COMMERCE ACT 1986: BUSINESS ACQUISITION

SECTION 66: NOTICE SEEKING CLEARANCE

Dated: 20 April 2018

The Registrar
Mergers and Authorisations
Commerce Commission
PO Box 2351
WELLINGTON

Pursuant to section 66(1) of the Commerce Act 1986, notice is hereby given seeking clearance of a proposed business acquisition.

EXECUTIVE SUMMARY

A Ingenico Group SA ("**Ingenico**"), a member of the Ingenico Group is seeking clearance to acquire 100% of the shares in Paymark Limited ("**Paymark**") (the "**transaction**" or "**the acquisition**").

Limited New Zealand presence

B Ingenico currently has a very limited New Zealand presence via:

(i) acting as a wholesale supplier of POS payment terminals to New Zealand resellers (such as Skyzer and EFTCO); and

(ii) operating a digital payments gateway business in New Zealand via a recently-acquired business, Bambora.

C Ingenico manufactures payment terminals which are resold into New Zealand by unrelated third party distributors.

No aggregation in main areas of operation

D Paymark's primary business is a payment switch operator. It switches electronic transactions between consumers, merchants, consumers' card issuing financial institutions and merchants' acquiring financial institutions.

E Ingenico has experience operating switch businesses around the world, but has no switching business or infrastructure in New Zealand. The transaction will provide Ingenico with an opportunity to enter the New Zealand market as a switch provider, and to leverage Ingenico's global expertise and experience.

F Similarly, Paymark is not a terminal wholesaler in New Zealand.

G Ingenico's business and Paymark business are generally complementary in nature, rather than competing.

Market share aggregation in digital payments market is low

H Paymark does, however, operate a digital gateway business in New Zealand, meaning that there will be a degree (albeit a very small degree) of market share aggregation in the digital payments market.

I Ingenico's Bambora business is a relatively small operator in the New Zealand digital payments market. It estimates its market share at less than

[ ] (perhaps **[ ]**) and is one of many players in the very long tail of operators in that market - including Apple Pay, Android Pay, goMoney wallet, Braintree (owned by PayPal), Stripe, Cybersource, Datacom, Shopify, Adyen and many others. Those firms sit behind a number of larger gateway market participants - including DPS Payment Express (the major digital payments provider in New Zealand), Paystation (owned by TradeMe) and e-Way, as well as Paymark.

J Ingenico considers that the transaction should not give rise to any material competition concerns in the digital payments market on the basis that:

(i) the level of digital payments market share aggregation resulting from the combination of Paymark with Bambora's **[ ]** share is low, and the resulting combined (post-merger) market share is within the Commission's concentration indicators, indicating that the transaction should be unlikely to raise competition concerns;

(ii) the digital payments market is highly competitive with a large number of well-resourced and dynamic competitors;

(iii) barriers to entry and expansion in the digital payments market are extremely low; and

(iv) the digital payments market (like other fintech markets) is being disrupted by a number of alternative technologies / "direct access" payment options.

Pro-consumer, pro-competitive outcomes

K The transaction will vertically integrate Ingenico's terminals business with Paymark's switching business. Rather than any negative competition outcomes, Ingenico expects that such integration will generate significant operating efficiencies and create pro-competitive effects in the relevant markets.

L Other than Paymark, the two largest competing switch providers – Verifone and Payment Express – both operate vertically integrated businesses, supplying terminals and switching services to their customers. Globally, there is a trend towards more integrated payments providers, with POS hardware and software, processing, eCommerce and merchant acquiring all provided by vertically integrated payment providers.

GLOSSARY OF TERMS

Term	Definition
Acquirer	An organisation, typically a bank, which provides access to the payment system on behalf of merchants for the clearing and settlement of funds in a transaction. An acquirer may or may not also be the bank that provides other services to a merchant, such as lending and deposits.
Cardholder/customer/consumer	Buys goods and services from merchants in exchange for payment.
Card present transaction	Any transaction where a customer is in the same physical location as the merchant.
Card not present transaction	Any transaction made online, over the phone, or in other situations in which a customer is not in the same physical location as the merchant.
eCommerce	A form of card not present transaction where a website or application is used to store or input a consumer's payment details to transact with a merchant.
EFTPOS	Electronic Funds Transfer at Point of Sale.
Issuer	An organisation, typically a bank, which issues cards and provides debit and/or credit services to customers.
Merchant	A party that provides goods or services in return for payment. Includes retailers, wholesalers, utilities companies, and central and local government.
MSF	Merchant Service Fee, made by a merchant to an acquirer for certain types of retail payment.

Term	Definition
PCI / PCI DSS	Payment Card Industry / Data Security Standard.
Proprietary EFTPOS	The 'traditional' form of card payment in New Zealand, which utilises magnetic-stripe technology. Standards are maintained by Payments New Zealand, but then is no 'owner' of proprietary EFTPOS as such.
POS	Point Of Sale.
Scheme	Includes Visa, MasterCard, American Express, and Diners Club, amongst others. Schemes develop technology and base product features, and set the commercial model and card system rules. They may issue cards and attract merchants through banks (open system – Visa and MasterCard) or directly (closed system – American Express, Diners Club, etc.). Only relevant for non-proprietary-EFTPOS transactions.
Switch	Payments infrastructure that sends transaction information to the correct issuer or acquirer (depending on the type of transaction) so that the funds can be taken from the customer's account and delivered to the merchant.
Switch-to-acquirer (***STA***)	The process by which information about certain card payments, notably credit cards, contactless scheme debit, card-not-present and international transactions, is sent between institutions. Attracts interchange (except for closed schemes) and MSFs.
Switch-to-issuer (***STI***)	The process by which information about certain card payments, notably proprietary EFTPOS and inserted/swiped scheme debit, is sent between institutions. Attracts no interchange fee or MSF.

PART 1: APPLICANT'S DETAILS

1 Ingenico Group applies for clearance to acquire all of the shares in Paymark Limited (***Paymark***).

2 Ingenico Group is a global company, headquartered in Paris. Its shares are traded on Euronext.

(a) Ingenico's contact details are:

Postal address: 29/32 Boulevard de Grenelle 75015 Paris, France

Physical address: 29/32 Boulevard de Grenelle 75015 Paris, France

Telephone number: + 33 (0)1 58 01 80 00

Web address: www.ingenico.com

(b) Ingenico's contact persons for this application are:

(i) Sylvie Lallement (sylvie.lallement@ingenico.com), and

(ii) Dominic White (dominic.white@ingenico.com).

(c) Ingenico's individuals responsible for this notice are:

Names: Philippe Lazare (CEO)

Sylvie Lallement (General Counsel)

Dominic White (VP Pacific)

Email addresses: philippe.lazare@ingenico.com
sylvie.lallement@ingenico.com
dominic.white@ingenico.com

Telephone number: +61 412 404 984 (Dominic White)

3 Ingenico Group has a number of subsidiaries and related entities around the world. There is a full list of those entities in Ingenico's 2016 registration document.[1]

[1] Available here: http://registration-doc.ingenico.com/2016/index.html and also provided to the Commission as ***Appendix Four*.**

4 The Ingenico entity intending to acquire the Paymark Shares, and the applicant for clearance, is Ingenico Group SA (*the* ***applicant***). In this application "Ingenico" refers to the Ingenico Group as a whole, including the applicant, unless a particular Ingenico entity is identified.

5 Ingenico's annual report and 2017 financial results can be found in its registration documents here.

6 All correspondence and notices in respect of this application should be directed in the first instance to:

Name: Matt Sumpter / Colin Fife
Address: Chapman Tripp
23 Albert Street
Auckland

Telephone: +64 9 357 9075 / +64 9 357 9699

Email: matt.sumpter@chapmantripp.com
colin.fife@chapmantripp.com

PART 2: OTHER PARTY'S DETAILS

7 The other transaction parties are ASB Bank Limited, ANZ Bank New Zealand Limited, Westpac NZ Operations Limited and BNZ Investments Limited (each a ***vendor*** and together the ***vendors***) as present owners of all of the shares in Paymark.

8 The Vendors' respective addresses, contact persons, and their details are:

(a) **ASB**

Postal address:	PO Box 35 Shortland Street, Auckland 1140
Physical address:	12 Jellicoe Street, North Wharf, Auckland 1010
Web address:	https://www.asb.co.nz/contact-us
Attention:	Graeme Edwards General Counsel & Company Secretary
Email address:	Graeme.Edwards@asb.co.nz

(b) **ANZ**

Postal address:	Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand
Physical address:	Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland 1010, New Zealand
Web address:	https://www.anz.co.nz/auxiliary/contact-us/contact-us/
Attention:	David Bricklebank, General Counsel
Email address:	david.bricklebank@anz.com

(c) **BNZ**

Postal address:	Level 4, 80 Queen Street, Auckland 1010, New Zealand

Physical address:	Level 4, 80 Queen Street, Auckland 1010, New Zealand
Web address:	https://www.bnz.co.nz/contact
Attention:	Aaron DeLacey, Head of Legal – Banking, Products & Markets
Email address:	aaron_delacey@bnz.co.nz BNZ_Secretariat@bnz.co.nz

(d) **Westpac**

Postal address:	PO Box 934, Auckland 1010, New Zealand
Physical address:	Westpac on Takutai Square, 53 Galway Street, Auckland 1010, New Zealand
Web address:	https://www.westpac.co.nz/who-we-are/find-contact-us/
Attention:	Michael Hendriksen
Email address:	michael.hendriksen@westpac.co.nz

9 All correspondence and notices to the Vendors in respect of this application should be directed in the first instance to:

Name:	Sarah Keene / Dominic Rowe
Address:	Russell McVeagh, Vero Centre, 48 Shortland Street, Auckland
Telephone:	09 367 8133 / 04 819 7329
Email:	sarah.keene@russellmcveagh.com / dominic.rowe@russellmcveagh.com

PAYMARK'S DETAILS

10 Paymark's contact details are:

Registered Office:	Level 2, 162 Victoria Street West, Auckland, 1010, NZ

Address for Service: Level 2, 162 Victoria Street West, Auckland, 1010, NZ

Web address: www.paymark.co.nz

11 Paymark's financial statements are private. The Vendors will provide these documents to the Commission separately as ***Confidential Appendix Nine***.

12 All correspondence and notices to Paymark in respect of this application should be directed in the first instance to:

Name: Pip White, General Counsel

Telephone: 022 096 5576

Email: Philippa.White@paymark.co.nz

PART 3: TRANSACTION DETAILS

Type of transaction

13 Ingenico intends to acquire all of the shares of Paymark.

What is being acquired

Business activities of the target

14 Paymark supplies electronic transaction processing services in New Zealand. Paymark's infrastructure provides switching and processing capability between consumers, merchants, consumers' card-issuing financial institutions and merchants' acquiring financial institutions.

15 Paymark began in 1984, when the major retail banks established the first EFTPOS systems in New Zealand. The banks supported EFTPOS systems because they saw electronic retail debit as an attractive and low-cost payment method relative to traditional payment methods such as cheque and cash.

16 To that end, the banks created two EFTPOS systems:

(a) Cashline, owned by Trust Bank and ASB; and

(b) Quicksmart, owned by ANZ, BNZ, the National Bank and Westpac, renamed Handy-point after the exit of ANZ and BNZ in 1988.

17 In 1989 the Cashline and Handy-point systems merged into a single, centralised EFTPOS network and the shareholder banks incorporated a new company, Electronic Transaction Services Limited (**ETSL**). ETSL was renamed Paymark in 2009.

18 Paymark estimates that today it processes around **[ ]** of New Zealand's card present electronic transaction volumes. Paymark currently processes over **[ ]** transactions annually and has agreements with about **[ ]**. There are around **[ ]** connected to Paymark's infrastructure.

19 Paymark's core service is card present electronic transaction processing. This service involves interactions with card issuers, merchant acquirers, terminal providers and merchants.

20 Paymark's network processes the following transactions:

(a) debit card;

(b) credit card;

(c) loyalty card;

(d) merchant charge card;

(e) fuel card; and

(f) pre-paid card.

21 Depending on the nature of the transaction, the card present electronic transactions above are switched in one of two ways:

(a) switch to issuer (***STI***) transaction switching, which use domestic "rails" and issuer links to send the transaction details from the POS to the customer's issuing bank; and

(b) switch to acquirer (***STA***) transactions, which use (i) domestic "rails" and acquirer links to send the transaction details from the POS to the merchant's acquiring bank, and (ii) scheme "rails" to transmit transaction details to the card scheme and then onto the issuing bank.

Figure one: cards, transactions and switches[2]

<table>
<tr><th>Type of card</th><th>Type of transaction</th><th>Method of switch/network</th></tr>
<tr><td>Proprietary EFTPOS</td><td>Swiped</td><td rowspan="2">Switch to issuer (domestic 'rails')</td></tr>
<tr><td rowspan="2">Scheme debit</td><td>Inserted/swiped</td></tr>
<tr><td>Contactless/card-not-present</td><td rowspan="2">Switch to acquirer (scheme 'rails')</td></tr>
<tr><td>Open or closed credit</td><td>Swiped/inserted/contactless/card-not-present</td></tr>
</table>

2 MBIE, "*Retail payment systems in New Zealand*" Issues Paper, October 2016 at page 18 (Table 1: Cards, transactions and switches).

22 Further details regarding STI and STA transactions (including process diagrams) are set out in ***Appendix Two***.

23 Paymark also switches non card present transactions (including eCommerce transactions). Outside electronic transaction processing, it offers a number of other electronic transaction and data insight services to merchants, card issuers and merchant acquirers for card present electronic transactions, eCommerce, mCommerce, ATM and related transaction processing needs (e.g. loyalty cards).

24 Paymark's revenue is generated mainly from:

(a) **transactional revenue:** switching fees for each electronic retail transaction processed ("switched") through its infrastructure, priced on a per transaction basis; and

(b) **access / connectivity revenue:** flat monthly fees for accessing / connecting terminals to Paymark's network, priced on a per terminal basis (typically a per-terminal per-month fee, regardless of transaction volumes).

25 In 2017, Paymark's transactional revenue was (very roughly) about **[ ]**, and its access / connectivity revenue was about **[ ]**. Full details of Paymark's revenue and financial position are in the Vendors' sales process information memorandum at ***Confidential Appendix Five*** and in its private financial statements at ***Confidential Appendix Nine***.

—Other Paymark services

26 Paymark provides a range of services that are outside its core electronic transaction processing service. These other services include:

(a) eCommerce offerings such as:

(i) a linked payment gateway service for certified solution providers of eCommerce payment gateways such as **[ ]**, and more fully described at para 30(a) below; and

(ii) *Click,* which is a direct-to-merchant eCommerce payment gateway product that merchants can use to

accept scheme card transactions online: further details at para 30(b) below;

(b) Paymark *Insights* – a dashboard that provides merchants with real-time transaction feeds, new vs. return customer rates, customer spending trends and transaction tracking against previous periods;

(c) a merchant report service called *Transtrack* which reports all transactions that Paymark has processed for that merchant. About **[ ]** merchants use the Transtrack service;

(d) data supply, processing and analytics - Paymark supplies payment and other data to **[ ]** for the purposes of data analytics, market reporting and/or loyalty products;

(e) tokenised data services, which enable loyalty providers to calculate loyalty rewards automatically for consumers that have registered their payment cards, and make purchases with those cards, at merchants that are part of the loyalty programme;

(f) *Online Eftpos* which is Paymark's consumer-to-business and account-to-account money transfer solution;

(g) interactive authorisation services, whereby Paymark processes card authorisations from acquirers such as **[ ]** and **[ ]** via interactive voice response technology or via customer service representatives;

(h) customised solutions for existing customers (banks and merchants) who may require customisation. Recent examples include **[ ]**. Paymark completed technical build work to enable this functionality; and

(i) certification services to ensure that terminal providers' software and hardware meets the necessary standards such as Payment Card Industry, EMVCo and compliance with international card scheme specifications and regulations.

Paymark charges for such certification services by the hour. If any external certification is required from the international card schemes (such as MasterCard Terminal Integration Process (*M-TIP*) these costs are **[ ]**.

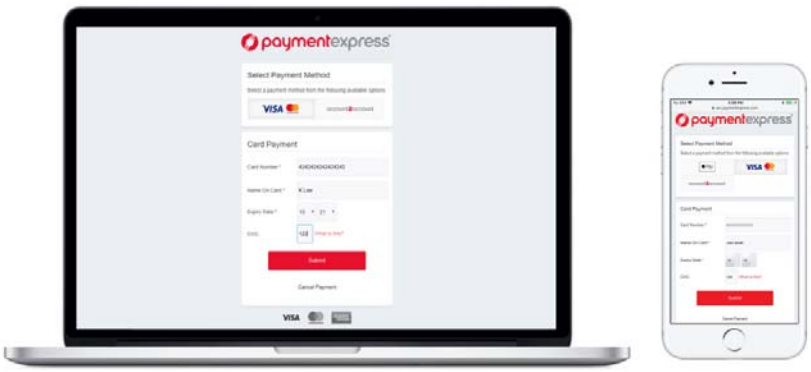
27 Paymark formerly provided ATM processing services but no longer does so.[3] Ingenico understands that NZACU (trading as Co-op Money) now provides these services.[4]

eCommerce

28 eCommerce simply means a website or application on which a customer can input or store payment details, such as a credit card number, to transact with a merchant. An eCommerce payment is almost always a type of card not present transaction.

29 For example, Payment Express' eCommerce offering is incorporated into many New Zealand websites to enable online payments:

Figure two: example of Payment Express's eCommerce online payment gateway[5]



30 Paymark's eCommerce offerings are:

(a) a back-end service called ***Paymark Linked Gateway 2.0***, which allows other eCommerce payment gateways to connect to the core processing ("switching" network). This eCommerce service allows other internet payment gateways to connect to

[3] Paymark's arrangements with independent ATM providers **[ ]**

[4] Source: https://coopmoneynz.org.nz/who-is-co-op-money-nz/products-and-services/atms/

[5] Source: https://www.paymentexpress.co.nz/merchant-ecommerce

the core transaction processing network that processes Paymark's card present and digital payment transactions. The Linked Gateway service enables other payment gateways, such as **[ ]**, to cost effectively process their merchants' transactions on a major payment processing network; and

(b) the recently-launched Paymark Click service, which is a direct-to-merchant eCommerce payment gateway. Click allows merchants to accept credit card payments from all major scheme cards. Like other widely-used payment gateways such as Payment Express, Paymark Click avoids the need for merchants to deal direct with card scheme compliance (often called PCI/DSS certification) which can be expensive.

New Paymark initiatives

31 Paymark is developing a range of new products and services to vertically integrate into other payment gateways and downstream payment products.

—Paypr (electronic receipts)

32 Paymark is collaborating with Xero to offer Paypr. Paypr is a service that provides instant interconnectivity between an electronic transaction and the receipt for that transaction with Xero's accounting software. Paypr sends digital receipts in real-time to customers' phones, ready to be coded and sent to Xero. Paypr will enable businesses, employees and accountants to more effectively and easily manage business expenses.

—Loyalty and data insights

33 Paymark is expanding its data analysis services and reporting. Cross channel tokenised transaction reporting will enable retailers to recognise customers both online and in physical stores.

The business activities which Paymark will undertake after the acquisition

34 Ingenico does not intend to make any significant changes to Paymark's operations following the transaction.

Rationale for acquisition

35 Ingenico specialises in terminal and digital payment services. Globally, it has over **[ ]** terminals installed and manages more than **[ ]** payment transactions both in-store and online.

36 Ingenico considers that its extensive international multi-channel payments experience will enable it to continue to successfully operate Paymark. It intends to leverage that experience to develop and enhance Paymark's New Zealand offerings. Moreover, Ingenico believes that its global expertise and resources will allow Paymark to successfully match emerging payments technologies at both terminal and transaction level.

37 Ingenico's global commercial strategy is to maximise value to all retail merchants. To that end, Ingenico's mission is to:[6]

(a) *enable payments everywhere* (i.e. allow merchants to accept all forms of payment at point of interaction be it terminal, online or mobile);

(b) *enhance merchant and consumer experiences*; and

(c) *deliver an end-to end full-service offer*.

38 In line with that strategy, Ingenico is prioritising the expansion of its customer offerings globally, including New Zealand. Ingenico sees the purchase of Paymark as assisting in two ways:

(a) enriching Ingenico's current product and service offering to merchants to include transaction-based solutions; and

(b) providing "end-to-end" solutions to the New Zealand payments system, in partnership with resellers, banks and other parties covering all aspects of the payments value chain.

39 **[**

[6] Ingenico Group "Analysts Presentation" dated 22 February 2018: https://www.ingenico.com/finance/ingenico-group-at-a-glance

]

40 In the short to medium term, Paymark also offers **[**

]

Changes in control

41 As a result of the transaction, and following completion, Ingenico will directly or indirectly own 100% of the shares in Paymark.

Ancillary agreements

42 The arrangements between Paymark and the Vendors for switching transactions, and associated fees, are governed by services agreements. Paymark and each Vendor have entered into various contractual services agreements. Under those services agreements, Paymark provides each acquiring Bank with switching and data processing services in exchange for the payment of transaction fees.

43 As part of the transaction, the Vendors negotiated revised services agreements.

44 The agreed form of the revised services agreements are annexed to the sale and purchase agreement in ***Confidential Appendix Eight***.

45 A high level summary of the revised services agreements, including their duration, scope, pricing, and volume targets are in ***Confidential Appendix Seven***.

PART 4: TRANSACTION DOCUMENTS

46 The acquisition details are in the *Agreement for the Sale and Purchase of Shares in Paymark Limited* between the vendors and Ingenico Group SA attached at ***Confidential Appendix Eight*** (the ***SPA***).

47 The SPA includes, as Annexure A, agreed form wording for the revised services agreements between Paymark and each Vendor. The revised services agreements will be entered into between each Vendor and Paymark (and will become effective from) transaction completion.

48 Completion under the SPA is conditional on regulatory approvals, including Commerce Commission clearance and OIO consent.

49 The SPA and associated documents are highly confidential.

PART 5: NOTIFICATIONS TO OTHER COMPETITION AGENCIES

50 The transaction involves only New Zealand markets, so no other competition agencies have been notified.

PART 6: THE INDUSTRY

Background

51 A background to the electronic payments industry, and a summary of the key operators in the industry, is set out in ***Appendix Two*** *and* ***Three***.

Recent mergers

52 There have been no relevant mergers in the terminal, switching or digital payment markets in New Zealand in the last three years.

53 Other possibly relevant mergers in the sector include:

(a) ANZ's acquisition of the National Bank of New Zealand from Lloyds TSB Bank plc in 2003. The Commerce Commission granted clearance for that transaction.[7] At the time of the transaction, ANZ owned ENZL and the National Bank had a 25% interest in ETSL. The Commission concluded that the acquisition was unlikely to impact the operation of ETSL.[8]

(b) In 2008 the Commerce Commission cleared the proposed merger between Cadmus and Provenco.[9] The Commission was satisfied that the acquisition would not substantially lessen competition in any of the relevant terminal markets.

(c) In 2012, Verifone purchased ENZL from ANZ. ENZL had been ANZ's own EFTPOS network. There was no clearance application for this transaction. **[**

.[10]**]**

Ingenico's understanding is that **[**

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7 Commerce Commission, *Decision No. 507,* dated 25 September 2003.

8 See paragraph [69]-[70].

9 Commerce Commission, *Decision No. 632*, dated 5 February 2008.

10 Ingenico understands **[** .**]**

54 In Australia, the only directly-relevant prior merger review appears to be Ingenico's March 2008 informal ACCC notification of its acquisition of terminal manufacturer Sagem Monetal SAS.[11] The ACCC concluded there that the proposed acquisition was unlikely to substantially lessen competition in the relevant market as the merged entity would be constrained by vigorous competition from an array of other global terminal manufacturers.

55 The European Commission recently approved a merger between Worldline SA and Equens SE (including its subsidiary Paysquare) subject to certain divestments.[12] The acquisition combined two large payment system companies each offering card present and online payment processing. Worldline also provided terminals. The parties were direct rivals in some markets, including merchant acquiring, although they faced intense competition from banks and other players in most markets. In the result, the European Commission approved the transaction subject to PaySquare divesting certain businesses in Belgium and granting licenses for certain software.

11 http://registers.accc.gov.au/content/index.phtml/itemId/859487/fromItemId/751043

12 http://ec.europa.eu/competition/mergers/cases/decisions/m7873_1821_3.pdf

PART 7: COMPETITION ANALYSIS

A: MARKET DEFINITION

Product dimension

56 Ingenico considers the markets potentially affected by the transaction to be the following New Zealand markets:

(a) the national market for the provision of payment switching and processing[13] services for electronic transactions (the **switching market**);

(b) the national market for the wholesale supply of payment terminals and terminal connectivity to resellers (the **wholesale terminal market**);

(c) the various regional markets for the re-sale supply of payment terminals and terminal connectivity to merchants (the **retail terminal markets**);

(d) the national market for the provision of digital payment services (the **digital payment market**), including:

(i) ecommerce payments by credit and debit card; and

(ii) other online payment services,

together, the ***Affected Markets***.

57 Ingenico acknowledges that, in addition to the markets above, there may well be separate markets for the provision of payments-related services such as data analytics, POS terminal certification and payment authorisation services. Those markets may be directly or indirectly implicated by the transaction. But at this stage the applicant considers that:

(a) those services are best understood as complementary to the four core markets identified above, rather than as standalone services; and

[13] Processing services may conceivably be a separate competition law market. But the applicant considers that it does not raise distinct competition issues here so can be dealt with as part of the broader "switching" market for the purposes of this transaction.

(b) in any event, do not raise competition law issues distinct from the analysis below.

58 Ingenico would be happy to provide further details regarding any of these complementary services if that would assist the Commission.

—Switching market

59 The switching market is a two-sided market insofar as it involves a switch operator entering into arrangements with, and recovering revenue from, both merchants and banks. Indeed in Paymark's case, the majority of switching revenue is obtained from banks rather than from merchant terminal provisioning fees. The competitive significance of the banks' position is returned to at para 144 below.

60 As far as the applicant is aware, the Commission has not substantively considered the switching market in the Part 5 context.[14]

61 As explained above at para 21, there are two methods of switching a transaction from a customer's to a merchant's financial institution. Those are:

(a) switch to issuer (***STI***) transaction switching, which use domestic "rails" to send the transaction details from the POS to the customer's issuing bank; and

(b) switch to acquirer (***STA***) transactions, which use scheme "rails" to transmit transaction details first to the card scheme and then on to the issuing bank.

62 There are variations of both STI and STA switching—for example an STA transaction may be card present or card not present, and some merchants self-acquire some transactions—but these variations do not fundamentally alter the processing architecture for that type of switching.

[14] Switching is mentioned in the 2008 Provenco/Cadmus clearance decision (*Decision 632*) but not substantively considered in that report. The switching market was also traversed in the 2003 *ANZ/NBNZ* decision (*Decision 507*) at [287] to [296] in the context of a discussion about barriers to entry in the supply of transaction accounts and other banking services.

63 Ingenico considers that, for the purposes of this application, STI and STA switching may sensibly be analysed as a single national switching services market.[15] However, for the reasons discussed from para 97 below, since the transaction will not result in any aggregation in the switching market, nothing should turn on that point.

64 As is explained in ***Appendix Three***, there are two full-capability switch providers in New Zealand: Paymark and Verifone. Both offer STI and STA transaction switching services, with Verifone/ENZL's capability enabled in part by its **[**

].

65 Payment Express also offers switching of some STA transactions.

66 Ingenico reiterates that it is not presently in the New Zealand switching market. It does not have the assets or capability to offer STI or STA switching services to New Zealand merchants, issuers and acquirers.

—Terminal markets (wholesale and retail)

67 Again, terminals are used by merchants at point of sale to transmit transaction information to the switching network.

68 Terminals are required regardless of which payment cards the merchant chooses to accept. Merchants may either purchase a terminal for around $1,000, or hire one for a monthly fee.

69 Terminals consist of a physical handset and its associated software. The software must be certified for connection to a switch. Some terminals also include technology enabling connection to a merchant's point of sale system (commonly referred to as "integrated" terminals).

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[15] This is because STI and STA are inputs into competing payment mechanisms. So if, for example, a hypothetical monopolist of STI services were to implement a SSNIP for switching services, then:

(a) banks could steer customers away from proprietary EFTPOS cards towards STA cards. As discussed in ***Appendix Two***, there is already evidence of a trend towards STA card types, and substitution away from STI card types; and

(b) merchants would be happier to accept STA cards, and indeed might actively steer their customers towards these card types.

70 Terminal software is integral to a payment terminal's functionality and is always developed, certified and updated by the terminal's manufacturer. Unlike, say, computer applications, there are no standalone providers of terminal software. The applicant submits that terminal software is best understood simply as part of a payment terminal, rather than a separate technology or product.

71 A terminal must be connected to a switch, regardless of payment types or volumes. Such a connection is required for the merchant to accept any type of electronic card. For example, Paymark charges **[ ]** a month per terminal (being the flat access / connectivity fee referred to in para 24(b) above).[16]

72 The Commission considered the EFTPOS terminal market in the 2008 *Provenco/Cadmus decision.*[17] The Commission found then that the provision of payment terminals to merchants was best understood as four separate markets:

(a) the national market for the wholesale supply of standalone EFTPOS technology and services;

(b) the national market for the wholesale supply of integrated EFTPOS technology and services;

(c) various regional markets for the re-sale supply of standalone EFTPOS technology and services; and

(d) various regional markets for the re-sale supply of integrated EFTPOS technology and services.

—Integrated and standalone terminals

73 Integrated EFTPOS terminals are connected to a merchant's own POS platform. If a merchant has an integrated terminal, the merchant's POS technology sends the payment amount directly to the terminal. In contrast, standalone EFTPOS requires a merchant to manually input (key) the payment amount into the EFTPOS terminal.

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[16] Paymark offers other pricing variants for larger merchants and for specific merchant types such as taxis.

[17] Commerce Commission, *Decision 632,* dated 5 February 2008.

74 Integrated terminals make transactions faster and more seamless as there is less room for human error when inputting the payment amount. Integrated terminals are also more attractive because there no end of day reconciliation process required.

75 Integrated terminals and standalone terminals are very similar in technology. One point of difference is the software which enables the terminals to integrate with the merchant's POS software. A merchant's decision as whether to adopt an integrated terminal tends to be driven by their existing POS software: if a merchant has the requisite POS software already, it can easily switch between standalone and integrated terminals. If a smaller SME has only a basic POS system, it will need to invest in the relevant POS software in order to move from a standalone terminal to an integrated terminal. Ingenico's experience is that investment in the relevant POS software is the only barrier for a merchant to switch from a standalone terminal to an integrated terminal.

76 Ingenico also observes that:

(a) since 2008, integrated terminals have become commonplace in all except the smallest (single-POS) merchants; and

(b) all major terminal manufacturers and their New Zealand resellers offer both integrated and standalone EFTPOS solutions:

(i) no manufacturer or reseller supplies solely integrated or standalone terminals. Ingenico estimates that Verifone and Payment Express currently supply a large number of integrated terminals in the market and so have a larger target market for integrated devices but, beyond current customer pools, no terminal manufacturer or reseller is better placed to supply a particular type of terminal;

(ii) moreover, Ingenico expects that all terminal manufacturers or resellers present in New Zealand are likely to have a similar split of standalone and integrated terminals that they provide. Any difference

is likely to be driven by customer type. For example, a terminal provider could supply a greater share of integrated terminals if they supplied supermarkets or other large retailers who demand a large number of integrated devices; in contrast a terminal reseller with many SME clients would likely sell a greater proportion of standalone terminals.

77 For those reasons, Ingenico considers that standalone and integrated payment terminals are best analysed as part of a single product market for the purposes of this application. However, as discussed from para 104 below, the level of aggregation is not significant in either the standalone or the integrated payment terminals markets (if they were to be considered separately), and therefore nothing should turn on whether the markets are treated singly or together.

78 The wholesale supply of terminals is undoubtedly a national supply market, as the terminals are portable and high value items which are readily imported into and transported around New Zealand.

79 Ingenico believes that, as in 2008, there remain regional markets for the resale of terminals to smaller and micro merchants, albeit that larger merchants can and do seek service proposals from terminal providers around New Zealand.

—Digital payment market

80 The digital payment (eCommerce) market consists of a distinct payment gateway for card not present transactions. It enables payments online or in a software application.

81 Gateways are best understood as an online alternative to a physical payment terminal. Physical terminals are not used in the provision of digital payment services because the customer is not physically at the same location as the merchant's POS, but is instead connected to the merchant via the internet, and because a card may not be present.

82 Digital payment services consist of a number of components and technologies, including:

(a) a website interface, enabling a gateway to be integrated into a merchant's website or app, or to exist on a standalone page to which the customer is redirected by the merchant;

(b) a gateway, comprising software technology to enable the communication of transaction details to a switch; and

(c) in some cases, hosting services, referring to whether a digital payment provider runs ("hosts") the gateway on its servers. Larger merchants often host their own payment gateways and so require standalone or merchant-hosted digital payments services.

83 On the customer side, digital payment services may be purchased both by website developers and providers/hosts, or by merchants directly.

84 In the result, Ingenico submits that the provision of digital payments services should be analysed as a single national market for the provision of digital payments and eCommerce services to customers (merchant website and app owners).

What is outside the relevant market

85 The credit card schemes—both "open" schemes such as Visa and MasterCard, and "closed" schemes like American Express—form part of the payment network and account for a significant volume of switching traffic. The schemes also administer the interchange arrangements between issuers and acquirers, and receive the interchange fee: see *Figure seven*.

86 That said, the schemes offer a service which is quite distinct to payment processing and switching, insofar as the schemes do not have switching capability. They rely instead on switch operators such as Paymark and Verifone/ENZ to process scheme-acquired transactions from a merchant to their network.

87 Moreover, card issuance and transaction acquiring (both important) are separate services, provided by banks or other financial institutions, and not by Paymark:

(a) banks or other financial institutions offer merchants the service of acquisition of credit card transactions,[18] in return for which they charge a merchant service fee (**MSF**), whereas Paymark (as a switch operator) is not itself able to acquire credit card transactions; and

(b) banks or other financial institutions are card issuers and Paymark (as a switch operator) is not a card issuer.

Summary on market definition

88 To wrap up, Ingenico considers that the competition effects of the transaction may be appropriately tested against:

(a) the national electronic transaction switching market;

(b) the national wholesale terminal market;

(c) a series of regional retail terminal markets; and

(d) the national digital payment market.

[18] Acquisition typically includes the clearing and settlement of funds in a transaction, although the acquirer may or may not also be the bank that provides other services to a merchant such as lending and deposits: see MBIE*, "Retail payment systems in New Zealand"* Issues Paper, October 2016 at [63].

B: THE COUNTERFACTUAL

89 The Vendor banks and their advisers, Cameron Partners Limited, have conducted a thorough and wide-ranging sale process for Paymark.

90 In the circumstances, there are three alternative scenarios which could be considered:

(a) the sale of Paymark to an alternative purchaser without a presence in the New Zealand terminal markets and digital payments market;

(b) the sale of Paymark to an alternative purchaser with a presence in the New Zealand terminal markets and/or digital payments market; and

(c) the status quo; namely, a continuation of Paymark under the Vendor banks' ownership.

91 Ingenico's view is that (c) is the most likely counterfactual.

92 While the sale of Paymark to an alternative purchaser at some point in the future is not inconceivable, Ingenico does not consider that (a) is a likely scenario or valid counterfactual against which the proposed transaction should be assessed. Scenario (b) is a counterfactual that is not materially different from the factual.

93 However, even if the Commission disagrees and wishes to assess the transaction against scenario (a), the sale to an alternative purchaser with no presence in the terminal markets and digital payments market in New Zealand, Ingenico believes that doing so would not impact upon the outcome of this application in any material way since:

(a) the analysis relating to the switching market should be the same under either counterfactual (ie the analysis in the switching market should be competitively neutral regardless of

whether Paymark is owned by the current shareholder banks or a new owner[19]);

(b) the analysis relating to the terminal markets (wholesale and retail) should, likewise, be the same under either counterfactual (since neither the current shareholder banks, nor the alternative purchaser, would have any presence in those markets);

(c) there could potentially be a minor difference in the analysis relating to the digital payments market but, as discussed from para 113 below, any such difference is likely to be immaterial given the limited presence of the current shareholder banks in that market; and

(d) there could potentially be a minor difference in the analysis relating to vertical integration but, as discussed from para 122 below, any such difference is likely to be immaterial given the strong incentives on Paymark to maximise utilisation of its switch.

[19] Ingenico expects the shareholder banks would **[**

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C: HORIZONTAL AGGREGATION

Little if any overlap

94 Ingenico is not present in New Zealand, and does not offer other products or services directly to the New Zealand market other than:

(a) the provision of POS payment terminals to New Zealand resellers such as Skyzer and EFTCO, described at paragraph 107 below; and

(b) the provision of online payments systems, including digital gateways, via its recently-acquired subsidiary Bambora.

95 Accordingly Ingenico has:

(a) no overlap with Paymark in the main markets where Paymark operates – ie providing switching services; and

(b) only very limited overlap in the terminal and digital payment markets,

meaning that the transaction will not lead to any meaningful competitive overlap in any of the Affected Markets.

96 This section comments further on existing rivalry in the Affected Markets. If this merger proceeds, that rivalry will survive and will constrain the merged entity. Other constraints are commented on later in this section.

Switching market

97 At a high level:

(a) Paymark has the leading market share for switching services in New Zealand, switching about **[ ]** of New Zealand's card present electronic transaction volumes.[20]

(b) Verifone is the second largest provider of switching services in New Zealand, switching about **[ ]** of New Zealand's card present transactions.

[20] Source: Paymark information memorandum at page 7 enclosed at ***Confidential Appendix Five***.

(c) Payment Express switches over half of online card not present payments, and the balance of card present transactions not switched by Paymark or Verifone.

98 In summary, Ingenico estimates that New Zealand switching market shares are:[21]

	Card present	**Card not present**
Paymark	**[ ]**[22]	**[ ]**
Verifone/ENZL	**[ ]**	**[ ]**
Payment Express	**[ ]**	**[ ]**[23]
Other players such as Paypal, Adyen		**[ ]**

99 Further details about Verifone and Payment Express are set out in ***Appendix Three***.

100 Ingenico does not provide any switching services in New Zealand. Consequently, the transaction will simply result in a change in Paymark's shareholder, with no market share aggregation in the switching services market. Generally speaking, the transaction should be seen as competitively neutral in relation to those markets.

101 However, for the reasons discussed in para 35-40 above, Ingenico sees an opportunity to improve the Paymark business in New Zealand, and enhance the competitiveness of Paymark's current offering, by leveraging off Ingenico's international experience in operating payment switches around the world.

102 **[**

21 Source: Ingenico estimates.

22 Source: Paymark information memorandum at page 7 enclosed at ***Confidential Appendix Five***.

23 Payment Express's digital payment share is much higher, perhaps **[ ]**, although some of those payments are switched via Paymark or ENZL. Source: Paymark information memorandum at page 22 enclosed at ***Confidential Appendix Five*** and Ingenico's own estimates.

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103 If Ingenico, or another new entrant to the switching market, were to launch an alternative switch to Paymark in New Zealand, that business would need to invest in building a greenfield switch. That would involve investing in switching assets and building a connectivity network to all issuing and acquiring banks. It is difficult to assess the build cost of a new switch and issuer links due to the range of available technical solutions and uncertainty around for link contract negotiations and in-service testing.[24]

Terminal markets (wholesale and retail)

—Wholesale terminal market

104 Ingenico estimates that shares in the wholesale terminal market by wholesaler are:[25]

(a) **[**

(b)

(c)

(d) **]**

105 Paymark is not a wholesale provider of terminals in New Zealand. Consequently, the transaction will not result in any market share aggregation in the wholesale terminals market.

—Retail terminal markets

106 The top four terminal providers in New Zealand—Verifone, SmartPay, Skyzer and Payment Express—currently supply about **[ ]**[26] Each firm has a number of market-trusted and fully PCI certified terminal offerings suitable for all types of retailers.

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[24] **[**

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[25] **[** .]

[26] Source: Paymark information memorandum at page 7 enclosed at ***Confidential Appendix Five***.

107 Ingenico estimates that terminal market shares measured by retailer or resellers are:[27]

(a) DPS Payment Express, which supplies Ingenico branded terminals (as well as other terminals): **[ ]**;

(b) Verifone: **[ ]**;

(c) Smartpay, which supplies PAX manufactured terminals branded as PAX and running SmartPay software: **[ ]**;

(d) Skyzer, selling Ingenico terminals (as well as other terminals): **[ ]**; and

(e) A small, unknown share held by other players like BNZ's PayClip terminal, ANZ Fastpay, and POS Mate.

108 Ingenico understands that Paymark no longer offers POS hardware / terminals to retailers – ie Paymark is not a current competitor in those markets.[28] In the ordinary course, a merchant will instead buy a terminal from a terminal vendor or reseller, or a POS vendor and reseller, such as Verifone, Smartpay, Skyzer, or Payment Express.

109 Further, Ingenico does not operate in the retail terminal markets in New Zealand – ie Ingenico is not a current competitor in those markets either.

110 Accordingly, the transaction will not result in any market share aggregation in the retail terminals markets. Equally, Ingenico does not consider that the transaction will result in any substantial lessening of competition due to any vertical effects of integrating

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[27] The market shares figures provided are based on all terminal volume in New Zealand (ie an average across all regional retail terminal markets). Ingenico does not have regional market share information but, since Ingenico does not operate in those retail markets, and Paymark's activities in those markets are fairly historical, a region by region analysis seems unnecessary (since there will be no aggregation in any of the regional markets). **[.]**

[28] Ingenico understands that Paymark supplied some terminals under historic terminal distribution arrangements, all of which are now ended: in particular, Paymark was involved in a terminal distribution arrangement with **[.]** The only other recent instance in which Paymark was involved in the provision of terminals/POS hardware direct to a merchant was **[ ]** which ended in September 2016. More detail about Paymark's historical terminal offering is in ***Appendix One***.

Ingenico's wholesale terminals business with Paymark's (very limited and historic) retail terminals business, for the reasons discussed further from para 122 below.

Digital payment services

111 Digital payments (eCommerce) services are provided to merchants and website developers/hosts who wish to accept online card-not-present payments.

112 There are many providers of digital payments services to New Zealand merchants. Such services can be acquired from domestic players and major global firms.

113 In New Zealand, the following suppliers provide digital payment (eCommerce) services:

(a) DPS Payment Express, which Ingenico believes has somewhere around **[ ]** market share;

(b) Paymark, with about **[ ]**;

(c) Paystation, with around **[ ]**;

(d) e-Way, with around **[ ]**);

(e) Flo2Cash, with around **[ ]**;

(f) Bambora, estimated at around **[ ]**;[29] and

(g) others (including Braintree, Shopify, Adyen and others), collectively with around **[ ]**.

114 Further information on each of the above suppliers is set out in ***Appendix Three***.

115 Accordingly, the transaction will result in a small degree of aggregation in the digital payments market (aggregating Paymark's **[ ]** with Bambora's about **[ ]**) – resulting in a combined market share of somewhere between **[ ]**).

[29] **[ ]**

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116 This level of aggregation is **[ ]** the Commission's concentration indicators:

(a) with the combined (post-merger) market share of the top three competitors being **[ ]** (in this case, approximately **[ ]**); and

(b) with Ingenico's (post-merger) market share being at or somewhat **[ ]**).

117 Both Paymark and Bambora's digital payments offerings:

(a) are connected to Paymark's network;

(b) have PDI DSS compliance;

(c) deliver payment pages and merchant portal to process payments;

(d) accept and process Visa and Mastercard transactions; and

(e) offer basic reporting functionality.

118 Beyond that, Paymark and Bambora's offerings are quite different. The key distinctions are:

(a) Each connects to a different switch. Paymark solely processes its digital payments via its own switch. Bambora processes via Verifone.

(b) Bambora offers a number of integrations into shopping carts that service SME merchants.

(c) Bambora provides an acquiring service as an agent for BNZ acquiring.

(d) Paymark offers much more significant payment reporting functionality and analysis to its customers.

(e) Paymark offers online EFTPOS in addition to scheme payments.

(f) Bambora provides direct debit and Paypal.

119 These differences are reflected in Paymark's and Bambora's quite distinct strategies for digital payments in New Zealand. Ingenico understands that Paymark focuses on enterprise customers and customisation of the product for those customers, i.e. a tailored digital payments gateway. For its part, Bambora focuses on SME customers and providing a standard product pre-integrated into various third-party software providers, mostly shopping carts.

120 Ingenico submits that the transaction is unlikely to result in any substantial lessening of competition in the digital payments market on the basis that:

(a) DPS Payment Express is by far the largest player in the New Zealand digital payment product market (even post-merger, Ingenico will have **[ ]** of the market share that DPS Payment Express has).

(b) The digital payments market is highly competitive. In addition to Payment Express and Paymark, there are other competitively significant digital payment providers in the market with market shares above 10%—including Paystation (owned by TradeMe) and e-Way—as well as a long tail of well-resourced and dynamic competitors (eg Apple Pay, Android Pay, goMoney wallet, Braintree (owned by PayPal), Stripe, Cybersource, Datacom, Smartpay, Account2Account, POLi, and Flo2Cash).

(c) The digital payments industry is also a key target for young energetic fintech companies, which see the value associated with payments and customer data. New technologies like Android lower the entry barrier to develop security compliant terminals and will ensure ongoing competition.[30] There are already a number of emerging digital payments technologies that are challenging incumbent networks and service providers, notably the recent announcement by Chinese giant

[30] **[ ]**

Alipay that it is partnering with Smartpay in New Zealand to enable mobile phone payments at some EFTPOS terminals.[31]

(d) Barriers to entry and expansion in the digital payments market are extremely low.

(e) The overall level of aggregation resulting from the transaction is small, since Bambora has a relatively modest market position at less than **[ ]**, at around **[ ]**.

121 Further commentary on the competing payment offerings referred to above, as well a discussion of some of the emerging digital payments technologies, is set out in ***Appendix Three***.

[31] Source: https://www.newsroom.co.nz/2018/03/14/96629/alibaba-coming-to-an-eftpos-terminal-near-you#

D: VERTICAL EFFECTS

Vertical effects

122 The transaction will vertically integrate Ingenico into the New Zealand payments supply chain. That said, the parties do not foresee:

(a) the combined entity having the ability or incentive to foreclose rivals in any of the Affected Markets; or

(b) any negative competition effects.

123 The merged entity will be constrained throughout the supply chain by the likes of Verifone, Payment Express, the Vendor banks, eCommerce technology companies, and numerous terminal providers.

124 Bundling is present in the payments industry, as it is in markets across the economy. Mixed bundles are typically economically efficient and benefit consumers.

125 As noted already, Verifone offers a number of POS terminal options which are integrated with either the Paymark or Verifone's switches. Indeed, Verifone offers a fixed "network fee" per terminal for customers who have terminals that are processed via the ENZ switch.[32] In the future, Ingenico might logically bundle switching services with terminals or digital payments products in a similar way.

126 If that were to happen, it wouldn't raise any competition issues because:

(a) The terminal markets (wholesale and retail) are highly competitive, as is the digital payments market. Those markets have low barriers to entry and expansion, and include many rivals offering pure substitutes and/or competing bundles. See details at 127 and 137 below and also the more general discussion in ***Appendices Two*** *and* ***Three*** (industry and competitors).

[32] Source: https://eftpos.co.nz/network-fee-increase

(b) The banks have countervailing power in the switching market as they make up a huge proportion of any switch's transaction volume.

(c) Paymark will continue to be constrained by the ability of existing (and/or new) competitors to build links to the major trading banks.

(d) And last, but not least, the payments industry is in flux with disruptive technology threatening established infrastructure, hardware and consumer behaviour.

No ability or incentive to foreclose

(1) Terminal market

127 The combined entity could not foreclose Ingenico's terminal rivals from accessing switching services.

128 If Paymark either (1) refused non-Ingenico terminals access to its switch or (2) increased the price of access for non-Ingenico terminals, those terminal rivals could and would use a rival switch. Both Verifone and Payment Express compete with Paymark today for processing card present and card not present transactions. And again Paymark is constrained by the countervailing power of the banks (see from 144 below) and the reality of rapid technological change and emerging payment methods (see from 155 below).

129 More generally, the combined entity would have no incentive to foreclose Ingenico's terminal rivals from accessing Paymark's switch or to otherwise favour Ingenico terminals. Paymark's revenue and gross margin in the upstream switching market would necessarily suffer from lost transaction revenue that it currently receives via remaining terminal agnostic. The combined entity could never make up that lost gross margin through any increased Ingenico margin in the terminal market. That is because:

(a) merchants can, and do, use non-Ingenico terminals and non-Paymark switches to process their payments.

(b) revenue generated by Paymark's switch far outweighs any additional revenue from increased terminal market share. Ingenico expects that the notional terminal revenue increase

resulting from an "Ingenico exclusive" terminal policy would be grossly inadequate to cover lost Paymark transaction revenue which would otherwise accrue from the transactions generated by non-Ingenico terminals.

130 Again, Ingenico's strategy for Paymark is to grow Paymark's revenue by maximising the transactions it processes. To do so, Paymark needs to remain terminal agnostic. It would be commercially irrational to implement any strategy which would decrease the level of transactions and therefore the associated revenue.

131 A useful illustration of Ingenico's wider terminal agnostic strategy is Ingenico's acquisition of Bambora. Bambora offers a "Bambora Managed Service" product for its large Australian retail customers such as NAB, CBA, Caltex, Suncorp, Bendigo etc. Bambora services and manages those customer's terminals regardless of brand. Bambora presently manages about half of all devices in Australia. Bambora's Managed Service product has and will continue to be terminal agnostic because the more terminals Bambora services, the greater revenue stream for Bambora. Ingenico's strategy for Paymark is similar.

(2) Switching market

132 The switching market will be unaffected by the transaction. Nor does the transaction deliver material aggregation in the digital payments market (see 114 above) or any aggregation in the terminals markets (see 108 above). So the starting point is the merged entity will not enjoy a position in any of these related markets which it could conceivably leverage to foreclose rivals in the switching market.

133 In any event, Ingenico observes the merged entity will have no incentive to foreclose access to Paymark's rivals in the switching market because, again, Paymark's revenue is transaction based. The larger volume of transactions processed via Paymark's switch, the more profitable Paymark is. The combined entity is incentivised to encourage as many transactions via its switch as possible.

Effect on competition

134 More generally, Ingenico submits that the transaction cannot substantially lessen competition in any of the Affected Markets.

There is a significant competitive restraint posed by the already vertically integrated Verifone and Payment Express's at all levels of the supply chain.

135 The following market features will continue to restrain a merged Paymark and Ingenico post-transaction:

(a) highly competitive terminal and digital payments markets which both have low barriers to entry and a number of large, well-resourced and international players who could quickly and easily expand;

(b) the countervailing market power of the large retail banks. The banks demand switching services and are incentivised to ensure those services stay as low-cost as possible for both themselves and for merchants in order to encourage consumers away from paying for transactions with cash or cheque; and

(c) new payments technology which does, and will increasingly so, threaten the status quo for payments processing in New Zealand.

136 Ingenico elaborates on each of these points below.

—Highly competitive markets

(1) Terminal markets

137 The Commission considered the competitive dynamics in the terminal markets (wholesale and retail) in its 2008 decision[33] and concluded that there was intense competition and few barriers to entry in the markets for both the wholesale and resale supply of EFTPOS terminals.

138 Ingenico also observes that barriers to entry in the terminal market are extremely low, and that, since 2008, terminal competition has intensified by the rapid growth of global terminal manufacturers such as PAX, Castles and Newland, as well as the arrival of bank-sponsored terminal alternatives like PayClip and Fastpay.

[33] Commerce Commission, *Decision 632,* dated 5 February 2008 at [14]-[17], [23], [28], [36] and [38].

139 Ingenico understands that, currently, both Verifone and DPS Payment Express offer merchants a bundled service including both terminal provision and switching/processing services.

140 Further discussion on the terminal markets are discussed in ***Appendix Three***.

(2) Digital payments market

141 Ingenico considers that the digital payments market in New Zealand is highly competitive, with a number of well-resourced and dynamic competitors and extremely low barriers to entry and expansion.

142 Further, the digital payments market is being disrupted by a number of "direct access" payment options (which are already available in New Zealand – eg POLi), which bypass the need for Paymark's infrastructure in its entirety (in the case of POLi, consumers pay merchants via online banking).

143 Further discussion on disruption on the digital payments market is in para 155 below, and a more general discussion of competition in the digital payments market is set out in ***Appendix Three***.

—Countervailing power of banks and issuers

144 Card issuers and acquirers have significant countervailing power; particularly New Zealand's five largest trading banks (ANZ, ASB, BNZ, Westpac and Kiwibank) which together make up almost **[ ]** of Paymark's transactions.

145 The banks are incentivised to ensure that:

(a) the electronic retail payments industry remains more attractive for merchants than cash and cheques which are expensive for banks to process; and

(b) their transaction costs stay down by playing rival switches off against each other.

146 The banks (as issuers) can exercise that countervailing power to ensure that service quality increases and switching costs remain at competitive levels by promoting alternative payment methods, such as Braintree, Stripe, and BNZ's Payclip, each of which bypasses the

switch for some transactions and instead utilises links to New Zealand acquirers and/or can route direct to issuers.

147 Ingenico also observes that **[**

[34]**]**.

148 And again, acquirers can and do put downwards pressure on processing costs.

149 Switching is a two-sided market in which the majority of a switch operator's revenue is derived from acquiring institutions rather than merchants. The major acquirers — such as the retail banks — wish to achieve the lowest possible transaction costs. Indeed the rationale for establishing Paymark in the 1980s was the banks' desire to obtain a payment processing system which was cheaper than the cash or cheque alternatives.

150 For this reason, the applicant understands that the banks constantly pressure Paymark for lower per-transaction costs, both in periodic renegotiations of their services arrangements (as was seen recently prior to the transaction).

151 Major merchants such as **[ ]** can also leverage their market position by threatening to shift volume away from EFTPOS and towards schemes and/or moving to Paymark's rivals.

—Threat of bypass via new issuer / acquirer links

152 Paymark's activities are ultimately constrained by its rivals' build-or-buy choice. That is, Paymark's competitors can either:

(a) invest in its own assets and infrastructure, by:

(i) developing new switching assets, either locally installed or by utilising its 'global' switching facilities (Verifone's

[34] **[ ]**

global switch "Point" could launch in New Zealand); and/or

(ii) in the case of Verifone and Payment Express, re-building and/or building on existing infrastructure – eg Verifone building out links to non-ANZ issuers and/or entering into contracts with the remaining card issuers. In that regard, Ingenico believes **[**

]; or

(b) negotiate with Paymark to use Paymark's infrastructure (either as a primary switch or as a "back up" switch depending on transaction volumes).

153 Given Payment Express' success to date in winning market share, Ingenico can see no reason why that business could not:

(a) invest in expanding its own infrastructure; or

(b) negotiate its own agreement for wholesale access to Paymark's existing infrastructure.

154 Construction of a new switch is viable – and as Payment Express illustrates, it is possible to "cherry-pick" higher value transactions and use Paymark infrastructure for coverage/ubiquity across other banks.

—Disruption

155 As mentioned above, young energetic fintech companies are targeting the payment industry because they can see the value associated with payments and customer data. These companies bring innovative new products and services to the payments industry and disrupt the status quo.

156 Some of the emerging payment channels include eCommerce, mCommerce and direct account-to-account debit. Again, merchant and consumer behaviour is likely to dictate the uptake of these alternative channels.

157 These alternative electronic retail technologies, such as mCommerce, give consumers an alternative front-end experience. The back-end transaction channels may continue to use existing processing channels to process some of these transactions or may bypass the switch altogether for some transactions.

158 A number of other payment methods, beyond card-based payments, have been launched over the last few years. These new alternatives can be categorised two ways:

(a) existing scheme rails: these payments methods still require a scheme debit or credit card for payment; or

(b) no reliance on scheme rails: these payments methods involve direct account-to-account transfer. The method itself is not new, but integrating this method into a merchant's point-of-sale is new.

159 Most New Zealand firms use web-based payment gateways to manage eCommerce transactions and these generally use existing switch providers.

160 That said, alternative payment channels are emerging that can switch transactions directly to offshore providers.

161 Some examples of emerging payment methods include:

(a) Apple Pay: consumers use their Apple device instead of using a card. Apple Pay utilises existing scheme rails. Apple Pay can be used at any terminal that accepts contactless payments. Apple Pay is currently only available in New Zealand for ANZ and BNZ customers.

(b) Android Pay: similar to Apple Pay except using Android devices. This option is only available in New Zealand for BNZ customers.

(c) PayPal: this method enables consumers to pay for goods and services online by entering an email address and password.

(d) POLi: POLi is an online payment option that allows consumers to use their internet banking to pay for goods and services.

Sometimes classed as a "direct entry" payment system, POLi is able to bypass the switch. A number of large New Zealand merchants offer POLi as an alternative method to an online payment gateway: Air New Zealand, Jetstar, Bunnings, The Warehouse and the NZTA.

(e) Payment Express' Account2Account is an account-to-account (consumer-to-business) payment offering and for which no card is required – only a bank account.

(f) ASB Virtual: is a digital version of a consumer's ASB Visa card that is loaded into the consumer's ASB mobile app. The consumer then uses their mobile phone to make the payment rather than their ASB Visa card. ASB Virtual is currently only available for Android phones. This payment method works at any terminal that accepts Visa payWave. The technology works via the mobile's "Near Field Communication" capability which the consumer can turn on or off.

(g) goMoney wallet: goMoney wallet is ANZ's competitor product to ASB Virtual. Again, goMoney is only available on Android devices and, like ASB Virtual, the consumer uses their phone to make payment rather than a card. goMoney is available for ANZ Visa card holders and can be used to pay at any terminal that allows contactless payments.

(h) Paymark's online EFTPOS: online EFTPOS enables consumers to purchase online using their mobile banking app. Currently online EFTPOS is only available to ASB and The Cooperative Bank customers. When a consumer makes a purchase online they select online EFTPOS as the payment method (as opposed to paying by card). The consumer enters their mobile phone number on the website which triggers the bank app on their mobile to open. The consumer then completes the payment in their mobile banking app rather than on the website.

162 Some of these alternative scheme-based methods use tokenisation (tokenisation is discussed further in ***Appendix Two***).

163 With the Vendor Banks no longer invested in Paymark, they may well be incentivised to invest or support these direct access players (or other initiatives) in order to reduce their own transaction costs. For example:

(a) blockchain and crypto-currencies, which are currently in their infancy, are being investigated by the major New Zealand trading banks as alternative payment methods of the future;

(b) firms such as Adyen which have recently obtained New Zealand acquisition licences and can therefore bypass the switch (see ***Appendix Three*** below); and

(c) other global payment options such as WeChat Pay, Paypal, and Alipay (some of which are already available in New Zealand) could expand their market share. Both of these payment options totally bypass the need for a switch.

164 In the terminals space, major players PAX, Castles and fast-growing Chinese manufacturers like BBPOS have global reach and scale and certified devices ready for the New Zealand market. Ingenico believes any one of them could readily enter or scale up in New Zealand if they saw an opportunity. By way of illustration:

(a) Major global manufacturer **Castles** has an existing distribution arrangement with Wolfstrike and could readily scale up its New Zealand presence: it recently opened new offices in the United States and Greece to support its rapid expansion.[35]

(b) Number 4 global player **Fujian Newland**,[36] is shipping more than two million terminals a year. It claims to be one of the top-100 most valuable corporations in China and, like Castles, is rapidly growing: Newland reported 141% growth in 2015[37]

[35] Source: http://www.castlestech.com/category/newsevents/

[36] Source: https://www.applemobility.hk/2017/01/20/bbpos-top-5-pos-terminal-companies-globally/

[37] Source: https://newland-id.com/fujian-newland-climbs-to-no-4-pos-terminal-supplier-in-the-world/

and recently appointed new sales staff in fast-growing regions such as Turkey and Benelux;[38] and

(c) **BBPOS**, which bills itself as the world's fifth largest terminal manufacturer.[39] BBPOS recently achieved *Common.SECC Certification* on some devices, which is a prerequisite for handsets in the United Kingdom and other European Union countries.[40]

165 The rise of eCommerce and mCommerce (mobile payments) is also disrupting traditional electronic retail payment systems:

(a) e-commerce is a (partial) substitute for point of sale payments, and so is inevitably increasing the pressure on Paymark; and

(b) furthermore, mobile phone facilitated innovations may also blur the line between e-commerce and point of sale. While a consumer may be present at the POS, she may decide to pay via an app on her smartphone, bypassing the merchant's terminal equipment.

166 There are, for instance, terminal alternatives gaining acceptance in New Zealand like BNZ's PayClip terminal and ANZ's Fastpay, each of which are card readers which connect to a mobile phone:

38 Source: https://newland-id.com/news/

39 Source: https://www.applemobility.hk/2017/01/20/bbpos-top-5-pos-terminal-companies-globally/

40 Source: https://www.bbpos.com/news-events/ ("WisePad™ 2 Common.SECC Certification Opens More Opportunity in the UK" dated 31 January 2018).

Figure three: examples of BNZ PayClip and ANZ Fastpay[41]

167 These technologies incorporate a chip and contactless reader, and so enable a micro merchant to accept card-present EFTPOS and credit card payments from all issuers without a standalone terminal device, and are charged on a monthly terminal rental cost plus the usual MSF and interchange, and other service fees.[42]

168 There are more details of these technologies in ***Appendix Three***.

41 Source: https://www.bnz.co.nz/business-banking/payments/payclip, and http://www.fastpay.anz.com/

42 More details about BNZ's Payclip here: https://www.bnz.co.nz/business-banking/payments/payclip; and ANZ's Fastpay here: http://www.fastpay.anz.com/.

E: NO RISK OF COORDINATION OR COLLUSION

Coordinated market power

169 Ingenico does not believe that there is any increased scope for coordination or collusion arising from the transaction given:

(a) barriers to entry are extremely low in the terminal markets and the digital payments market: any price signal from the merged entity would see existing players expand and potentially new entry from the likes of Fujian Newland and BBPOS;

(b) there are strong existing market participants in all Affected Markets, including:

(i) Verifone as a global-scale competitor to both Paymark and Ingenico in the switching and terminal markets; and

(ii) Payment Express, which enjoys a huge presence in the New Zealand digital payments market and also strongly competes, albeit with a lesser share, in the switching market;

(c) the incumbents have a history of strong competition, and:

(i) independent downstream players like Skyzer and others act as a significant constraint in the terminal markets; and

(ii) independent players like Paystation (owned by TradeMe) and e-Way, as well as large global players like Apple Pay, Android Pay and Braintree (owned by PayPal), act as a significant constraint in the digital payments market;

(d) the banks have significant countervailing power and an incentive to keep transaction costs low;

(e) neither merger party is a maverick competitor;

(f) there is no history of anti-competitive behaviour in the Affected Markets; and

(g) the payments industry in general, and particularly the digital payment market, is subject to rapid change and disruption from emerging new payments technology and the investment of fintech start-ups in the marketplace.

PART 8: CONFIDENTIALITY

The fact of the proposed acquisition

170 Confidentiality is not required for the fact of the proposed acquisition.

Specific information contained in or attached to the notice

171 Confidentiality is requested for all the information deleted from the attached "public version" of this notice on the grounds that the information is commercially sensitive to the Applicant. Disclosure of such information would be likely to unreasonably prejudice the commercial position of the Applicant in terms of section 9(2)(b) of the Official Information Act 1982.

172 In this application, all confidential information is enclosed in square brackets.

173 Information in appendices marked as "confidential" is highly commercially sensitive to the parties and is not to be released under any circumstances. The same goes for any business records provided in response to Commission requests during the course of this application.

DECLARATION

I, Philippe Henri Lazare, have prepared, or supervised the preparation of this notice seeking clearance.

To the best of my knowledge, I confirm that:

- all information specified by the Commission has been supplied;
- if information has not been supplied, reasons have been included as to why the information has not been supplied;
- all information known to me that is relevant to the consideration of this notice has been supplied; and
- all information supplied is correct as at the date of this notice.

I undertake to advise the Commission immediately of any material change in circumstances relating to the notice.

I understand that it is an offence under the Commerce Act to attempt to deceive or knowingly mislead the Commission in respect of any matter before the Commission, including in these documents.

I am a director / officer of the company and am duly authorised to submit this notice.

Name and title of person authorised to sign:

Philippe Henri Lazare, Chief Executive Officer

Sign: **Date:**

INDEX OF APPENDICES

1		Paymark's operations and services
2		Industry background
3		Key competitors
4		Ingenico Group SA registration document for year ended 2016
5	**Confidential**	Paymark information memorandum dated May 2016
6	**Confidential**	Paymark's template merchant agreement (Paymark to provide to NZCC)
7	**Confidential**	High-level summary of services agreements volume targets
8	**Confidential**	Agreement for Sale and Purchase of Shares in Paymark Limited between the Vendor Banks and Ingenico Group SA
9	**Confidential**	Paymark financial statements for year ending 31 March 2017
		Transactional and access revenue splits for FY13-17 (Paymark to provide to NZCC)
10	**Confidential**	Summary of Ingenico/Bambora 2016-7 sales revenues and volumes for New Zealand market operations. Summary of Ingenico's 2013-2017 terminal and repair revenue and Bambora's 2014-2017 digital revenue.
11	**Confidential**	Summary of Paymark 2016-7 sales revenues and volumes (Paymark to provide to NZCC)
12	**Confidential**	Wholesale Switching Agreement between Paymark Ltd and Eftpos New Zealand Ltd dated 1 July 2014 (Paymark to provide to NZCC)
13	**Confidential**	Aggregation Agreement between Paymark Ltd, Eftpos New Zealand Ltd and Verifone New Zealand dated 4 March 2015 (Paymark to provide to NZCC)
14	**Confidential**	Names and contact details for Ingenico/Bambora key customers for New Zealand operations
15	**Confidential**	Names and contact details for Paymark key customers (Paymark to provide to NZCC)

APPENDIX ONE

PAYMARK'S OPERATIONS AND SERVICES

—Core card present electronic transaction processing

1 Paymark's card present electronic transaction processing infrastructure operates by switching a transaction from a merchant's point of sale (***POS***) hardware to the relevant financial institution. That institution will either be the consumer's card issuer or the merchant's acquiring financial institution, depending on the type of transaction.

Confidential figure four: ***[ ]*** [43]

2 Paymark enters into a tripartite agreement with the merchant and acquirer using its network (the Paymark ***merchant agreement***). Under a separate contractual arrangement Paymark charges card issuers and acquiring institutions a processing fee per transaction. Processing fees vary by volume and are priced according to an entity's switch to issuer and switch to acquirer volumes (which are aggregated monthly). In short, higher volume entities pay lower average fees per transaction than lower volume entities.

3 Paymark also charges merchants a monthly administration fee per terminal for all terminals.

[43] **[.]**

4 Paymark's template merchant agreement is at ***Confidential Appendix Six***.

5 Merchants have four choices to connect their terminals to Paymark's network:

(a) IP Dial: dial-up internet;

(b) IP EFTPOS: dial-up internet over a dedicated link managed by Paymark;

(c) Broadband Direct: high speed broadband internet; or

(d) GPRS: mobile networks.

6 The merchant pays any connectivity charges. Most merchants connect their terminals to Paymark's terminals via Broadband Direct.

7 Paymark categorises its merchants into three key segments based on the number of terminals they use and/or the number of transactions they process:[44]

(a) Corporate: including supermarkets, service stations and department stores. **[**

.]

(b) SME: including hotels, retail apparel stores and fast food outlets. **[**

]

(c) Micro: including standalone retail stores, unattended carparks, vending machines and fuel pumps. **[**

]

—Paymark's historical terminal offering

8 Paymark is not currently present in either the wholesale or reseller terminal market.

9 In the past, Paymark has operated in the terminal market under two discrete arrangements:

[44] Source: Paymark information memorandum at page 7 enclosed at ***Confidential Appendix Five***.

(a) Point of Pay Pty Limited (***POP***): in 2009 Paymark entered into an agreement with POP to distribute POP devices in New Zealand. These devices were low-cost that could be used as an authentication device for internet use in the home for added security and could be used in store. Paymark did a limited release of the device to one merchant. Paymark withdrew the devices from the market because Paymark was concerned that the devices were not sufficiently robust. Paymark's relationship with POP ended by early 2012.

(b) Paymark Corporate Managed Solutions (***PCMS***): In 2012 Paymark developed PCMS model for large corporate customers. The model was designed to offer a vertical model to match Paymark's major competitors by providing merchants with a single point of contact for switching and terminals. PCMS consolidating terminal related costs into Paymark's monthly billing. PCMS was also designed so Paymark could become a trusted partner to assist in developing terminal solution roadmaps for future compliance, contactless, NFC and mobility needs. Paymark implemented the model with only two large corporate customers. The arrangements for each merchant were different and the high level details are as follows:

(i) Merchant one:

(A) 36 month contract term from September 2013 to September 2016.

(B) Paymark purchased terminals from Skyzer Payments Ltd. The terminals were manufactured by Ingenico and incorporated Skyzer software and included a licence and warranty.

(C) The agreement covered terminal rental, warranty, licence, compliance guarantee, priority call centre service and associate on-site services such as installation and maintenance as required.

(D) Paymark entered into a separate agreement with a service provider to provide onsite services to the merchant on Paymark's behalf.

(ii) Merchant two:

(A) 35 month contract from April 2014 to 31 March 2017.

(B) Paymark did not own the terminals under this PCMS arrangement but resold Verifone's Vault software. Paymark provided a priority call centre service to the merchant including first line support on software queries. Software costs were incorporated into Paymark's monthly billing.

(c) Paymark ended the PCMS arrangements at the end of each 36 month contract term. Paymark choose to discontinue this strategy for several reasons:

(i) There was limited knowledge and capability within Paymark to manage the model and Paymark was reliant on third parties such as service providers for terminal maintenance and support;

(ii) The third party involvement created confusion for the merchants as to who was responsible for the relationship, including for account management; and

(iii) While the model was profitable for Paymark, it did not significantly contribute to Paymark's overall revenue stream.

APPENDIX TWO

Industry background

1 The electronic retail payment industry includes both card present and card not present (online) electronic retail transactions. Card present electronic transactions presently account for the majority of electronic retail payments in New Zealand.

2 The major banks introduced the electronic retail payments system in New Zealand in 1984. New Zealand is relatively unusual internationally in its early adoption of electronic payments systems, which resulted from the local banks' support of those systems as a cash/cheque alternative.

3 The banks launched the system to reduce the high costs of processing cash and cheque payments.[45] They issued consumer cards and Payments New Zealand (a separate governance body that oversees New Zealand's payment system) maintained the transaction standards required for Electronic Funds Transfer at Point of Sale (***EFTPOS***).

4 In the 1980s the New Zealand trading banks established two competing EFTPOS systems:

(a) Cashline: owned by Trustbank and ASB; and

(b) Quicksmart: owned by ANZ, BNZ, National Bank and Westpac. Quicksmart was renamed Handy-point after ANZ and BNZ exited in 1988.

5 In 1989, Cashline and Handy-point merged to become a centralised EFTPOS network owned by the majority of the retail banks. A new company called Electronic Transaction Services Limited (***ETSL***) was formed to own the new combined EFTPOS network.

6 ANZ separately purchased PostBank and established its own EFTPOS network at the same time as the Cashline and Handy-point merger. In 2000, ANZ acquired EFTPOS New Zealand Limited (***ENZL***) which was then a terminal reseller.

7 Transactions with merchants who contracted with Westpac, ASB, BNZ or National Bank were processed via the ETSL switch, and transactions with

[45] MBIE, "*Retail payment systems in New Zealand*", Issues Paper, October 2016 at [65].

merchants who contracted with ANZ were processed through ANZ's ENZL switch.[46]

8 In 2003, ANZ purchased National Bank, including National Bank's stake in ETSL. As a result of the merger, ANZ owned both ENZL and a share of ETSL.[47] In 2009, ETSL was renamed Paymark Ltd.

9 In 2012, ANZ sold ENZL to Verifone, a New York Stock Exchange listed global payment solutions company (VeriFone Systems Inc., NYSE code: PAY).

10 Since inception, and with the banks' support, the retail electronic debit payment has been an attractive and competitive payment method as compared with cash and cheques. New Zealand now has a very high penetration rate of electronic payments relative to other similar economies worldwide.[48]

Industry participants

11 The key participants in electronic retail payments include:

(a) **Cardholders**: are the consumers who buy goods or services from merchants in exchange for payment.

(b) **Merchants**: vendors that have electronic transaction capabilities for cardholders/consumers to pay for goods and services with. Merchants include retailers, wholesalers, utilities, and central and local government.

(c) **Issuers**: entities that issue consumers with a card (debit, credit, gift or loyalty). Issuers are typically the major credit card schemes (see below) or a bank, but can also be retailers such as Air New Zealand or Farmers (via Flexi Cards) who issue scheme cards with loyalty functionality.

(d) **Acquirers**: entities that provide merchants with the facilities to process payments (whether by scheme credit, debit or proprietary debit). Acquirers ensure that funds flow to appropriate parties by

[46] Commerce Commission Decision No. 507 *ANZ Banking Group (New Zealand) Limited and NBNZ Holdings Limited* at [92].

[47] The Commission considered the implications of ANZ's EFTPOS position in its 2003 decision on the ANZ/National Bank merger: see *Decision No 507* at [296].

[48] MBIE, "*Retail payment systems in New Zealand*", Issues Paper, October 2016, at [6].

authorising, clearing and settling transactions. The largest merchant acquirers in New Zealand are the large commercial banks. New Zealand has four merchant acquirers who can acquire both MasterCard and Visa transactions: ANZ, ASB, BNZ and Westpac.[49]

(e) **Schemes:** Visa, MasterCard, American Express, Diners and China UnionPay are all schemes. These entities own and develop the base technology and product features. These entities also set the card system rules. The schemes issue cards and attract merchants either indirectly through banks e.g. Visa and MasterCard, or directly e.g. American Express and Diners.

(f) **Transaction processors**: provide the IT infrastructure that connects merchants' terminals to card issuers and merchant acquirers to complete the electronic transaction. These include terminal providers and switch providers.

(i) **Terminal providers**: there are four main terminal providers in New Zealand:

(A) **Verifone:** specialises in POS hardware. Verifone acquired ENZL in 2012. Verifone has a strong presence in the SME and micro merchant market and is Westpac's preferred supplier.

(B) **Smartpay:** offers integrated product solutions including online payments and mobile payments. Smartpay sells terminals direct to merchants rather than via resellers.

(C) **Skyzer:** was the first to offer contactless terminals on Paymark's network. Skyzer distributes Ingenico terminals via its network of independent resellers. Skyzer is strongest in the SME market.

(D) **Payment Express:** distributes both Ingenico and Verifone terminals. Payment Express is strong in the corporate market and holds Visa and MasterCard merchant acquiring licenses.

[49] Ingenico understands **[ ]**.

(ii) **Terminal drivers:** terminal "driving" simply means the provision of software and connectivity for a hardware POS terminal. The software and switch connection are generally delivered as a package deal by the terminal supplier, such as Smartpay on its PAX-manufactured terminals, or by a third party provider of software and connectivity solutions.

(iii) **Switch providers:** a switch is infrastructure which directs transaction information from a merchant to a card issuer or merchant acquirer so funds can be transferred from the customer's bank account to the merchant's account.

(A) There are two full service card present electronic switch operators in New Zealand, Paymark and EFTPOS New Zealand Ltd (Verifone). Both providers can switch to all major issuers and acquirers in New Zealand.

(A) **Verifone/ ENZL:** ENZL generally bundles electronic retail solutions for merchants e.g. it provides both terminals and switching services in one package.

(B) **Paymark:** Paymark offers a full service card present electronic switch. Unlike Verifone, Paymark is not vertically integrated and does not offer terminals to merchants (see details at 108 above).

(B) Beyond Paymark and Verifone ENZL there is another switch provider, Payment Express, which has connections to a limited number of acquirers and schemes, including **[ ]**. Like Verifone, DPS Payment Express generally offers its merchants a bundled service including both terminal provision and switching/processing services.

12 The parties' respective switching capabilities are shown in the diagram below.

Confidential figure five: ***[ ]*** [50]

Types of payment card

13 There are five main types of payment card commonly used in New Zealand:

(a) **Proprietary EFTPOS cards:** this payment card is the traditional form of debit payment card in New Zealand. Cards are issued by a consumer's bank. Payment information is transmitted by a magnetic strip on the card. The magnetic strip is less secure than other methods of information transmission. EFTPOS cards can only be used for card present transactions at the moment. EFTPOS cards are unable to be used for card not present transactions, e.g. online purchases.[51] EFTPOS cards also cannot be used overseas. EFTPOS cards represent about 46% of total transaction volume.[52]

(b) **Standard scheme debit cards:** in addition to a magnetic stripe, these cards contain a chip which can be inserted into a terminal. This method of payment provides greater security. The consumer's bank issues the cards using a card scheme's technology; either Visa or MasterCard. Scheme debit cards can be used for card not present

[50] **[ ]**

[51] Except via Paymark's new online Eftpos offering: see paragraph 26 on page 14 above.

[52] MBIE, "*Retail payment systems in New Zealand*", Issues Paper, October 2016, at [65].

transactions e.g. online, over the phone and overseas. Scheme debit cards represent about 20% of total transactions.[53] These cards are different to contactless scheme debit cards discussed next.

(c) **Contactless scheme debit cards:** these cards are more commonly known as Visa PayWave and MasterCard PayPass. In addition to inserting or swiping a card, consumers can "tap" the card against a terminal. These cards allow a transaction below an $80 threshold to be processed without using a PIN or signature. If these cards are inserted to use the chip rather than "tapped" then they will be treated as standard scheme debit cards rather than contactless scheme debit cards. Currently, contactless scheme debit is used for about 10% of total transactions, but is rapidly growing.[54]

(d) **Open credit card schemes:** these cards are the most common form of credit card system in New Zealand. These cards involve a card scheme, mostly Visa or MasterCard, working through issuers and acquirers (banks) to attract consumers and merchants to use and accept their product. Open credit card schemes use the same functionality as scheme debit cards but involve credit rather than debit-based transactions. The banks provide credit to consumers, not the card scheme.

(e) **Closed credit card schemes:** the best known closed credit card schemes are American Express or Diners Club. Using this card system, the scheme is both the issuer and acquirer of payment cards. It is the scheme that provides the credit to a consumer. Closed credit card schemes make up about 2% of all card-based transactions in New Zealand.[55]

Processing card present electronic transactions

14 Card present electronic transactions are switched from the point of sale to either:

(a) the cardholder's issuing financial institution (*switch to issuer or **STI**)*; or

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53 MBIE, "*Retail payment systems in New Zealand*", Issues Paper, October 2016, at [69].

54 MBIE, "*Retail payment systems in New Zealand*", Issues Paper, October 2016, at [71].

55 MBIE, "*Retail payment systems in New Zealand*", Issues Paper, October 2016, at [77].

(b) the merchant's acquiring financial institution (*switch to acquirer or **STA***).

15 The type of electronic transaction determines who the transaction is switched to and therefore who pays the switching service fee.

Switch to issuer

16 The following types of transactions are switched to the issuer:

(a) **Non-scheme debit swipe (EFTPOS)**: proprietary debit cards with a magnetic stripe issued by financial institutions. Proprietary debit cards do not currently have EMV chips and therefore have no contactless capability.

(b) **Scheme debit contact**: scheme debit cards that are swiped or "dipped" that is, they have a magnetic stripe, or an EMV chip, are processed the same was a debit swipe is processed.

(c) **Non-financial cards:** e.g. loyalty cards.

17 The cardholder's issuing bank pays Paymark (or another switch provider) to process switch to issuer transactions.

18 Under the switch to issuer transaction process:

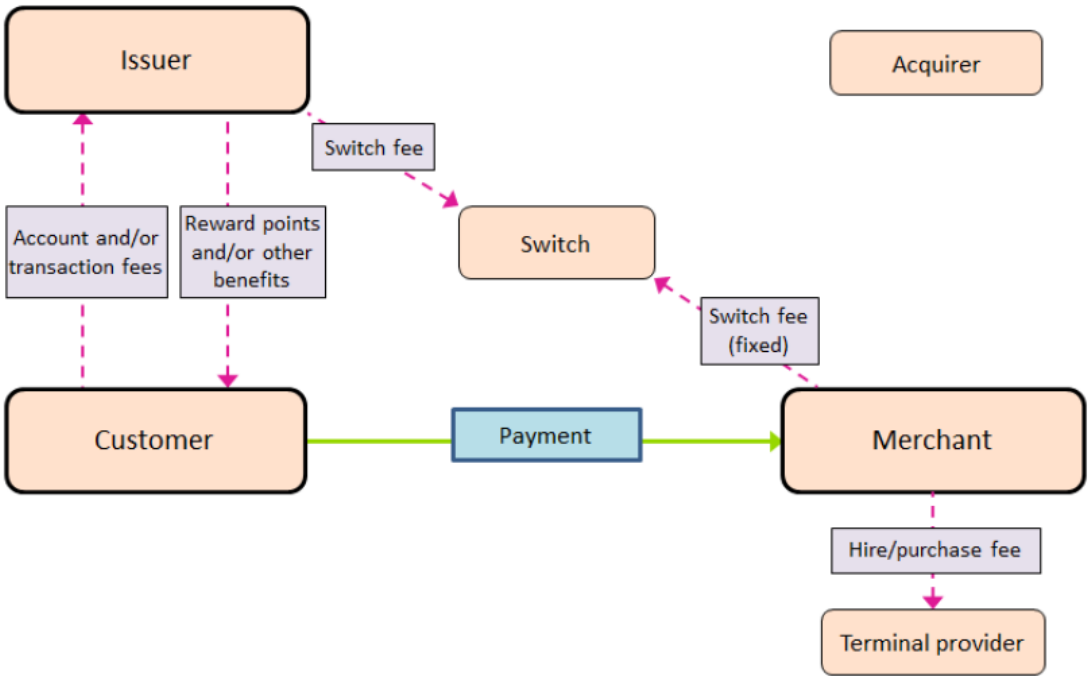
(a) a switch sends the transaction details from the point of sale to the issuing bank for authorisation;

(b) the issuing bank authorises or declines the transaction and returns a message to the point of sale interface;

(c) the money is immediately debited and cleared from the customer's account at the time it is authorised;

(d) funds are settled between the cardholder's and the merchant's financial institutions via the inter-bank settlement process and deposited in the merchant's account in a lump-sum each day after inter-bank settlement.

Figure six: switch to issuer transaction flows[56]



Switch to acquirer

19 These transaction types are switched to the acquirer:

(a) **Scheme debit contactless**: scheme debit card transactions that have their EMV chip contactlessly read i.e. "tapped" or "dipped" at a merchant are switched to the merchant's acquiring entity and then to the scheme network;

(b) **Credit card contact and contactless**: all credit card transactions, regardless of how their magnetic stripe or EMV chip are read are switched to the merchant's acquiring entity and then to the scheme network.

20 In a switch to acquirer card present transaction:

(a) Paymark switches the transaction request to the merchant's acquiring institution;

(b) the acquirer then forwards the message onto the card scheme network (Visa or MasterCard);

[56] MBIE, "*Retail payment systems in New Zealand*", Issues Paper, October 2016, at page 18 (Figure 5: Fees and inducements to switch-to-issuer transactions).

(c) the scheme then pass the transaction details on to the card issuer (issuing bank);

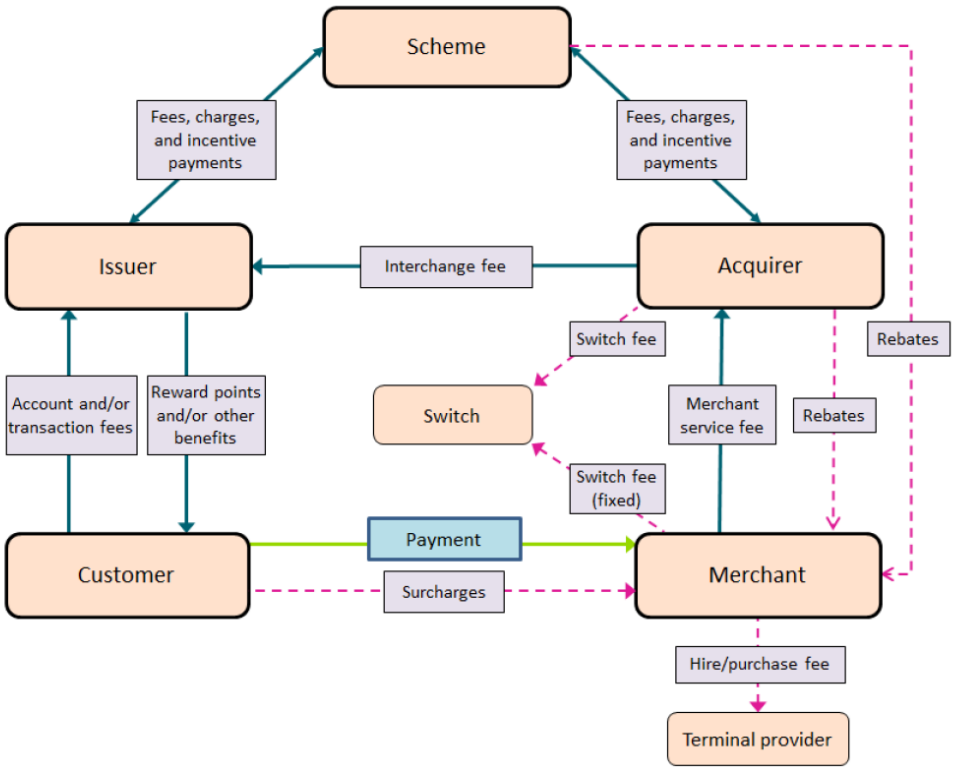
(d) the card issuer then authenticates the cardholder and authorises the transaction (i.e. confirms that the account has sufficient funds and/or is not blocked);

(e) the acquirer pays the funds to the merchant overnight and the scheme transfer funds from the issuer to the acquirer.

21 The merchant acquirer pays Paymark for switch to acquirer transactions.

22 In either case, Paymark is not responsible for the payment, collection or settlement of the scheme or interchange fees.

Figure seven: switch to acquirer transaction flows[57]



Processing card not present electronic transaction

23 Card not present electronic retail transactions involve a payment where a customer's card is not processed directly by a retailer's point of sale terminal. Currently, only scheme credit and scheme debit cards have this

[57] MBIE, "*Retail payment systems in New Zealand*", Issues Paper, October 2016, at page 31 (Figure 6: Fees and inducements in switch-to-acquirer transactions).

capability in New Zealand. Card not present electronic transactions include eCommerce transactions.

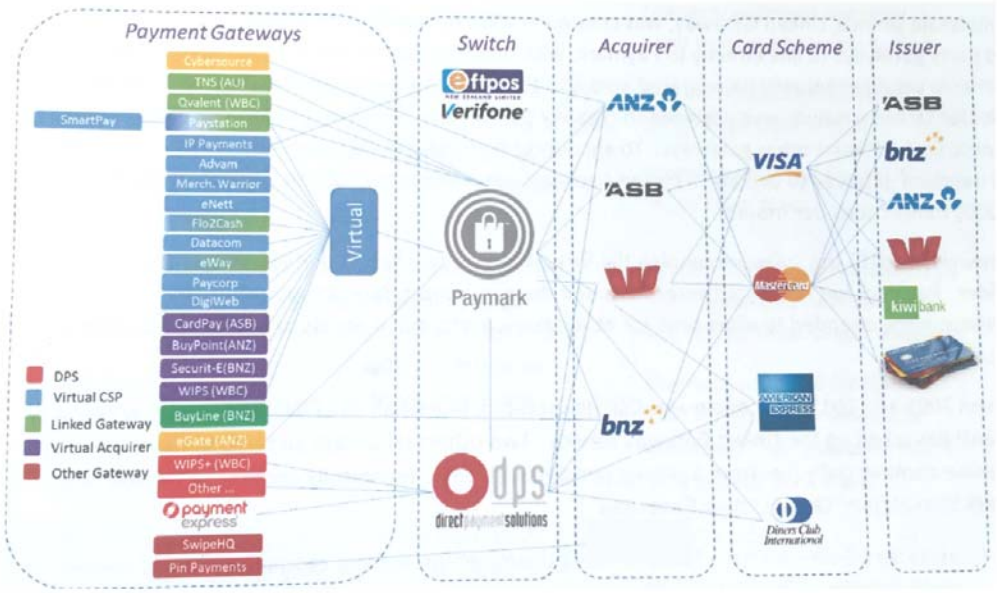
24 eCommerce transactions involve an online gateway. The gateway will either be a website or an application where the consumer's card details are inputted or stored. The transaction is then directed through the online gateway. The transaction data will then either be directed to Paymark's switch or the gateway provider's own switch, such as Payment Express or Braintree.

25 Some app based payment systems such as AirBnB and Uber use a gateway provider that can bypass the local switch and sends the transaction directly to the acquirer. Most other web-based eCommerce platforms use a local switch to then direct the transaction to the acquirer.

26 The transaction then usually follows the standard switch to acquirer model. The eCommerce gateway provider usually charges the merchant a fee for the service. Schemes will also charge fees for eCommerce transactions that access their network.

27 mCommerce payment technologies like Apple Pay, Samsung Wallet, Android Pay, and ANZ Go Money, provide a different front-end experience for consumers and merchants. New card acceptance hardware such as Square, BNZ Payclip and ANZ FastPay also provide a different front-end experience. A customer's phone replaces the presentation of a card, and the new card acceptance hardware replaces traditional terminals. The back-end processing is largely the same with transactions sent via a switch and then on to an acquiring institution or card issuer, although, some emerging technologies enable switch bypass for some transactions: see paragraph 160 above.

Figure eight: New Zealand eCommerce and mCommerce payment gateways[58]



Industry trends

28 By way of summary, though, New Zealand's electronic retail payments environment has been one of the world's most advanced and modern markets. The key trends include:

(a) adoption of contactless technology;

(b) emerging payment methods;

(c) vertical integration; and

(d) decline in use of proprietary EFTPOS.

Adoption of contactless technology

29 Contactless card present electronic transactions are growing in New Zealand. Mobile wallets and most newly issued scheme cards (both debit and credit) have contactless payment technology.

30 Merchant and consumer behaviour is likely to dictate contactless uptake. Merchants face fees on contactless transactions because contactless scheme debit transactions are *switched to the acquirer* and so incur an

58 Source: Bambora.

interchange fee. To avoid these fees some merchants do not activate contactless capability.

Emerging payment methods

31 See para 160 above.

Vertical integration

32 Merchants are increasingly seeking a simplified payment solution so they only need to interact with a single payment provider for all of their electronic retail payment needs: retail POS, eCommerce, mCommerce and transaction switching.

33 Vertical integration is common in other jurisdictions where POS hardware and software, processing, eCommerce and merchant acquiring are all provided by a vertically integrated payment solution. For example:

(a) Verifone's global "Point" switch solution enables Verifone to offer vertically integrated payment solutions in international markets.[59] **[**

]

(b) Adyen is also a vertically integrated international player. Ingenico understands that **[**

.] Adyen is not a terminal manufacturer and as such acts as a distributor of terminals. **[**

.]

34 In New Zealand, fully integrated payment solution providers are not prevalent, but the main market players are moving this way. The significant merchant acquirers in New Zealand are large banks. Those banks do not provide electronic retail processing capabilities or supply POS hardware and software.

35 Verifone is currently vertically integrated in the card present electronic transaction industry. Verifone's POS hardware and software offering and

[59] Source: http://lp.verifone.com/us/point-solutions/

processing capabilities are provided through ENZL and partly enabled by its WSA/AA arrangements with Paymark (see para 8 below).

36 Similarly, Payment Express offers terminals, connectivity, eCommerce and some switching services for its customers.

37 **[**

[60]**.]**

Decline in value of EFTPOS transactions

38 Proprietary EFTPOS is the traditional form of debit payment cards used in New Zealand. And is the debit scheme originally supported by the banks in the 1980s: see para 2 above. Proprietary EFTPOS runs on STI "rails" and is a separate network to the scheme (e.g. Visa/MasterCard) network.

39 Merchants have historically preferred EFTPOS transactions because switch to issuer transactions do not charge per-transaction fees to merchants.

40 In recent years, however, the number and value of transactions made with EFTPOS cards have declined. That decline correlates with a shift towards contactless debit and credit transactions which in turn increases the number of STA transactions and further decrease in the number of STI transactions.

41 A second factor in the decline of proprietary EFTPOS is under investment compared to scheme debit cards which offer contactless and online transactions. Contactless and online scheme debit now make up 15% of the debit card market.

[60] For example, in Australia Ingenico has elected to continue **[**

]

Figure nine: value of electronic card transactions by card type (New Zealand switch data)[61]

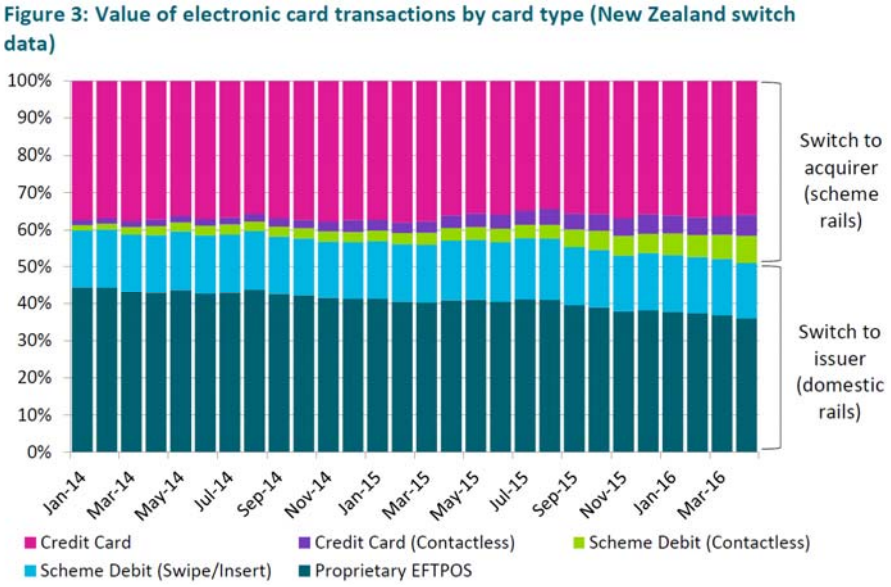
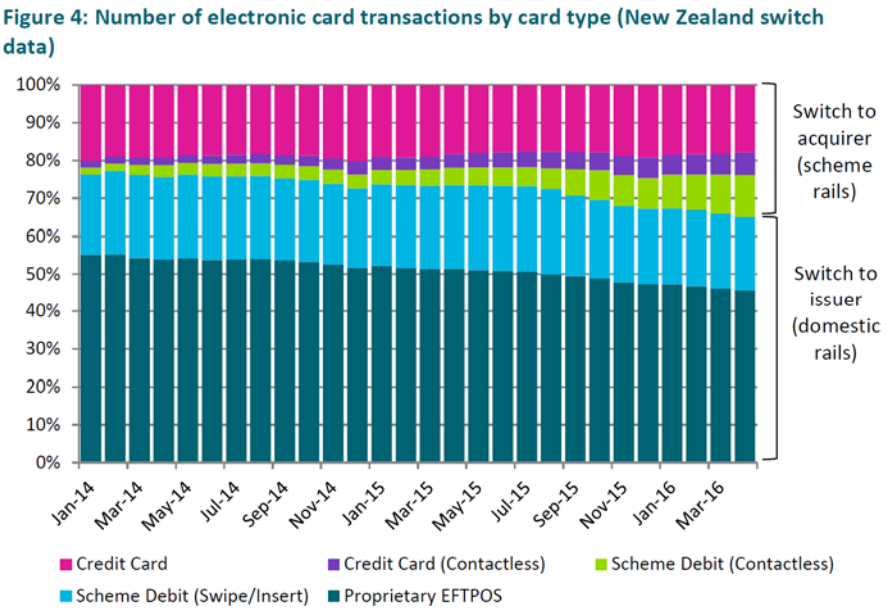


Figure ten: number of electronic card transactions by card type (New Zealand switch data)[62]



[61] Source: MBIE "Retail payment systems in New Zealand" Issues Paper, October 2016 at page 22.

[62] Source: MBIE "Retail payment systems in New Zealand" Issues Paper, October 2016 at page 23.

Tokenisation

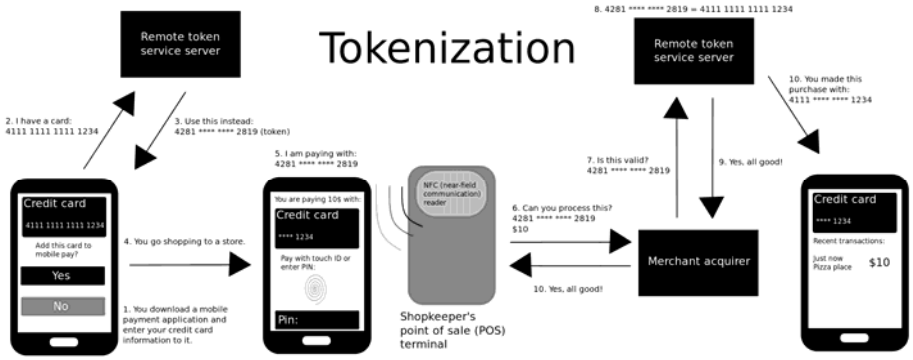
42 Tokenisation is the process of replacing a card number (sensitive data) with a non-sensitive equivalent. The token is a reference or identifier that maps back to the original card number through a tokenisation system. The tokenisation system typically delivers random tokens to ensure that a token cannot be reverse engineered to discover the card number. A registered token can be used to make payments without jeopardising security.

43 Token technology is particularly attractive to merchants because they enable a merchant to provide credit card payment functionality while avoiding the substantial cost of PCI/DSS compliance. For example, Ingenico and Bambora recently worked with **[**

]

can verify and accept a customer's card payment without holding or accessing the underlying card details. Bambora has developed similar solutions for New Zealand customers such as **[ ]**.

Figure eleven: tokenisation and transaction process



APPENDIX THREE

Key competitors and contact details

—Switches

1 There are two full service card present electronic switch operators in New Zealand, Paymark and Verifone-owned ENZL. Both can switch to all major issuers and acquirers in New Zealand.

2 In addition, Payment Express offers STA switching services to New Zealand merchants.

(1) Verifone

3 NYSE-listed Verifone is a vertically integrated business that participates in both the terminal supply and switching market around the world, including New Zealand. Verifone purchased the ENZL switching assets from ANZ in 2012.

4 Verifone/ENZL is Paymark's largest switching rival. Verifone is the second largest card present electronic transaction processing network in New Zealand, processing about **[ ]** of all card present electronic transaction volumes.

5 Verifone is a strong competitor in the switching market. By way of example only, Ingenico understands that Paymark has recently lost the key major merchant accounts **[ ]** and **[ ]** to Verifone, presumably off the back of more attractive pricing offered by Verifone. Major retailer **[ ]** is aggregating its own transactions ("self-acquiring") and then sending these to Paymark, enabling it **[ ]**.

6 Verifone has a historical record of winning large merchants off Paymark. By way of example, Ingenico believes that:

(a) **[**

.

(b)

. **]**

7 Verifone offers a full service card present electronic transaction switching capability in New Zealand. Verifone generally provides bundled electronic retail solutions for merchants e.g. terminals plus retail switching services using the Verifone network.[63] Verifone can and does, however, provide terminals which function on the Paymark network if requested.

8 Verifone owns and operates rival switching infrastructure. Verifone's capability comprises:

(a) the ENZL switching assets (formerly owned by ANZ) and wholesale arrangements with Paymark, together enabling Verifone to switch merchant transactions acquired by ANZ; and

(b) Verifone has commercial arrangements with Paymark which enable Verifone to process all non-ANZ acquired transactions. Those arrangements are contained in the:

(i) Wholesale Switching Agreement (***WSA***), at ***Confidential Appendix 12***; and

(ii) Aggregation Agreement (***AA***), at ***Confidential Appendix 13***.

9 The WSA was signed in **[ ]**, however **[.]**.

10 The AA was signed in **[ ]**. Unlike the WSA, **[ ]**. A new wholesale aggregation link between Paymark and Verifone/ENZL was activated in late 2017. Under the AA, Verifone may connect its terminals to the Paymark network for a fee of **[ ]** per merchant per month, subject to meeting minimum certification standards.

11 The overall effect of the AA and the new link is to enable Verifone to switch transactions to all major acquirers rather than just ANZ. Verifone can now enter into merchant arrangements under which a merchant may accept, and process via the aggregation link to Paymark, transactions to all New Zealand acquiring institutions and issuers.

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[63] See https://eftpos.co.nz/network-options: "Our full range of terminals function on the EFTPOS New Zealand network."

12 The applicant understands that **[**

.] Paymark and the Vendor Banks can provide further details of the status of these discussions if that would assist the Commission.

(2) DPS Payment Express

13 Payment Express is also a fully integrated payments business. It has STA capability, and is far and away the market leading provider in digital payments with about **[ ]** market share among New Zealand merchants.

14 Payment Express can switch STA transactions directly to Visa and MasterCard under its arrangements with those schemes. Payment Express also has links with at least two of the four major New Zealand trading banks (**[**

.[64]**]**

15 Ingenico understands that Payment Express in recent months has won significant new contracts, gaining market share. For example:

(d) Ingenico understands that Payment Express has, after a lengthy negotiation, entered into an arrangement with **[**

.]

(e) The **[ ]** arrangement will have a significant impact on Paymark's revenue, resulting in an immediate gross reduction of **[ ]** per annum. Ingenico believes that other major Paymark-switched retailers— **[ ]** could readily adopt the same strategy as **[ ]** within the next **[ ]**

[64] Paymark believes that **[**

]

16 More generally, Ingenico observes that Payment Express, if it wished to offer merchants the capability to switch both STI and STA transactions (instead of solely STA), could negotiate a wholesale and aggregation agreement with Paymark,[65] or alternatively strike an arrangement with Verifone/ENZ to utilise its switching architecture for STI transactions.

17 Payment Express offers both Ingenico and Verifone terminals to its customers. Each is a global brand with both fully-certified and New Zealand payment systems compliant.

—Payment terminals

18 Multinational payments giant Verifone is one of the leading terminal suppliers in New Zealand. Verifone offers integrated and mobile EFTPOS terminals to merchants. Verifone's terminals can be vertically integrated into its upstream switching services. Verifone sells its terminals in New Zealand both direct and via independent resellers such as Skyzer and EFTCO. **Contact:** Peter Hansen, General Manager New Zealand, Phansen@eftpos.co.nz, +64 27 435 7920.

Figure twelve: examples of Verifone terminals[66]

19 Smartpay is an independently owned and operated EFTPOS provider in New Zealand. Smartpay supplies over 35,000 EFTPOS machines to over 20,000 merchants across Australia and New Zealand. Smartpay offers a range of both mobile and counter-top EFTPOS terminals, including standalone and integrated options. It recently entered into an arrangement with China's

65 **[**

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66 Source: http://www.verifone.co.nz/products/hardware/

Alipay to enable mobile phone payments at some New Zealand EFTPOS terminals.[67]

20 Smartpay supplies PAX manufactured terminals. PAX is an international payment terminal supplier present in over 100 countries, supplying 17 million terminals worldwide. **Contact:** Marty Pomeroy, General Manager, marty.pomeroy@smartpay.co.nz, ph. 027 301 2427.

Figure thirteen: examples of Smartpay's PAX terminals[68]

21 Skyzer Technologies is another independently owned EFTPOS terminal distributor. Skyzer imports and distributes a range of EFTPOS terminals, including Ingenico and Activata technologies. Skyzer has a network of over 50 resellers around New Zealand, most of which carry Ingenico, Activata and Verifone devices among other brands. Skyzer dealers are Paymark-accredited and are responsible for the installation, quality, operation and support of Skyzer's EFTPOS systems. Skyzer also offers Nitro integrated EFTPOS systems for small and medium sizes businesses. **Contact:** +64 09 259 0322.

22 Wolfstrike Distributors is a payments and merchant technology distributor with offices around New Zealand and Australia, including sales representatives in all New Zealand cities. Wolfstrike is the exclusive New Zealand distributor of Castles Technology's range of EFTPOS and contactless terminals.[69] Castles bills itself as one of the world's largest manufacturers of payment terminals. Ingenico understands that Wolfstrike

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67 Source: https://www.newsroom.co.nz/2018/03/14/96629/alibaba-coming-to-an-eftpos-terminal-near-you#

68 Source: https://www.smartpay.co.nz/your-industry/

69 Source: http://wolfstrike.co.nz/castles-eftpos-exclusive-distributor/

is selling Castle-manufactured terminals branded with its logo in New Zealand. **Contact:** +64 9 280 3347.

23 EFTCO is a New Zealand owned business that has supplied EFTPOS payment solutions in New Zealand since 2001. EFTCO supplies a range of payment solutions including EFTPOS terminals: countertop, integrated and mobile terminals. EFTCO sell and lease both Verifone and Ingenico terminals. EFTCO supply a range of merchants from large retailers such as Bunnings and Flight Centre, and sole trade operations across the country. **Contact:** 0800 180 180.

Figure fourteen: examples of EFTCO supplied Verifone and Ingenico terminals[70]

24 In addition to its strong digital payments offering, Payment Express is another terminal reseller in New Zealand. Payment Express supplies Ingenico terminals. Payment Express's terminal offering can integrate with most major POS systems.

25 Beyond terminal manufacturers, merchants also have access to a range of other POS terminal solutions from banks and emerging technology companies. These are described below.

26 BNZ PayClip is a portable payment solution for EFTPOS, Visa, MasterCard, American Express and UnionPay, whether debit, credit, contactless, swipe, chip or PIN. PayClip offers an integrated EFTPOS solution which connects with both MYOB and PosBoss. **Contact:** Ross Jackson, Head of Cards & Payments, BNZ, 09 976 5199.

[70] Source: https://eftco.co.nz/eftpos/8-ingenico-iwl255-3g-mobile-eftpos.html

Figure fifteen: example of BNZ's PayClip terminal[71]

27 ANZ Fastpay is similar to BNZ PayClip. Like PayClip, Fastpay is an integrated EFTPOS solution which connects to a mobile phone to deliver a portable payment solution for EFTPOS, Visa, MasterCard, American Express and UnionPay. Merchants can accept all card types including debit, credit, contactless, swipe, chip or PIN. **Contact:** 0800 473 453.

Figure sixteen: example of ANZ's Fastpay solution[72]

28 Resellers and retailers such as KIWIeftpos provide a range of EFTPOS terminal solutions including mobile, countertop and integrated EFTPOS. KIWIeftpos re-sells both Ingenico and Verifone terminals. **Contact:** 0800 72 73 74.

29 There is little differentiation between the terminals offers by the above firms. While each rival (including Ingenico) will argue that their hardware is more functional and/or more aesthetically pleasing, essentially the

71 Source: https://www.bnz.co.nz/business-banking/payments/payclip

72 Source: https://comms.anz.co.nz/fastpay/index.html

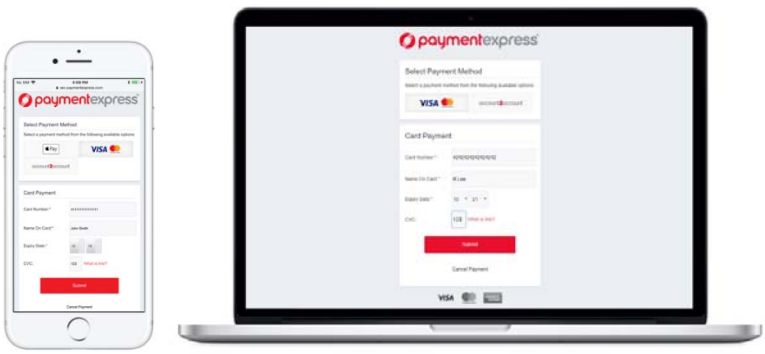
terminal market is commoditised with each of the main rivals providing similar terminals. Likewise, the key rivals all offer the same or similar services available for their terminals. There is little differentiation between the services offered by the main terminal players.

—Digital payments

30 Payment Express is the market leading provider of digital payments in New Zealand. Payment Express offers merchants multiple solutions for digital payments. Merchants can choose from a Payment Express hosted gateway, or host their own payment gateway using Payment Express' technology. Consumers can use all major payment brands on Payment Express' online gateway e.g. American Express, Apple Pay, MasterCard, Visa, PayPal, QCard and UnionPay. Payment Express also offers reconciliation and reporting services linked to a merchant's online transactions.

31 Payment Express competes for all customer types in the market, from SME through to enterprise customers. Ingenico considers that Payment Express could compete for all customer types available as it has the capability and pricing structures available to suit all types of customers. **Contact:** Joel Martin – Sales Director, DDI: +64 9375 3147, Email: Joel.martin@paymentexpress.com.

Figure seventeen: Examples of Payment Express's digital payments gateway on mobile and laptop devices[73]



32 Braintree is an international mobile and web payment company with a strong presence and a dedicated sales team in New Zealand. Braintree is owned by global firm, Paypal. Like Payment Express, Braintree offers merchants a variety of platforms that it can use to accept online payments.

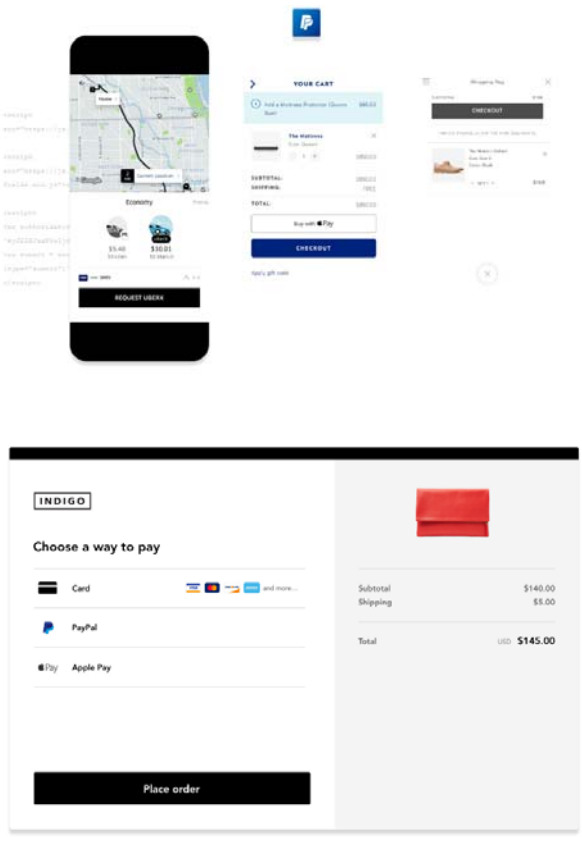
[73] Source: https://www.paymentexpress.co.nz/merchant-ecommerce

33 Braintree's payment solution can integrate with the merchant's online app or website (merchant hosted) or via Braintree's own platform. Braintree is popular with large international online merchants such as UBER, Airbnb, Pinterest, Dropbox and the Iconic. In New Zealand, Braintree merchants can accept card payments from the major scheme providers and via PayPal.

34 The applicant believes that **[**

.] Contact: (+64) 4831 9014.

Figure eighteen: examples of Braintree's digital payments gateway on mobile and laptop devices[74]

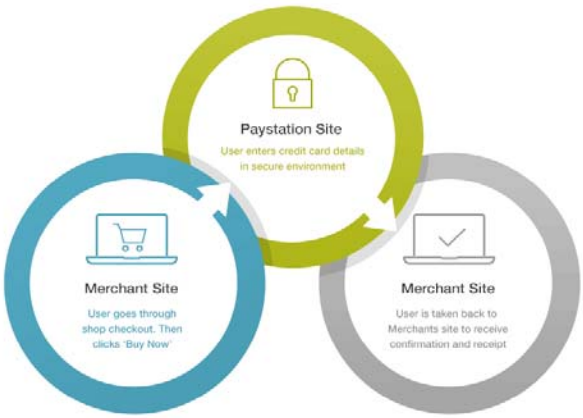


35 Paystation is a New Zealand founded business based in Wellington. Paystation is owned and operated by TradeMe. Like Payment Express and Braintree, Paystation offers merchant hosted or Paystation hosted website payment functionality. Paystation is an official payment gateway provider

[74] Source: https://www.braintreepayments.com/en-nz/products/braintree-direct

for ANZ, ASB, BNZ, Kiwibank and Westpac merchants. Paystation supports a wide range of payment cards including Mastercard, Visa, American Express, Diners, Q Card, POLi, MasterPass and UnionPay. **Contact**: +64 4 917 8097.

Figure nineteen: Paystation's infographic explaining Paystation's digital payment gateway[75]



36 Adyen is a Dutch payments company operating around the world. It offers payment platforms which can accept every payment type, and its major merchants include global behemoths Uber, Netflix and Spotify. Ingenico understands that **[**

.] Igenico further understands that Adyen bundles Verifone terminals with its service offering. **Sydney contact details:** +61 2 8218 2165.

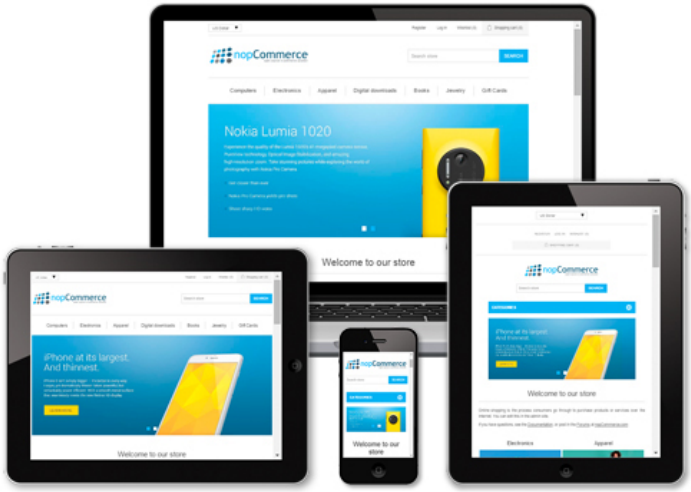
37 Flo2Cash is an online global payment network that processes more than $10 million transactions per month. Flo2Cash is present in Canada, India, Malaysia, Australia and New Zealand. Flo2Cash focuses on recurring automated payments. Flo2Cash provides businesses with solutions for recurring payments such as finance payments, instalment plans, membership fees, rental and leasing and charity. In New Zealand, Flo2Cash can integrate with a merchant's Xero accounting software. In the

[75] Source: http://www.paystation.co.nz/payment-services/website-paymentsnz/3-party/

eCommerce space, Flo2Cash offers Web Payments, a secure hosted payment page provided by Flo2Cash. **Contact:** 09 320 5979.

38 Datacom is a global IT company established in New Zealand in 1965. Datacom designs, builds and runs IT systems and processes for business. Datacom offers a broad range of IT solutions, including eCommerce gateways. Datacom's eCommerce product enables their clients to customise their payment site whether on desktops, tablets or mobile devices. Datacom's eCommerce solution integrates into multiple CRM, inventory or financial systems and enables multiple payment ad shipping methods. **Contact:** 09 303 1489 / 04 460 1500.

Figure twenty: Example of Datacom's eCommerce platform[76]



39 eWay NZ is another full service online payment gateway provider. eWay operates in eight countries but has a good market presence in New Zealand merchants such as Leisure Brands Ltd, AustSwim, Temando and ZIP. eWay is part of NYSE-listed Global Payments. **Contact:** 0800 392 947.

40 Cybersource is a global eCommerce provider which enables merchants to accept payment via multiple payment channels. Cybersource also offers a range of mobile commerce (mCommerce) products for payment via mobile phones. **Contact**: 0800 667 150.

41 Bambora is an Ingenico subsidiary which offers a digital payment gateway in New Zealand. Bambora currently processes around **[ ]**

[76] Source: http://www.datacom.co.nz/Our-Services/Software/Digital-Solutions/eCommerce

transactions per month via Verifone's switching services. Bambora New Zealand Ltd provides ecommerce (credit card and direct or debit processing services) to approximately **[ ]** in New Zealand generating **[ ]** in annual revenue.

Key customers

42 Names and contact details for each party's key customers for their New Zealand operations are in ***Confidential Appendices 14*** and ***15***.

Trade associations

Formal and informal links between participants

43 There are no formal or informal links between the merger parties.

44 The applicant notes that Paymark is a member of Payments NZ, an industry governance body formed in 2010 by the industry with support of the Reserve Bank. Payments NZ governs New Zealand's core payment systems and works with the industry on the future direction of payments in New Zealand.

Directorships

45 Other than (conceivably) the Vendors appointed directors on the Paymark board, none of the relevant parties holds any directorships in another party that are of potential significance to the current application.