Commerce Commission
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Stripe welcomes the opportunity to respond to the Commerce Commission's consultation on ***Costs to businesses and consumers of card payments in Aotearoa New Zealand*** and welcomes the open and constructive way the Commission is seeking feedback on the future of payments regulation.

Stripe's focus on supporting Kiwi businesses is continuing, including with the recent hire of a New Zealand country lead. We work with businesses ranging from start-ups to large companies like Xero.

Across the business, we now accept more than 100 payment methods, including bank transfers which will be launching in New Zealand in the near future.

About Stripe

By way of background, Stripe is a technology company that builds economic infrastructure for the internet. Businesses of every size — from small startups to public companies — use our technology and tools to accept payments and manage their businesses online.

Our products are used by businesses in more than 50 countries. We are regulated in jurisdictions around the world based on the products and services we offer in those jurisdictions. In addition to the Commerce Commission, agencies that supervise our regulated operations include the Australian Securities and Investment Commission, Reserve Bank of Australia, Central Bank of Ireland, the UK Financial Conduct Authority, FinCEN, and the NYDFS, among many others.

Comments in response to the Consultation Paper

<u>Trends in payments</u>

At a macro level, Stripe is observing various trends in payments that may provide relevant context as the Commerce Commission considers the issues outlined in the Consultation Paper.

Real time payments

First, real time payments. The prevailing view within payments has tended to be one in which card networks have the highest penetration. However, a trend we see is that increasingly this view is being challenged by the rise of real time payments (RTPs). In some of the world's largest economies, RTPs are becoming the most popular payment methods.

For example, in India, UPI launched in 2016 and already has over 300 million monthly active users and 130 billion annual transactions. In July alone, there were 14.5 billion UPI transactions - that's more than 10 per month for every person in India. This explosive growth has correlated with cash transactions in India declining by 12 percentage points in the last 5 years as the government has run a project to wean the country off cash.

In Brazil (which has over 200 million active credit cards), Pix was launched four years ago and rose rapidly to what is now over 150 million users. Last year, quarterly Pix transactions began to outstrip card transactions.

Whilst New Zealand is still moving towards RTPs, we are confident that once established, they would grow convincingly and provide substantial benefits to consumers and merchants.

Buy Now Pay Later (BNPL)

The second trend is the growth of BNPL. Credit card usage among Gen Z is at 42%, far lower than the 71% among Gen X. Gen Z are using BNPLs in every aspect of their spending: online shopping, utility bills, even car maintenance, all as an easy way to track spending without traditional cards. For merchants, this means that selling to under 35s is more straightforward if BNPL is offered given its status as a frequently preferred payment method.

Stripe has recently reported that observations from its research shows that offering BNPL has a positive impact for merchants. Our [recent experiments](#) showed that BNPLs increase growth rather than cannibalise it. More than two-thirds of BNPL volume came from net-new sales. This means that customers only completed these transactions because a BNPL was offered.

Combining the benefits of higher purchase conversions and larger order values, businesses using BNPLs on Stripe saw an average 2.3% and up to a 14% increase in overall revenue based on a recent Stripe study.

Artificial Intelligence (AI)

The third trend is the application of AI in payments. There are many ways in which AI companies are using Stripe, and also Stripe is using AI to benefit businesses. We've launched new AI-powered payments features to increase checkout conversion, boost authorisation rates, and block fraud such as:

- Adaptive Pricing - dynamically localising a merchant's prices across 150 countries, allowing their customers to pay in local currency.

- Payment method presentment - Stripe's AI is working to present the 'right payment method to customers at the right time'. The models take into account things like location, currency, device type, and even subtle things like commerce patterns in a user's sector.

Overall, on average, businesses using Stripe's Optimized Checkout Suite with these AI features, see an 11.9% increase in their revenue.

Another critical way in which AI is adding value is through fraud reduction. At Stripe, we use machine learning to reduce online fraud and help approve more legitimate transactions globally. Stripe Radar uses adaptive machine learning, the result of years of data science and infrastructure work by Stripe's machine learning teams, to protect our users from fraudulent actors. Stripe Radar's algorithms evaluate every transaction for fraud risk and take action appropriately, scanning every payment using thousands of signals from across the Stripe network and assigning a fraud risk score to each payment.

While many high risk payments are blocked automatically, Stripe Radar provides tools so that users can specify when other actions (automatic blocks or manual reviews) should be taken. Stripe's dashboard also enables users to understand changes to their block rate over time, along with the proportion of payments blocked by both Radar's machine learning model and their block rules.

An additional feature is Stripe Sigma which is an example of using AI to drive insights. In the past, a merchant would need to have a team of analysts who know SQL in order to derive insights from their transaction data, today a business owner can write natural language queries to get insights. For example, workplace productivity platform Slack have been using Sigma to accelerate financial processes by combining multiple data sources to enable faster monthly reconciliation.

Value provided by payment service providers (PSPs)

As outlined above, Stripe is a technology company well beyond payment processing. Businesses use Stripe to increase their revenue, improve profitability, and execute on new ideas. We offer this through the features outlined above, including AI enabled optimised checkout, as well as built-in regulatory compliance capability. Stripe also integrates software solutions that allow merchants to protect themselves from fraud risks.
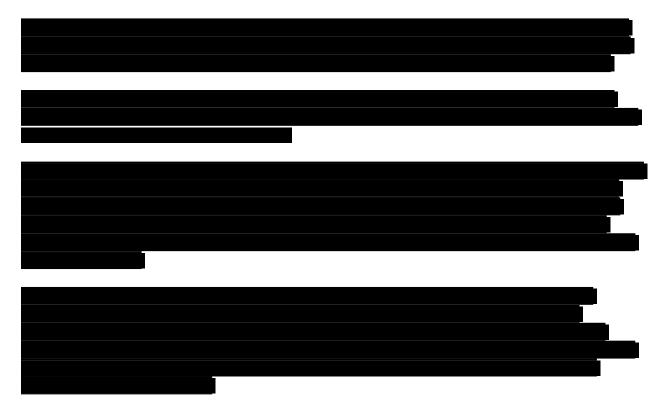
We always try to help merchants deliver secure payments with high approval and conversion rates at a low cost and want to ensure merchants can offer the payment methods that end users (their customers) want to pay with. We make it easier for merchants to switch on local payment methods and have done a number of things to enable merchants to offer these without any additional engineering work.

The cost of payment acceptance companies charge includes a real cost of technology services that integrate a number of services over and above payment processing, such as business reporting, fraud, subscription management, bill payments, and the ability to manage funds quicker and more efficiently. The provision of online payment acceptance today has true costs and in exchange, provides real value to businesses; it is not just the pass through of interchange and scheme fees.

The technology layers on top of core payment processing offer merchants more customisable solutions that bring them great value and drive revenue. They are innovations that revolutionise payments and help businesses who are creating new business models meet their needs in the digital and online world.

In our experience, merchants don't just look at price. They consider technology quality, reliability, customer service, and more. Merchants also do not switch providers solely due to core acquiring price. Our experience is that merchants sign up to Stripe for a broad range of factors, of which price is one. Other factors may include the ease of onboarding, fraud capabilities, range of payment methods, ease of integration, higher authorisation rates, API uptime and so on.

We provide businesses with easy-to-use no code payment and software tools to monetise their product within seconds and a lot of the value we provide is especially pronounced for small businesses, for example increases in authorisation rates and revenue, a reduction in operational costs (developer &

finance workforce) and time to launch new products and markets.

Stripe agrees with the Commission's finding that merchant services vary across acquirers with different acquirers offering different levels of service and offerings. As outlined above, there are many features of Stripe's service which extend beyond pure payment services. Provided a merchant understands what they are buying from their payment service provider, then in our view, it is appropriate for pricing to vary across providers.

Switching

Our experience is that there is a very high level of competition in the online acquiring market. Merchants enjoy strong levels of competition from both technology-first providers as well as legacy acquirers. Many NZ merchants don't have fixed term arrangements with Stripe. They can switch to another payment provider anytime if they choose to. In addition, it is worth pointing out that there are no ongoing usage fees - merchants only start paying fees as soon as they make their first dollar and start collecting revenues. For those merchants who are on highly tailored arrangements, then there may be a fixed term and there are various benefits associated with that for the merchant.

We see users switch to us from other providers on the basis of our ease of onboarding, pricing transparency and superior technology offering (both in respect of payments, but also in areas such as fraud monitoring). We work every day to keep our merchants based on their satisfaction with our offering.

Tokenisation

Stripe supports the position put forward in the consultation paper that the lack of token portability leads to inefficiencies and can increase costs. Stripe has observed that token portability is an issue in New Zealand and would welcome further attention in this area that would enhance competition and improve trust with merchants and consumers.

Stripe welcomes the recent developments in standardisation that have been advanced by the Reserve Bank of Australia which noted, "*all relevant industry participants – including schemes, gateways, and acquirers – should support portability for both scheme and proprietary tokens by the end of June 2025 to reduce the friction for merchants that wish to switch payment service providers*".

Thank you for the opportunity to provide these comments.

Stripe New Zealand