

# One NZ submission on the consultation on Retail Payment System: Cost to businesses and consumers of card payments

27 August 2024

## Introduction

1. We welcome the opportunity to comment on the Commerce Commission's (the Commission) consultation on Retail Payment System: Cost to businesses and consumers of card payments. We have focused our response on the specific questions relevant to One NZ as a merchant.
2. We support the Commission's desire to reduce the costs that businesses and consumers pay through merchant surcharges. While the merchant service fee is a sensible place to start, it does not represent the full costs that merchants incur for accepting credit card payments from consumers. Other costs attributable to card transactions must also be taken into consideration when thinking about how merchants set the level of surcharges. We would be happy to have a further discussion with the Commission on the issues outlined in this submission.

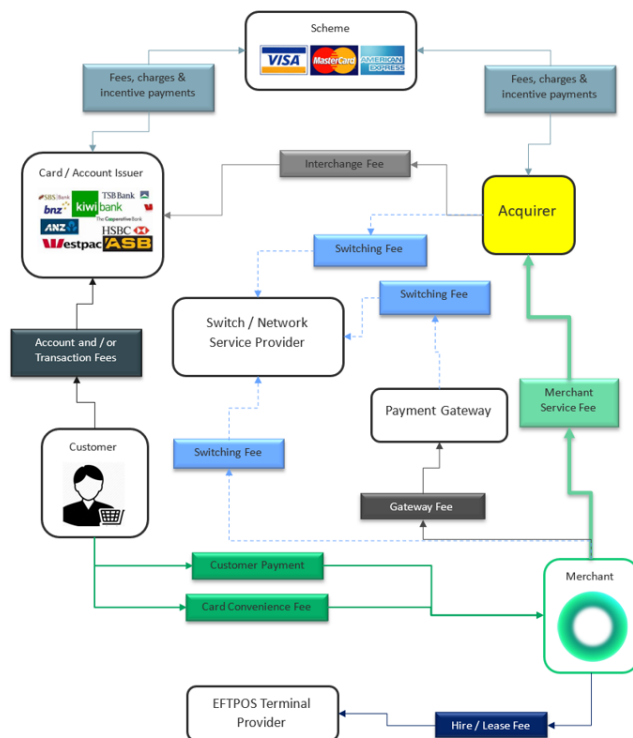
## Do merchant service fee complexities drive challenges in determining whether and how you surcharge?

3. As noted in the Commission's consultation document, there is a lot of complexity associated with the merchant service fee structure. This creates significant challenges for retailers to determine how to surcharge to ensure that this is properly reflective of the costs of card transactions as a payment method. Some costs will be directly connected with use of a card (e.g. interchange fees) whereas other costs are indirect, including shared business costs that must be allocated to this category of transactions. Shared business costs will reflect a substantial number of inputs, the costs of which may be variable rather than fixed (and which may change over time). In this context, it may be challenging for a merchant to ensure they are not recovering more than the costs incurred, while also avoiding unintentional under-recovery of costs. The Commission has a role to play in helping to educate retailers on this issue and cut through the complexity.

4. The interchange fee is a significant component of the merchant service fee. It is therefore a good starting point for the Commission to focus on. The interchange fee can vary based on the type of credit card the customer uses, as well as the type of industry the merchant operates in. This means that this element of a merchant's costs can differ across different industries.
5. The Retail Payment Systems Act (the Act) provides the Commission with functions and powers in relation to merchant surcharging standards. One of the purposes of the Act is 'to ensure that payment surcharges for payment services are no more than the cost to the merchant of the payment services used for accepting retail payments.'<sup>1</sup> The merchant service fee (which includes the interchange fee) is only one of several fees that retailers incur for accepting retail payments. Others include the gateway fee, network fee and terminal fee. Some of the fees are charged on a percentage basis while others are a flat rate, which adds further complexity when determining an accurate surcharge rate. Refer *Figure 1* below for a full overview of the different fees that merchants incur for accepting retail payments.

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Figure 1: Overview of the retail payments system



6. A merchant will of course wish to reflect all costs associated with accepting credit card payments through the surcharges that it sets, and it is important for the Commission to have a complete picture of these costs (both direct and indirect) when determining the reasonableness of surcharges. [C]
7. [C]

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

8. One NZ does not currently charge a convenience fee for in person card payments. However, as noted above, the merchant service fee does not represent the full picture of the costs that retailers incur for accepting credit card payments. While a lower merchant service fee would result in lower overall costs for retailers, it would not be reasonable, and not aligned with the intention of the Act, to expect retailers to cease surcharging at all if the merchant service fee is lowered to under 1%.

## Other issues for consideration

9. Implementing changes to the convenience fee that One NZ charges its customers requires changes to digital and backend payment systems to display the fees to customers and charge the correct overall cost. There is no simple way to implement these changes and each change requires incremental investment. We therefore urge the Commission to be mindful of this when recommending or requiring changes in this space. Reducing complexity of the retail payment system also means providing retailers with certainty around when changes to surcharge rates would be expected and avoiding making changes too frequently.
10. Please contact the following for any questions in relation to this submission.

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