Commerce Commission NZ
Wellington
New Zealand

Attention: Retail Payment System

Delivered by email to: RetailPaymentSystem@comcom.govt.nz

30th August 2024

To Whom it May Concern,

Re: Costs to businesses and consumers of card payments in Aotearoa New Zealand: Consultation Paper

Change Labs NZ Pty Ltd ("Change Financial") is an established principal Mastercard Issuer in NZ (and Australia), providing card issuance and transaction processing services to a range of corporate clients. Since launching our first BIN sponsorship programs in December 2023, we have become the largest non-bank Issuer of Debit cards in NZ, supporting First Credit Union, Police Credit Union, Credit Union Auckland, Nelson Building Society and Unity Credit Union, with other sizable Debit clients in our pipeline. Change Financial also has Prepaid card programs in market [redacted].

Change Financial's origins trace back to GFG Group Limited (acquired by Wirecard in 2014, which was subsequently acquired by Change Financial in 2020), where for the past 30 years we have provided technology and support to a number of banks globally for card issuance and transaction processing across all scheme and product types.

Given our long-standing expertise in the payments industry, and in particular domestic knowledge of the NZ payment landscape, challenges faced by participants, and the range of participants looking to enter the market, we are well placed to respond to some of the submission questions regarding the recently published Consultation Paper.

Our responses are within the table provided below.

Responses to selected submission questions:

Question number	Target Audience	Question	Response
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?	The RBA's expectation is that acquirers address the issue of being able to port tokens amongst themselves, to allow merchants to change acquirers without cardholders having to re-tokenise to the merchant. This is an issue for NZ as well as Australia, in that the problem for acquirers requires the Schemes and Issuers to be involved to ensure tokens remain trusted and not compromised in the process, unless acquirers are happy to take on liability for related fraud.
4	All stakeholders	We welcome further evidence of any other issues within the New Zealand retail payment system	-

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?	Interchange fees represent revenue for the Scheme (Visa or Mastercard) and the Issuer. Any determination to reduce interchange will affect one or most likely both parties. Since the Schemes provide greater payment capability and flexibility (e-commerce, digital wallets, 3D Secure for fraud prevention, dynamic CVV for fraud prevention, chargebacks for fraudulent transactions, merchant tokenisation etc) than the domestic network, there is a risk in hindering development and support of innovation and controls. However, more likely the costs will be passed through to the Issuer to bear. For the Issuer, reduced revenue from interchange will also most likely reduce the investment in innovation and controls, or at the very least increase the cost to serve their customers. Section 4.25.1 correctly states that the Issuer decides on where to spend interchange, but under a BIN Sponsorship arrangement (such as ours to corporate clients) there is no spend, just value in the cost to serve which translates to financial viability or in the least capital for innovation for those clients in order to compete i.e. any company wanting to enter the market and innovate in order to compete with the incumbent agency banks will most likely depend on this revenue to be financially viable, where alternatives to bank issued credit cards (which are harder for consumers to obtain in the current environment) are needed, including Buy Now Pay Later brands, or any brand offering rewards associated with a credit card. With regards to Debit cards, there has been a shift by member banks from the agency banks, not based on cost necessarily but from a capability perspective – it is imperative that to protect the viability of such companies and their employees, cost is not a factor that tips them away from attracting new customers, otherwise there is likely to be contraction within the banking industry (towards the big four) at the expense of competition and innovation. Therefore, no methodology should be considered without fully understanding and considering the value proposition/impact for the consumer and the value chain and cost for the business entity providing the product and capability. Section 4.26 recommends benchmarking of interchange, whereas we recommend at the very least benchmarking total cost of the value chain with consideration to features and benefits delivered – its much more than interchange alone.
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?	-
7	Mastercard, Visa, Issuers	What evidence is there to support higher interchange fee rates for credit versus debit card payments?	Credit cards inherently carry significantly greater likelihood of fraud events and scale of fraud liability compared to debit cards due to their nature of use and available balance. They are worth the most to fraudsters, in terms of indicative information of card data sold on the black market. Credit cards also carry a greater risk in terms of credit exposure to the Issuer, whilst often concurrently offering rewards for the card usage. Credit cards also present a value proposition to merchants (via spend incentives to the cardholder) that favour spend at those merchants.

			These are just three features of credit cards representing a greater cost, which is in part covered by higher interchange. For the consumer it is a very different value proposition compared to an everyday debit card. Credit card and debit cards are not the same product, and applying the cost difference via annual fees or interest (section 4.36) does not provide correlation to actual spend activity
8	Mastercard, Visa, Issuers	We welcome quantitative evidence justifying higher interchange rates on domestic card not present transactions.	Card Not Present (CNP) transactions have the highest rate of fraud compared to EMV or tokenised card present transactions, and this statistic is growing and is growing. Furthermore, we understand that magnetic stripes on cards will be eliminated from the Mastercard network by 2029 (with cards in market expiring by 2033) which will further eradicate card present fraud. With fraud impacts gearing towards CNP, it is logical that interchange is applied appropriately towards such transactions. It is important to note that whilst fraud may not occur domestically it can originate domestically – the cost of fraud is relevant to the transaction type regardless.
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 transactions made using a foreign-issued card?	Liability for loss, in all cases, will sit with the cardholder, Acquirer, or Issuer depending on where controls are deemed to have been bypassed – this is true for domestic and foreign cards alike. Operational costs of handling the fraud case sits with the Issuer, and by extension possibly the Acquirer, in the investigation and resolution. Regulators (generally speaking) can furthermore enforce a liability shift from one party to another, resulting in higher operational costs as well as liability for loss. Fraud determination and management is therefore a critical process, but comes at a cost. As an Issuer we invest heavily in prevention rather than management of fraud.
12	Mastercard, Visa, Issuers, Acquirers	We are seeking quantitative evidence of differences between levels of fraud for domestic and foreign-issued cards.	Typically, a compromised card will transact overseas, often in countries where the fraudulent merchant is more easily established and less traceable. It is statistically more likely that a domestically issued card will have a fraudulent transaction occur offshore than a foreign issued card having a fraudulent transaction occur in NZ, although it should be recognised that the fraud in either case may stem from a card compromised domestically.
13	Mastercard, Visa, Acquirers	We welcome evidence and rationale for why merchants are treated differently for interchange fee application.	-
14	Mastercard, Visa, Acquirers, Issuers	We welcome evidence of the impact of hard caps and percentage rates on compliance costs.	As an Issuer, all aspects of compliance (internal, Scheme, Regulatory) are taken seriously and are appropriately resourced regardless of revenue. This comes at a cost and is very much part of the cost to serve our clients under BIN Sponsorship. Interchange revenue has no correlated impact on compliance costs as compliance simply cannot be scaled down without unacceptable risk. It does however threaten the affordability to continue to operate as an Issuer and BIN Sponsor, or to our clients themselves if we pass the costs on.
15	Mastercard,	Please provide evidence of any	As an Issuer (and processor) of Credit, Debit and Prepaid products,

	Visa, Acquirers, Issuers	other aspects of the implementation of any changes to interchange fee caps that impacts compliance or other business costs.	we have a broad range of operational costs including technology, product and projects, fraud management, risk and compliance. Most of these costs are fixed, as the base cost of doing business, regardless of interchange or other revenue. For example, we cannot scale down management and prevention of fraud particularly around the growth of fraud on CNP and we cannot scale down activities to meet PCI-DSS, regulatory or scheme compliance. Reduced interchange will diminish an offset to our cost base. Like any cost increase, we would need to offset the impact through reducing innovation activities, passing the costs on to our clients or withdrawing services to clients. . As a BIN sponsor, keeping the cost base down can assist the financial viability of the companies that distribute our card products. Reduced revenue for us (or directly to our clients) will impact margins and challenge the viability of small to medium size existing and future clients which would not be a good outcome for the payments industry as a whole.
16	Acquirers	How would you reduce merchant service fee rates for your customers on fixed or blended pricing?	-
17	Acquirers	How would you provide your customers with an overview of the intended impact on them of further price regulation?	-
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.	-
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.	We recognise that the Consultation Paper and supporting literature reviews cite EFTPOS as “a very low-cost system”. However, the bias in this assessment ignores that to the card Issuer, the transaction cost from the EFTPOS network is comparable with MC/Visa – the key difference being that there is little direct cost to the merchant. The merchant-centric view compares a cheaper but less capable payment network to a more expensive but contemporary and consumer-centric payment network. Ultimately the interchange fee could be seen as the enabler for investment and development of digital and secure payment methods such as those offered by the Schemes. Additionally, there is a time and cost barrier for any new entrants connecting into the EFTPOS network, and possibly as few as one new entrant in the past decade. EFTPOS play a critical role in the macro view of Debit cards, although from a cost perspective there is little differentiation and therefore no incentive from an Issuer perspective to favour that over Scheme rails, even less so without interchange in place, or lack of capability or innovation in place such as digital wallets for example. Interchange is a transparent fee applied by Mastercard and Visa. It is not the only fee applied to payment participants by the Schemes, but then the domestic network itself is not free in comparison (for the merchant yes, but not for the Issuer and therefore not for the cardholder), especially given the cost and complexity in joining the domestic network and the reduced capabilities on offer. Even access to cash, and the management of, is not free. Quite simply, limiting revenue either threatens Issuer (or their client’s) viability, or diminishes products and services

offered through curbing innovation, or drives costs up in other areas. Applying the fee as a merchant fee gives the merchant and therefore cardholder (since many cardholders now pay the fee) the choice of what payment methods they choose – consumer discretion for paying for the product and service that they want to utilise for the payment. Arguably scheme interchange for dual network Issuers goes some way to offset the costs of the domestic network also, and that cost will need to be balanced somewhere.

With regards to merchant fees, our observations are that approximately 9% of merchants do not accept Visa or MC, presumably due to the additional cost and we assume that these merchants are small scale and therefore sensitive to cost. Reducing merchant fees would have the favourable outcome of increasing the acceptance of schemes towards 100% of merchant terminals, as it is in Australia, giving the consumer greater choice in payment method. However, the percentage of these merchants is already decreasing, suggesting merchant acceptance of the costs and the costs to serve their customers, and importantly there has been a noticeable uplift in the past 12 months of merchants passing the fee on to the cardholder as a surcharge. This is shifting towards a consumer centric problem more so than merchant centric. On this basis, giving the consumer the choice of cost for convenience in their chosen payment method is more the focus than just bluntly removing the cost.

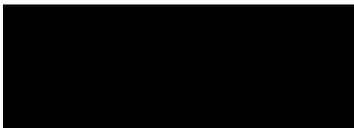
On a macro level, reducing Credit and Debit interchange (and to some extent Prepaid interchange) reduces the scope and opportunity for the new providers required for the open banking strategy, since innovation and disruption are not easily self-funded by startups. Innovation itself will ultimately benefit all participants in the payment chain, particularly consumers and merchants. There is a global shift towards digital payments, accelerated by 10 years during the COVID pandemic, and there is a clear correlation between the Scheme payment rails (and programs sponsored within) that are advancing technology as being the ones applying interchange fees.

We recognise that an objective of the Consultation paper is to increase competition and equity for merchants. We however see a likely reduction of competition on the Issuing side, with less new participants coming into the market (or threat to some already in market) providing an alternative to large traditional banks. This may mean not only consolidation back to the big banks, but also the stifling of innovation and progress since the big banks and domestic network show very little signs of delivering innovation at the global pace. Encouragement and facilitation of new entrants to ultimately provide better and/or cheaper services is critical, but at threat without incoming revenue, in part from interchange fees. Furthermore, with interchange reform implemented only two years ago, confidence in start-ups and their investors will be lessened by further changes now.

As an Issuer we welcome the ongoing monitoring of interchange fees, but believe it cannot be assessed in isolation without understanding the full set of costs across the payment chain, and with consideration of the value of products and services provided along that payment chain. Furthermore, it cannot be assessed without comparable understanding of the costs of alternative payment chains (domestic rails or others) and again the products and services offered for those payment chains. Benchmarking interchange alone does not take into consideration the whole

			picture. Having relatively flat costs for the merchant for all payment rails will likely have a positive impact on acceptability of Visa and Mastercard at the 9% of merchants currently not accepting them and therefore promote competition, moving towards the 100% of Payment network optionality as seen in Australia. The improvement at POS optionality however will likely not result in the domestic payment network to innovate quickly to provide comparable products and features. Adversely, removing one revenue stream from the Scheme rails will likely drive up costs in other areas for Issuers and card programs under sponsorship, and will directly threaten viability and therefore have a negative impact on competition for the payments sector as a whole. We believe this to be a very merchant-centric view of the fees applied but it does not consider a broader set of issues in the NZ retail system, especially since the merchant fee is now more so a consumer fee. We believe that the right approach would be one that promotes or drives the domestic network to come up to par in terms of capabilities and therefore be subject to benchmarking, or otherwise support the free market in enabling the consumer to determine which payment method (payment rail) to use for the benefits they receive. Access to Credit, or rewards, or security, or technology and innovation is a very different proposition to making the cheapest possible payment.

Yours sincerely



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