



2 September 2024

Commerce Commission
New Zealand

By email only: RetailPaymentSystem@comcom.govt.nz

Dear Sir / Madam,

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

I am writing to you on behalf of Payments Europe, the association of card-based payment solutions providers. Payments Europe members are active in Europe as well as globally, representing card issuers, card acquirers, and card schemes. Our mission is to promote the value that card-based payments bring to the economy and society. We strive for a vibrant, competitive, safe, and consumer-centric payments market, supported by a balanced regulatory framework.

Our members include card issuers whose scheme cards are used internationally and can be used to pay merchants in New Zealand. Some of our members also issue domestic scheme cards in New Zealand. The proposals on which the Commerce Commission is consulting would, therefore, have a direct impact on our members. Generally, interchange provides the economics that underpin the key elements of an efficient electronic payment ecosystem. These include acceptance, innovation, security, fraud protection, and guaranteed payments to merchants. Hence, interchange is crucial for a healthy acquiring ecosystem capable of driving acceptance among new merchants. As such, it should be high enough for new players to be incentivised to enter the space and low enough that merchants are encouraged to adopt digital payments.

More specifically, we believe that:

- In relation to regulatory intervention in the economics of the electronic payment ecosystem:
 - Interchange fees are fundamental to a thriving electronic payment ecosystem. They should not be viewed simply as a cost to an acquirer/merchant which, therefore, needs to be managed or regulated to the lowest possible level. Interchange fees balance the interests of all participants in the ecosystem and provide incentives to innovate and provide secure payments. They have a clear purpose and value in allowing issuers to deliver services on behalf of cardholders, which in turn benefits merchants by encouraging usage/driving sales. The alternative may be that no sale is made or that more expensive alternatives are used, e.g., 3-party cards or BNPL. Interchange fees also drive innovation and support essential services like fraud prevention and security.
 - Because interchange enables card issuers to service consumers, any legislative intervention must be carefully considered, to prevent unintended consequences to the card payment value chain, including consumers, merchants and the wider economy. For example, the European Commission's impact assessment of the EU Interchange Fee Regulation in 2020 identified several unintended consequences, including slowing of investment in product innovation by issuers since interchange was capped.

- In relation to your considerations around capping commercial credit card payments (an area which would particularly impact our members):
 - commercial credit cards (both domestic and foreign-issued cards) offer unique value propositions to businesses, including access to credit, risk management tools, and purchasing power.
 - Many countries, particularly within the European Union, have imposed caps on interchange fees for consumer debit and credit cards (an historic intervention that is increasingly questioned due to the evolution of the market). However, commercial cards have been excluded from these regulations



due to their distinct nature. Imposing a cap on interchange fees for commercial cards could have detrimental consequences such as stifling investment in card products and services, reducing competition among issuers, and ultimately limiting user choice. Moreover, commercial cards often involve higher transaction values and complex risk profiles which justify a higher interchange fee.

- Commercial cards' higher interchange fees and pricing structures which differ to consumer cards are also justified by additional business services being provided, which benefit end users, including merchants.
 - Commercial credit cards bring added value to small and medium-sized enterprises (SMEs), not least as they can serve as a low cost financing solution, which such enterprises may struggle to obtain on capital markets. The higher interchange fee can act as an incentive to issuers for bearing the additional costs of marketing and issuing cards for underserved SMEs.
- In relation to your considerations around capping international card payments (another area that would particularly impact our members):
 - Payments have become a key enabler of the digital economy. Merchants and consumers are increasingly adopting digital payments, a trend which has accelerated in recent years and is contributing to the growth in physical and e-commerce and beyond. Making cross-border and remote payments is a necessity for businesses and consumers as digitalisation and e-commerce growth continue.
 - In specific markets, by collecting funds across the payment ecosystem, international card schemes promote card acceptance and usage as funds are reinvested to promote targeted innovations to the benefit of all players in the payments' ecosystem. Example initiatives include marketing, incentives to install POS terminals, and subsidising hardware installation in public transportation.

Given the potential negative impacts on issuers (in New Zealand and internationally), before taking the material steps suggested in the consultation, it will be prudent to undertake a thorough impact assessment of the dynamics in the payments' ecosystem as well as of existing regulation and practices, to understand whether there is market failure and whether existing regulation meets the Commerce Commission's stated policy objectives .

There is strong competition in the payments' ecosystem, which is growing. Low barriers to entry are demonstrated by the increasing emergence of new digitally enabled solutions. Consumers and merchants can nowadays choose multiple forms of digital payments in addition to cards, hence it would be wrong to assess cards in isolation of other payment methods. This is important to keep in mind when making conclusions about competition, pricing and consumer and merchant choice.

The Retail Payment System Act aims to promote competition, efficiency, and consumer welfare. While well-intentioned, further reducing or expanding regulatory caps on interchange fees could inadvertently undermine these objectives. Instead of imposing caps, policymakers should focus on fostering competition in the payment ecosystem.

By maintaining a balanced approach to interchange fees, New Zealand can continue to support a robust and innovative payments industry, benefiting both businesses and consumers.

We thank you for the opportunity to provide input on such an important matter and contribute to the development of a robust and fair retail payment system in New Zealand. We are open to further engaging with the Commerce Commission and other stakeholders to inform your work and to ensure any review of card fees is based on evidence from the whole spectrum of stakeholders, including the cards industry.

Yours sincerely,

