4 May 2018

The Registrar

New Zealand Commerce Commission

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Tēnā koe

Re: Ingenico Paymark

Thank you for the opportunity to provide a submission on behalf of Progressive Enterprises Limited (**PEL**) in relation to the clearance application by Ingenico Group SA (**Ingenico**) to acquire 100 per cent of the shares in Paymark Limited (**Paymark**).

As you'll be aware, PEL is a key New Zealand payments processor, with its own switching and payment processing infrastructure and accesses the domestic payments infrastructure across both EFTPOS New Zealand and Paymark. PEL is also an infrastructure member of the Consumer Electronic Clearing System governed by Payments New Zealand Limited.

1.0 Background

PEL is a wholly owned subsidiary of Woolworths Group Limited (**Woolworths**) and operates 182 supermarket stores and a nationwide online shopping site trading as Countdown. As one of New Zealand's largest retailers, PEL processes approximately 10 per cent of New Zealand's debit card transactions and 8 per cent of New Zealand's credit card transactions.

On balance, we do not consider there is adequate merit in allowing the acquisition of Paymark by Ingenico bearing in mind the context of significant consumer, technology and market changes to the payments landscape taking place domestically and globally and this submission seeks to provide our views. We consider any benefits resulting from the transaction would be outweighed by the adverse impact on a competitive domestic payments market.

2.0 Key Issues with the proposed acquisition of Paymark by Ingenico

The competitiveness of the domestic payments landscape has been rapidly diminishing since 2012 when ANZ sold its switching business (EFTPOS New Zealand) to VeriFone, a payments and terminal hardware business. Fast forward to 2018 and we see Ingenico seeking the same with Paymark.

While on the face of it this seems a straight forward transaction we need to look back into the history of Paymark. Paymark was established by the four main banks to outsource the switching of electronic payments between retailers, acquirers and issuers on the basis the utility infrastructure was shared equally by the banks and that transactions were delivered at the lowest cost possible. Over time this world leading infrastructure grew to acquire a massive retailer customer base using Paymark's services on the basis that those same retailers were acquired by the owner banks.

This has led to Paymark holding a market share of approximately 80 per cent of New Zealand payments. It is this intrinsic value of holding the lion's share of the market that Ingenico now seeks to acquire.

Paymark's current bank ownership structure is unique globally and has provided an unusually low cost and efficient payments system (more so than Australia, for example). With a monopoly like situation, Paymark and its new owners can set future pricing that forces the market from a low cost utility play to that of being a price taker. This may have the effect of lessening competition if Paymark is treated as a vertically integrated network that not only mandates network access rules and standards but also sells/supplies access hardware (terminals) and sets switching costs.

There is a high risk of significant increases to the cost of processing domestic payments adding to the already prohibitively high costs New Zealand retailers face for processing payments.

Paymark presents a high barrier to entry for new payment technologies and payment terminals, all of whom must subscribe to the Paymark specification in order to gain access to the domestic payments network. This specification mandates the rules and conditions that all payment terminal software must build/adhere to and must be certified by Paymark prior to gaining network access. Each certification round for a new payment device can cost anywhere between $0.25m to $0.50m payable to Paymark and is a lengthy, iterative and time consuming process. The Paymark specification is also subject to change at any time by Paymark simply giving notice to the market of changes to its standards (these changes can also be driven by the payment schemes e.g. Visa, Mastercard etc).

Paymark's real value also lies in the bilateral access points and linkages it has that provide the plumbing between banks, retailers, acquirers and issuers. These bilateral linkages provide a commercial construct between Paymark and the connecting party (acquirer or issuer). These linkages also constitute the high barrier to entry for new entrants. This is evidenced by the fact that an existing Switch such as EFTPOS New Zealand (VeriFone) cannot switch debit EFTPOS transactions directly to the issuer and is instead forced to route these via Paymark who then use their bilateral links to route to Issuer. This we believe was a short-sighted decision by the bank owners of Paymark who refused access to VeriFone in the first place. With Ingenico entering the picture now, there is no reason why Paymark would want to lower this barrier to entry to their own detriment.

With such high barriers to entry it is not unforeseeable that Ingenico (with 80 per cent share of the market) uses these very standards and costs as a barrier to entry for new payment devices and technologies seeking to enter and access the New Zealand payments switching plumbing by putting its own payment devices and technology interests over and above those of others.

We would be concerned if Ingenico did not invest and keep the domestic payments system EFTPOS alive – as compared to simply treating the business as a network to route and move payment transactions between retailers, acquirers and issuers. This will lead to the even faster demise of EFTPOS and leave New Zealand without a domestic payments system

Another possible consequence of Ingenico acquiring Paymark is the demise of smaller businesses who act as resellers and distributors of payment devices and technology across the length of New Zealand. These small businesses may suffer as Ingenico seeks to grow vertically as well as expand across the payments value chain. This would also put undue pressure on market choice of payment devices potentially leaving Ingenico as the sole payments hardware and software provider to New Zealand retailers.

We are concerned that a consequence of this acquisition may see a significant lessening of competition due to the high potential of raised costs or constraints on competitors from being able to achieve sufficient scale to provide effective competition. This merger will also result in vertical effects.

3.0 Summary Remarks and Conclusion

In summary, we believe that the proposed acquisition of Paymark by Ingenico risks creating an environment that leads to significant cost pressures on retailers and the overall New Zealand retail payments market where retailers are already faced with higher payment costs as compared to other economies.

This also raises concerns about fewer new innovations, open payments technology and disruption entering the market due to high costs, high barriers to entry and a largely monopolistic payments switching player. We do not think this is a positive outlook for New Zealand consumers.

If the Commerce Commission does decide to allow this acquisition to progress, we would then request it to consider the alternative of breaking the Paymark network business from its actual customer facing payments business at the very least which will prevent and separate access and cost issues as stated above.

Thank you for the opportunity to respond to the Consultation Document and we look forward to discussing this with you at your convenience.

Ngā mihi