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Commerce Commission

By email: RetailPaymentSystem@comcom.govt.nz

### **Interchange Consultation**

The Booster Financial Services Limited group (**Booster**) is an investment manager, life insurance provider and default KiwiSaver provider with over 200k members across Aotearoa. In late 2023, Booster launched the Savvy debit card which links to an investment account with a supporting smart app.

Savvy offers a very compelling instant access savings option where members receive a return on every cent invested, with full transactional account capability across the payments network and user focused features such as the ability to have different 'stacks' of funds, and options to automatically save money. Savvy is a unique proposition in the market.

Booster recently increased its shareholding to now hold 100% of Banzpay Technology Limited (**Banzpay**), a New Zealand based company with high quality payments products and infrastructure for consumer payment (including for Savvy) and ATM providers, both in New Zealand and the Pacific Islands. This includes the ability to provision other businesses with white-label Mastercard scheme cards (pre-paid, debit and credit) with access to the domestic EFTPOS and ATM networks. Enabling innovation and supporting competition is at the core of what we do. Both Booster and Banzpay are committed to supporting the building of a more resilient financial services ecosystem that creates value for both consumers and businesses.

However, innovation also needs a sustainable business case and around the world new entrants are typically bringing more competition to the banking industry by starting with a scheme card proposition that accesses a transactional account. This enables the brand to build a customer base through daily interaction via payments.

Within this model, interchange provides an important revenue stream to cover some of the considerable costs associated with delivering a card programme.

Reducing interchange will impact how innovative new entrants can develop their card propositions; the proposed interchange rates would significantly reduce interchange revenue to those innovators whom the commission and other government departments are looking to enable.

We are concerned that the Commerce Commission has not fully appreciated the implications of the proposed interchange reduction on some of the Commission's broader programme of work, to encourage more retail banking competition.

In regards to surcharging, it is fantastic that the Commerce Commission is looking at this topic.

We believe there are some key points in relation to surcharging and contactless acceptance that need to be addressed:

- The consultation assumes that reducing interchange will change surcharging behaviour. However, the evidence to date is that this did not happen when earlier reductions were implemented and we understand that Commission executives have noted a concern in this regard.

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- Debit and credit cards are fundamentally different propositions with different benefits to both the consumer and the merchant, yet surcharging is not differentiated to reflect this value.
- Effective surcharging and higher contactless penetration will foster innovation, as we have seen in other markets. We have a number of customers who would love to launch digital-only propositions as a cheaper and quicker pathway to market. However, they need to include a physical card for the New Zealand market to cater for merchants who do not accept contactless transactions, which creates additional cost and complexity.

We suggest that the Commerce Commission first establishes a mechanism to ensure merchants are surcharging appropriately and then review if a further rate reduction should be made. As part of that review, the impact on fintech and challengers in the payments industry should be fully considered.

Finally, we look forward to the continued development of the Open Banking framework in New Zealand. We believe a standardised approach to offering Open Banking services across the market is critical to enabling competition and innovation. However we have some reservations regarding the way open banking is positioned in the consultation:

- We believe Open Banking can provide a much richer experience for consumers with customer data availability allowing a more personalised offering in financial services. However, it is still likely to be a relatively long period of time before the network is at a scale that it can deliver a viable alternative to traditional payment networks.
- From a domestic payment perspective, there are specific use cases which open banking will solve; however this does not address the need for New Zealanders to transact in other markets. Consumers require, and have a preference for, a payment product that enables them to transact in the same way whether they are travelling or at home in New Zealand.

Competition from new providers who are looking to create better services to their customers is hugely valuable for New Zealand. This impact should not be discounted just because those providers use an existing card scheme for payments, and we believe barriers to competition should be removed not increased.

While Banzpay has its own market facing activity, this response is also provided on behalf of Banzpay. Both companies look forward to providing ongoing input into the Commerce Commission's efforts to enable more competition within the New Zealand financial services industry at a time that has the potential to be a defining moment in New Zealand's payments landscape.

Yours sincerely

