

SUBMISSION

Retail Payment System: Costs to businesses and consumers of card payments in Aotearoa New Zealand

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Restaurant Association of New Zealand submission to the Commerce Commission New Zealand

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Introduction

1. The Restaurant Association of New Zealand (the Restaurant Association) welcomes the opportunity to make a submission on the Commerce Commission's consultation on the Retail Payment System.
2. This submission is written on behalf of members of the Restaurant Association, who are predominantly restaurant and cafe owners in the hospitality industry. Our membership spans the length and breadth of the country, and have provided their views on the interchange and merchant service fees they pay to help inform this submission. The overarching feedback from our members was:
 - 2.1. The costs of merchant service fees are too high and overly complex to understand.
 - 2.2. Most merchants would reduce or remove surcharges if the merchant service fees were reduced, depending on the rate to which they are lowered.
 - 2.3. More education is needed for consumers and the general public to understand why surcharging exists, so merchants can focus on their business instead of filling this education gap.
3. The Restaurant Association agrees with the Commerce Commission that merchants and consumers are paying too much in interchange and merchant service fees, especially when compared to overseas charges of a similar nature. We believe this is caused by the complexity of our retail payment system, causing confusion for merchants and consumers alike.
4. The Restaurant Association supports all endeavours to ensure our retail payment system delivers long-term and equitable benefits to both merchants and consumers. We support the overarching intention of the consultation to simplify and lower interchange and merchant service fees, in turn reducing costs for merchants and consumers.
5. The Restaurant Association believes that reducing merchant service fees will go some way in supporting the revitalisation of small businesses, particularly those in the hospitality sector who have faced exorbitant merchant fees for far too long.
6. The Restaurant Association looks forward to receiving the Commerce Commission's draft decision on this piece of work, and to engaging in the next steps of this regulatory process.

Current merchant service fees overview

7. Members of the Restaurant Association pay a varying range of merchant service fees, with some members paying more in these fees each month than they do on insurance, or on their monthly power and gas bills.

8. Our member survey found that most members did not want to surcharge customers, but with the increasing cost of doing business, they were left with no choice. Just over 60% of members currently surcharged customers, with the average surcharge rate among these members being 1.9%. The key driver for surcharging customers was to recover the costs associated with merchant service fees:

We really did not want to start on-charging customers but with overall increased costs, lower margins and then the kicker - an 18% rent rise last December - we had no choice but to pass this cost on to the consumer.

The year it cost us \$35,000 in merchant service fees we had to act. The interchange fees mean we have no negotiating power. If fees were reasonable we would look at returning to no surcharge.

We were paying upwards of \$1000 per week in merchant fees. This is way too much to absorb and was affecting our profit margins.

9. For those members that do not currently surcharge customers, the key drivers were to maintain high levels of customer satisfaction, keep pricing straightforward and transparent and because the business could afford to absorb the costs of the merchant service fees.

There is already resistance as it is without adding a surcharge. We choose to absorb the fees but would like to see them lowered.

10. Our members take pride in the high level of services they provide and have raised their concern about surcharges being the final point of contact with their customers. In our industry, hospitality is quite literally what we provide, yet there is little our businesses can do to avoid tainting that experience when the very last interaction with each customer is asking them to pay a surcharge - which can leave a sour taste in customers' mouths no matter how exemplary their service had been.

11. When members who are currently surcharging were asked if they would consider lowering or removing their surcharge if merchant service fees were less than 1%, 57% said yes, 28% said no and 15% were undecided.

It would help if surcharges were less than 1% and payment could be paid daily/weekly instead of monthly.

Merchant service fees would have to be below 0.5% before I would consider removing a surcharge.

Complexity of merchant service fees

12. The complexity of merchant service fees is the leading cause of surcharging amongst our members. Members are confused by the fees that are charged and have stated that there are large inconsistencies in the amount they are charged monthly, with little transparency from some acquirers as to why these discrepancies exist.
13. Of the members surveyed, 54% had an unblended or interchange plus pricing plan for their merchant service fees, 32% had blended pricing, and 14% did not know their merchant service fee pricing plan information.
14. When asked how easy or difficult it is to understand merchant service fees, 70% of members found them moderate to very difficult:

Merchant fees are incredibly confusing. We have been trying to understand how they are charged for a long time. Our bookkeepers and accountants are also confused!

15. Just over half of surveyed members had compared merchant service fees from other providers or 'shopped around' for varying deals:

We sought out a specialist to get us the best deal on surcharge rates and changed banks because of it. It is annoying changing banks - there is a lot of paperwork and it takes a lot of time to do this.

We have recently signed up for an all-in-one service offering which will include terminal, network and merchant fees in one bill and a net reduction in overall monthly charges.

We are currently looking at moving to another provider that offers a set fee and free terminal - however, we are reluctant to go into a contract if fees may get lowered.

16. Members also provided further feedback on the lack of transparency and general confusion around our retail payment system:

The rising costs in transaction fees has become questionable. While you can switch merchants, the fee structures are all similar along with interchange fees so there's not really any real competition or incentive for providers to lower chargers. COVID pushed more people towards contactless payment and banks have benefited.

Urgently needs regulating. This should not be in control of business owners. Costs need to be part of service.

Oh please help on reducing fees, honestly, it's scandalous how much commission is taken from our business. So grateful this is being looked into.

At our place, we don't automatically take the surcharge, instead we ask the guest first, then act accordingly to the payment type. We used to pay lots for merchant fees, now we put up a sign and show the guest there will be surcharges. It helps significantly, some guests are fine with the surcharge, and some change their mind to use EFTPOS rather than pay extra fees.

Merchant fees are absurdly frustrating. We have no choice but to accept credit cards as payments. Customers who use premium credit cards think they are being fiscally responsible because they get rewards, structure their finances well, or whatever reason they use their card. But they are totally unaware that small businesses are paying a cost for their convenience. It's also frustrating that Paywave cannot discriminate between a credit card or EFTPOS card. So customers are charged a surcharge for EFTPOS paywave, even though we do not incur a higher fee for these transactions. The whole perception of surcharges as a way to nickel and dime customers is unfortunate. They don't realise that these charges don't cover the cost of the merchant fees or that we have to pay GST on these surcharges. More transparency and public awareness would be nice. At the end of the day, the banks and credit card companies are the silent winners and while small businesses and their customers are the ones having these uncomfortable conversations about extra costs at a time where everyone is trying to save as much as possible just to get by.

Conclusion

17. The Restaurant Association recognises that this work on the costs to businesses and consumers of card payments is part of a broader review of payment systems in Aotearoa New Zealand, and commend the Commission's work to develop new payment options that are likely to be more secure, more convenient and reduce costs for businesses and consumers.
18. The Restaurant Association looks forward to receiving the Commerce Commission's draft decision on this piece of work, and to engaging in the next steps of this regulatory process.

About the Association

19. The mission of the Restaurant Association of New Zealand is to be the link between good food and good business so that our Member's restaurant or café can succeed. We're passionate about our vibrant industry, which is full of interesting, talented and entrepreneurial people.
20. Since 1972, the Association has worked to offer advice, help and assistance in every facet of the vibrant and diverse hospitality industry. We are the representative body for more than 2,500 hospitality businesses, with Members covering the length and breadth of the country.