CONSULTATION ON COSTS TO BUSINESSES AND CONSUMERS OF CARD PAYMENTS IN AOTEAROA NEW ZEALAND

ANZ BANK NEW ZEALAND LIMITED SUBMISSION

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Public version

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Introduction and summary

1. ANZ Bank New Zealand Limited (**ANZ**) is grateful for the opportunity to comment on the New Zealand Commerce Commission's (**Commission**) consultation paper relating to the costs to businesses and consumers of card payments in Aotearoa New Zealand (**Consultation Paper**).

2. We acknowledge the importance of the Commission's work to promote competition and efficiency across the retail payment system. ANZ supports a payment system that is competitive, innovative, efficient and works for New Zealanders. We support efforts to simplify interchange fee categories to make accepting card payments simpler and clearer to understand. We also support steps to increase innovation in the retail payment system.

3. However, we would like to highlight several key points that we believe the Commission should consider:

   a. New Zealand's retail payment system is different to that of other jurisdictions. A significant number of transactions go through the Eftpos network and are free for merchants. These do not provide a commercial return or support the investment requirements of market participants. It does ensure the payment system provides parts of our community that are struggling with a cost-free payment option.

   b. The regulatory framework limits other sources of cost recovery e.g. fees. As a result, the commercial settings in the New Zealand payments market differ materially from other markets. Increases in card fees was a common response to interchange reductions in overseas markets.

   c. Regulatory intervention should not focus solely on interchange. Surcharging should be limited or prohibited by regulation. There is substantial evidence of increased surcharging and at levels above merchant cost. We do not consider that simplification of interchange fees and a reduction in interchange fee caps alone will drive any reduction in surcharging. We note that other jurisdictions have regulated surcharging in tandem with other interventions.

   d. The Commission must consider the full range of costs and benefits to all participants in the retail payment system of different payment methods. For instance, the significant benefits and innovations associated with credit and debit cards for both consumers and merchants. Similarly, the Commission should not ignore the lack of innovation and costs associated with other available payment methods. Reductions in interchange will limit the space for new entrants to procure value from the system and will likely stifle their advancement or entry into the market.

   e. Any regulatory intervention should be applied fairly across the retail payment system. It should be applied to all payment providers who charge interchange, or similar fees, in excess of the caps in the initial pricing standard in the Retail Payment Systems Act 2022 (**RPS Act**) and all surcharging practices. Failing to apply regulation across the sector, for example excluding Buy Now Pay Later (**BNPL**), American Express or any future market entrants, will likely distort outcomes and may undermine the Commission's aims. The Commission should also consider the full value chain within the payment system and not limit itself to a consideration of interchange.

4. Setting interchange at the levels proposed in the Consultation Paper (and any other regulatory intervention that does not address the above) will likely lead to significant unintended consequences in the payment system, such as making it less reliable, less secure, stifling innovation and removing the incentive for new entrants to enter the market

5. We have included a brief section outlining key features of the New Zealand retail payment system. Our more detailed comments and answers to the Commissions questions follow in **Appendix 1** below.

6. Please contact Hennie Burger if you require any further information.

The New Zealand retail payment landscape is different to other jurisdictions and must be assessed accordingly

7. There are several features of the New Zealand retail payments system which are not present, or present only to a limited extent, in comparable jurisdictions. These features limit the ability of market participants to run, maintain and invest in the payment system. New Zealand's smaller scale, particularly when combined with these features, means that a significant reduction in interchange would have an additional, and materially greater, impact on our payment system.

No in-person transaction fees on the Eftpos network

8. As the Commission is aware, interchange fees are not charged on the significant portion of card payments processed by the Eftpos network. **This is unique to New Zealand** and is applicable to approximately 30% of transaction volumes[1]. Interchange free transactions are not limited to Eftpos cards but apply when scheme cards are swiped or inserted at point of sale. Consequently, we consider any interchange fee reduction should account for the significant part of the network's volume where no interchange is charged, which restricts commercial returns and support for market investment.

Eftpos is issuer funded

9. Despite the lack of interchange, or other means of recouping costs, the Eftpos system is not free. The cost of processing Eftpos transactions in New Zealand is borne by card issuers, with no ability to recover those costs. This approach is unique to New Zealand and has led to Eftpos being poorly positioned to deliver innovation and meet the future needs of merchants and consumers. Eftpos today cannot offer contactless payments, online payment and mobile wallet capability. In contrast, Australia's Eftpos system has an interchange based commercial model, leading to an increased level of innovation, investment and an evolving proposition.

Regulatory framework that limits recovery of costs through fees

10. Under the Credit Contracts and Consumer Finance Act 2003 (**CCCFA**) fees cannot be used to generate profits or recover business costs that are not closely related to the transaction between the borrower and the lender. In other jurisdictions, such as the European Union, issuers can recover a wider range of costs through card fees and ATM fees, in addition to interchange fees. There is evidence of increases to credit card fees and other fees in response to interchange reductions in overseas markets. The regulatory framework also inhibits innovative and emerging product types. For example, it is not possible to use subscription models, as they do in Australia, which provide a fee based, interest free product to consumers.

11. Consequently, a fair level of interchange fees is necessary to enable participants in the payment system to generate sustainable and commercial returns. These returns fund innovation, infrastructure, maintenance, security, fraud prevention and other product features.

[1] Commerce Commission "Retail Payment System – Costs to businesses and consumers of card payments in Aotearoa New Zealand: Consultation Paper" (23 July 2024), page 42.

Smaller scale market

12. New Zealand has a comparatively small population and is unable to achieve the same scale as some of our international peers. For example, in May 2024 for credit and debit transactions, the United Kingdom had GBP76 billion of spend on 2.2 billion transactions[2], Australia had AUD86 billion of spend on 1.3 billion transactions[3], compared to NZD9 billion on 164 million transactions in New Zealand[4]. Given our payments landscape, restricting interchange rates to very low levels as seen in some materially larger overseas markets, could have a significant impact on future investment and participation in New Zealand's retail payment market.

Volume of cross border payments

13. Credit cards and debit cards are essential to enable New Zealanders to benefit from overseas goods and services. New Zealand has a relatively high volume of cross-border transactions, which require payment methods that are supported internationally. There are many goods and services used by New Zealanders that are provided by overseas domiciled businesses such as Netflix, Spotify and Amazon. Additionally, a strong credit card and debit card market is also essential to supporting international travellers to New Zealand who typically use cards to pay.

Innovation

14. ANZ and other market participants have delivered a significant level of innovation in the New Zealand retail payment system, evidenced by New Zealand having one of the lowest levels of cash usage in the developed world.

15. In addition to the benefits New Zealand receives from the global innovation leveraged by the card schemes, market participants invest significantly in banking initiatives. A reduction in interchange is likely to reduce the incentive for present market participants to innovate. We have included examples of market innovation, including in fraud and scam prevention, customer functionality, card features and digital functionality, in our answers to the Commission's questions in **Appendix 1.**

16. Material reductions in interchange will likely limit the entry of new participants, limiting both consumer and merchant choice. There will be limited ability for a new entrant or disruptor to bring new products to the market if there is no place for them to procure value from the system.

[2] UK Finance Card Spending Update (May 2024) - https://www.ukfinance.org.uk/system/files/2024-08/Card%20Spending%20Update%20-%20May%202024.pdf.

[3] Reserve Bank of Australia Payments data – C1.2: Credit & Charge Cards and C2.1 Debit Cards https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html.

[4] Stats NZ – Electronic card transactions: May 2024 - https://www.stats.govt.nz/information-releases/electronic-card-transactions-may-2024/.

APPENDIX 1

Do merchant service fee complexities drive challenges in determining whether and how you surcharge?

17. ANZ supports the simplification of interchange categories. However, we do not consider that the complexity of interchange fees is a significant driver of excessive surcharging, nor that a reduction in complexity, even if coupled with further reductions in interchange, would result in lower or more accurate surcharging.

18. ANZ simplified how it engaged with merchant's by introducing 'Interchange Plus' pricing and redesigned merchant statements. This initiative was completed in conjunction with the Ministry for Business, Innovation and Employment. Merchants receive monthly statements that identify the number of sales, value of sales, and refunds, split by card type as well as the fee for each. Where a merchant receives a significant number of international card transactions, those can be split into a separate line item.

19. To determine their average merchant service fee for a given month, a merchant simply divides the total merchant fee by total net sales and multiplies by 100. That said, ANZ is continuing to explore ways to improve clarity and increase simplicity for Merchants including the potential to add average fee calculations.

20. The Commission relies on its Merchant Research Observations from May 2023[5] and the associated research by Kantar[6] when identifying the impact of interchange fee complexity on surcharging decisions. The Commission itself notes that the sample and weighting methodology in that research may not fully represent the population of retail transactions and has predominantly captured the smaller end of the scale of merchants.

21. The papers of Dr Bolt and Dr Fletcher, which were published alongside the Consultation Paper, identify other factors that are likely to impact merchant surcharging:

    a. poor incentives on merchants to make surcharging clear and prominent and thus to keep it at an appropriate level.[7]

    b. disclosure of surcharges late in the payment process creating consumer 'hold up' at the point of sale making it less likely that the consumer abandons the transaction. This also causes surcharges to 'overshoot'.[8]

22. We support efforts to reduce complexity and recognise the benefits this would bring to all participants in the retail payment system. However, we do not believe that simplification alone will impact surcharging practices without additional surcharge specific regulation.

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[5] Commerce Commission, *Retail Payment System: Merchant Research Observations*, (4 May 2023).

[6] Kantar Public, *Retail Payment System Research – Research Report*, (November 2022).

[7] Dr A Fletcher, "Literature Review on Competition, Efficiency and Surcharging in the Retail Payment System" (November 2023), page 4.

[8] Fletcher, page 43 & Dr W Bolt, "The Retail Payment System in New Zealand: Efficiency, Pricing and Competition" (December 2023) page 30.

Would you consider lowering or even ceasing to surcharge if your merchant service fees were less than 1% for in person card payments?

23. ANZ is not in a position to answer this question.

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

24. Token portability is not an issue in New Zealand. A Merchant can change acquirer and payment gateway without requiring customers to re-provide their payment details.

25. Saved card details are held, and tokenised, by payment gateways (for example Mastercard Payment Gateway Services, Windcave, Worldline, or PayStation). These payment gateways support all New Zealand acquirers. If a merchant changes their acquirer, they do not have to change their payment gateway. Therefore, a change in acquirer has no impact on access to saved card details.

26. If a merchant wishes to move their payment gateway, they can do so without having to ask customers to re-provide payment details. A merchant cannot directly transfer tokens between payment gateways. The tokens are proprietary to the payment gateway and therefore not transferrable and there are industry security requirements under the Payment Card Industry Data Security Standards regarding which limit sharing credit card details, they can ask their payment gateway to be enabled for scheme tokens.

27. Once enabled, the credit card details held by the merchant's payment gateway are identified with a scheme token and the merchant is provided with a Token Requestor ID (**TRID**). A merchant with a TRID and their scheme tokens can provide these to their new payment gateway and all relevant payment information is available to them.

We welcome further evidence of any other issues within the New Zealand retail payment system

28. ANZ highlights two key issues within the New Zealand retail payment system:

    a. Surcharging is unregulated, it is increasing, and it generally exceeds costs, causing detriment to consumers.

    b. Regulation is currently focused on a limited number of participants in one part of the payment system. Regulation is not being applied fairly across the retail payment system allowing higher cost payment methods to be exempt from regulation may undermine the aims of the Commission.

Surcharging

29. ANZ encourages the Commission to regulate surcharging to achieve an efficient, innovative and fairer retail payment system. ANZ does not set, require or support surcharging and we do not think that a reduction in interchange fees will result in a reduction in surcharging. In the Commission's August 2023 Merchant Surcharging Update, published after the initial pricing standard came into force, it engaged

directly with 12 merchants on surcharging. At that time, only 5 committed to reducing their surcharging while engagement continued with the remaining 7.[9]

30. The Commission clearly expressed its expectation that surcharging should reflect reductions in merchant service fees as a result of interchange reductions. We have not seen any evidence of this. In fact, the volume of surcharging has increased, and there has been no material decrease in the level of surcharge being applied. Based on a subset of ANZ merchants using Eftpos NZ terminals on the Verifone network, surcharging has increased from 8% to 19 % since 2022.

Year	Total Terminals[10]	Surcharge Terminals	% Enabled
2022	36,901	2,943	8%
2024	37,719	7,083	19%

31. Looking into that data in more detail:

    a. The average merchant service fee is 1.35%

    b. The average surcharge is 2.24%

    c. Approximately 91% of terminals surcharge above their merchant service fee

    d. Approximately 21% of terminals surcharge 0-0.5% more

    e. Approximately 36% of terminals surcharge 0.51-1% more

    f. Approximately 22% of terminals surcharge 1.01-1.5% more

    g. Approximately 10% of terminals surcharge 1.51-2% more

    h. Approximately 3% of terminals surcharge more than 2% more

32. This data is largely consistent with the findings of the Commission, that the average surcharge was approximately 2% where the average merchant service fee was 1%[11], and of Dr Fletcher's analysis[12].

33. The increase in surcharging since the introduction of the initial pricing standard, and the lack of any material decrease in the average surcharge level is also evident when looking at all Eftpos NZ terminals across the entire Verifone network.

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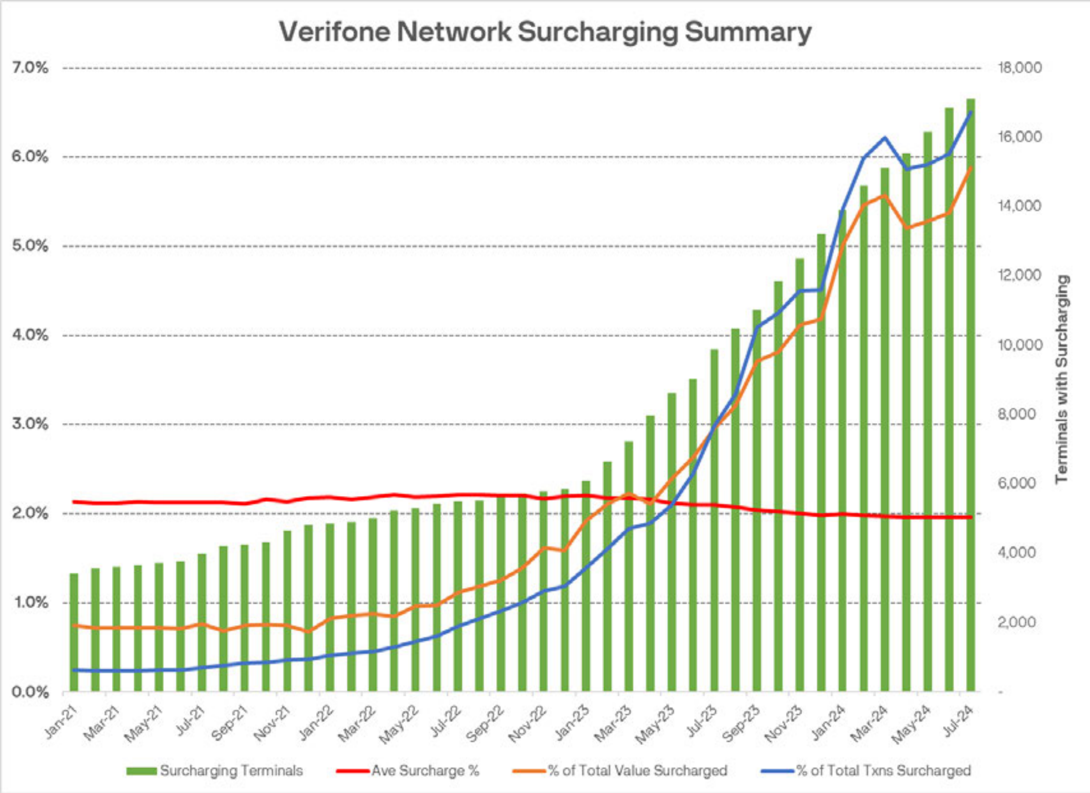
[9] Commerce Commission, "Retail Payment System – Merchant Surcharging Update" (August 2023) pages 4-7.

[10] This data is based on terminals and not individual merchants. This means that there may be multiple terminals that belong to single merchant. We do not consider this has a material impact on the usefulness of the data, and if anything skews the figures down slightly given that larger high-volume merchants tend not to surcharge or surcharge at lower levels.

[11] Commerce Commission, Consultation Paper page 19.

[12] Fletcher, page 40.



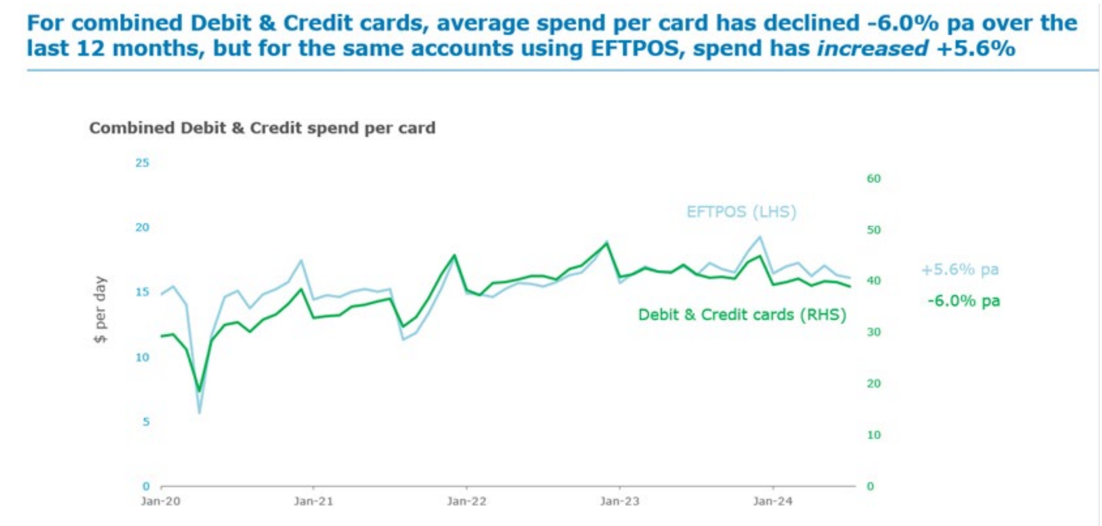
34. We note that the 'total value surcharged' and 'total transactions surcharged' are a percentage of all transactions and not limited to terminals that surcharge. The increase in the percentage of 'total transactions surcharged' above the percentage of 'total value surcharged' shows a shift in surcharging practices from fewer high value transactions to a larger number of low value transactions. This may indicate increased surcharging on essential lower cost items rather than discretionary high-cost purchases. [13]

35. An increasing number of merchants are imposing surcharges, and the vast majority are surcharging more than their costs, to the detriment of consumers. We believe the Commission should follow the example of comparative jurisdictions like Australia, the United Kingdom and the European Union, and regulate surcharging. We support a prohibition on surcharging. Businesses have many fixed and variable costs which they do not recover directly from specific consumers through surcharges. There is no clear reason why this particular business cost should be treated differently. Failing that, some restrictions on surcharging levels and practices are necessary. We note that any standard set by the Commission would provide clarity to all participants in the retail payment system and in particular terminal providers who could the set appropriate surcharging functionality in their terminals.

36. Consumers and merchants continue to exercise choice in the payment system. While the use of Eftpos cards is reducing, the use of the Eftpos system is not, with consumers choosing to use their debit and credit cards as Eftpos cards. Over the last 12 months ANZ Credit and Debit card holders have increased their usage of the

[13] The orange line shows the percentage of total value surcharged and the blue line shows the total percentage of transactions surcharged. These are across all the Eftpos NZ terminals on the Verifone network and not just those with surcharging enabled. These lines show a move from surcharging on fewer high value transactions to a larger number of lower value transactions.

Eftpos network by [redacted]



Fair Regulation

37. The Commission should consider the entire payment value chain when considering appropriate regulation. Focusing on interchange as a single part of the payment system focuses all the costs and consequences of regulation on a limited set of parties putting the services those parties provide at greater risk. This limited focus ignores the significant costs associated with other payment methods including cash and BNPL, as well as fees associated with terminal leases and network fees.

38. Any pricing standard should apply to all payment providers who charge interchange, or similar fees, in excess of the caps set by the initial pricing standard. American Express and providers of BNPL are material competitors in New Zealand and should be included in any regulations. Failure to apply regulation consistently may undermine the outcomes the Commission is seeking to achieve.

39. The Commission has indicated that American Express reduced its fees in response to the designation of the Mastercard and Visa networks. ANZ understands that these fees are still higher than fees for Visa and Mastercard transactions. Accurate market share data is not readily available, but ANZ notes that in Australia, failure to regulate American Express inadvertently encouraged the growth of an even higher cost payment method.

40. BNPL has grown significantly since its introduction to the New Zealand market. Based on internal ANZ customer payment volumes, we estimate BNPL is responsible for approximately 2.2% of total payment volumes in New Zealand. This is a high-cost payment method for merchants which imposes a no-surcharge rule which prohibits merchants from surcharging BNPL customers. Alongside the fair application of any pricing standard, the regulation of surcharging should apply equally to all participants in the payment system. While we support a prohibition on surcharging, we think any regulation should apply to all participants to avoid the prohibition of surcharging by some participants but not others. We note the Reserve Bank of

Australia concluded that it is in the public interest for BNPL providers to remove their no-surcharge rule.[14]

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?

41. ANZ does not consider that there has been sufficient analysis to determine the appropriate methodology for identifying a suitable level of interchange fee. Whatever methodology the Commission adopts, it needs to undertake a detailed analysis of the New Zealand retail payment landscape and consider any regulation in that unique context. It should also consider the costs and benefits of all payment methods to participants in the retail payment system, the importance of fostering good consumer outcomes, the need to encourage further innovation, the complexity of the system, the impacts of the initial pricing standard, and the relative risk of unintended consequences undermining the aims of any regulation.

42. That said, we consider it unlikely that benchmarking, setting fees to zero, or basing regulation on an existing fee in market are likely to be appropriate methodologies for determining the interchange fee caps in New Zealand.

    a. Given the unique features of the New Zealand landscape, there are no easily comparable jurisdictions where a pragmatic adoption of their caps would achieve beneficial outcomes in New Zealand. For benchmarking to provide a reliable indicator, the Commission would need to account for the large proportion of 'free' transactions in our market, comparative regulation relating to fees and to surcharging, and relative market scale. Given these factors, we consider benchmarking New Zealand against the lowest rates in the OECD is clearly inappropriate.

    b. Fees are already set to zero for a large proportion of transactions in New Zealand. Setting the remaining fees to zero would raise significant questions regarding the ongoing viability of scheme debit and credit cards in the market, and significantly compromise the ability to run, maintain, invest in, and support innovation in the retail payment system.

    c. Setting a general interchange fee cap based on the existing debit card-present fee is inappropriate. This specific interchange fee is set by the schemes with consideration to the risk factors associated with this transaction type. Choosing a fee in isolation and applying it across the system fails to account for the differing risk profile of other transaction types. It also fails to account for the costs associated with different payment channels, varying fraud and security levels, and the wider market dynamics.

[14] https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/executive-summary.html.

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?

43. Interchange is set by the schemes, so ANZ is not able to comment on the rationale for discounting interchange. However, we note that providing discounts based on volume is a common business practice.

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

44. Interchange fees are set by the schemes. We understand that credit card users tend to have a higher average spend per card and a higher average transaction amount. Higher spend is also a 'feature' noted by American Express and BNPL.[15] They also have features like interest free days which is important to supporting the short-term credit facility credit cards provide.

45. Credit cards also carry higher costs. Comparatively, credit cards are attractive to fraudsters because they provide greater opportunity to profit through access to their credit limits. Credit cards are overrepresented in our scheme card fraud and scam numbers accounting for [redacted] of value.

46. As discussed in more detail below, ANZ invests significantly in fraud prevention systems. Fraud is not static, and the tactics of fraudsters continue to evolve and change requiring continuous development and investment in fraud prevention systems.

We welcome quantitative evidence justifying higher interchange rates on domestic card not present transactions.

47. As above, interchange fees are set by the schemes.

48. Where the physical card is not present, and payments are conducted digitally there is a much higher risk that the person using the card details is not the cardholder and not authorised to make the transaction. That person may have obtained those details through deception directly from the cardholder, or by way of a hack, having stolen the card details from a site where the cardholder has inputted them or purchased the compromised card details online.

49. Fraud through card not present transactions is consistently the most attempted fraud type. They make up approximately [redacted] of attempted fraudulent transactions monitored by ANZ.

50. Despite continued and significant investment in our fraud protection capabilities, fraudulent activity continues to evolve, including changing behaviours, tactics and operations.

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[15] American Express cardholders which advertise that American Express cardholders spend 3.6x more per transaction (https://www.americanexpress.com/nz/merchant/accept-amex-cards.html?inav=nz_menu_business_merchants_accept_the_card).

Afterpay which advertise that BNPL customers spend 54% more with order values that 28% higher (https://www.afterpay.com/en-NZ/business).

51. It is important to note that for unauthorised transactions, where the cardholder does not validate the transaction, they receive 100% reimbursement, under Visa Zero liability policy[16].

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.

52. ANZ is not in a position to answer this question.

Why are two categories of rates for foreign-issued cards (inter-regional and intra-regional) necessary?

53. ANZ is not in a position to answer this question.

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

54. Liability for fraud costs depends on a number of factors including authorisation method, protocol (e.g. EMV, 3D Secure), payment channel, merchant and cardholder actions type of transaction (Card present vs. Card not present), regulatory environment, effectiveness of fraud detection systems, the outcome of any chargeback process, terms of service, other agreements between parties, timeliness of cardholder reporting, merchant category, and specific card network rules. However, in general terms:

    a. The foreign card issuer is liable for contactless card present transactions

    b. For swiped or inserted card present transactions:

        i. The cardholder is liable for pin verified transactions

        ii. The merchant is liable for signature verified transactions where the merchant does not verify signature or is unable to produce the receipt

        iii. The foreign card issuer is liable where the merchant can evidence signature verification or produce the receipt.

    c. The foreign card issuer is liable for card not present transactions where the merchant is EMV 3D Secure enabled, and the transaction was fully authenticated.

    d. The merchant is liable for any card not present transactions where EMV 3D Secure is not enabled.

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

55. Fraud is significantly higher on foreign issued cards. Data on transactions via ANZ acquired merchants shows that over the period Q4 2022 to Q3 2024, fraud to sales

[16] https://www.visa.co.nz/pay-with-visa/security/zero-liability.html.

ratios were [redacted] for domestic transactions versus [redacted] for foreign issued card transactions.[17]

We welcome evidence and rationale for why merchants are treated differently for interchange fee application.

56. ANZ does not have control over interchange fee levels, as they are set by the schemes and apply to merchants accordingly.

We welcome evidence of the impact of hard caps and percentage rates on compliance costs.

57. ANZ is not in a position to answer this question.

Please provide evidence of any other aspects of the implementation of any changes to interchange fee caps that impacts compliance or other business costs.

58. ANZ is not in a position to answer this question.

How would you reduce merchant service fee rates for your customers on fixed or blended pricing?

59. Approximately [redacted] of ANZ merchant customers are on Interchange Plus or Cost-Plus pricing. This pricing is dynamic by nature and merchants would see cost reductions immediately in their monthly statement.

60. Approximately [redacted] of ANZ merchant customers are on fixed rates:

[redacted]

[redacted]

How would you provide your customers with an overview of the intended impact on them of further price regulation?

61. For Interchange Plus customers we would place a notice on our webpage to notify customers of the reduced interchange rates that will now factor into their monthly fees. The rate change will also be apparent on their monthly statements.

62. For fixed price customers, we would communicate the changes in written correspondence on 30 days' notice in accordance with our contractual terms.

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[17] [redacted]

How fit for purpose is the current anti-avoidance provision? Please provide evidence of any challenges and whether there are other more efficient solutions.

63. We consider that the Commission's existing guidance on valuing and attributing net-compensation is not sufficiently clear to enable parties to apply it accurately and consistently when considering their total interchange fee cap. Greater clarity on this point would assist with compliance and ensure the provisions were readily enforceable should avoidance occur.

64. It seems clear that any *net* positive flow of payments, rebates, incentives, or other monetary or non-monetary compensation received by an issuer (**Positive Payment Flow**) needs to be considered. It is not clear when *net* means the total value of any Positive Payment Flow which meets the definition of net compensation or when *net* reflects the net amount of any Positive Payment Flow less additional payments made by the issuer. It would be beneficial to have more clarity on when any Positive Payment Flow can be reasonably attributed to a transaction.

65. It would be useful to have more detail on how the Commission will determine where the purpose of any Positive Payment Flow is to compensate an issuer for the effect of the initial pricing standard or merely provide compensation for other things like increased costs or volumes across the retail payment system or increased investment.

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.

66. Interchange is a key revenue source which enables market participants to provide a wide range of systems, processes, products and features that are of benefit to consumers and merchants, protect the payment system, reduce fraud, and promote innovation. Consequently, significant reductions in interchange will impact the ability to fund the above as well as materially reduce some long-term benefits to New Zealanders who use and rely on the retail payment system.

What interchange contributes to

67. Interchange contributes to a wide range of systems, products and processes that are associated with providing and participating in a secure and innovative payment system, including:

    a. The cost of developing and maintaining core payment system infrastructure including:

        i. Core account management systems for debit and credit cards.

        ii. The suite of applications which support payment processing both for issuing and accepting. For example, the applications which make up the ANZ Switch which routes and processes online Point of Sale, ATM and PIN transactions within globally established time settings.

        iii. ANZ's bespoke wallet integration service that connects with the Visa token service to implement payment wallets and manage the lifecycle states of provisioned digital cards.

iv. Fraud protections systems such as ANZ's proactive risk manager which facilitates risk-based decisions for transaction authorisation.

b. Ongoing costs of scheme compliance in particular relating to transaction settlement, enhanced security, innovation, and tokenisation.

c. Fraud Protection workstreams to enhance our ability to protect consumers and merchants from fraud including for example:

i. *ANZ Fraud Check* - Using a mobile device as a real-time channel to provide alert information and other transactional information to customers to identify possible suspicious transactions for the customer to assess.

ii. *Biometric Monitoring* - Developing a programme to allow behavioural indicators to be used as a way of identifying the customer using a digital channel such as goMoney or Internet banking, to identify account takeover such as remote access fraud.

iii. *Dynamic Security Code* - Providing customers with a digital, dynamic CVV which changes every 12 hours and is valid for a limited period to limit the risk of fraud in online transactions.

iv. *Information Initiatives* – ANZ has also undertaken significant information initiatives, which seek to increase awareness and provide education on the risk of scams, for both staff and customers.

d. Fraud compensation processes which enable us to efficiently process more high-risk transactions (such as overseas transactions) without requiring enhanced verification or limiting them altogether.

e. Digital Innovation including:

i. Open banking partnering such as Online Eftpos services with Worldline and account to account payment services with Blinkpay.

ii. ANZ customer functionality including payments to mobile numbers, and the use of the goMoney app at checkout.

iii. Card based features including the ability to block your card, to limit certain types of transactions, to switch off contactless payments, and to track which merchants have stored your card details.

iv. Digital wallets such as Apple Pay and Google Pay.

f. Product propositions for customers such as interest free days, reward programs such as Airpoints or cashback, travel benefits such as overseas travel insurance, access to Visa Concierge, and other offers.

g. The cost of scheme fees associated with participating within global payment networks.

68. A significant reduction in interchange fees will limit the ability of issuers to fund the systems, products, and processes currently in place in the New Zealand payment system.

Innovation

69. If interchange rates are set too low, it is likely to stifle innovation rather than encourage it. Issuers, schemes, FinTechs and new entrants will have smaller revenue streams to fund innovations to existing products. Schemes also provide access for New Zealand issuers and merchants to global expertise and emerging innovation. As noted above, interchange contributes to funding innovation at ANZ.

70. Low interchange will also impact on the ability for new entrants to sustainably charge for their services. New payment methods still need to be able to establish themselves and recoup costs. FinTechs and other innovators tend to model their pricing at a level below existing interchange rates to drive merchant engagement while still generating appropriate returns in New Zealand’s small market. Setting interchange too low eliminates the space for innovators to sustainably charge for their services and merchants will be less willing to invest in adopting new payment services if cost savings are minimal.

The wider value of cards

71. Scheme Cards provide both consumers and merchants with numerous benefits that should be fully considered by the Commission as part of its wider analysis.

72. Consumer scheme cards have significant value to consumers and merchants. They:

    a. Are a convenient and secure payment method that can be used by consumers both digitally and physically.

    b. Have near universal acceptance domestically and internationally.

    c. Enable secure recurring purchases.

    d. Include security features like authentication protection for online transactions which prompts consumers to enter additional verification before completing transactions.

    e. Have Zero liability protections where cards are used fraudulently or stolen.

    f. Continue to benefit from ongoing global investments in innovation which include:

        i. The ability to pay via smartphone, smartwatch or another device using the same card you carry in your wallet.

        ii. The ability to block a card in real time allowing consumers to immediately block their card where it is lost, stolen, or they suspect it has been compromised.

        iii. ‘Dynamic CVV’ functionality which provides a digital copy of the customers Card Verification Value which changes regularly, providing superior fraud protection

        iv. The ability to limit transaction types to better control how they spend their money. For example, customers can choose to switch off online shopping or choose to limit gambling transactions.

    g. In addition to the above credit cards also provide:

i. A revolving credit facility with interest free terms that allows consumers to manage cashflow.

ii. A wide range of benefits when travelling such as ability to place authorisation holds for hotel booking and car hire.

iii. Chargeback rights which protect consumers where they don't receive goods, receive faulty goods, are overcharged, or are charged multiple times.

73. Scheme cards also provide significant benefits to small business in New Zealand. They provide access to a low cost, convenient, and accessible working capital solution, as well as a safe and monitored method to provide funds to staff with protections for unauthorised transactions.

74. While card rewards are valuable to consumers, and act as an important point of distinction between issuers, they are not material in the absence of the wider value set out above.

75. Merchants also receive benefits from accepting cards and PayWave transactions including:

   a. Credit card users typically spend more both overall and on a per transaction basis making them more attractive customers

   b. The ability to more easily sell goods or services to a much larger customer base including overseas tourists and people not in their stores, e.g. online from domestic or overseas consumers

   c. The ability to run cashless businesses or businesses that are online only but able to service the whole world

   d. Strong fraud protections for EMV 3D Secure merchants in particular, no liability for chargebacks. Zero liability for PayWave transactions

   e. Authorisation hold functionality for the purpose of bookings, bonds and deposits

   f. Faster and more efficient transactions through contactless payments

   g. Clear scheme rules that apply globally setting clear rules and expectations and providing clarity for all participants

76. Setting interchange too low may make the provision of credit cards and debit cards in their current form unsustainable in New Zealand at significant detriment to consumers and merchants.