2 September 2024

# Submission: Retail Payment System – Costs to businesses and consumers of card payments in Aotearoa New Zealand

## Executive Summary

1. Paymark Limited, trading as Worldline New Zealand (**Worldline**), is grateful for the opportunity to provide feedback on the Commerce Commission's (**NZCC**) consultation paper concerning the costs to businesses and consumers of card payments in Aotearoa New Zealand released 23 July 2024 (the **paper**).[1]

2. Worldline New Zealand (formerly Paymark) was established in 1984 to provide low-cost Eftpos transaction processing as a way of enabling banks and merchants to move from cash to electronic payments. The launch of Eftpos catapulted New Zealand (at the time) to the global forefront of payments innovation and we continue to be New Zealand's leading payments innovator. We design, build and deliver payment solutions that help Kiwis succeed and we have a strong drive to see New Zealand at the forefront of global payments innovation once again. Worldline New Zealand has been a part of Worldline SA, our parent company (a French corporation), since 2020. We are a New Zealand based entity employing circa 200 people in Auckland. We process Eftpos transactions and transactions that are routed out to the international card schemes (**schemes**) [2], we provide payment gateway solutions to ecommerce platforms and directly to ecommerce merchants, and we have an API-based payment platform, and an in-market open banking payment product called 'Online Eftpos'. We're also working on a modern replacement on Eftpos.

3. In this submission, we make some general observations on competition and answer those questions aimed at all stakeholders. Note that our submission contains commercially sensitive information and that a separate, confidential version is provided. Our key points are as follows:

   a. Worldline urges the NZCC to provide more certainty around the future of retail payments and to continue working with other regulators and industry to develop

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[1] See https://comcom.govt.nz/__data/assets/pdf_file/0031/359491/Retail-Payment-System-Costs-to-businesses-and-consumers-of-card-payments-in-Aotearoa-New-Zealand-Consultation-Paper-23-July-2024.pdf

[2] Such as Visa and Mastercard.

a holistic strategy for payments innovation, including modern payments infrastructure such as a real-time payments platform.

b. Worldline supports the proposed interchange fees[3] and the cap on surcharging as we want both consumers and merchants to see reduced costs. The NZCC must, however, be mindful of unintended consequences, including a potential dampening of innovation (due to lack of commercial model) and an acceleration in the decline of Eftpos (resulting in a lack of competitive constraint on the schemes for instore transactions).

c. Access to the NFC[4] component in mobile phones is crucial to the success of modern payments. While we welcome Apple's recent announcement, there's work to be done to ensure that the access terms are reasonable.

d. New Zealand should mandate token portability to enable efficiencies in changing ecommerce providers.

e. For there to be effective competition for the long-term benefit of New Zealanders we need new, digital, efficient, domestic payments products that are widely adopted and accessible to all New Zealanders. Bank support is crucial.

f. Scheme mandates that feed scheme data models, but do not contribute to improving the payment experience nor added security, should not be compulsory nor should they result in fines, that drive further cost.

4. Despite having some reservations (see paragraph 5), Worldline is supportive of initiatives that reduce the costs of payments to both consumers and merchants, and limits surcharging.

## The detail

5. **Unintended consequences of interchange regulation.** Bank issuers of card products make commercially rational decisions. The lowering of interchange fees will drastically impact the revenue they see from scheme products. These reductions to the merchant in costs may not make it to the consumer, but at the very least, surcharging should be lowered and capped. However, while lowered interchange and surcharging

[3] See the 'Alternative Rates' set out on page 32 in Table 4.1 of https://comcom.govt.nz/__data/assets/pdf_file/0031/359491/Retail-Payment-System-Costs-to-businesses-and-consumers-of-card-payments-in-Aotearoa-New-Zealand-Consultation-Paper-23-July-2024.pdf

[4] Near-field communication) or 'NFC' is technology that allows two devices (i.e. a phone and a payment terminal) to talk to each other when they are close.

caps will benefit consumers, removing this barrier to the use of scheme cards will likely further speed the decline of traditional Eftpos; impacting competition and innovation as investment may not be commercially viable. Worldline has designed a modern version of Eftpos and proven it works[5]. It is a digital token issued to a phone that can be used contactlessly instore to make an account-to-account payment. It's accepted via existing instore terminal and then routed to our open banking payment APIs for processing. Generally, feedback from the industry (consumers, merchants and banks) has been supportive. However, issuing bank support (i.e., a commitment to issue and promote to account holders) is crucial and they are reticent. This, we think, is largely related to commercial concerns as well as prioritisation of resources and investment. While we have proposed a commercial model for 'Contactless Eftpos' where, contrary to the current Eftpos model, the issuing banks will see a return, it may be difficult to compete in market with lower priced scheme products given one of the largest costs is related to Apple and the other is the rise in the fees for accessing bank payment APIs, which banks have set at a level that is uncompetitive for instore payments. Worldline supports the NZCC's recommendation to designate the interbank network[6] and would welcome the opportunity to work with the NZCC to further standardise payment API access pricing.

6. **Modern infrastructure.** When we think of transactions we really think of interactions. Payments is only one part of that. New Zealand needs modern infrastructure that can provide a platform for many different interactions, including fraud monitoring, payment, digital identity services. Platforms that provide for data rich messaging and data sharing are key enablers of a digital economy. New Zealand is one of the last countries to implement real-time payments platform.[7] These platforms provide the first layer on which a multitude of data services can thrive. Worldline has extensive experience in building and operating such systems in other jurisdictions. From Worldline's experience, it takes 1 – 2 years to stand up a real-time payment system up. In New Zealand it has taken that long to discuss and explore the project but no decision to go ahead (or not) has been made. New Zealand should learn from, and not repeat, the same mistakes as other jurisdictions where reasons for failure include lack of political alignment, poor commitment across too many stakeholders, lack of a value proposition

[5] See link to video ***CONFIDENTIAL***

[6] See https://comcom.govt.nz/__data/assets/pdf_file/0018/362025/Retail-Payment-System-Recommendation-to-the-Minister-to-designate-the-interbank-payment-network-August-2024.pdf

[7] Download the report from https://www.aciworldwide.com/prime-time-for-real-time-report?utm_campaign=gpe-2024-bnks-rtp-global-prime-time-for-real-time-2024-web&utm_medium=press-release&utm_source=press-release and see https://www.paymentscardsandmobile.com/global-real-time-payments-transactions-hit-record-highs/

that fits market needs or misaligned priorities in context of local market structure.[8] New Zealand needs a clear sequencing roadmap to deliver competition and innovation in payments. Globally there is a move to account-to-account local debit products and New Zealand is lagging.[9] We are a small country and if we are to have any viable future for debit, the payments industry must collaborate and collectively decide and agree to move to a new payment product that is designed to meet New Zealanders' specific needs and that can compete with the schemes.

7. **NFC wallets are crucial to modern payments**. The opening of Apple's NFC will create new opportunities for contactless payments as banks and payment service providers can now develop their own NFC-based payment solutions. NFC technology has converted our phones into payment devices and is the reason why we can use Apple Pay or Google Pay. The European Commission has been instrumental in driving Apple to open its payments' ecosystem[10], but the devil is in the detail. Access to the NFC still requires a bilateral commercial contract with Apple and for fees to be paid. Worldline would like to see those fees regulated so that banks and payment service providers can access the NFC (which for payments needs to be in the secure element of a phone) on reasonable terms. Without regulating for NFC access, it could be challenging to design products that can compete with scheme on cost, especially if the NZCC regulates the interchange fees as proposed in the consultation paper.

8. **Token portability is an issue.** Over the years we have heard from several ecommerce merchants who wish to move ecommerce providers but are limited by their current provider. Some ecommerce providers claim that migrating the tokens is prohibited as it would breach PCI standards, that the process for decrypting tokens is too complex, that their system is not translatable, or they charge prohibitively expensive fees (for example, $5 to $10 per token). None of these excuses hold water and yet merchants are forced to stay with their existing provider, not because they provide a good or better service, but because it is costly and or difficult to leave. Worldline has seen moderate success in the 'new to ecommerce' market but finds it very challenging to complete for

[8] For Europe, see https://insights.flagshipadvisorypartners.com/p27-lessons-learned-from-the-latest-failure-in-pan-european-payment-collaborations and for Canada see https://www.ctvnews.ca/business/payments-canada-undergoes-leadership-change-amid-slow-shift-to-faster-payments-1.6828712

[9] See https://thefintechtimes.com/open-banking-and-a2a-payment-transactions-to-reach-600-billion-by-2028-reveals-juniper-research/ and https://www.paymentscardsandmobile.com/local-payments-initiatives-challenge-dominance-of-card-schemes/ and https://www.paymentscardsandmobile.com/card-alternatives-like-pay-by-bank-are-on-the-rise/

[10] See https://www.theguardian.com/technology/article/2024/jul/11/apple-eu-antitrust and https://www.pymnts.com/cpi-posts/eu-commission-enforces-legally-binding-commitments-on-apple-under-antitrust-rules/

existing larger scale ecommerce merchants because of these artificial restrictions and excuses used by established providers. NZCC should follow the Reserve Bank of Australia's lead and set a deadline for the industry to provide for token portability.[11] Token portability helps to support competition between ecommerce providers because it reduces the friction for merchants who want to switch ecommerce providers.

9. **Lack of competition instore.** Retail payments are monopolised by the international card schemes.[12] Competition in payments will happen once there is more support from the banking industry for products that are not promoted by Visa and Mastercard. Incentives associated with issuing and processing Visa and Mastercard products make it challenging for any other payment product to compete. New Zealand's local proprietary debit product Eftpos[13] will soon exit the market[14] and with it goes an important competitive constraint on the schemes. This lessening in competition leads to increased costs for merchants and consumers and it threatens New Zealand's financial stability. Eftpos has had no investment from banks nor innovation from Payments New Zealand (**PNZ**)[15] who set the rules. While Eftpos declines there is nothing to take its place. Worldline Contactless[16] could provide that Eftpos alternative but the commercial success required to be a viable competitor to Visa and Mastercard relies on there being large scale issuing and promotion to consumers and ubiquity of acceptance by merchants.

10. **Certain scheme mandates should not result in the imposition of fines.** Schemes are increasingly mandating 'compliance' features which deal with neither security nor fraud nor the actual payment. A recent mandate[17] relates to the inclusion of new trace element tags into transactions at the expense of terminal vendors, switches and acquirers. These tags simply help the schemes feed their data models and data offerings which they sell back to the banks. These requirements inhibit innovation as time and resources are directed to 'compliance', and it drives costs into the proposition to merchants. We have been told we need to implement these 'compliance' items and that there is no room for negotiation nor the ability to recoup the cost of development

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[11] See https://www.rba.gov.au/payments-and-infrastructure/debit-cards/expectations-on-tokenisation/index.html

[12] In June ***CONFIDENTIAL*** of instore transactions were made with a scheme card over the Worldline switch.

[13] Proprietary EFTPOS (electronic funds transfer point of sale) cards are issued by consumer banks, they have a magnetic stripe and do not bear a scheme brandmark.

[14] Proprietary EFTPOS transactions for June 2024 make up ***CONFIDENTIAL*** of instore transactions over the Worldline switch.

[15] PNZ is owned and controlled by 8 New Zealand banks.

[16] See https://www.paymark.co.nz/blog/new-contactless-payments-taking-off/

[17] See Mastercard mandate AN6022 (54 pages with 19 data elements).

from the schemes. These compliance items cost hundreds of thousands of dollars a year for no payment-related benefit. If these mandates are not complied with, schemes levy hefty ‘fines’ which are arbitrary in amount, bear no relation to any actual cost incurred by card schemes for ‘non-compliance’, and near impossible to challenge. These fines are contractual penalties, which unless they represent a genuine liquidated damages clause, should be unenforceable. Yet, they are regularly imposed and paid – largely due to unfair bargaining power between the schemes and the banks, and then the banks and payment service providers.

11. **Surcharging is out of control.** Not only do we see surcharging upwards of 2.5% but we now see scheme-only terminals. These terminals do not accept mag-stripe cards and when a scheme debit card is inserted the transaction goes to the acquirer (like a credit transaction) and the consumer is surcharged. Surcharging is sometimes being used as a mechanism to pay for the terminal and point-of-sale system, not just for covering the cost of accepting a payment product. Despite NZCC guidance, merchants are still applying surcharges that are too high. As digital with online, we think instore merchants should provide a non-surcharged electronic or method of payment.

## Conclusion

12. Worldline is supportive of the NZCC’s plans to reduce interchange fees, but more is needed. The long-term solution for payments lies in local innovation that provides competition to the schemes. If scheme products are very low to accept, local innovators may struggle to invest if they cannot see a sufficient return.

13. New Zealanders should have access to low-cost, modern and frictionless ways of paying for goods and services that are customised to the New Zealand market. We believe that Worldline Contactless is an exciting and important example of innovation and competition in payments. However, support across the banking sector has not yet been obtained – all banks must to commit to issuing a product that has a chance of competing with the schemes.

14. The decline in local debit usage not only affects consumer choice but also has broader implications for our financial autonomy. As transactions increasingly move to international schemes, New Zealand risks becoming overly dependent on these systems, which could lead to higher costs for consumers and reduced competitiveness for local businesses. The barriers (perceived or otherwise) stopping the banks from coming together to discuss the potential consequences of Eftpos exiting the market, and how New Zealand should best manage that impact, need to be removed.

15. Government must be clearer in its intentions as regards competition, real-time payments, open banking and digital cash. A holistic, cohesive overarching strategy for payments, backed up by a robust regulatory framework, would provide clarity to reassure the market that regulators are serious about providing a climate in which payments innovators can access the information and services they need to succeed.

16. Thank you for the opportunity to submit on the paper. Should you wish to discuss any of the points raised in this submission, please do not hesitate to contact Julia Nicol on [redacted].