

# Rembrandt.

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Retail Payment System Consultation Team  
Commerce Commission  
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## **Retail Payment System Consultation: Costs to Business and Consumers of Card Payments**

### **Background**

Rembrandt is a NZ menswear retailer with 12 stores throughout the country. We welcome the Commerce Commission study into Interchange fees as these, plus the accompanying margin on those fees, cost our business around \$90,000pa. We can't see anywhere near this level of cost to the service providers, or benefit to our business, to justify that expense.

The Interchange fee structure heavily favours large merchants categorised as Strategic Merchants, over smaller ones for a service that is the same for all merchants and all cardholders. That same service is entirely systemized, well proven, huge in scale and almost certainly extremely low cost to provide.

### **Submission Questions**

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

Yes - we recently reviewed our 'no surcharge' decision for Debit, Credit and Contactless transactions and decided to continue **not** surcharging. Before reaching that decision, we spent considerable time finding and then understanding those fees which were indeed complex.

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

Although we do not surcharge our customers, it may become necessary should we consider the Merchant Service Fee too large to absorb. The current challenging trading environment is making this more of a possibility.

#### **We welcome further evidence of any other issues within the New Zealand retail payment system**

**Credit Card** Interchange fees capped at 0.8% appear high and warrant a significant reduction. Merchants categorised as 'Large Strategic Merchants' are charged considerably lower fees yet the cost of providing credit to the card holder plus the cost of any credit card risk is the same for all customers so why the large difference in Interchange fees? Additionally, shouldn't the cost of providing credit and rewards be best charged to the cardholder rather than the merchant?

**Debit Card** Interchange fees capped at 0.2% of the transaction value for smaller merchants and between \$0.02 and \$0.05 per transaction for 'Large Strategic Merchants' is excessive. Our company's average Debit Card Interchange Fee is approx. \$0.70 per transaction for essentially the same service as those larger Merchants charged as low as \$0.02 cents per transaction. Additionally, Debit Card Interchange fees for smaller Merchants calculated as a percentage of sales is unjustified as there is no credit provided to the card holder or credit risk involved to justify a percentage based fee.

We recommend Debit Card Interchange fees be set at a fixed rate per transaction for all merchants at that rate to be the same for all merchants.

**Margins** The margin added to the Interchange fee to cover Scheme Fees, Network Fees and Acquirer Bank Margin for smaller merchants is estimated to range between 0.2% and 0.5% of the transaction value. This is also considered excessive and another financial reason merchants either surcharge or attempt to negotiate that margin down. It is almost certain that Strategic Merchants will again have a substantially lower margin added to their Interchange fee than smaller merchants.

Our recommendation is to cap the margin added to the Interchange fee at rates similar or slightly higher than Strategic Merchants. If Strategic Merchants are charged a margin based on a fixed rate per transaction, then that be the basis for all merchants.

**Merchant Surcharges** Large Strategic Merchants do not surcharge their customers and this can only be explained by the Interchange Fees and Margins they pay. If the objective of this Commerce Commission enquiry is to ensure all merchants do not surcharge consumers, then they need to look no further than the total Merchant Service Costs Large Strategic Merchants pay to achieve that outcome.

Yours sincerely

**David Lyford**  
**Managing Director**