

26 August 2024

Mr Matthew Lewer
Head of Payments, Market Regulation

By email only to: RetailPaymentSystem@comcom.govt.nz
PaymentsTeam@comcom.govt.nz

Dear Matthew,

Commerce Commission: Costs to businesses and consumers of card payments Consultation Paper

We are grateful for the consultation and have provided our responses in the attached submission template (Appendix A) as requested.

We are also happy to discuss any of the below points with the Commerce Commission and any representatives.

If you have any further queries please do not hesitate to contact me.

Regards,

Paul Monnington
Managing Director, Wpay

Appendix A: Wipay NZ Submission Response

Question number	Target Audience	Question
1	Merchants	Do merchant service fee complexities drive challenges in determining whether and how you surcharge?
2	Merchants	Would you consider lowering or even ceasing to surcharge if your merchant service fees were less than 1% for in person card payments?
3	All stakeholders	Is token portability an issue in New Zealand? If yes, what is stopping the implementation of the Reserve Bank of Australia's expectations here?
Wipay NZ		Token portability can be a source of friction that may prevent merchants from switching acquiring services. Most acquirers (global and local) have processes to swap tokens (and PANs) between each other to enable merchant acquiring switching. Wipay operates processes in a secure fashion (and complying with PCI standards) to other acquirers and also to receive tokens (and PANs) from other acquirers. We would support the requirement for all acquirers to provide that support.
4	All stakeholders	We welcome further evidence of any other issues within the New Zealand retail payment system
Wipay NZ		<p>Cost of online payments - With the continued rise of innovation in the 'internet of things' as well as 'card not present' solutions used to shop in stores we see an increase in consumers making payments via 'card not present' channels. The significant fee disparity between 'card present' and 'card not present' transactions will increase costs to consumers and we welcome efforts to reduce this cost imbalance. For example we believe there should not be a large discrepancy between Debit transaction costs for 'Card Present' and 'Card Not Present'.</p> <p>Dominant e-commerce platforms - We agree with the concerns raised in 3.26 and would support an open payment ecosystem for merchants without additional platform fees.</p>
5	Schemes, Issuers, Acquirers	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 Retail Payment System Act, and how would it be practically implemented?
Wipay NZ		<p>There are benefits of both of the options provided to enable low cost and simplicity across both card types (common interchange fee cap).</p> <p>From a systems complexity perspective, benchmarking interchange fees structure with Australia has the advantage of common systems / standards across NZ and AU due to the prevalence of merchants, issuers and acquirers that operate in both jurisdictions. This has the potential to reduce regulatory complexity and allow for standardised processes and pricing policies.</p> <p>If a standard rate is set to be variable (e.g. bps) then this will have the opportunity to rise as order values rise, increasing costs. It has the potential to make certain payment types (e.g. DR cards) less viable or more expensive in high order value use cases. There is an argument to have DR cards set to cents per transaction to enable the take up in more segments.</p>

6	Schemes, Issuers, Acquirers	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?
Wpay NZ	<p>In general, merchants will consider both consumer impact (and need), and the overall payment cost when they analyse whether to accept a payment method and / or should they surcharge those payment costs. On the other side, schemes / issuers may be impacted by other factors such as the risk of the merchant industry segment, the number of customers and also the brands associated. Then the business can bring value to their customers, in return they reward them through not passing on surcharge fees.</p> <p>Large merchants often have teams and processes that streamline the end to end payment experience, including purchasing, fraud and exception scenarios such as refunds or dispute management. Very large merchants also have invested in direct links to schemes to streamline the end to end process and keep the system running as efficiently as possible, reducing scheme overheads, and responding to issuer / scheme requests or issues. For example, an inhouse fraud team and payment SMEs can reduce fraud prevention costs and subsequent customer servicing from card issuers and system issues and exceptions from schemes. Customer payment queries can be managed via customer service channels which otherwise would result in increased queries to the card issuer. These steps benefit all parties in the payment ecosystem from cardholders via reduced fraudulent transactions and confidence in the payments system, card issuers via reduced fraud losses and servicing calls from their cardholders and the merchant compensating them from the increased costs of providing these services.</p>	
7	Mastercard, Visa, Issuers	What evidence is there to support higher interchange fee rates for credit versus debit card payments?
8	Mastercard, Visa, Issuers	We welcome quantitative evidence justifying higher interchange rates on domestic card not present transactions.
9	Mastercard, Visa	We are seeking evidence on the rationale and methodology used to set the difference between interchange fee rates on cards issued within New Zealand and foreign issued cards.
10	Mastercard, Visa	Why are two categories of rates for foreign-issued cards (inter-regional and intra-regional) necessary?
11	Mastercard, Visa, Issuers, Acquirers	Who is liable for the fraud costs associated with and the merchant transactions made using a foreign-issued card?
12	Mastercard, Visa, Issuers, Acquirers	We are seeking quantitative evidence of differences between levels of fraud for domestic and foreign-issued cards.
Wpay NZ	Wpay applies fraud rules and monitoring across all payment transactions. We do apply certain stricter rules for foreign based cards due to the potential propensity for increased fraud, especially from certain higher risk jurisdictions.	
13	Mastercard, Visa, Acquirers	We welcome evidence and rationale for why merchants are treated differently for interchange fee application.
Wpay NZ	See above	
14	Mastercard, Visa, Acquirers, Issuers	We welcome evidence of the impact of hard caps and percentage rates on compliance costs.
Wpay NZ	Compliance costs would be impacted by changes that will impact our billing and pricing engine. It is too early to estimate this, but if based around the current AU / NZ construct that would minimise the amount of change required.	

15	Mastercard, Visa, Acquirers, Issuers	Please provide evidence of any other aspects of the implementation of any changes to interchange fee caps that impacts compliance or other business costs.
Wpay NZ	See above.	
16	Acquirers	How would you reduce merchant service fee rates for your customers on fixed or blended pricing?
Wpay NZ	N/A - Our current pricing in NZ is on Interchange ++	
17	Acquirers	How would you provide your customers with an overview of the intended impact on them of further price regulation?
Wpay NZ	Wpay communicates pricing updates to all our merchants as part of normal operations. Depending on the impacts and complexity this may involve online communications or direct engagement via relationship managers.	
18	Mastercard, Visa, Issuers, Acquirers	How fit for purpose is the current anti-avoidance provision? Please provide evidence of any challenges and whether there are other more efficient solutions.
Wpay NZ	<p>Wpay supports the anti-avoidance provisions to allow for transparency, promote competition and for level playing field for all participants. However, this should not come at an additional cost of compliance overheads of producing data and information, which may be unclear and not helpful to merchants (e.g. averages).</p> <p>The obligations should consider other participants in the payments market such as Payment Service Providers and Independent Sales Organisations who are selling payments services to merchants.</p>	
19	All stakeholders	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.