchants' ability to negotiate better rates will often depend on the acquirer and volume and value of transactions processed. For example, Windcave offers custom pricing to merchants processing more than \$50,000 per month.<sup>12</sup>
- 3.17 The Reserve Bank of Australia (**RBA**) reports on average MSFs split by merchant size categories. The RBA report notes smaller merchants in Australia also pay on average higher rates than larger merchants.<sup>13</sup> Unlike in New Zealand, there is a merchant service fee for their version of Eftpos, therefore merchants pay a fee for all card payments.

## What merchants think they are paying

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**Observation three:** Many merchants think they are paying higher MSFs than they are.

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- 3.18 **Figure 3.3** shows merchants perceived MSF rates across blended and variable pricing plans in the Research Report. This shows that more than 50% of merchants surveyed do not know what rate they are charged and 8% report they are being charged more than 3%.

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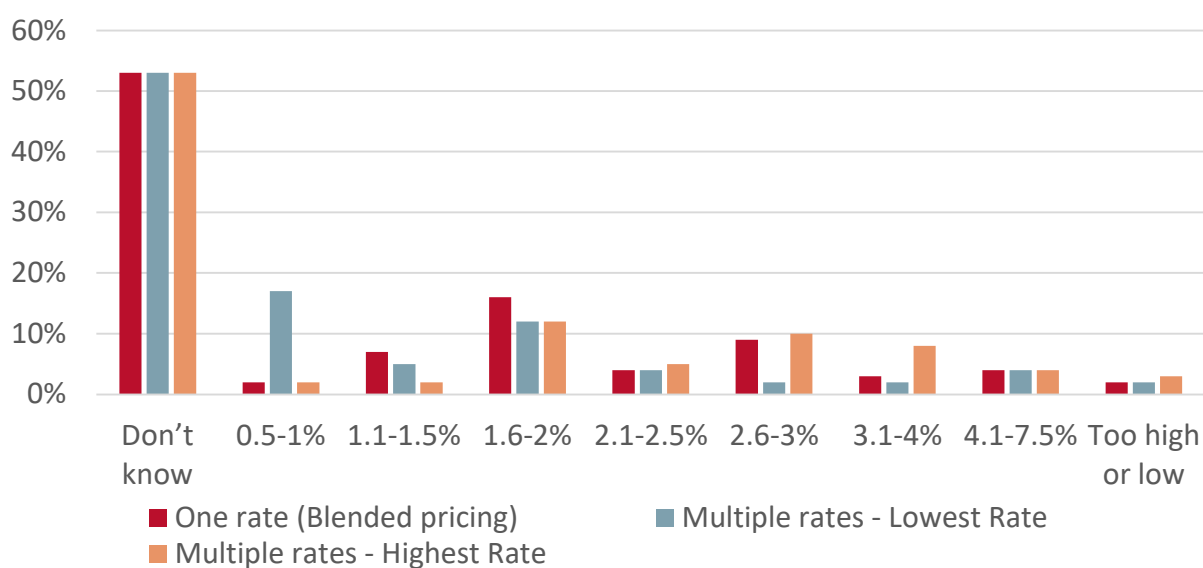
<sup>11</sup> Sourced from our Tranche 1 information requests. An outline of these requests is found in Commerce Commission "Notification of initial monitoring under the Retail Payment System Act 2022" (25 October 2022) para 16-17 available at - <https://comcom.govt.nz/regulated-industries/retail-payment-system>

<sup>12</sup> Sourced from Windcave "New Zealand Transaction Pricing" available <https://www.windcave.com/e-commerce-transaction-pricing-nz> as at 26 April 2023.

<sup>13</sup> See Graph 5: Cost of Acceptance by Merchant Size. Sourced from Reserve Bank of Australia "The Cost of Card Payments for Merchants" (15 September 2022) available at <https://www.rba.gov.au/publications/bulletin/2022/sep/the-cost-of-card-payments-for-merchants.html>

- 3.19 These perceived rates (some as high as 2.6-7.5%) are much higher than the average MSF rates and publicly available rates (**Figure 3.2**). If merchants are on rates as high as this, we encourage them to contact their acquirer to understand what plan they are on and if they can obtain a better deal.
- 3.20 Our current monitoring work will provide more information on MSFs that merchants are paying, and we will be publishing a study on the information received.<sup>14</sup>

**Figure 3.3 Merchants perceived MSF rates across pricing plans<sup>15</sup>**




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**Observation four:** Cost (perceived or actual) is the largest driver for the payment methods offered by merchants and has led to merchants stopping acceptance of credit cards and contactless payments.

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### What is important to merchants?

- 3.21 Unsurprisingly merchants are largely driven by cost in determining payment methods offered. The cost, and wanting to reduce fees, are common reasons for merchants having stopped accepting Mastercard and Visa credit cards and contactless payments.<sup>16</sup>

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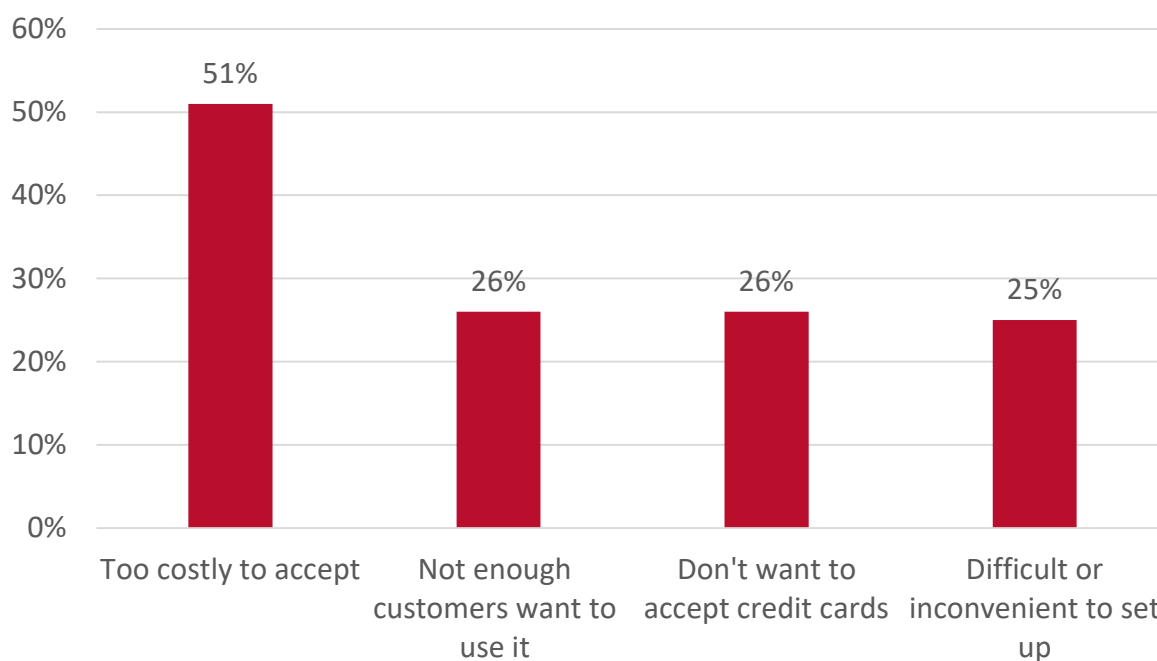
<sup>14</sup> As outlined in paragraph 3.8.

<sup>15</sup> Taken from Kantar Public "Kantar's Merchant Research Report" (November 2022) - Slide 68. Merchants who are charged one rate, n = 238; Merchants who are charged a few different rates, n = 219

<sup>16</sup> Taken from Kantar Public "Kantar's Merchant Research Report" (November 2022) – Slide 42, n = 684.

3.22 Merchants' uptake of contactless payment options also appears dependent on consumer expectations in the relevant industry. This is more prevalent in high turnover, retail settings. **Figure 3.4** shows the reasons provided by merchants surveyed for the Research Report for not accepting contactless payment methods.

**Figure 3.4 Most common reasons for not accepting contactless<sup>17</sup>**



3.23 Given many merchants are unsure of the MSF rates, merchants may be making decisions about offering contactless payment options due to perceived rather than actual cost. The Research Report showed only 17% of merchants on unbundled rates reported paying a MSF roughly in line with public contactless debit MSF rates of 0.70% (**Figures 3.2 and 3.3**).

3.24 Generally, if a merchant wants to accept contactless debit Mastercard and Visa card payments, they need to also accept credit Mastercard and Visa card payments. Over a quarter of merchants surveyed (26%) for the Research Report consider this as a driver for not offering contactless payments.<sup>18</sup>

## Switching of services

*Merchants rarely change acquirers*

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**Observation five:** Merchants (especially small merchants) are unlikely to actively seek out better rates and switch acquirers. Some may never switch in their business life cycle.

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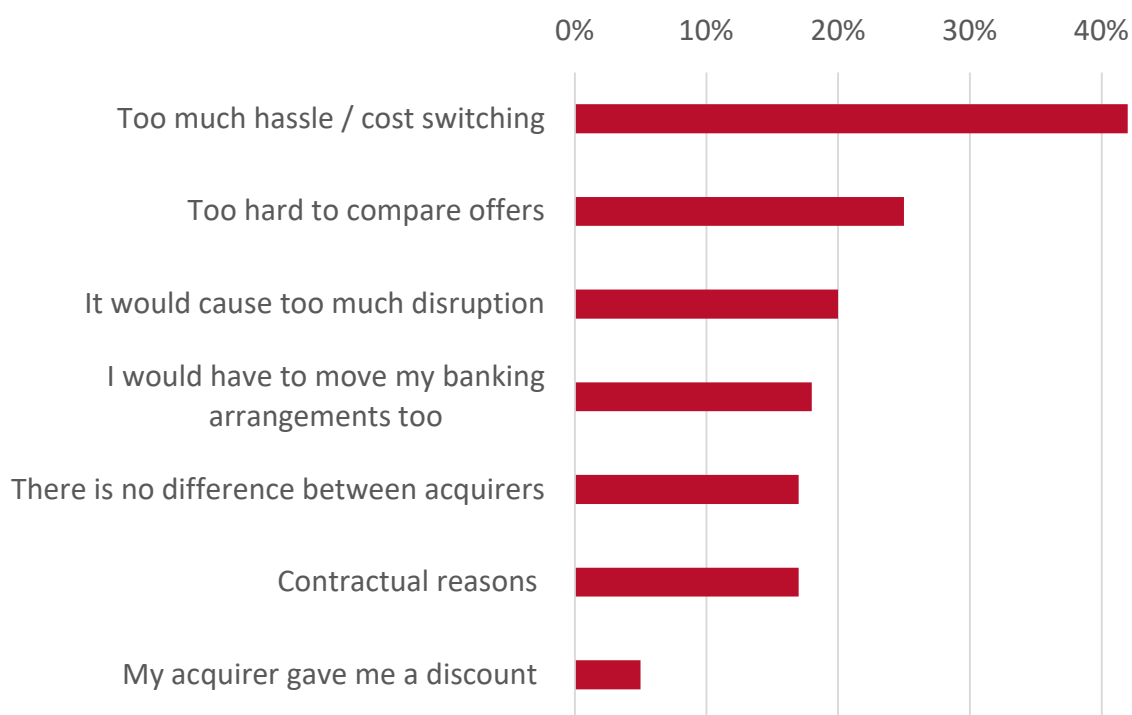
<sup>17</sup> Taken from Kantar Public "Kantar's Merchant Research Report" (November 2022) – Slide 42, n = 684.

<sup>18</sup> Shown in Figure 3.4.



- 3.25 Only 5% of those surveyed for the Research Report that accept card payments and use their bank for their acquiring services have switched their acquirer in the past two years.<sup>19</sup>
- 3.26 Low levels of switching are also common in other industries that we regulate, even where it is reasonably easy to compare plans, like the mobile telecommunications market. In our mobile market study in 2018, we found that a significant proportion of consumers have not compared plans in the last 12 months and have remained with their current supplier for more than five years.<sup>20</sup>
- 3.27 Merchants with both a higher per annum turnover and a greater number of employees were more likely to switch. This is likely due to greater capacity to review their payment services. The most common reasons for not switching acquirer are provided in **Figure 3.5**.

**Figure 3.5 Most common reasons for not switching acquirer<sup>21</sup>**



<sup>19</sup> Taken from Kantar Public “Kantar's Merchant Research Report” (November 2022) - Slide 56.

<sup>20</sup> Commerce Commission “Mobile Market Study – Findings” (26 September 2019) p12, available at <https://comcom.govt.nz/regulated-industries/telecommunications/projects/mobile-market-study>

<sup>21</sup> Taken from Kantar Public “Kantar's Merchant Research Report” (November 2022) - Slide 58, n = 126.

- 3.28 A November 2021 Card Acquiring Market Review from the Payment System Regulator in the UK (PSR) assessed the frequency of merchants switching.<sup>22</sup> The results showed that around 45% of merchants with an annual turnover of less than £380,000 have never searched for a new acquirer.
- 3.29 We encourage merchants to reach out to their acquirer to assess whether they are on the best pricing plan relative to them. Some merchants, particularly those that have grown since they set up their merchant service facilities, may now be able to obtain lower rates.

### Consideration for the bundling of services

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**Observation six:** Merchant services are usually bundled with other non-payment services. This can impact both likelihood of switching acquirers and ability to compare services.

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- 3.30 Merchant services associated with accepting retail payments are usually bundled with other services and there are two common types of bundling that are offered to merchants:
- 3.30.1 **Business banking and acquiring services:** many merchants opt to get their acquiring services bundled with their banking services (and get better MSF rates for it). Of those surveyed that accept card payments, 66% of them use the same bank for business banking as their main acquirer.
- 3.30.2 **Acquiring services with other payment management, integration and hardware services:** non-bank acquirers bring everything together to build platforms that accept and send payments globally for a premium. Non-bank acquirers were less prevalent with the merchants surveyed as part of the Research Report.
- 3.31 Banks often charge monthly fees for the various additional services for allowing merchants to accept in store and online payments and non-bank acquirers usually lump this in with their per transaction cost eg, terminal hire. We have written to payment service providers encouraging them to consider providing their merchants with more transparent information on what they are paying for payment services and what they are paying for other services.<sup>23</sup>

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<sup>22</sup> PSR Card Acquiring Market Review – Final Report – November 2021, p94, Figure 12. N = 1,037 available at - <https://www.psr.org.uk/publications/market-reviews/mr18-1-8-card-acquiring-report-final/>

<sup>23</sup> Commerce Commission “Open letter to Payment Service Providers – payment surcharges” (4 May 2023) available at - <https://comcom.govt.nz/regulated-industries/retail-payment-system>

## Payment surcharges

- 3.32 Surcharges that reflect the costs of accepting different payment methods limit the extent of cross-subsidisation and promote more efficient choices by consumers who now face the costs of the payment method used. This in turn promotes competition between payment methods and leads to lower overall costs.

### *Prevalence of surcharging*

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#### **Observation seven: Surcharging appears less prevalent for in person transactions.**

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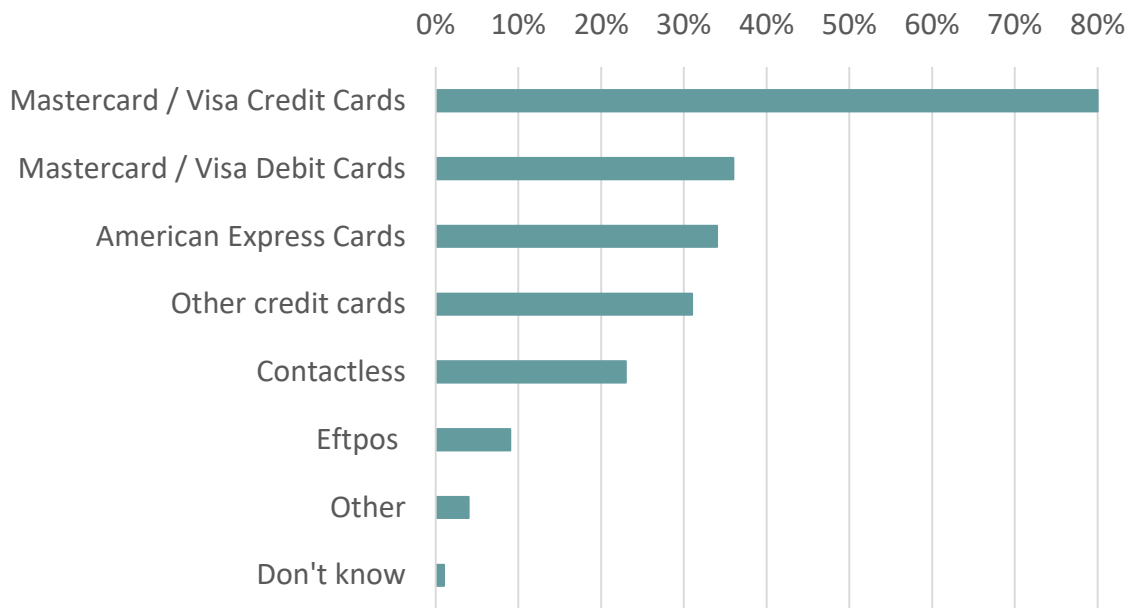
- 3.33 The Research Report shows that 22% of respondents that accept credit cards or contactless payments surcharge for some types of cards or transactions.<sup>24</sup> This is much higher than information we have been provided by a large terminal provider which showed that around 6% of their terminal fleet had surcharging enabled. Although we note that for in person transactions, using the terminal to apply the surcharge is not the only way of surcharging, it is the most common way.
- 3.34 Surcharges are only paid on a small share of total transaction value with a large terminal provider advising that less than 2% of the value of in person card payments incur a surcharge. This is closer to 1% of the number of card payments.<sup>25</sup> If Eftpos transactions were excluded, it is likely these numbers could be close to twice as much.
- 3.35 The Research Report shows that Mastercard and Visa credit cards were most likely to incur a surcharge. Of those merchants that surcharge, 80% of them surcharge for accepting them (**Figure 3.6**). American Express card surcharging was also prevalent. American Express opposes surcharging and invites its cardholders to notify its Customer Card Professionals about any surcharging occurring.<sup>26</sup>
- 3.36 **Figure 3.6** shows that of those that surcharge, 9% are doing so on Eftpos transactions where there is no cost per transaction of accepting the payment method.

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<sup>24</sup> Taken from Kantar Public “Kantar's Merchant Research Report” (November 2022) - Slide 73, n = 556.

<sup>25</sup> Sourced from a large terminal provider in February 2023.

<sup>26</sup> American Express “Credit Card Surcharging – What can you do about surcharging?” available at <https://www.americanexpress.com/en-nz/credit-cards/about-credit-cards/surcharge/> as at 28 March 2023.

**Figure 3.6 Merchants that surcharge - card types most surcharged<sup>27</sup>**

### Level of payment surcharges

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**Observation eight:** Surcharging is most often done using a single rate. With many merchants on interchange plus pricing, it is unlikely the surcharge is reflective of the cost of that payment method.

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- 3.37 We have seen many merchants (both large and small) that have surcharging enabled on their terminals charging more than 2%.<sup>28</sup> It appears that many surcharge rates are far greater than the cost of providing the payment method (**Figure 3.7**). This is a stark contrast to the 82% of respondents in the Research Report that considered they were surcharging at or below their merchant service fee levels.<sup>29</sup>
- 3.38 From our own monitoring work and the Research Report, we understand that most of those that choose to surcharge do so using a single rate with a minority using a fixed fee per transaction.<sup>30</sup>

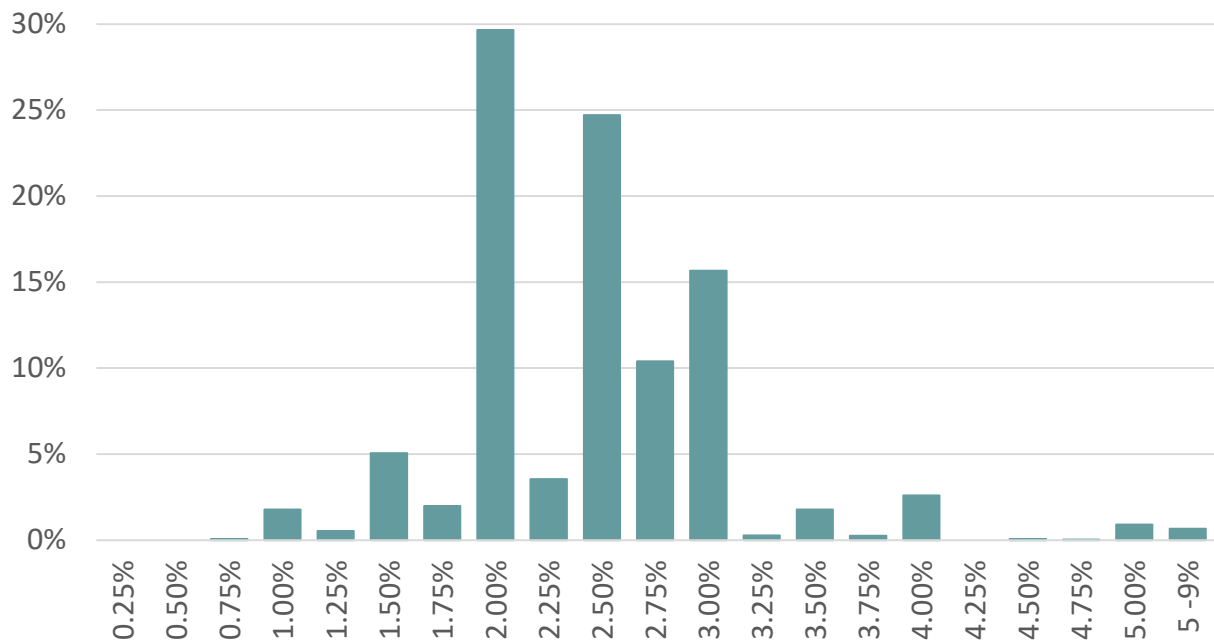
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<sup>27</sup> Taken from Kantar Public “Kantar’s Merchant Research Report” (November 2022) - Slide 78, n = 149.

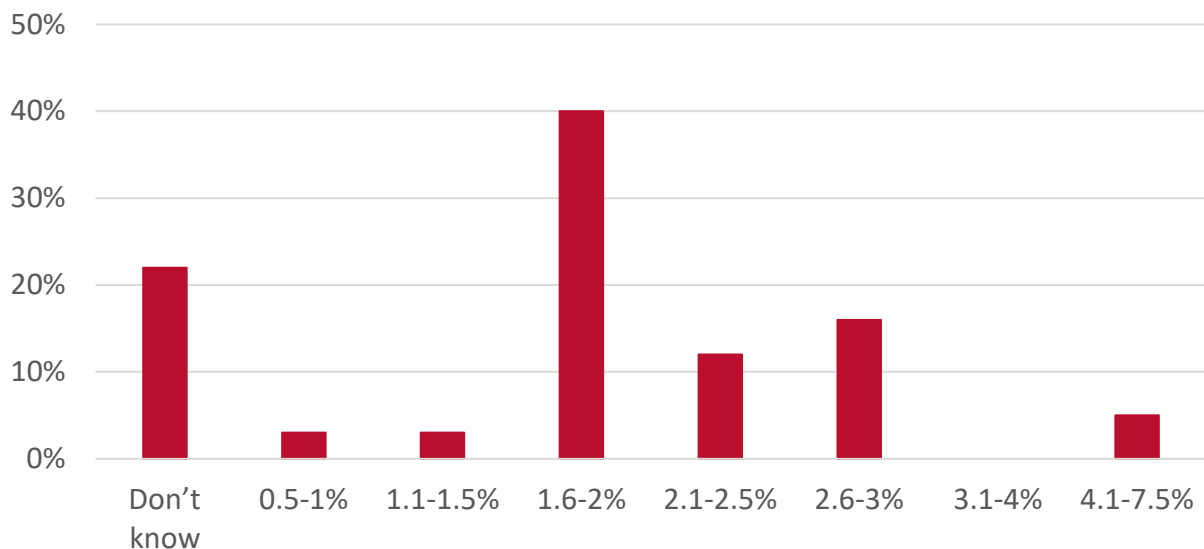
<sup>28</sup> Both from information sourced from a large terminal provider in February 2023 and our own information gathering.

<sup>29</sup> Taken from Kantar Public “Kantar’s Merchant Research Report” (November 2022) - Slide 79, n = 129.

<sup>30</sup> Taken from Kantar Public “Kantar’s Merchant Research Report” (November 2022) - Slide 80.

**Figure 3.7 Level of surcharges enabled on terminals<sup>31</sup>**

3.39 **Figure 3.8** provides the surcharge rates charged by merchants from the Research Report. Of those that do surcharge, 22% were unable to provide their surcharge rate. Most merchants that surcharged thought their rate was 1.6-2%, with some considering it as high as 4.1-7.5%.

**Figure 3.8 Surcharge rate among merchants who have one surcharge rate<sup>32</sup>**

<sup>31</sup> Sourced from a large terminal provider in February 2023.

<sup>32</sup> Taken from Kantar Public "Kantar's Merchant Research Report" (November 2022) - Slide 80. Merchants who surcharge Mastercard, Visa or contactless, n = 129; Merchants who apply one surcharge rate, n = 90; Merchants who apply more than one surcharge rate, n = 11.

*Possible reasons for higher than cost surcharges*

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**Observation nine:** Many factors feed into a merchant’s ability to correctly surcharge. This includes a lack of understanding of what they are being charged, variability across rates and bundling.

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- 3.40 Informed by our recent monitoring and the Research Report, we understand some of the reasons for higher than cost surcharges include:
- 3.40.1 Merchants not having access to accurate and clear information about their merchant service fees and how to appropriately surcharge for these even though their contracts with acquirers specifically require them to charge no more than the cost to accept the payment.
  - 3.40.2 It is not clear to merchants that terminal providers can offer differential surcharging allowing them to charge a different rate for contactless debit versus a scheme credit card.
  - 3.40.3 It is not clear what costs of providing consumers the ability to pay by card in person or online can be included in the surcharge, eg, terminal hire or payment gateway fees.
  - 3.40.4 Merchants that are with non-bank acquirers will have more than the cost of the payment bundled into their MSF which makes it difficult to determine the appropriate cost of providing that payment method.
  - 3.40.5 A blended MSF or a single surcharge rate will likely lead to over-surcharging.
  - 3.40.6 Some merchants knowingly make a margin on surcharges. We suspect this behaviour is across a minimal number of merchants and we have contacted some that we have concerns with directly.
- 3.41 We consider greater merchant understanding of their MSFs for the various payment methods would lead to decreased levels or potentially the removal of surcharging.<sup>33</sup>

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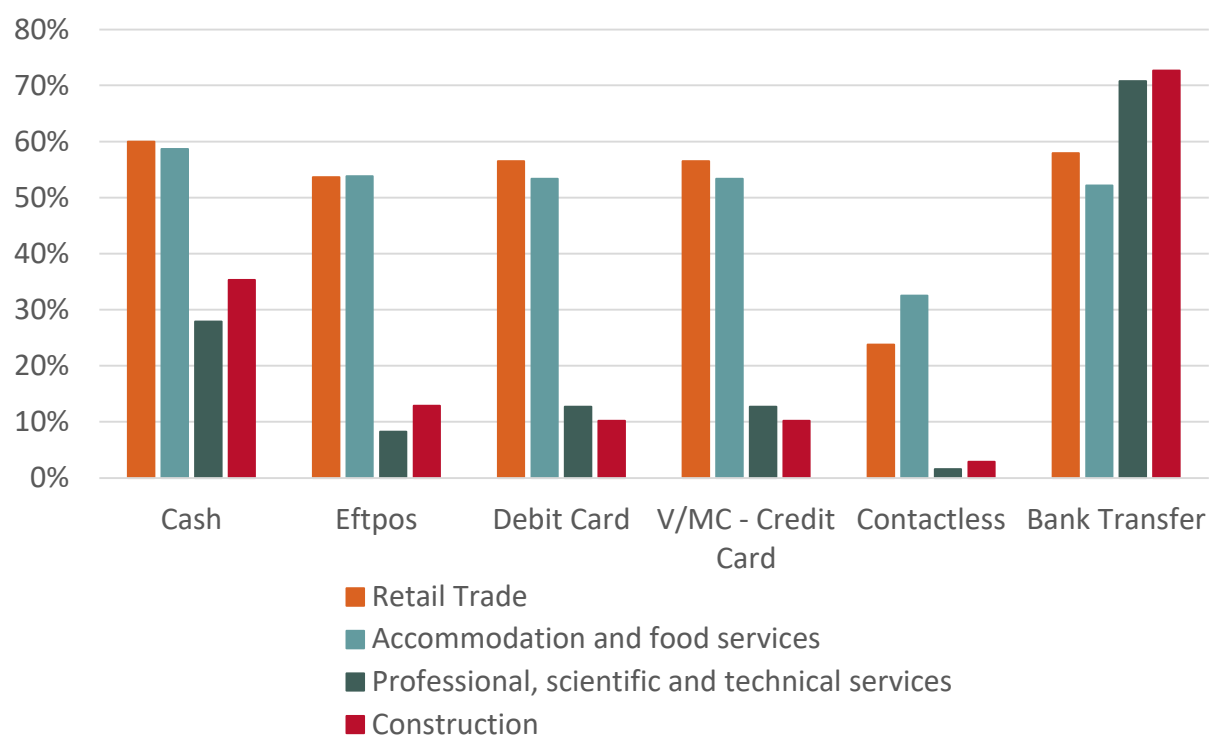
<sup>33</sup> We have addressed this directly with payment service providers. See Commerce Commission “Open letter to Payment Service Providers – payment surcharges” (4 May 2023) available at - <https://comcom.govt.nz/regulated-industries/retail-payment-system>

## Bank transfers are an important payment method for many merchants

**Observation ten:** Bank transfers are an important payment method for many small merchants but are not currently a viable option for many payment situations.

- 3.42 The Research report shows payment by bank transfer is many businesses (especially sole traders) most frequent payment method (**Figure 3.10**). A bank transfer has no direct monetary costs associated with it for consumers or merchants.
- 3.43 **Figure 3.9** shows the sectors that have a higher preference for card payments such as accommodation and food services, and retail services.

**Figure 3.9 Most commonly offered payment types by industry<sup>34</sup>**



<sup>34</sup> Taken from Kantar Public "Kantar's Merchant Research Report" (November 2022) - Slide 21. Industry - Professional, scientific & technical services n = 135, Construction n = 133, Accommodation and food services n = 125, Retail trade n = 141.

- 3.44 Payment by bank transfer can be significantly time consuming for both the merchant and the consumer. The consumer needs to ensure that they input the correct bank account details, and the merchant needs to wait the required processing time and check to see that payment has been received. This is because currently there is no overlay that notifies the merchant that a payment has been authorised and sent to them and only limited information can be sent with the payment.
- 3.45 Payment processing timeframes vary, anywhere between near instant and the next business day.<sup>35</sup> This is dependent on the time the payment is made and whether it is between different banks or within the same bank. For example, a payment between two accounts at the same bank will happen immediately assuming there are available funds. For a payment made between two different banks on a business day, it can take up to a few hours.
- 3.46 Bank transfers can be a reasonable alternative to card transactions for merchants that are doing low volume, high value transactions. This avoids the need for additional payment infrastructure such as a payment gateway and terminal hiring at the point of sale and avoids transaction costs such as MSFs. For those merchants that are doing several transactions a day, this is not a reasonable alternative.

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<sup>35</sup> Payments NZ "Payments moving to 365 days a year" (15 June 2022, updated 28 November 2022). From 26 May 2023 business day settlement will move to everyday settlement with SBI365. For more information see - <https://www.paymentsnz.co.nz/resources/articles/payments-moving-365-days-year/>