

2 September 2024

Commerce Commission

By email: RetailPaymentSystem@comcom.govt.nz

Consultation on costs to businesses and consumers of card payments in Aotearoa New Zealand

Thank you for the opportunity to submit The Co-operative Bank Limited's (**Co-op Bank, we, us, our**) views on the Commerce Commission's "Costs to businesses and consumers of card payments in Aotearoa New Zealand" Consultation Paper (the **Consultation Paper**).

About Co-op Bank and its credit/debit card operations

Co-op Bank is a registered bank structured as a co-operative company under the Co-operative Companies Act 1996. While we have the characteristics of a company structure, we are fully customer-owned and operate as a co-operative.

Co-op Bank is a small, New Zealand owned retail bank. As a small bank, we do not currently have the scale to build our own dedicated card platform. Instead, we offer our Mastercard credit and debit card products to customers via an agency banking arrangement with another large New Zealand bank, which essentially provides us with a card platform to enable transactions (**Card Platform Provider**).

Our submissions

Question 15

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

Question 19

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

Offering customers a globally accepted, secure consumer payment product is a core requirement for retail banks.

Due to the structure of our credit/debit card operations as outlined above, which is the only practical way we can offer these products to customers, customer credit/debit card transactions involve us paying fees to:

- our Card Platform Provider,
- Mastercard as the scheme provider,
- the switch provider (e.g., Verifone or Worldline), and
- ATM costs where relevant.

In addition to these fees, the general costs to provision credit/debit cards continues to increase with growth in fraud, development costs and service fees. Interchange fees provide a modest revenue stream which partially offsets these costs. Despite this, overall, customer credit/debit card transactions run at a net cost to us as a small bank, and these costs have increased over the last few years. Any reduction in interchange fees would

result in a significant reduction on the revenue we receive to support our business and result in a greater net loss.

Revenue from interchange fees is often used by Issuers to fund investments in technology advances and innovation. With our revenue from interchange fees already being so limited (on top of not having agency over our own dedicated card platform), it is difficult for us to make the same investments as larger market competitors in these areas, such as digital wallets, card controls and virtual cards. Innovative card product features like these have become standard in retail banking offerings.

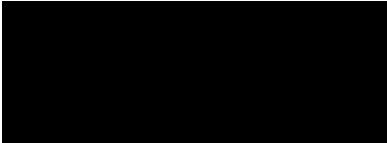
A further reduction in interchange fees, and consequently the small amount of revenue we receive from our credit/debit card operations, will make it even harder for us to develop, implement and provide these features to customers and ultimately compete against larger card issuers in the market.

Another material reduction in interchange fees threatens the ability for smaller, New Zealand owned banks to compete or participate at all in the credit/debit card market and as such we do not support the Commerce Commission's current proposals to make further reductions to the interchange fee caps.

Conclusion

Thank you again for the opportunity to submit on the Consultation Paper. We look forward to reviewing, and hopefully having the opportunity to submit on, the Commerce Commission's draft decision when published.

Yours sincerely,




Chief Product Officer
The Co-operative Bank Limited