



FINANCIAL SERVICES FEDERATION

2 September 2024

Commerce Commission

RetailPaymentSystem@comcom.govt.nz

Dear Madam/Sir,

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

The Financial Services Federation (“FSF”) is grateful to the Commerce Commission (“the Commission”) for the opportunity to respond on behalf of our members to the consultation on costs to businesses and consumers of card payments in Aotearoa New Zealand (“the Consultation”).

By way of background, the FSF is the industry body representing the responsible and ethical finance, leasing, and credit-related insurance providers of New Zealand. We have over 90 members and affiliates providing these products to more than 1.7 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society, and business is attached as Appendix B.

A selection of our members provides card products and will be affected by the outcome of this consultation.

Introductory Comments

To begin, the FSF believes that there is immense value in payments systems and the choice they provide to the public in the way in which they make payments. The value delivered by payments systems today far exceeds the cost that is paid. Card payments play an important role in supporting overall economic growth. They do this by lifting productivity – directly through checkout efficiency and sales and payments reconciliation, but also more broadly by facilitating online commerce and supporting financial markets. Proportionate, value-led regulation of card payments is critical to maximize economic growth. International examples show nations who prioritize value over cost, yield better results for the economy, and for consumers. It is against this background that we strongly submit that the Commission should not continue down the path of stronger payment regulation in New Zealand.

The main comment we wish to communicate through our submission is that interchange fees were capped by the Initial Pricing Standard (IPS) under Schedule 1 of the Retail Payment System Act 2022 (RPSA) in 2021. We consider it far too early to be able to properly

assess and understand the true impacts of the most recent reduction to interchange which came into force in 2022. More time and consideration should be afforded to these changes prior to any further reductions being made which can have significant impacts on the ecosystem. In comparison, the Reserve Bank of Australia (RBA) has only made two material changes to interchange regulation since interchange caps were first introduced in 2003. Further, the RBA's 2021 Retail Payment System Review noted existing interchange settings were working well, however, also citing changes had only been in effect for 4 years, with regards to being able to make any more informed empirical assessment.

We submit that the Commission should instead seek to develop identified areas such as the Consumer Data Right which we believe will have a more material impact on creating a more transparent and customer centric approach to pricing in general. The Commission would also be better placed exploring the Banks' disproportionate amount of market power in this area. These would both be much more effective and nuanced areas to review rather than price regulation. Additional regulation should only be imposed where there are obvious market failures and it is clear that the additional regulation will not impact competition, innovation and customer choice. There is no conclusive evidence internationally to support an argument that lowering interchange fees has resulted in increased competition or market innovation. We also note that the value offered to customers has decreased as a result of the last interchange fee change.

We also note that despite not having interchange fees, the impact on other players such as Buy Now Pay Later providers (or other payment solution providers) from interchange regulation, both in New Zealand and other comparable jurisdictions (such as Australia), has been at least as large as the more direct effects on Visa and Mastercard.

Importantly, there is no data or evidence to suggest that the New Zealand market would benefit from regulation around interchange fees. Any comparisons with jurisdictions such as the EU and Australia may not necessarily be appropriate due to the difference in the scale of those markets and the competitor landscape.

Whilst merchant service fees have reduced, it has been mostly to the benefit of larger merchants over small, and consumers end up paying the price either through surcharging or reduced benefits. The capping of fees will have significant implications across the sector and will reduce revenues for all players in the market due to market forces. We note that arguments mentioned by the Commission that state that the lower interchange rates in the EU/UK have led to greater competition and innovation have not been proven.

As an additional point we also submit that we would like to see more clarity around surcharging. Particularly when a surcharge can be changed and how much can be charged. Surcharging has become much more common since the previous cap was implemented.

Consultation Questions

We have elected to answer the following consultation questions. For any that we have omitted please assume that we have either answered it in the body of our submission or that we have no comments.

5. 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?

We reiterate that not enough time has passed since the initial cap was imposed. This means we should not look to implement new methodologies in New Zealand until we have data around how the cap is impacting merchants and consumers. Instead, the Commission should focus on ways to assist merchants to better understand their competitive choices and pricing options with transparency measures being a next step rather than blunt pricing regulation.

We do however support measures to increase transparency to merchants, so they can better understand their costs and can make an informed choice.

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

We note that there is no market that accepts both credit and debit being capped at the same level. The incremental cost of credit is reflected in things such as interest free days, loyalty programmes and fraud. The latter being something that benefits both merchants and consumers.

In terms of Card Not Present (CNP) Payments versus in person payments the main driver of the cost differential is the cost of fraud. There are more things that need to be executed to complete a transaction (hence greater cost), but more importantly, fraud is far larger than for card present. This is reflected in the cost.

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

Both the issuer and the scheme.

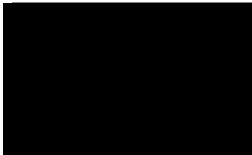
A further area we would like to see the Commission, or the Reserve Bank of New Zealand do more research into is understanding the true cost of handling cash when compared to alternative payment methods (productivity gains, increased revenue, safer and more reliable, opens NZ to the global economy). We would also like to note that New Zealand is a market which relies heavily on inbound tourism. International card networks are at the centre of facilitating this economic activity. Imposing harsh fee caps in this area would have a disproportionately negative effect on New Zealand's inbound tourism. Caps will also discourage new entrants to the market, detrimentally affecting the state of competition within the market. Instead of harsh fee caps we submit that a greater focus should be placed on disclosure, this would allow merchants to make informed decisions.

In summary the current interchange standards were introduced less than two years ago. At the same time, a broader reform agenda is already in process in New Zealand with the introduction of the Consumer Data Right and recommendation from the Commission to

designate the inter-bank network. These initiatives have the potential to impact price, competition and choice in payments and should be fully realised ahead of further price regulation which is likely to have detrimental effects on all parties as well as lessening competition in the sector.

Please do not hesitate to reach out if you wish for us to speak further on any of the points made in this submission.

Yours sincerely,



Legal and Policy Manager
Financial Services Federation

Appendix A



FSF Membership List as at August 2024

Non-Bank Deposit Takers, Specialist Housing/Property Lenders, Credit-related Insurance Providers	Vehicle Lenders Finance Companies/Diversified Lenders	Finance Companies/ Diversified Lenders contd.	Finance Companies/ Diversified Lenders, Insurance Premium Funders	Affiliate Members	Affiliate Members contd., Leasing Providers and Social Impact Lenders
Finance Direct Limited ➤ Lending Crowd General Finance (BB) Gold Band Finance (B+) ➤ Loan Co Mutual Credit Finance (B) <u>Credit Unions/Building Societies</u> First Credit Union (BB) Nelson Building Society (BB+) Police and Families Credit Union (BB+) <u>Specialist Housing/Property Lenders</u> Basecorp Finance Limited First Mortgage Managers Ltd. Liberty Financial Limited Pepper NZ Limited Resimac NZ Limited <u>Credit-related Insurance Providers</u> Protecta Insurance Provident Insurance Corporation Ltd	Auto Finance Direct Limited BMW Financial Services ➤ Mini ➤ Alphera Financial Services Community Financial Services Go Car Finance Ltd Honda Financial Services Kubota New Zealand Ltd Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Scania Finance NZ Limited Toyota Finance NZ ➤ Mazda Finance Yamaha Motor Finance <u>Finance Companies/Diversified Lenders</u> AfterPay Avanti Finance ➤ Branded Financial Basalt Group	Blackbird Finance Caterpillar Financial Services NZ Ltd Centracorp Finance 2000 DebtManagers Finance Now ➤ The Warehouse Financial Services ➤ SBS Insurance Future Finance Geneva Finance Harmony Humm Group Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Lifestyle Money NZ Ltd Limelight Group Mainland Finance Limited Metro Finance Nectar NZ Limited NZ Finance Ltd	Personal Loan Corporation Pioneer Finance Prospa NZ Ltd Speirs Finance Group (L &F) ➤ Speirs Finance ➤ Speirs Corporate & Leasing ➤ Yoogo Fleet Turners Automotive Group ➤ Autosure ➤ East Coast Credit ➤ Oxford Finance UDC Finance Limited Yes Finance Limited Zip Co NZ Finance Limited <u>Insurance Premium Funders</u> Arteva Funding NZ Ltd Elantis Premium Funding NZ Ltd Financial Synergy Limited Hunter Premium Funding IQumulate Premium Funding Rothbury Instalment Services	Alfa Financial Software NZ Limited American Express AML Solutions Limited Buddle Findlay Chapman Tripp Credisense Ltd Deloitte EY FinTech NZ Finzsoft Happy Prime Limited KPMG Loansmart Ltd LexisNexis Match me Money Ltd Motor Trade Association Odessa Technology Inc. One Partner Limited PWC Sense Partners Simpson Western Summer Lawyers	<u>Credit Reporting, Debt Collection Agencies.</u> Centrix Credit Corp ➤ Baycorp ➤ Collection House Debtworks (NZ) Limited Equifax Gravity Credit Management Limited IDCARE Ltd Illion Quadrant Group (NZ) Ltd Recoveries Corp NZ Ltd <u>Leasing Providers</u> Custom Fleet Euro Rate Leasing Limited Fleet Partners NZ Ltd ORIX New Zealand SG Fleet <u>Social Impact Lenders</u> Money Sweetspot Ltd. Total 99 members



FINANCIAL SERVICES FEDERATION (FSF)

THE NON-BANK FINANCE INDUSTRY SECTOR - 2024



49%



of personal consumer loans are financed by the **non-bank sector** represented by FSF members.

Setting industry standards for responsible lending, promoting compliance and consumer awareness.

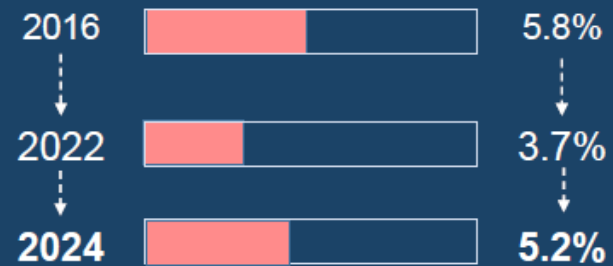
Only **6** dispute resolution complaints upheld or partially upheld from 1 April 2023 to 31 March 2024

Percent of Loan Requests Approved

48%



Percent of Loan Book in Arrears



KEY FACTS: THE NON-BANK FINANCE INDUSTRY SECTOR

FSF Members (as at 31 Mar 2024)

Number of Members	97
Number of Employees	3,353
Applications Processed	1,102,266
Loan Requests Approved	527,382
Percent of Loan Book in Arrears	5.2%
Loan Disputes Upheld	6

Bank Sector (as at 31 Mar 2024)

Value of Mortgage Loans	\$352B
Value of Consumer Loans	\$7.7B
Value of Business Loans	\$125B

Non-Bank Sector Share (as at 31 Mar 2024)

% of Total Mortgage Loans	0.3%
% of Total Consumer Loans	48.5%
% of Total Business Loans	8.7%

Insurance Credit Related (as at 31 Mar 2024)

Number of Employees	250
Number of Policies	300,209
Gross Claims (annual)	\$22.1M

Consumer Loans (as at 31 Mar 2024)

Total Value of Loans	\$8.2B
Number of Customers	1,537,502
Number of Loans	1,735,718
Average Loan Size	\$4,746

Total Value of Loans:

Mortgage	\$979M
Vehicle Loan	\$4,036M
Unsecured	\$2,129M
Other Security	\$361M
Lease Finance	\$733M

Average Value of Loan:

Mortgage	\$134,675
Vehicle Loan	\$13,337
Unsecured	\$1,588
Other Security	\$4,245

Business Loans (as at 31 Mar 2024)

Total Value of Loans	\$11.9B
Number of Customers	131,161
Number of Loans	202,921
Average Loan Size	\$58,894

Total Value of Loans:

Mortgage	\$4,092M
Vehicle Loan	\$2,989M
Unsecured	\$262M
Other Security	\$2,846M
Lease Finance	\$1,763M

Average Value of Loan:

Mortgage	\$766,527
Vehicle Loan	\$37,362
Unsecured	\$48,107
Other Security	\$54,724
Lease Finance	\$29,308