

Westpac New Zealand Limited

Submission to the Commerce Commission on
*Retail Payment System: Costs to businesses and
consumers of card payments in Aotearoa New
Zealand.*

2 September 2024



1. INTRODUCTION

- 1.1 This submission to the New Zealand Commerce Commission (**Commission**) is made on behalf of Westpac New Zealand Limited (**Westpac**) in respect of the consultation paper on *Retail Payment System: Costs to businesses and consumers of card payments in Aotearoa New Zealand* (**Consultation Paper**). Thank you for the opportunity to provide feedback on the proposals.
- 1.2 Westpac wishes to retain confidentiality of certain information (as marked).
- 1.3 Westpac's contact for this submission is provided separately.

2. SUMMARY

- 2.1 Westpac's desire is to see an efficient retail payment system that:
 - a) supports the growing needs of all its customers, including both merchants and everyday consumers; and
 - b) supports a thriving payments system that enables smaller players such as fintechs and second tier banks to compete.
- 2.2 We are, significantly concerned about both the short- and long-term consequences of the Commission's proposals, in particular:
 - a) their potential to diminish competition and innovation in the system and make it materially harder for smaller players to enter the market compete; and
 - b) result in other unintended consequences which may be detrimental to merchants and consumers. We are concerned that consumer propositions will be materially reduced by the proposed changes.
- 2.3 Furthermore, we have concerns that Consultation Paper has not adequately considered the impact of the Initial Pricing Standard or the resulting unintended consequences in order to inform whether further regulation is necessary, and whether it will deliver the intended benefits to merchants and consumers.

3. KEY SUBMISSIONS

The Commission's proposals will lessen competition

- 3.1 Westpac is actively working on supporting competition and innovation within the industry through its partnerships with both fintechs and agency banks. Westpac is therefore significantly concerned that the nature and timing of the proposed regulatory interventions will make it harder for smaller players, new payment providers and technologies to enter the market and expand their offerings– in particular:
 - a) **Lower interchange will distort economics for new entrants by:**

- (i) **removing and lessening any price advantage new entrants may have had:** New payment products and services will be expected to be price competitive to scheme card acceptance to attract new users. New payment providers will, at least initially, not have sufficient scale or volume to be able to offer prices that can compete with the lowered caps.
 - (ii) **indirectly limiting revenue levels for new entrants:** Reduced interchange levels will indirectly limit revenue levels for new entrants. As a result, new entrants and smaller players which do not have the scale to absorb the associated costs, may find it more difficult to enter the market and attain the requisite user base necessary to become disruptive competitors. Given New Zealand's relatively small market, this will likely favour larger overseas entrants who have already achieved scale overseas enabling them to innovate and encourage consumer uptake of their products in New Zealand.
- b) **Lower MSFs could mean merchants are less likely to demand more convenient and/or affordable payment methods:** Market participants respond to price signals. The lower the price (whether by regulation or market forces) of a particular good or service, the less incentive there is for customers of that service to seek out and sponsor new competing technologies/providers.
 - c) **Market participants will be disincentivised to invest in and integrate with new payment providers:** The proposals, have the potential to distort investment incentives. The lower price caps will reduce the funding available for acquirers and issuers to invest in: a) new payment options, b) integrating with new payment options; or c) other innovation that would enhance the customer experience and improve efficiency (as seen in the case of EFTPOS).
 - d) **Investor confidence will potentially be undermined:** Investors value regulatory certainty.¹ The more frequent, and/or radical, changes to regulatory settings are, the lower investor confidence is. Westpac supports regulatory settings that encourage investors to prioritise New Zealand as a jurisdiction in which to launch new and innovative payment solutions. Changing the cap on interchange fees without any assessment of the efficacy of the recently introduced Initial Pricing Standard does not send a strong message to investors that they can have certainty about the rules of the road for establishing competing payment solutions.
- 3.2 Westpac strongly believes that, for the reasons set out above and against the backdrop of the launch of open banking in New Zealand and various other initiatives targeted at the payments landscape, the timing of the proposed intervention must be carefully considered to ensure the perceived theoretical benefit of imposing a lower interchange fee cap is not outweighed by the risk of increased barriers to entry, and the resulting loss of dynamic competition.
- 3.3 This is especially the case because, as the Commission has pointed out, one of the most imminent use cases for open banking is in the payments space.² New payment providers will play a key role in paving the foundation for widespread consumer awareness and trust in open banking, which the Commission has identified is an important lever for promoting competition in the broader banking

¹ Xin-Zhou Qi, Zhong Ning & Meng Qin *Economic policy uncertainty, investor sentiment and financial stability — an empirical study based on the time varying parameter-vector autoregression model* (Journal of Economic Interaction and Coordination, vol. 19, pages 779 – 799, 28 December 2021). Retrieved from: <https://doi.org/10.1007/s11403-021-00342-5>

² Market Study into Personal Banking Services Final Report, paragraphs 10.17 and 10.18

industry in the long run. Overall, Westpac worries that the proposed regulatory intervention could undermine the early uptake on open banking in New Zealand.

International experience suggests consumers may be worse off if interchange fee caps are reduced

3.4 The Consultation Paper does not provide sufficient assessment of whether lowering the interchange fee cap will make consumers better off. As noted earlier, before any further regulation is considered, it is important the Commission investigates whether the Initial Pricing Standard has in fact benefited consumers (and enough so to justify the risks of reasonably foreseeable side effects). If it has not, the Commission needs to articulate why duplicating and amplifying that very approach will result in a different outcome so soon afterwards.

a) **International evidence suggests increased costs to consumers and merchants:** The overseas experience (e.g. in the UK and US) suggests that any purported benefit received by consumers may well and truly be offset by increases in other bank fees and/or interest rates^{3,4} More specifically:

- (i) In Spain, the price controls on interchange fees (starting at 1.4% in 2006 and falling to 0.79% in 2009) lead to increased interest rates on credit cards, with income from interest payments nearly 80% higher from 2006 to 2010 than in 2005. At the same time, average annual fees on credit cards rose by 50%, from €22.94 to €34.39.⁵ An increase in interest rates is likely to disproportionately impact lower socio-economic groups who have a higher demand for short-term revolving unsecured lending.
- (ii) In the UK, a material reduction in interchange fees has led to merchant fees being divided into their various components (such as interchange, scheme, gateway, authorisation, PCI compliance and monthly account fees) to allow acquirers to cover the cost of their services and enable them to continue servicing customers.⁶ As such it appears that interchange reductions have not correlated to a corresponding reduction in merchant fees (specifically in relation to smaller merchants).⁷

³ See Mark D. Manuszak & Krzysztof Wozniak, *The Impact of Price Controls in Two-Sided Markets: Evidence From US Debit Card Interchange Fee Regulation* (Bd. of Governors of the Fed. Res. Sys. Fin. & Econ. Discussion Series, Working Paper No. 2017-074, 2017); Vladimir Mukharlyamov & Natasha Sarin, *Price Regulation in Two-Sided Markets: Empirical Evidence From Debit Cards* (SSRN Working Paper, 2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3328579; *Interchange Fee Regulation (IFR) Impact Study Report*, EDGAR DUNN & CO. (Jan. 21, 2020), <https://www.edgardunn.com/re-ports/interchange-fee-regulation-ifr-impact-assessment-study-report>

⁴ Iris Chan, Sophia Chong, & Stephen Mitchell, *The Personal Credit Card Market in Australia: Pricing Over the Past Decade*, RES. BANK OF AUSTL. BULL. (2012), available at <https://www.rba.gov.au/publications/bulletin/2012/mar/pdf/bu-0312-7.pdf>.

⁵ Morris, Zywicki & Manne, *The Effects of Price Controls on Payment-Card Interchange Fees: A Review and Update*. International Centre for Law and Economics (4 March 2022). Retrieved from: [The Effects of Price Controls on Payment-Card Interchange Fees: A Review and Update \(elsevier-ssrn-document-store-prod.s3.amazonaws.com\)](https://www.elsevier-ssrn-document-store-prod.s3.amazonaws.com/The-Effects-of-Price-Controls-on-Payment-Card-Interchange-Fees-A-Review-and-Update)

⁶ Stephen Hart, *Credit card processing fees explained for UK merchants* (2024) (Card Switcher). Retrieved from: <https://www.cardswitcher.co.uk/credit-card-charges-small-businesses-pay/>

⁷ Commerce Commission, *Retail Payment System - Merchant Research Observations* (4 May 2023) at [3.14]. Retrieved from: https://comcom.govt.nz/data/assets/pdf_file/0017/315035/Retail-Payment-System-Merchant-Research-Observations-4-May-2023.pdf

- b) **Scheme cards provide superior consumer protection:** Scheme cards provide superior consumer protection compared to other payment methods currently available in the market which are funded through interchange fee revenue. By way of example, we refer to the recent collapse of Actura (a company which organises to send children to a US space camp), which left many New Zealand families thousands of dollars out of pocket with no recourse to the company. However, those who paid for the trip using a scheme card were refunded the amount through chargeback schemes offered by Visa and Mastercard. The proposed reduction in interchange caps threatens the viability of these value-added services being offered, which are valuable to customers and are unlikely to otherwise be available for customers as readily as they are today.
- c) **Consumers and merchants using EFTPOS are likely to face increased costs:** EFTPOS does not currently incur any charges to merchants or consumers but incurs significant cost to issuers (EFTPOS currently costs Westpac approximately [REDACTED]). This is because EFTPOS is currently subsidised by interchange fee revenue. Should interchange fees be reduced further, the commercial model for EFTPOS would need to be revisited. This may result in:
- (i) EFTPOS ceasing to be offered by banks resulting in reduced volumes and consequently, the underlying EFTPOS infrastructure no longer being able to be supported commercially by the operator; or
 - (ii) the cost being incurred by merchants (and potentially passed onto consumers through surcharges).

In either scenario it is likely that the approximately 48% of transactions⁸ (in both volume and value) that are currently processed through the EFTPOS network (and do not cost merchants or consumers) will incur fees in the future. This could be a direct fee charged to the merchant with the consumer paying a surcharge, or the merchants and consumers having to use scheme cards which incur a fee because EFTPOS is no longer available.

- d) **Overall scheme card proposition to consumers likely to be diminished:** Interchange fee revenue is the source of funds used to reinvest in improvements into the provision of scheme cards and innovation in features such as new digital functionality that improve efficiency and benefit consumers. As a result, further reduction in interchange fees will lead to a deterioration in the quality of the scheme card proposition, including their ancillary benefits to consumers.

The Commission must target long term benefits through a system wide approach

- 3.5 Before the Commission can issue or amend a pricing standard it must "take into account whether there are any features of the retail payment network, or any conduct of participants in the network, that reduces, or are likely to reduce, competition or efficiency".⁹ This exercise should be conducted based on current market settings including the regulatory framework – i.e. the impact of the Initial Pricing Standard must be considered.
- 3.6 The Consultation Paper does not provide sufficient analysis of whether, and to what extent, the Initial Pricing Standard has achieved its intended objectives and if not, what the root cause of the Initial Pricing Standard's failure to deliver its intended objectives is.

⁸ Payments NZ CECS Dashboard, Verifone and Worldline card present data.

⁹ Retail Payment Systems Act 2022, s 18(a).

- 3.7 Furthermore, the Commission's assessment must be guided by both:
- a) the purpose of the Act, which is "to promote competition and efficiency in the retail payment system for the **long-term benefit** of merchants and consumers in New Zealand";¹⁰ and
 - b) the overarching principles that:¹¹
 - (i) "merchants and consumers **should pay no more than reasonable fees** for the supply of **payment services**"; and
 - (ii) "the **retail payment system** provides a reasonable degree of transparency".

3.8 In this regard we make the following submissions:

- a) **Regulation must target long term benefits to merchants and consumers:** Westpac agrees with the Consultation Paper that, "in the medium to long-term, innovations and new entrants could help to further reduce the direct costs and address the indirect costs".¹² The regulatory settings need to support this long-term dynamic competition that will ultimately support new entrants to introduce better payment services for the benefit of all New Zealanders. Even if the Consultation Paper demonstrated a clear short-term benefit to further regulatory intervention, which we do not believe has been done sufficiently, a proper assessment of the long-term consequences must be conducted before any further changes are made. Westpac has serious concerns about the potential long-term unintended consequences from further capping interchange fees (see above).
- b) **The Commission must consider the system as a whole:** The Consultation Paper focuses predominantly on the role of the interchange fees which, as the Commission recognises, is only one component of any merchant service fee (**MSF**).¹³ Further reducing the cap on interchange fees without addressing other potential shortcomings of the system is unlikely to "promote a retail payment system for the long-term benefit of consumers and merchants" as is required. An isolated assessment of one element is also directly counter to the overarching principles. The principles require the Commission to consider whether the "fees for the supply of payment services" (not just interchange fees in isolation) are reasonable, and whether the "retail payment system "as a complete system" provides a reasonable degree of transparency".

The Commission must consider potential improvements across the whole system

3.9 As noted above, it is important the Commission's review of the retail payments system considers all aspects of the system and how each component interacts. If the Initial Pricing Standard has not delivered the desired change and has caused unintended consequences resulting in increased costs to consumers, the root cause must be identified and addressed. By failing to consider the root cause, and nonetheless continuing to reduce with the price cap for interchange fees, the Commission runs the real risk of the proposed new cap failing to promote competition and efficiency. One area that the Consultation Paper and supporting economic literature indicates may merit further consideration is merchant surcharging practices. As acknowledged by the Commission, since the Initial Pricing

¹⁰ Retail Payment Systems Act 2022, s 4(1) and 3.

¹¹ Retail Payment Systems Act 2022, s 4(2).

¹² Consultation Paper, at 3.3.

¹³ Consultation Paper, at Figure 2.2.

Standard came into effect, MSFs have reduced to around 1% whereas merchant surcharging is currently upwards of 2%.¹⁴ Furthermore, there is some evidence that suggests the practice of surcharging has increased since the introduction of the Initial Pricing Standard.¹⁵

- 3.10 A key principle of the Act is that "payment surcharges for payment services are no more than the cost to the merchant of the payment services being used for accepting retail payments".¹⁶ There are many potential explanations for why these surcharging practices may be occurring, which require further examination. If it is in fact the case that merchant surcharging practices are inefficient, there is no guarantee that further changes to the interchange fee price cap will improve the overall efficiency and competitiveness of the retail payments system or will lead to a reduction in surcharge rates (or even their removal) as the Commission suggests in the Consultation Paper.
- 3.11 In this regard, it is important to note that consumers are unable to determine whether a surcharge for a card payment accurately reflects a merchant's costs. For this reason, it is imperative that any case for further intervention focusses on addressing the information asymmetry between consumers and merchants in the first instance. Westpac notes that, internationally there is a growing trend of surcharges being banned to address this issue.¹⁷
- 3.12 Accordingly, Westpac believes that, before any further regulation is considered, the Commission must first consider the following:
- a) Undertake an assessment of merchant surcharging practices, including how these have developed since the Initial Pricing Standard was introduced.
 - b) Work collaboratively with industry, media, consumer organisations and merchants to enhance the transparency, and understanding of MSFs and appropriate surcharging practices. We believe that more can and should be done by the wider industry to bridge the gap in understanding and awareness of both merchants and consumers.
 - c) In this respect, we continue to work with and educate our merchant customers to drive change in behaviour and expect to see continued improvement in their understanding of MSFs. Westpac has implemented the following initiatives to assist merchants to better understand their MSFs thereby assisting them with appropriate surcharging practices:
 - (i) We have updated our merchant statements to provide clarity and transparency in terms of our MSF charges. The statements were updated for a few months to include an average MSF figure as well as a message explaining that any surcharge a merchant wishes to charge must not be more than the cost of accepting the

¹⁴ Commerce Commission "Merchant Research Observations" (May 2023) at 3.37

¹⁵ Verifone Network Charging Summary

¹⁶ Retail Payments Act, s 29(1).

¹⁷ With the UK and EU both having banned the practice in 2018, and, just last month, with the Reserve Bank of Australia contemplating whether to follow suit. See *Card surcharge ban means no more nasty surprises for shoppers* (HM Treasury and The Rt Hon John Glen MP, 13 January 2018) Retrieved from: <https://www.gov.uk/government/news/card-surcharge-ban-means-no-more-nasty-surprises-for-shoppers>; James Evers *Card payment surcharge billions under RBA microscope* (The Australia Financial Review, 22 August 2024). Retrieved from: <https://www.afr.com/companies/financial-services/card-payment-surcharge-billions-under-rba-microscope-20240821-p5k468>.

payment and where in the statement the appropriate rate can be found to help with this. Please see **Appendix 1** for example statements.

- (ii) We have now updated our Merchant Guide on our website which can be found [here](#). The “Surcharging Fees” section in the guide has been updated and refers merchants to the Commission’s guidance on surcharging (via a link).
- (iii) Separate letters have been sent to all our merchants explaining the changes made to the merchant statements and referring merchants to the Commission’s surcharging guidance.

Possible solutions

In addition to the above, the following solutions could be implemented to assist with surcharging practices, so they appropriately reflect the cost of accepting payments to merchants:

- (i) require terminal vendors to sight merchant statements which display an average MSF before loading the surcharge on the terminal;
- (ii) require acquirers to provide an annual statement which gives average annual MSF rates (as is the case in Australia);
- (iii) require terminal vendors to report to acquirers (via switches or gateways) on surcharges loaded;
- (iv) request schemes to mandate surcharge amounts within the transaction message; and
- (v) request terminal vendors to build software that notifies the acquirer and issuer of the surcharge amount.

We would welcome discussions with the Commission on how acquiring banks and other participants can work together to deliver better outcomes for consumers and merchants and improve the efficiency and transparency of the whole system, including how the industry could appropriately deploy unified and consistent messaging to promote better understanding of MSFs among merchants.

- d) In conjunction with the above, work with the industry to improve transparency of MSFs through simplification of processing costs. This could be done by restructuring MSFs, or working with schemes to reduce, simplify, and streamline interchange fee categories (including to ensure they are reflective of costs).

4. CONCLUSION TO KEY SUBMISSIONS

- 4.1 We accept that the Commission has a public duty to intervene where it has identified a market failure. However, the Consultation Paper does not provide any robust evidence of a market failure, its root cause, and how the proposal addresses that root cause. Any regulatory intervention should address the root cause of any concerns identified, to the extent there is evidence of such concerns, and should produce quantifiable, positive outcomes for merchants and consumers.

- 4.2 In this regard, the Commission should explore ways in which merchant surcharging practices could be improved through industry wide collaboration, options for deploying merchant surcharging standards, alongside surcharging guidelines to resolve the current information imbalance, and to ensure consumers are not being over-charged for their point-of-sale transactions.
- 4.3 Lastly, there are currently a number of new and interconnected regulatory initiatives aimed at the complex payments landscape in New Zealand. We encourage the Commission to allow time for these initiatives to play out and assess their impact, before considering further regulatory intervention, to avoid unintended consequences which may be detrimental to the retail payment system, merchants and consumers alike.

5. RESPONSE TO CONSULTATION QUESTIONS

Question 1: Is token portability an issue for New Zealand? If yes, what is stopping the implementation of the Reserve Bank of Australia's expectations here?

- 5.1 Westpac understands that this can be a problem in New Zealand. In particular, some gateways hold tokens and do not provide these to merchants that wish to change their gateway provider. We understand that Visa and Mastercard may be able to share tokens with acquirers but that this would need to be within compliance of Payment Card Industry Data Security Standards (PCIDSS).

Question 2: What do you consider an appropriate methodology for determining interchange fee caps in New Zealand? Why do you think this best meets the purpose of the RPSA, and how would it be practically implemented?

- 5.2 Westpac has not seen compelling evidence that the interchange fees in New Zealand need to change. In any case, Westpac does not believe that it can be presumed on the basis of theory or methodology alone what the optimal interchange fee would be. We note the optimal interchange fee will vary by jurisdiction (and even by merchant market), and will depend on many factors, including:
- whether interchange fees are already low and whether a further reduction would inhibit the incentive to compete and drive efficiency;
 - net benefits to cardholders and merchants stemming from scheme-card usage relative to other payment methods; and
 - the degree of competition from different payment methods in the various markets (including the various merchant markets, and the markets making up the retail payment system eco-system).
- 5.3 Westpac considers that an assessment in the New Zealand context is necessary as opposed to remodelling methodology that has been applied overseas in very different contexts. This approach would be consistent with the RPSA in that it reflects the balance necessary to prevent distortion of the ecosystem as a whole.

Question 3: What is the rationale for the heavy discounting of interchange fees to large businesses and the evidence to support the extent of the discounting observed?

- 5.4 Strategic interchange rates are negotiated between large businesses and the card schemes, and Westpac does not have oversight of these agreements. Speculating only, Westpac would expect these discounts to be due to economies of scale/volume-driven discounts. It is a common market feature for high volumes to incur lower marginal costs, especially where volume discounts apply. We understand discounts can also be tied to driving market uptake of new features that will benefit the overall ecosystem (e.g. tokenisation).

Question 4: What evidence is there to support higher interchange fee rates for credit versus debit card payments

- 5.5 Higher interchange fees for credit versus debit cards is to be expected because credit card products incur greater costs to run and provide greater benefits to their users. As such, the interchange balance should reflect the difference in providing an unsecured credit product. Equally where further investment is required, including to support cash flow for businesses such as commercial cards. It's

worth noting that merchants receive additional benefit from accepting credit cards, for example, because they allow consumers to spend more/sooner than they would ordinarily.

Question 5: Provide quantitative evidence justifying higher interchange rates on domestic card not present transactions

- 5.6 Card not present transactions incur greater costs because they are higher risk and there are costs involved in ensuring that transactions are processed securely. This includes the ongoing investment into fraud prevention services such as authentication and tokenisation.

Question 6: Who is liable for fraud costs associated with transactions made using a foreign-issued card?

- 5.7 The 3D Secure authentication protocol adds an extra layer of protection when shopping with both domestically issued and foreign-issued cards and enables a merchant to submit a challenge to the cardholder to authenticate themselves. If a merchant submits a challenge to authenticate, then any fraud costs associated with a fraudulent transaction sit with the issuer (unless the issuer returns a message to decline the transaction, but the merchant continues the sale nonetheless). If a merchant does not submit a challenge and the transaction turns out to be fraudulent, then the merchant carries this cost.

Question 7: We are seeking quantitative evidence of differences between levels of fraud for domestic and foreign-issued cards.

- 5.8 Most of the fraud committed at domestic merchants is from foreign cards. Typically, these are stolen card details being tested with online merchants. Due to investment made into authentication software by issuers, and the use of chip and PIN for in-store transactions, levels of fraud in NZ are lower than some jurisdictions.

Question 8: We welcome evidence and rationale for why merchants are treated differently for interchange fee application

- 5.9 As an acquirer, Westpac complies with the scheme rules which provide an interchange hierarchy, including varying interchange fees by industry or merchant type.

Question 9: We welcome evidence of the impact of hard caps and percentage rates on compliance cost

- 5.10 Westpac does not have evidence of this nature.

Question 10: Please provide evidence of any other aspects of implementation of any changes to interchange fee caps that impact compliance or other business costs

- 5.11 All changes to interchange rates incur costs of compliance. Merchant re-pricing programmes require resourcing and third-party costs to cover system changes, communications, statement changes etc. The frequency of regulatory change also exacerbates these compliance costs.

Question 11: Acquirers: How would you reduce MSF rates for your customers on fixed on blended pricing?

- 5.12 To reduce MSF rates for customers, interchange rates would be reviewed alongside current portfolio pricing to determine what adjustments to merchant fees are required. Account updates would need

to be made to reflect any adjustments. If a new pricing methodology was proposed, Westpac would need to undertake system development. In addition, we would need to communicate changes in detail to merchants (to ensure they have a thorough understanding), and updates to existing collateral and web content would be required.

Question 12: Acquirers: How would you provide your customers with an overview of the intended impact of further price regulation?

- 5.13 Any changes to MSFs would be communicated to merchant customers in advance of changes, in compliance with their terms and conditions (and with support from Westpac's Merchant Guide ([link here](#))).

Question 13: How fit for purpose is the current anti-avoidance provision? (net compensation)

- 5.14 The de facto prohibition on net compensation is intended to be an anti-avoidance mechanism (i.e. to prevent the cap on interchange being circumvented through other types of payments). However, we consider that the current definition of net compensation is problematic because:
- a) It solely focuses on payments intended to compensate an issuer. It is not clear how those payments could circumvent the regime on their own given the purpose of the regime is to reduce fees paid by merchants (rather than to reduce revenue received by issuers).
 - b) It refers to the "net value" of payments, while the rest of the definition appears to refer to aggregate payments.
 - c) The scope of the definition leaves issuers uncertain as to whether they are able to receive additional payments from card schemes or other parties to address the loss of revenue as a result of the interchange cap. This leads to less innovation/investment from issuers into their card portfolios. In essence, the current definition leads to results that are contrary to the purpose of the Act.
- 5.15 In our view the net compensation definition should focus on payments or incentives that could result in increased merchants' fees. As the Reserve Bank of Australia noted in 2019 in relation to the Australian net compensation prohibition "The key concept underlying the 'net compensation' provision is that while caps on interchange fees can limit amounts paid between acquirers and issuers, participants in a payments network can recreate interchange-like flows through the operation of scheme fees and rebates (and other non-rebate incentives)" and "[w]here acquirers and issuers pay fees to schemes and the scheme provides to the issuer rebates or other incentives of more than the amount of fees paid by the issuer, the net result is a value flow from acquirer to issuer which is economically equivalent to interchange fees." Accordingly, the prohibition should focus on situations where an issuer receives more in incentives than it pays in fees to the card schemes thereby replicating the value flow from an acquirer to the issuer.

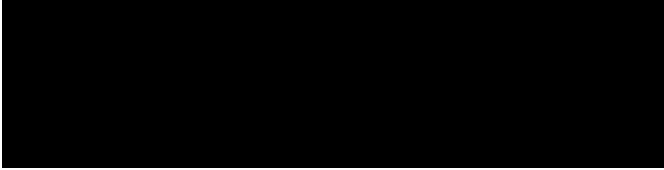
Question 14: Please provide any evidence of other impacts a material reduction in interchange fees for Mastercard and Visa could have on the New Zealand retail payment system?

- 5.16 Please refer to our Key Submissions above.

APPENDIX 1
Example Merchant Statements



Westpac Merchant Services
Private Bag 92503
Wellesley Street
Auckland 1141
Phone: 0800 888 066
Email: merchant_assist@westpac.co.nz
westpac.co.nz/merchant-fees




Westpac Merchant Statement

Account Name: 
Merchant Number: 
Statement Date: **05 March 2024**

Your business payments activity

	NET SALES \$	INTERCHANGE FEE \$	ACQUIRING RATE	ACQUIRING FEE \$	AVERAGE RATE	TOTAL MSF \$
MASTERCARD						
	514.00	3.30	0.389%	2.00	1.031%	5.30
VISA						
	23,444.45	131.23	0.389%	91.42	0.949%	222.65
UPI						
	0.00	0.00	0.00%	0.00	0.00%	0.00
Total	23,958.45	134.53	0.39%	93.42	0.95%	227.95
				Fees and adjustments		\$52.10
				Total		\$280.05

Direct debit notification

The amount of \$280.05 will be direct debited from your nominated bank account  on 15 March 2024.

Important messages

IF YOU CHOOSE TO PASS ON THE COST OF YOUR MERCHANT SERVICE FEE TO YOUR CUSTOMERS AS A SURCHARGE,

THE SURCHARGE FEE SHOULD BE NO MORE THAN YOUR AVERAGE MERCHANT SERVICE FEE.

IF YOU'RE ON A BLENDED RATE OR YOU'RE A GET PAID CUSTOMER, YOU CAN FIND YOUR AVERAGE MERCHANT SERVICE FEE UNDER THE 'MSF RATE' COLUMN.

Merchant Number:



Statement Date:

05 March 2024

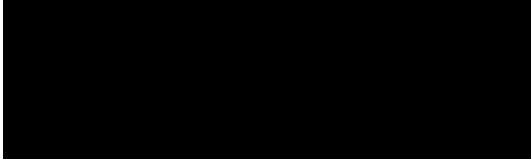
Important messages - continued

IF YOU'RE ON AN INTERCHANGE PLUS (UNBUNDLED) RATE, YOU CAN FIND YOUR AVERAGE MERCHANT SERVICE FEE UNDER THE 'AVERAGE RATE' COLUMN.

TO FIND OUT MORE ABOUT SURCHARGING, GO TO [WESTPAC.CO.NZ/MERCHANTGUIDE](https://westpac.co.nz/merchantguide)



Westpac Merchant Services
Private Bag 92503
Wellesley Street
Auckland 1141
Phone: 0800 888 066
Email: merchant_assist@westpac.co.nz
westpac.co.nz/merchant-fees



Westpac Merchant Statement

Account Name: [REDACTED]
Merchant Number: [REDACTED]
Statement Date: 05 March 2024

Your business payments activity

	NUMBER OF SALES	VALUE OF SALES \$	NUMBER OF RETURNS	VALUE OF RETURNS \$	NET SALES \$	MSF RATE	TOTAL MSF \$
MASTERCARD							
Credit	24	1,808.05	0	0.00	1,808.05	1.59%	28.75
Contactless Debit	29	1,591.60	0	0.00	1,591.60	0.69%	10.98
VISA							
Credit	71	6,138.90	0	0.00	6,138.90	1.59%	97.61
Contactless Debit	116	6,395.90	0	0.00	6,395.90	0.69%	44.13
UPI							
Credit	0	0.00	0	0.00	0.00	1.59%	0.00
Contactless Credit	0	0.00	0	0.00	0.00	1.59%	0.00
Total	240	15,934.45	0	0.00	15,934.45	1.14%	181.47
Fees and adjustments							\$21.74
Total							\$203.21

Direct debit notification

The amount of \$203.21 will be direct debited from your nominated bank account [REDACTED] on 15 March 2024.

Important messages

IF YOU CHOOSE TO PASS ON THE COST OF YOUR MERCHANT SERVICE FEE TO YOUR CUSTOMERS AS A SURCHARGE,

THE SURCHARGE FEE SHOULD BE NO MORE THAN YOUR AVERAGE MERCHANT SERVICE FEE.

Merchant Number:



Statement Date:

05 March 2024

Important messages - continued

IF YOU'RE ON A BLENDED RATE OR YOU'RE A GET PAID CUSTOMER, YOU CAN FIND YOUR AVERAGE MERCHANT SERVICE FEE UNDER THE 'MSF RATE' COLUMN.

IF YOU'RE ON AN INTERCHANGE PLUS (UNBUNDLED) RATE, YOU CAN FIND YOUR AVERAGE MERCHANT SERVICE FEE UNDER THE 'AVERAGE RATE' COLUMN.

TO FIND OUT MORE ABOUT SURCHARGING, GO TO [WESTPAC.CO.NZ/MERCHANTGUIDE](https://westpac.co.nz/merchantguide)



Merchant Number:



Statement Date:

05 March 2024

Transaction detail (EFTPOS)

DATE	NUMBER OF SALES	VALUE OF SALES \$	NUMBER OF RETURNS	VALUE OF RETURNS \$	NET SALES \$
Mastercard					
Credit					
01/02	1	34.55	0	0.00	34.55
02/02	1	69.95	0	0.00	69.95
03/02	1	109.95	0	0.00	109.95
04/02	1	99.95	0	0.00	99.95
08/02	2	118.70	0	0.00	118.70
14/02	2	64.90	0	0.00	64.90
17/02	2	159.90	0	0.00	159.90
18/02	2	118.95	0	0.00	118.95
22/02	2	134.85	0	0.00	134.85
23/02	1	29.95	0	0.00	29.95
24/02	1	39.90	0	0.00	39.90
25/02	3	187.85	0	0.00	187.85
28/02	5	638.65	0	0.00	638.65
Credit Total	24	1,808.05	0	0.00	1,808.05
Contactless Debit					
02/02	1	19.95	0	0.00	19.95
03/02	1	149.95	0	0.00	149.95
04/02	1	39.95	0	0.00	39.95
07/02	1	34.95	0	0.00	34.95
08/02	1	29.95	0	0.00	29.95
10/02	1	89.95	0	0.00	89.95
11/02	1	24.95	0	0.00	24.95
14/02	3	134.85	0	0.00	134.85
15/02	3	109.90	0	0.00	109.90
17/02	4	299.80	0	0.00	299.80
22/02	1	21.90	0	0.00	21.90
24/02	7	482.65	0	0.00	482.65
25/02	2	42.95	0	0.00	42.95
28/02	1	29.95	0	0.00	29.95
29/02	1	79.95	0	0.00	79.95
Contactless Debit Total	29	1,591.60	0	0.00	1,591.60
Visa					
Credit					
01/02	2	113.80	0	0.00	113.80
02/02	1	69.90	0	0.00	69.90
03/02	9	434.45	0	0.00	434.45
04/02	4	296.75	0	0.00	296.75
07/02	1	2.00	0	0.00	2.00

Merchant Number:
Statement Date:

05 March 2024

Transaction detail - continued

DATE	NUMBER OF SALES	VALUE OF SALES \$	NUMBER OF RETURNS	VALUE OF RETURNS \$	NET SALES \$
08/02	3	94.80	0	0.00	94.80
10/02	3	345.85	0	0.00	345.85
11/02	4	493.70	0	0.00	493.70
14/02	3	153.80	0	0.00	153.80
15/02	2	39.90	0	0.00	39.90
16/02	4	513.90	0	0.00	513.90
17/02	6	652.55	0	0.00	652.55
18/02	5	534.65	0	0.00	534.65
22/02	5	414.00	0	0.00	414.00
23/02	4	587.70	0	0.00	587.70
24/02	6	645.65	0	0.00	645.65
25/02	4	374.70	0	0.00	374.70
28/02	4	353.85	0	0.00	353.85
29/02	1	16.95	0	0.00	16.95
Credit Total	71	6,138.90	0	0.00	6,138.90
Contactless Debit					
01/02	4	113.60	0	0.00	113.60
02/02	3	47.85	0	0.00	47.85
03/02	6	458.60	0	0.00	458.60
04/02	2	248.95	0	0.00	248.95
07/02	3	88.85	0	0.00	88.85
08/02	6	305.60	0	0.00	305.60
10/02	6	212.35	0	0.00	212.35
11/02	6	453.75	0	0.00	453.75
14/02	9	553.90	0	0.00	553.90
15/02	8	699.60	0	0.00	699.60
16/02	5	377.10	0	0.00	377.10
17/02	5	212.65	0	0.00	212.65
18/02	4	124.75	0	0.00	124.75
22/02	10	364.45	0	0.00	364.45
23/02	8	414.70	0	0.00	414.70
24/02	11	700.40	0	0.00	700.40
25/02	5	268.35	0	0.00	268.35
28/02	6	204.15	0	0.00	204.15
29/02	9	546.30	0	0.00	546.30
Contactless Debit Total	116	6,395.90	0	0.00	6,395.90

Fees and adjustments detail

Worldline

Tax Invoice

GST No:

Invoice Number:

TERMINAL	TRADING NAME	LOCATION	REF	CHARGES	AMOUNT \$
			1803760	ADMIN	18.90
GST					\$2.84
Total					\$21.74



Merchant Number:
Statement Date:

05 March 2024

Transaction detail (EFTPOS)

DATE	NUMBER OF SALES	VALUE OF SALES \$	NUMBER OF RETURNS	VALUE OF RETURNS \$	NET SALES \$
Mastercard					
01/02	2	369.00	0	0.00	369.00
08/02	1	105.00	0	0.00	105.00
24/02	1	40.00	0	0.00	40.00
Total	4	514.00	0	0.00	514.00
Visa					
01/02	2	94.00	0	0.00	94.00
02/02	2	215.00	0	0.00	215.00
03/02	6	604.00	0	0.00	604.00
05/02	3	150.00	0	0.00	150.00
07/02	3	909.00	0	0.00	909.00
08/02	2	329.00	0	0.00	329.00
09/02	2	355.00	0	0.00	355.00
10/02	2	1,327.00	0	0.00	1,327.00
12/02	4	308.00	0	0.00	308.00
13/02	5	2,297.45	0	0.00	2,297.45
14/02	4	494.00	0	0.00	494.00
15/02	1	800.00	0	0.00	800.00
16/02	6	6,097.00	0	0.00	6,097.00
17/02	1	178.00	0	0.00	178.00
19/02	3	166.00	0	0.00	166.00
20/02	4	6,230.00	0	0.00	6,230.00
22/02	3	3,288.00	0	0.00	3,288.00
23/02	4	524.00	0	0.00	524.00
24/02	4	4,320.00	0	0.00	4,320.00
26/02	1	20.00	0	0.00	20.00
27/02	1	35.00	0	0.00	35.00
28/02	2	557.00	0	0.00	557.00
28/02	0	0.00	1	6,000.00	-6,000.00
29/02	1	147.00	0	0.00	147.00
Total	66	29,444.45	1	6,000.00	23,444.45

Merchant Number: [REDACTED]
Statement Date: 05 March 2024

Fees and adjustments detail

Worldline

Tax Invoice

GST No: [REDACTED]

Invoice Number: [REDACTED]

TERMINAL	TRADING NAME	LOCATION	REF	CHARGES	AMOUNT \$
[REDACTED]	[REDACTED]	[REDACTED]	1803957	ADMIN	37.80
[REDACTED]	[REDACTED]	[REDACTED]	1804585	CONSUMABLE	7.50
GST					\$6.80
Total					\$52.10

