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Retail Payment System

Costs to businesses and consumers of card payments in
Aotearoa New Zealand: Consultation Paper



Contents

Executive summary	3
Chapter 1 Introduction.....	6
Chapter 2 The cost of card payments in New Zealand	10
Chapter 3 Potential problems with card payments	17
Chapter 4 Considering further interchange fee regulation and impact of this	24
Attachment A Our regulatory role in the retail payment system	45

Executive summary

- X1 We are exploring whether New Zealanders are paying too much to make and receive payments using Mastercard and Visa cards. We think there is potential to reduce these costs to New Zealanders.

\$95 billion of card payments in Aotearoa are processed by Mastercard and Visa each year.

- X2 We are responsible for promoting competition and efficiency within the retail payment system. Every time anyone buys something, gets paid, transfers money, or uses an ATM, they are using the retail payment system. It is the most used financial service in Aotearoa New Zealand.
- X3 Our role involves monitoring and regulating the New Zealand retail payment system for the long-term benefit of New Zealand businesses and consumers who rely on it every day to buy and sell goods and services.
- X4 For transactions on the Mastercard and Visa debit and credit networks, we can determine how prices can be set or expressed, require greater transparency of certain information, and allow other participants to access aspects of the network.¹
- X5 We will prioritise our effort to where it will yield the most benefit to consumers and merchants.

New Zealand businesses spend approximately \$1 billion each year to accept Mastercard and Visa card payments.

- X6 When a customer uses a Mastercard or Visa debit card online or contactlessly or a Mastercard or Visa credit card to purchase a good or service from a business, the business is charged a 'merchant service fee'.² New Zealand businesses spend approximately \$1 billion per year to accept Mastercard and Visa card payments.³ This cost will be reflected in retail prices and in some instances, surcharges. A portion is also rebated to card holders as rewards.

¹ An overview of our role in the Retail Payment System Act 2022 is provided in Attachment A.

² We note that merchant service fees are also charged to merchants when consumers make card payments on other networks eg, American Express.

³ Estimate based on data provided by Mastercard and Visa and further internal analysis.

- X7 This paper seeks stakeholder views on the scope and level of interchange fees which make up approximately 59% (approximately \$600 million) of the merchant service fee paid by New Zealand businesses accepting Mastercard and Visa card payments.⁴ These costs are also indirectly faced by consumers through higher cost of goods and services and surcharges, which are often in excess of costs.
- X8 We are also seeking views on other pricing and access issues identified in this paper, as well as frictions we have become aware of in the course of our work in the retail payment system. We are interested in the materiality and legitimacy of these areas to further prioritise our work plan.

We see the potential for more efficient pricing leading to significant cost savings

We see a potential to reduce the fees paid by New Zealand businesses to receive Mastercard and Visa card payments by over \$250 million per annum.

- X9 Some interchange fees in New Zealand are materially higher than those observed in other countries.⁵ We see the potential to reduce a significant component and the complexity of the fees paid by New Zealand merchants to accept payment from Mastercard and Visa payment products.⁶ This should also reduce the surcharges faced by New Zealand consumers and/or reduce retail prices or lessen inflationary pressure on businesses to increase prices.
- X10 Currently these fees sit at around 0.70% for contactless debit card payments and can be anywhere from 1.5% to over 2.5% for online debit and in person and online credit transactions.⁷

Maximum merchant service fees and surcharges for domestic transactions could be reduced to approximately 0.70%. We expect this would result in fewer merchants surcharging and if they did, surcharges could drop to no more than 0.70%.

⁴ This does not include other payment methods on other networks which incur similar fees. This number is based on data provided by Mastercard and Visa.

⁵ Such as Australia, the United Kingdom and the European Union.

⁶ Estimate based on data provided by Mastercard and Visa and based on proposed 0.2% (domestic) and 1.15% (international) interchange fee rates with a 90% pass-through rate assumption. This is further elaborated in **Chapter 4**.

⁷ Commerce Commission "Observations on the impact of interchange fee regulation" (8 August 2023) Figure 2.3 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring#projecttab>.

Industry incentives to consider alternative payment methods

- X11 Reducing the payments card issuers receive when consumers make payment using a Mastercard or Visa card may result in those card issuers having an increased incentive (or decreased disincentive) to promote alternative payment methods outside of Mastercard and Visa. This could support new payment options (such as open banking payments) for New Zealanders and increase competition within the retail payment system.

Our other work that ties in with this potential work

- X12 Alongside this potential work, we are continuing our work on:
- X12.1 Supporting industry to enable New Zealanders to 'pay by bank'.⁸ We consider open banking developments will give New Zealanders more cost-effective ways to pay.
 - X12.2 Monitoring how the retail payment system is performing. This work will help provide greater transparency on measures that affect competition and efficiency across the system. This helps to inform where we focus our efforts to deliver long-term benefits to consumers and merchants.

Next steps

- X13 Your feedback will inform our next steps. One of these next steps may be to formally review the current regulations applying to interchange fees. Further information about our feedback process is provided in Chapter 1.

⁸ Further information on our Payments Between Bank Accounts work is available at: <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

Chapter 1 Introduction

Purpose of this paper

- 1.1 This paper focuses on how we can promote competition and efficiency across the retail payment system in Aotearoa New Zealand for the benefit of those making and receiving payments (consumers and merchants).⁹
- 1.2 Payments are the most used financial services in Aotearoa New Zealand. Anytime anyone buys something, gets paid, transfers money, or uses an automated teller machine, they are using the retail payment system. We are the retail payments regulator and are seeking to prioritise where we can have the biggest impact for New Zealand businesses and consumers.¹⁰
- 1.3 Any time a customer uses a Mastercard or Visa debit card online or contactlessly or a Mastercard or Visa credit card to purchase a good or service from a business, the business that receives that payment incurs a merchant service fee.¹¹ Currently a component of this fee, the interchange fee, is price regulated meaning there are limits to this fee for certain credit and debit transactions.¹²
- 1.4 This paper seeks your views on:
 - 1.4.1 The scope and level of interchange fees. We are concerned that some of the current interchange fee caps are inefficiently high based on international benchmarks.
 - 1.4.2 Frictions we have noticed that fit into how the regulated price caps on interchange fees may benefit from refinement. Refinement could include further simplification, consideration for anti-avoidance measures and additional consideration of other unregulated networks such as American Express.

⁹ In line with the purpose of the Retail Payment System Act 2022 as set out in section 3, and the limits on the Commission's powers and functions set out in section 4(1). We also consider the principles in section 4(2) to be relevant, ie, that merchants and consumers should pay no more than reasonable fees for the supply of payment services, and that the retail payment system provides a reasonable degree of transparency.

¹⁰ Further information on our role and our powers, duties and functions are outlined in Attachment A.

¹¹ We note that merchant service fees are also charged to merchants when consumers make card payments on other networks eg, American Express.

¹² The initial pricing standard for the Mastercard and Visa credit and debit networks came into force on 13 November 2022. Retail Payment System Act 2022, clause 7 of Schedule 1. Also outlined in Attachment A.

- 1.4.3 Other pricing and access issues identified in this paper that we have become aware of in the course of our work in the retail payment system. We are interested in the materiality and impact of these areas on competition and efficiency in the retail payment system. This will allow us to further prioritise our work plan.
- 1.5 We consider that a review of the current interchange fee regulation may be required to remedy some of the issues identified. Before deciding to conduct a review, we are testing our views with this paper.
- 1.6 In parallel to this, we are also progressing work on promoting competition, efficiency and innovation in the longer-term through two other workstreams:
 - 1.6.1 Promoting innovation in the longer-term through the development of the payments between bank accounts network. This will provide New Zealanders with more ways to make and receive payments.¹³
 - 1.6.2 Continuing to monitor how the retail payment system is performing. This work will help provide greater transparency on measures that affect competition and efficiency across the system. This helps to inform where we focus our efforts to deliver long-term benefits to consumers and merchants.¹⁴

Structure of the paper

- 1.7 The rest of this paper is structured as follows:
 - 1.7.1 **Chapter 2: The cost of card payments in New Zealand.** This chapter outlines the card payment landscape in New Zealand and the cost components that drive the fees that New Zealand merchants pay to accept Mastercard and Visa card payments.
 - 1.7.2 **Chapter 3: Potential problems with card payments.** This chapter explains our concerns with the cost of Mastercard and Visa card payments for merchants and consumers and how this reduces or is likely to reduce competition and efficiency within the retail payment system. It also considers how these costs impact innovations outside the Mastercard and Visa credit and debit networks.

¹³ Further information on our Payments between bank accounts work is available at <https://comcom.govt.nz/regulated-industries/retail-payment-system>.

¹⁴ Further information on our monitoring work is available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring>.

- 1.7.3 **Chapter 4: Considering further interchange fee regulation and impact of this.** This chapter outlines why interchange fees are regulated globally and why we are considering further regulation. It considers approaches to interchange fee regulation including methodology and rationale for variability. Lastly, it looks at how further interchange fee regulation impacts merchants and consumers.
- 1.7.4 **Attachment A: Our role in regulating the retail payment system.** This attachment describes the legal framework applying to the retail payment system, with a particular focus on the current interchange fee regulation applying to the Mastercard and Visa networks.

Information for interested parties on making a submission

- 1.8 We are seeking feedback on this paper by **4pm Tuesday 20 August 2024**. We are accepting written submissions and submissions through our dedicated [form](#) which is tailored to merchant feedback.¹⁵
- 1.9 We have also published a **Submission Response Template** alongside this paper. The template provides details on how to make submissions on this paper and the confidentiality considerations. It also provides the full list of submission questions in the template to assist with written submissions.¹⁶

Possible next steps

- 1.10 Following consultation, we will decide whether to review the current interchange fee regulation that applies to the Mastercard and Visa networks.¹⁷
- 1.11 The potential next steps if we move forward with this review are shown in **Figure 1.1**. This includes further opportunities to provide feedback before any regulatory interventions are taken, including consultation on a new or amended pricing standard.

Figure 1.1 An outline of the possible next steps



¹⁵ Commerce Commission “Cost to Businesses and Consumers of Card Payments in Aotearoa New Zealand: Consultation Paper – Survey form” (23 July 2024) available at <https://www.surveymonkey.com/r/F5C9Z9N> until 4pm 20 August 2024.

¹⁶ Commerce Commission “Cost to Businesses and Consumers of Card Payments in Aotearoa New Zealand: Consultation Paper - Submission Template” available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring>.

¹⁷ The initial pricing standard is set out in Schedule 1 of the Retail Payment System Act 2022.

Supplementary literature reviews

- 1.12 This paper has been informed by two literature reviews prepared by subject matter experts Dr Amelia Fletcher and Dr Wilko Bolt.¹⁸ These reviews draw on international experience in regulating retail payments and summarise economic literature relating to competition, efficiency, and surcharging in the retail payment system.

¹⁸ Dr W Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023). Dr A Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023). Both papers available at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

Chapter 2 The cost of card payments in New Zealand

Purpose of this chapter

- 2.1 This chapter outlines the current card payment landscape in New Zealand and the cost components that drive merchant service fees. These are the fees that New Zealand merchants pay to accept Mastercard and Visa card payments.

Distinct characteristics of the card payment landscape in New Zealand

- 2.2 New Zealand has a different payment landscape to many other countries due to its historically successful domestic debit network in the form of Eftpos.¹⁹ This results in two important differences that are relevant to price and innovation within the retail payment system:
- 2.2.1 New Zealand has been a card economy for a much longer time (ie, cash payments have been minimal for much longer); and
 - 2.2.2 New Zealand merchants can receive in-person card payments with no per transaction fee when they are processed by the Eftpos network.

The cost of making a payment using a Mastercard or Visa card

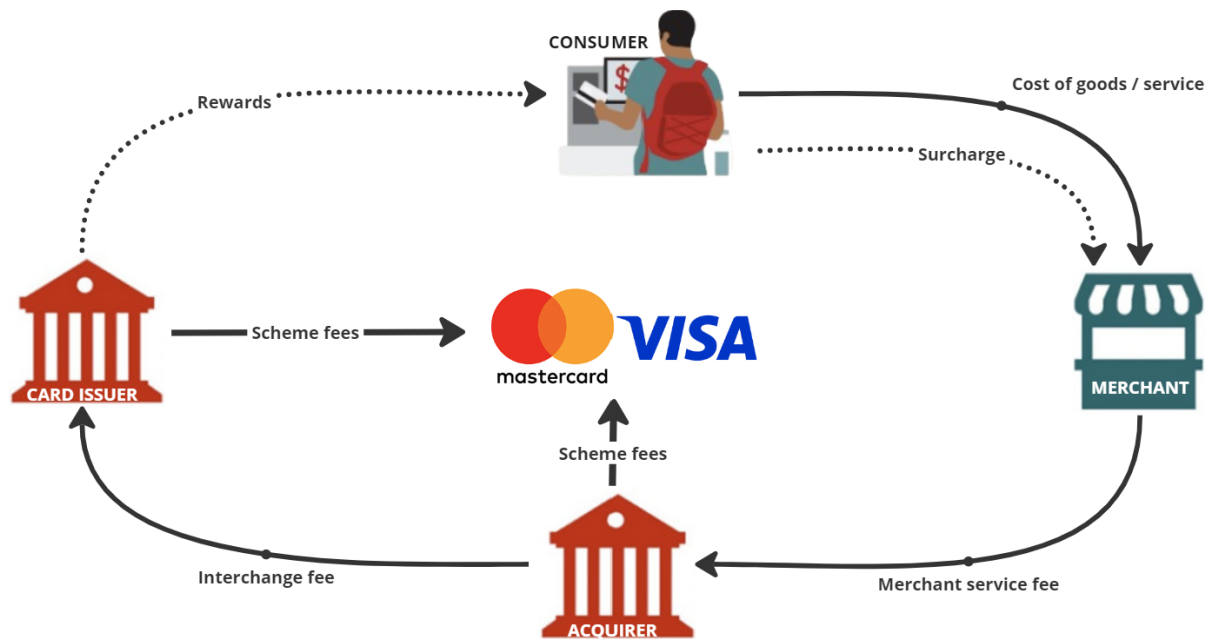
New Zealand merchants spend approximately \$1 billion in fees each year to accept Mastercard and Visa card payments.

- 2.3 Merchants are charged a merchant service fee when a customer uses a credit or debit card contactlessly or online to make a payment. These fees amount to approximately \$1 billion per annum.²⁰ As shown in **Figure 2.1** below, this fee is paid to the merchant's acquirer (the payment provider enabling the receipt of card payments).
- 2.4 Often there are other costs that enable merchants to receive payments in person and online, such as gateway and terminal fees. These are not usually included in the merchant service fee.
- 2.5 As consumers change the ways in which they pay (eg, shifting to contactless methods), merchants incur a cost that they did not have before. This is because of an increase in the proportion of transactions now attracting a merchant service fee.

¹⁹ No other country has a domestic debit network like Eftpos where there is no per transaction fee.

²⁰ We have calculated this estimate based on information collected as part of our ongoing monitoring.

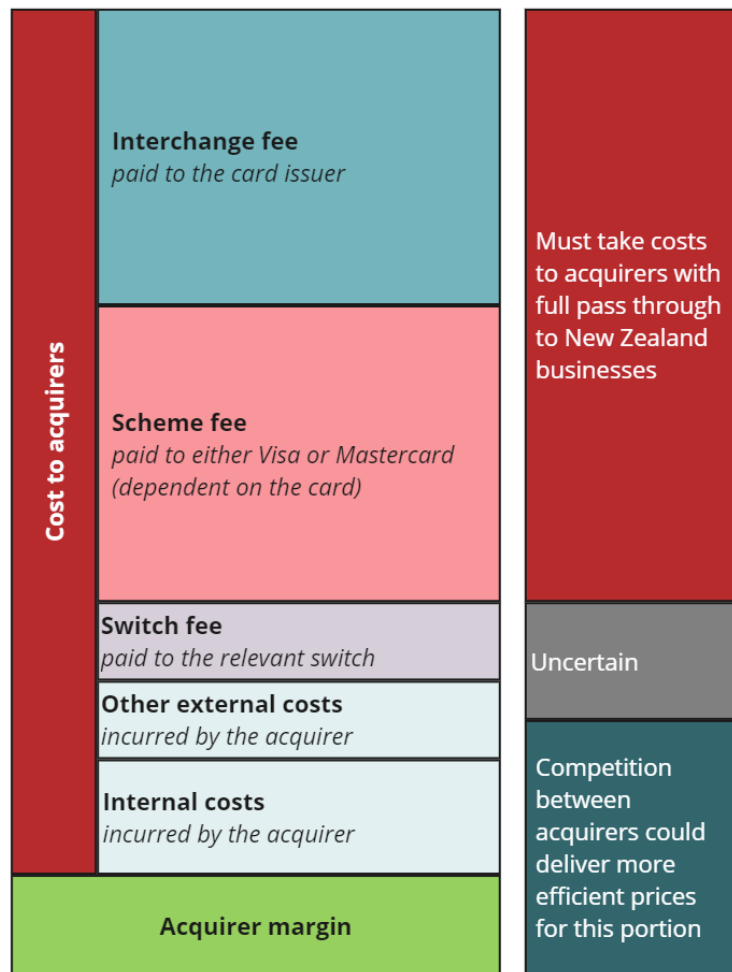
Figure 2.1 Marginal cost of making and receiving Mastercard and Visa card payments



Cost components that drive the merchant service fee

- 2.6 There are two types of cost components of the merchant service fee. Those that are directly passed through to the merchant and ultimately the consumer (eg, interchange fees and scheme fees) and indirect costs (eg, internal costs and acquirer margin). Some of the direct cost components appear high and may not be delivering efficient outcomes.
- 2.7 The merchant service fee is charged by the acquirer to the merchant and has several components as shown in **Figure 2.2**. Although these fees are charged by the acquirer, the level and structure of the key cost components (interchange and scheme fees) are heavily influenced by Mastercard and Visa.

Figure 2.2 Components that make up the merchant service fee charged to receive Mastercard and Visa card payments²¹



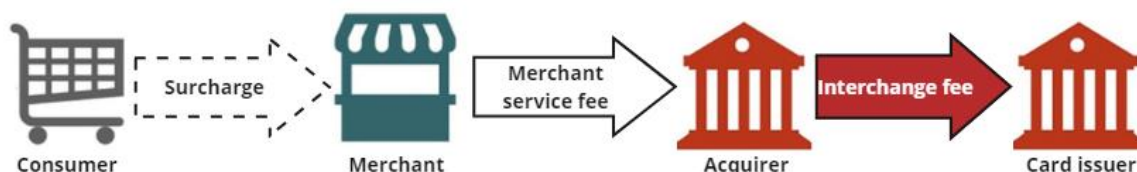
What are interchange fees?

In Aotearoa New Zealand, interchange fees make up around 59% (approximately \$600 million) of total merchant service fees paid per annum for Mastercard and Visa card payments.

- 2.8 This paper is mainly focused on interchange fees. These fees are paid by the merchants' acquirer to the customer's card issuer for each transaction on the Mastercard and Visa networks. These fees form a significant portion of the merchant service fee and flow through to consumers directly through surcharging or indirectly through higher cost of goods and services (as shown in **Figure 2.3**).

²¹ This table is not to scale and is intended to be indicative only.

Figure 2.3 The money flows of fees paid by merchants and consumers for accepting Mastercard and Visa cards



- 2.9 For example, where a customer uses an ANZ Visa card to make a payment, the interchange fee is paid to ANZ. The amount paid can vary significantly depending on card type, payment method and the type of merchant.

What interchange fee revenue may be used for by the card issuers

- 2.10 In the establishment of new systems, interchange fees may be necessary to rebalance costs and ensure that both sides of the market have an incentive to participate.²² However, this rationale weakens now these networks are well established.
- 2.11 We understand card issuers may use interchange fee revenue for a range of matters, including paying rewards, covering fraud losses, supporting anti-fraud investments, paying for scheme fees, paying digital wallet fees and covering the cost of interest free periods.

Mastercard and Visa's justification for interchange fees

- 2.12 On Mastercard's website it notes:²³

Setting interchange at the right level is important. Too high, retailers may choose not to accept cards. Too low, issuing banks have no incentive to cover the risks of issuing payment cards. The optimum level also helps ensure issuers and acquirers deliver effective services, and spur innovations in payment solutions.

Interchange rates let electronic payments deliver maximum value at the lowest cost for retailers and consumers and promotes credit availability for small businesses – driving financial inclusion.

²² Black Economy Taskforce “Black Economy Taskforce – Final Report” (October 2017), p61 available at https://treasury.gov.au/sites/default/files/2019-03/Black-Economy-Taskforce_Final-Report.pdf.

²³ Mastercard “European Interchange” available at <https://www.mastercard.com/europe/en/regulatory/european-interchange.html>.

- 2.13 In Mastercard's response to the United Kingdom's Payment Systems Regulator on the rationale for interchange fees, it noted that card schemes (Mastercard and Visa) that rely on interchange fees are:²⁴

... competitively constrained both from increasing and decreasing these fees too far from the commercial optimum, given the risk of business being lost to any rival platforms or payment services with a more competitive pricing structure.

- 2.14 On Visa's website it notes:²⁵

Visa uses interchange reimbursement fees as transfer fees between acquiring banks and issuing banks for each Visa card transaction. Visa uses these fees to balance and grow the payment system for the benefit of all participants.

What are scheme fees?

- 2.15 Scheme fees form the second largest portion of the merchant service fee. These are paid by the acquirer to the relevant scheme network (Mastercard or Visa), eg, where a customer uses a BNZ Visa card, the scheme fee is paid by the business' acquirer to Visa.²⁶

There seems to be little pressure on Mastercard and Visa to manage and compete on their acquiring scheme fees.

Card payment methods other than Mastercard or Visa

- 2.16 There are several card payment methods other than Mastercard and Visa, although it is generally up to the merchant to decide whether to accept these alternatives. The two most prominent of these card payment alternatives are the Eftpos and American Express networks.

²⁴ Payment System Regulator "Market review on UK-EEA cross-border interchange fees – Interim Report – (December 2023), p73 available at <https://www.psr.org.uk/media/au4km234/xbif-interim-report-public-dec-2023-eu.pdf>.

²⁵ Visa "Interchange reimbursement fees" available at <https://www.visa.co.nz/support/small-business/regulations-fees.html#:~:text=Visa%20uses%20interchange%20reimbursement%20fees,the%20benefit%20of%20all%20participants>.

²⁶ There are also scheme fees that the card issuer pays to Mastercard and Visa, but for the purposes of this paper when we refer to scheme fees, we are meaning scheme fees paid by acquirers to Mastercard and Visa.

Eftpos Network

- 2.17 The Eftpos network currently only services in-person card payments and charges a monthly terminal fee for the connection to the Eftpos network for unlimited in-person card payments. The Eftpos network can be used in person for two types of payments:
- 2.17.1 **Eftpos card payments** – these were the first cards to be able to use the network traditional Eftpos cards, in that they have only a black magnetic stripe on the back. These cards do not have a chip, contactless or online capability and can only be used by swiping them and pressing 'chq' or 'sav'.
 - 2.17.2 **Mastercard and Visa debit cards** - when these cards are inserted or swiped and 'chq' or 'sav' is pressed, the payment will be routed through the Eftpos network rather than through the Mastercard or Visa network.

American Express network

- 2.18 American Express offers a potential alternative to Mastercard and Visa for card payments in New Zealand. These cards are generally more expensive for merchants to accept and have higher consumer value (through rewards) for domestic transactions, but they appear to be less expensive for international transactions.²⁷
- 2.19 American Express is not considered a "must take" card for acceptance for most merchants, as most consumers who have an American Express card also have an alternative card for payment. American Express also does not offer a debit product. This, in addition to the higher costs, means it may be a less suitable alternative to the Mastercard and Visa networks for some consumers and merchants. Therefore, we believe American Express is not currently providing a material competitive constraint on the level of merchant service fees charged by acquirers of Visa and Mastercard.

Open banking providing an innovative alternative to Mastercard and Visa

- 2.20 We see open banking payments and a modernised interbank payment infrastructure as a medium to long-term solution to greater efficiency within the retail payment system. This requires various developments, including all banks to collectively invest and work together before this method of payment is a viable alternative to card payments made in person and online.

²⁷ See BNZ "Payclip - Split Pricing" where all American Express cards are 1.50% irrespective as to whether these are international, or NZ issued cards. This same split pricing sets international card acceptance for all other cards at 2.95% available at <https://www.bnz.co.nz/business-banking/payments/payclip>.

- 2.21 We want to see consumers and businesses benefiting from new ways to pay between bank accounts for online and in-person payments. We recently consulted on a proposal to recommend to the Minister of Commerce and Consumer Affairs the designation of the interbank payment network. That proposal seeks to confront barriers to new payment options that are likely to be more secure, more convenient and reduce costs for businesses and consumers.²⁸

²⁸ Further information on our Payments Between Bank Accounts work is available at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

Chapter 3 Potential problems with card payments

Purpose of this chapter

- 3.1 This chapter outlines our concerns with the cost of Mastercard and Visa card payments for New Zealand businesses and consumers and how this reduces, or is likely to reduce, competition and efficiency within the retail payment system. It also considers how this impacts innovations outside the Mastercard and Visa credit and debit networks.

An overview of the problem and how this could be addressed

Costs for businesses to accept Mastercard and Visa card payments are high and too complex. This drives higher costs to consumers through higher costs of goods and services or surcharges.

We think these could be lowered through further regulatory intervention.

- 3.2 We consider costs New Zealand merchants and consumers face to make and receive Mastercard and Visa card payments may be too high, making the payment system less efficient than it could be. We are concerned about:
- 3.2.1 The interchange fee, a feature of the Mastercard and Visa networks, which may lead to high and overly complex costs for businesses. Some businesses are responding by surcharging; however, surcharges can be excessive. This is driven, in part, by the complex nature of merchant service fees (which is driven, in part, by the complex nature of interchange fees).
 - 3.2.2 Being unable to rely on competition to drive interchange fees to efficient levels. For example, to the extent competition exists it may drive merchant fees to be too high. This may somewhat be offset by benefits to consumers but leads to a skewed pricing structure and interchange fees which are too high.²⁹
 - 3.2.3 The conduct of participants in the Mastercard and Visa networks which may be reducing the competition between acquirers for merchant business. This may be leading to less competition and efficiency and to higher costs for businesses.

²⁹ Dr W Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023). Dr A Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023). Both papers available at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

- 3.3 In the short-term, we see an opportunity for further regulatory intervention to improve the efficiency of the costs faced by merchants and consumers to make and receive payments with Mastercard and Visa. In the medium to long-term, innovations and new entrants could help to further reduce the direct costs and address the indirect costs. This would promote greater competition and efficiency in the retail payment system to the benefit of merchants and consumers.³⁰

How interchange fees are currently impacting merchants and consumers

Complex and high interchange fees lead to complex and high merchant service fees which in turn leads to inaccurate and excessive surcharging.

- 3.4 As shown in **Figure 2.2**, interchange fees are a significant cost component of the merchant service fee. These fees are complex, with hundreds of interchange fee categories across Mastercard and Visa.³¹ This impacts the cost and transparency of the merchant service fees paid, merchant service fee pricing and the accuracy of merchant surcharging.

Interchange fees may be distorting incentives in the payment system

- 3.5 Mastercard and Visa are now well established, mature networks. Rewards can be useful to grow a card network in its infancy, by increasing the incentive for consumers to use the card. Rewards, funded through interchange fees, come at a cost to New Zealand businesses and consumers more broadly who are likely paying higher prices for a higher-cost payment method to grow.
- 3.6 Currently we have a payment system where surcharging is not a consistent practice and where surcharging does occur, often this is a blanket rate that does not change dependent on the different cost of each payment method. This means consumers that use Mastercard and Visa do not directly face the costs (surcharges) or necessarily receive the benefits (rewards) of card use.
- 3.7 Where there is no surcharging, consumers who choose to pay through lower cost card payment options (eg, Eftpos) or cash, subsidise other card users through higher retail prices. Where there is a blanket surcharge, debit card users subsidise credit card users.

³⁰ For payments between bank accounts to drive greater competition and efficiency, it would need a range of features and functionality that other jurisdictions have. eg, open banking payments, confirmation of payee, notification of payment, richer data, and real time payments. See our work on this at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

³¹ Broken down by product there are over 100 interchange fee categories for Visa alone. See Visa "Interchange" available at <https://www.visa.co.nz/about-visa/interchange.html>.

- 3.8 Furthermore, any excessive profits from interchange fees that the issuers of Mastercard and Visa cards (usually banks) receive each time a consumer uses their card reduces incentives to promote or enable alternative payment options. In turn this could harm greater efficiency and further innovation which promotes competition within the retail payment system outside of the Mastercard and Visa card networks.

Interchange fees making merchant service fee pricing more complex

- 3.9 We understand that many acquirers offer and prefer their merchants to be on unblended pricing plans (interchange plus or interchange plus plus pricing). One advantage of this pricing model is the merchant service fee rate is more closely aligned with the cost of the transaction. It also means that if interchange fees change, that change flows through to merchants automatically.³²
- 3.10 Interchange fee complexities make it incredibly difficult for a merchant on an unblended pricing plan to understand the cost of accepting different forms of payments. This impacts a merchant's ability to price goods and services, compare and switch acquirers, and surcharge correctly.³³
- 3.11 This is because the merchant service fee varies depending on the relevant interchange fee category (of which there are many). For example, the cost difference between a consumer paying with a domestic-issued debit card contactlessly and a foreign-issued card can be more than 2% of the sale price, even though the payment is routed through the same payment network.

Underlying complexity of interchange fees can feed through to surcharging decisions

- 3.12 Currently the average surcharge imposed by merchants is approximately 2% but the average merchant service fee is approximately 1%.³⁴ Whilst the cost for accepting contactless debit is lower (0.70% for those on unbundled pricing plans), merchants will have higher costs when their customers pay with a more costly payment method (upwards of 2% for international cards) so they may just pick the higher number.

³² Commerce Commission "Retail Payment System Merchant Research Observations" (4 May 2023) para 3.5-3.7 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring%23projecttab#projecttab>.

³³ Surcharging is most often done using a single rate. With many merchants on unblended pricing plans, it is unlikely the surcharge is reflective of the cost of that payment method. Commerce Commission "Retail Payment System Merchant Research Observations" (4 May 2023) p10 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring%23projecttab#projecttab>.

³⁴ Commerce Commission "Retail Payment System Merchant Research Observations" (4 May 2023) para 3.14 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring%23projecttab#projecttab>.

- 3.13 This is also made more complicated when not all terminal providers are providing merchants with the ability to have multiple surcharge rates to reflect the different cost levels. The terminal provider allows for merchants to surcharge yet the acquirer has the merchant service fee information. In most cases these are two separate businesses. The terminal provider is likely to set a surcharge rate that the merchant has provided them, and for surcharging to be accurate the merchant needs to understand their merchant service fees.

Merchants: Do merchant service fee complexities drive challenges in determining whether and how you surcharge?

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

Interchange fees fund card rewards which only some consumers get

- 3.14 Interchange fees are widely used to fund card rewards. In the absence of surcharging, the cost of a consumer's choice of payment is (in part or in full) borne by New Zealand businesses and in turn all consumers, while the rewards benefit only some consumers. As noted earlier, surcharges can be used to counter this distortional impact but only when they accurately reflect the underlying cost.

Interchange fee complexities increase the impact of inadvertent stakeholder errors

- 3.15 The number and complexity of interchange fee rates makes the processing of payments harder than it needs to be. We have heard from banks and other participants about errors in processing payments that are not helped by this complexity.³⁵

Scheme fees - the other significant cost driving high merchant service fees

- 3.16 We are concerned about the limited competitive constraints on scheme fees. Other international payment system regulators also appear to share the same concern. For example, the Payment Systems Regulator in the United Kingdom recently found that United Kingdom businesses are paying more than £250 million extra annually due to increases in scheme and processing fees associated with Mastercard and Visa.³⁶

³⁵ Remediation (or correction of errors) takes place in some instances, whereby the merchant and other parties are 'made right'.

³⁶ Payment System Regulator "Consultation paper - Market review of card scheme and processing fees - Interim report" (May 2024) para 1.2 available at <https://www.psr.org.uk/media/pcvem3uq/interim-report-market-review-of-scheme-and-processing-fees-may-2024-publication.pdf>.

- 3.17 We are currently undertaking monitoring of the scheme fees acquirers pay which will enable us to understand how they have changed over time and how they differ between Mastercard and Visa. To the degree these are different, the differences are generally not reflected in a different cost to merchants. We will continue to monitor scheme fees. This will inform whether this is something we seek to regulate in future.

Conduct of participants in the Mastercard and Visa networks that may impact competition

- 3.18 This section seeks views on wider access and pricing concerns collected from informal engagement with various stakeholders. These issues drive additional costs into the Mastercard and Visa networks or hinder competition in the acquiring market.

Digital wallet fees driving greater costs for card payments

- 3.19 We have seen a significant increase in transactions processed using a digital wallet, such as Apple Pay and Google Pay. Card issuers pay a fee to the digital wallet provider for each payment using this method and there appears to be limited competitive constraint on these fees.
- 3.20 Overseas payment regulators are also monitoring the use of digital wallets and the associated costs of this payment method.³⁷ The European Commission is seeking to address competition concerns over access restrictions to the technology used for contactless payments with mobile devices in stores. It is proposing allowing third-party mobile wallet and payment providers access to these mobile wallets.³⁸
- 3.21 Access to make and receive payments contactlessly through devices such as Apple and Android devices will likely be an important part of the success of innovation with open banking payments. We note the commitments Apple has been offering the European Commission to resolve their concerns over Apple Pay and would like to see New Zealand consumers and businesses also benefit from these.

Factors that may impact competition among acquirers

- 3.22 This section considers issues which impact merchants' ability to compare acquirer offers and switch between acquirers. These issues could be impacting competition and efficiency within the retail payment system.

³⁷ Reserve Bank of Australia "Payment System Board - Annual Report - 2023", graph 2.9 available at <https://www.rba.gov.au/publications/annual-reports/psb/2023/the-evolving-retail-payments-landscape.html>.

³⁸ European Union "Antitrust: Commission seeks feedback on commitments offered by Apple over practices related to Apple Pay" (19 January 2024) available at https://ec.europa.eu/commission/presscorner/detail/en/ip_24_282.

Merchants' ability to understand their costs and compare offers

- 3.23 Merchants do not understand their merchant service fees.³⁹ A lack of transparency of these fees makes it harder for merchants, in particular small merchants, to compare offers and switch. We expect this dampens competition among acquirers. We would like to see acquirers improving transparency of merchant service fees to their merchants and assist them in surcharging correctly.⁴⁰
- 3.24 It appears that merchant services vary across acquirers with different acquirers providing different levels of service and offerings. This differentiation in service offerings can be an important aspect of competition. However, where it is unclear what is and is not included in a service, this may hamper a merchant's ability to compare acquirer offers and drive competition.

Factors that may impact a merchant's ability to switch acquirers

Variability in merchant contract lengths

- 3.25 There seems to be significant variability in the contract length of acquiring services. As part of our ongoing monitoring, we will be looking to understand the variability of contract length and the ability for merchants to switch between acquirers.

Tying merchants to a preferred acquirer

- 3.26 We are aware of at least one e-commerce platform tying its merchants to its preferred acquirer by charging a penalty fee when they use an alternative acquirer.⁴¹ We believe this behaviour is potentially capable of reducing the competitiveness of the online acquiring market. Small merchants could also be missing out on lower cost or more innovative payment services such as open banking payments.

³⁹ Kantar "Merchant Research Report" November 2022 p63 and Commerce Commission "Merchant Research Observations" Figure 3.3. Both available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring?target=timeline#projecttab>.

⁴⁰ This includes considering the transparency of information provided electronically and through their business portals. Commerce Commission "Open letter to Payment Service Providers – payment surcharges" para 18 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

⁴¹ This has also been raised by the Reserve Bank of Australia. See RBA "Promoting competition for payment services on e-commerce platforms" (18 June 2024) available at <https://www.rba.gov.au/speeches/2024/sp-so-2024-06-18.html>.

Tokenisation of card details not often portable

- 3.27 Tokenisation of card details improves the security of online payments and is a more secure method of storing card information to enable repeat purchases. However, the resulting tokens cannot often be transferred from one acquirer to another as industry standards do not allow merchants to store card details if minimum security standards are not met.⁴² This increases friction for merchant that receive payments online to switch between acquirers because if they move, they will need to get their consumers to re-enter their card details.
- 3.28 This lack of portability leads to inefficiencies with increased costs in changing acquirers and increased risk of sales loss with cart abandonment. The Reserve Bank of Australia has set expectations on acquirers to address this issue. It proposes the portability of tokens from one payment service provider to another.⁴³

All stakeholders: Is token portability an issue in New Zealand? If yes, what is stopping the implementation of the Reserve Bank of Australia's expectations here?

All stakeholders: We welcome further evidence of any other issues within the New Zealand retail payment system.

⁴² Security Standards Council "Payment Card Industry Data Security Standard (PCI-DSS)" available at <https://www.pcisecuritystandards.org/standards/pci-dss/>.

⁴³ Reserve Bank of Australia "Expectations for Tokenisation of Payment Cards and Storage of PANs" (May 2024) available at <https://www.rba.gov.au/payments-and-infrastructure/debit-cards/expectations-on-tokenisation/index.html>.

Chapter 4 Considering further interchange fee regulation and impact of this

Purpose of this chapter

- 4.1 This chapter outlines why we are considering further regulation of interchange fees in New Zealand and why interchange fees are regulated globally. Further to this, it considers possible approaches to interchange fee regulation including alternative methodologies and their rationale. Lastly it looks at how any further interchange fee regulation may impact merchants and consumers.

Why we are considering further regulation of interchange fees in New Zealand

Further interchange fee regulation could reduce the fees merchants pay to receive card payments by over \$250 million per annum.

- 4.2 Some interchange fee rates within New Zealand are materially higher than those observed in other countries such as Australia, the United Kingdom and the European Union, where regulation has lowered fees. We are not aware of any adverse impact from the lowering of interchange fees within those jurisdictions. This raises the question of whether interchange fee rates within New Zealand remain too high.
- 4.3 We consider that reviewing the current interchange fee regulation may be necessary to promote competition and efficiency in the retail payment system. Reducing and simplifying interchange fee caps should reduce merchant service fees for merchants and reduce surcharging for consumers. Further interchange fee regulation could reduce interchange fees substantially. Assuming 90% of these savings are passed through to merchants, merchant service fees could reduce by over \$250 million.⁴⁴
- 4.4 We recognise that this would change incentives and outcomes across the retail payment system. For example, it would encourage existing and potential issuers of payment instruments to innovate outside of the Mastercard and Visa ecosystems. This would increase payment options for merchants and consumers and increase competition and efficiency within the retail payment system.

⁴⁴ Our estimate of over \$250 million is based on data provided by Mastercard and Visa and based on possible 0.2% (domestic) and 1.15% (international) interchange fee rates, assuming a 90% pass-through rate of interchange fee reductions to merchant service fees.

- 4.5 We expect lower fees would also lead to a reduction in Mastercard and Visa card rewards.⁴⁵ A more transparent and efficient retail payment system would involve either a reduction in the card rewards or the cost of these rewards being increasingly faced directly by the card issuer and card holder, rather than indirectly to all consumers through retail prices.
- 4.6 Reward changes would prompt card holders to assess the overall value proposition of using Mastercard and Visa. It would also limit the extent to which other consumers fund card rewards in circumstances where there is no surcharging.
- 4.7 Simplified interchange fee rates would reduce the variability of merchant service fee rates. This would allow merchants to:
- 4.7.1 better understand the incremental cost of receiving payments through the Mastercard and Visa networks;
 - 4.7.2 more easily compare merchant service fees across acquirers which supports greater competition in the acquiring market; and
 - 4.7.3 more accurately surcharge and better assess the need to surcharge at all.

Why interchange fees are regulated around the world

- 4.8 If unregulated, interchange fees can continue to increase to levels that are inefficient. This results in unreasonably high merchant service fees, which are then passed on to consumers through retail prices and/or payment surcharges.
- 4.9 As outlined in Dr Fletcher's paper published alongside this paper, the principal concern, across multiple jurisdictions, with the way Mastercard and Visa networks have been set up has been the level of the interchange fee. Since the interchange fee is a form of horizontal agreement between rivals, it clearly risks breaching competition law.
- 4.10 The real policy concern, though, was not just the collective price-setting but that the jointly set fee was too high. A pricing structure where one user group pays a higher fee than the other user group is a typical feature of multi-sided markets, including the Mastercard and Visa card networks. This can be efficient.

⁴⁵ This is what we saw when the initial pricing standard was introduced. Commerce Commission "Observations on the impact of interchange fee regulation" (8 August 2023) para 2.32 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring#projecttab>.

- 4.11 However, there are reasons why interchange fees may rise above efficient levels, resulting in unreasonably high merchant service fees:⁴⁶
- 4.11.1 Cardholders generally only have a Mastercard or Visa card and that choice is typically made by their bank. Merchants on the other hand generally accept multiple card payment networks to access more users. This means card payment networks can exercise market power over merchants and compete for issuers through offering high interchange fees.
 - 4.11.2 The risk of missed sales leads to merchants perceiving widely held cards as 'must-take' cards. This implies merchants' demand for card use is more inelastic and they are less 'resistant' to increases in merchant fees. All merchants that accept cards face these costs.
- 4.12 In both cases, merchants' ability to increase prices reduces the competitive constraints for card payment networks. Moreover, without surcharging, merchants will tend to incorporate the higher card acceptance fees into overall retail prices. If cardholders have a strong preference for cards over other payment methods, merchants who accept cards can charge higher retail prices compared to those who do not accept cards. Jurisdictions sought to address these concerns through a mix of direct regulation and antitrust enforcement.⁴⁷

Approaches to interchange fee regulation

- 4.13 This section outlines the various methodologies used for determining appropriate levels of interchange fees and considers the rationale for variability across current interchange fee caps. It also applies this thinking to how we could further regulate interchange fees to promote competition and efficiency.

Methodologies for determining the appropriate level of interchange fees

- 4.14 In setting the level of interchange fees through regulation there are several methodologies available. These include an approach from economic literature, an approach developed by an international regulator, benchmarking to a similar jurisdiction, or some other approach.

⁴⁶ Dr A Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023) p6-7 and Dr W Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023) p28-30 for a discussion on why interchange fees may be above efficient levels. Both available at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>

⁴⁷ Dr A Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023) p4-5 for a summary of competition and antitrust issues in relation to interchange fees in different countries. Available at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

Approaches to interchange fee caps from economic literature

- 4.15 Economic literature first proposed an approach called the 'merchant indifference test', which is sometimes referred to as the 'tourist test'.⁴⁸ This test seeks to make a merchant indifferent between accepting a payment between different payment methods. If we were to apply this in New Zealand, Eftpos could be the appropriate comparator.
- 4.16 Given an Eftpos payment has no incremental cost for businesses, the test would likely suggest the card networks would not have an interchange fee level above zero.⁴⁹ It is possible with this approach that credit cards would have an even lower interchange fee rate than debit cards because credit cards have a higher average transaction amount.
- 4.17 A more recent proposed methodology is a variation of the merchant indifference test which considers repeat customers (not just first-time customers) as 'tourists'.⁵⁰ This model attempts to simulate the optimal interchange fee. Assuming issuers set their margins optimally, they find that this would equate to an interchange fee level of 0.20%.⁵¹

⁴⁸ Dr W Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023) p14. Dr A Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023) p7. Both available at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

⁴⁹ This arises due to needing to offset the other elements of a merchant service fee such that a business faces the same marginal cost as an Eftpos payment. See **Figure 2.1**, these other elements of a merchant service fee include costs borne by acquirers and their margin.

⁵⁰ An econometric approach, proposed by Bedre-Defolie et al "Assessing the impact of Payment Card Fee Regulation - Working paper" (January 2018) available at https://www.hannesullrich.com/files/BSU_payment_Jan2018.pdf.

⁵¹ Huynh et al "Equilibrium in Two-Sided Markets for Payments: Consumer Awareness and the Welfare Cost of the Interchange Fee" (22 March 2022) p44 available at <https://www.bankofcanada.ca/wp-content/uploads/2022/03/swp2022-15.pdf>.

Approaches from other regulators

- 4.18 An approach first adopted in Australia, and then the United States of America, is a cost-based approach. It considers the costs to the card issuer of processing a transaction. This approach is not supported by the literature and is potentially a long, costly, and investigative process to determine.⁵² The Australian approach has since evolved and its caps are now in the order of 0.80% for credit card transactions and 0.20% for debit card transactions.⁵³
- 4.19 The European Union set its interchange fee caps using an approach based on the merchant indifference test described above. This approach sets caps of 0.20% for debit and 0.30% for credit. Interchange fees for transactions within the European Union states using cards issued outside of the European Union states are capped at 1.15% for in-person transactions and 1.50% for card-not-present transactions.⁵⁴

Benchmarking

- 4.20 Another method is to adopt interchange fee caps from other jurisdictions where interchange fees have been regulated. Whilst this is basing fees on the characteristics of other countries, we would not expect merchants and consumers in OECD countries to differ that markedly. This also provides the benefit of understanding the market impacts of interchange fee regulation within those countries.

⁵² Dr A Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023) p47 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

⁵³ Standard No. 1 of 2016 "The Setting of interchange fees in the designated credit card schemes and net payments to issuers" available at <https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/standard-no-1-of-2016-credit-card-interchange-2021-11-18.pdf>. Standard No. 2 of 2016 "The Setting of interchange fees in the designated debit and prepaid schemes and net payments to issuers" available at <https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/standard-no-2-of-2016-debit-and-prepaid-card-interchange-2021-11-18.pdf>.

⁵⁴ Regulation (EU) 2015/751 of the European Parliament and of the Council available at <https://www.legislation.gov.uk/eur/2015/751/body#:~:text=Payment%20service%20providers%20shall%20not,per%20transaction%20interchange%20fee%20cap>. CASE COMP/39.398 - VISA EUROPE "Commitment offered to the European Commission pursuant to Article 9 of Council Regulation (EC) No 1/2003" (15 November 2013) available at https://ec.europa.eu/competition/antitrust/cases/dec_docs/39398/39398_9729_3.pdf.

Other approaches

- 4.21 We note that setting interchange fees to zero has been recommended in other jurisdictions.⁵⁵ This has not yet been implemented anywhere other than New Zealand for contactless debit card transactions which is rooted in the historic development of Eftpos. Setting zero interchange fees on the Mastercard and Visa networks may hinder further investment by challenger providers of payment instruments.
- 4.22 Another approach could involve basing regulation on an interchange fee already in the New Zealand market. Whilst the initial price regulation set a cap on contactless debit interchange fees of 0.20%, this was the level prior to regulation. Likewise, there are rates as low as \$0.02 available for some large businesses in New Zealand, so we are interested in whether there is a cost-based rationale for this heavy discounting.⁵⁶

Considering interchange fee cap methodology for New Zealand

- 4.23 This section considers the appropriate methodology for interchange fee caps in New Zealand that promotes competition and efficiency in the retail payment system. An interchange fee can be efficient when used to establish new networks, but in this case both the Mastercard and Visa networks are well established.
- 4.24 The merchant indifference test implies an interchange fee of no more than zero. Moreover, it sets the regulated price at a level at least partially in control of the banks (Eftpos fees). Whilst this would minimise merchant costs, we are concerned to ensure that payment providers are able to earn revenue from a payment service to support ongoing investment. Consequently, we do not believe this will be appropriate.

⁵⁵ Competition in the Australian Financial System "Productivity Commission Inquiry Report" (29 June 2018) available at <https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf>. Black Economy Taskforce "Black Economy Taskforce – Final Report" (October 2017) available at https://treasury.gov.au/sites/default/files/2019-03/Black-Economy-Taskforce_Final-Report.pdf.

⁵⁶ For example, Mastercard's "Contactless Strategic Merchants 1" at \$0.04 and Visa's "Strategic Merchants – Card Present – Tier 4" at \$0.02, however we understand there is further criteria for a strategic merchant to be eligible for this category.

4.25 In considering the uses of interchange:

4.25.1 Not all the 'costs' are indeed true costs because the card issuer decides what it chooses to spend interchange revenue on. For example, reward levels or interest free periods. Moreover, the choice of issuers on how to spend interchange fee revenue could be viewed as independent of the level of interchange fee.

4.25.2 An important 'cost' is the investment in consumer protection in respect of fraud. We consider payment providers should have incentive to invest in fraud reduction techniques so being potentially compensated for fraud losses through interchange fees may reduce this incentive.

4.26 Overall, a cost-based approach is likely to be difficult to use to determine a reasonable fee level. A pragmatic approach could be to use a benchmark method for determining interchange fee levels.

Schemes, Issuers, Acquirers: What do you consider an appropriate methodology for determining interchange fee caps in New Zealand? Why do you think this best meets the purpose of the Retail Payment System Act, and how would it be practically implemented?

Schemes, Issuers, Acquirers: What is the rationale for the heavy discounting of interchange fees to large businesses and the evidence to support the extent of the discounting observed?

Determining a possible benchmark for interchange fee caps

4.27 If we were to use benchmarking, our initial thinking is that the debit rates set in the United Kingdom and European Union could be a reasonable pragmatic basis for our approach. This recognises there is no one definitive method. It also has the advantage that the rates set by other payment system regulators can be observed to allow for a commercially viable product.

4.28 We can also observe that an interchange fee cap of 0.20% is supported by a Canadian study and is a rate in New Zealand for contactless debit card payments for most businesses.⁵⁷

⁵⁷ As referred to in Dr Fletcher "Literature Review on Competition, Efficiency and Surcharging in the Retail Payment System" (November 2023) p48 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab>.

Breadth of current regulation and possible regulation

- 4.29 Currently transactions using commercial credit, prepaid and foreign-issued cards are excluded from New Zealand's interchange fee regulation. We are considering whether the coverage of New Zealand's interchange fee regulation should be extended to include these and are seeking stakeholder views on the breadth of regulation.
- 4.30 We are interested in understanding what the impact would be of using the cap applied in the European Union of 1.15% for all transactions using foreign-issued cards at New Zealand merchants.⁵⁸

Current regulation and possible new caps

- 4.31 Introducing further interchange fee regulation may support more reasonable pricing for New Zealand businesses accepting Mastercard and Visa card payments and improve short term efficiency of the retail payment system. This could also reduce costs and complexity to merchants and promote greater competition and efficiency in the retail payment system in the long-term.
- 4.32 **Table 4.1** provides an overview of the current interchange fee regulation and alternative rates using benchmarks. This is intended to be an illustrative example of what the interchange fee caps could look like if we used the benchmarking approach described above and broadened the scope of transactions subject to interchange fee caps.

⁵⁸ The 1.15% is a commitment by Mastercard and Visa to reduce the inter-regional (international) debit card not present interchange fee rate. European Commission: "Antitrust: Commission accepts commitments by Mastercard and Visa to cut inter-regional interchange fees" accessed at https://ec.europa.eu/commission/presscorner/detail/en/IP_19_2311.

Table 4.1 Summary of current and alternative interchange fee caps

Payment method or product type	Current interchange fee caps ⁵⁹	Alternative rates
New Zealand debit card payments made by inserting or swiping the card and using cheque or savings	0.00%	0.00%
All other New Zealand debit card payments	Currently regulated and the lower of: <ul style="list-style-type: none"> • 0.20% for contactless-in-person debit;⁶⁰ • 0.60% for online (or any other debit payment method); or • 1 April 2021 rates 	0.20%
New Zealand prepaid card payments	Currently unregulated and range from: <ul style="list-style-type: none"> • Mastercard: 0.00% - 1.50%; or • Visa: 0.39% - 2.00% 	
New Zealand personal credit card payments	Currently regulated and the lower of: <ul style="list-style-type: none"> • 0.80%; or • 1 April 2021 rates 	
New Zealand commercial credit card payments	Currently unregulated and range from: <ul style="list-style-type: none"> • Mastercard: 0.00% - 2.20%; or • Visa: 0.39% - 2.00% 	
International card payments	Currently unregulated and range from: <ul style="list-style-type: none"> • Mastercard:⁶¹ Up to 2.35%; or • Visa:⁶² Up to 2.40% 	1.15%

Understanding rationale for variation between interchange fee rates

4.33 This section considers whether there is justification for the current variability of interchange fees across payment methods, card types and merchants. **Table 4.2** provides an overview of the current drivers for variations between interchange fee rates and how these could be treated differently.

⁵⁹ As outlined in the Initial Pricing Standard. Retail Payment System Act 2022, clause 7 of Schedule 1. All domestic interchange fee rates available at - Mastercard "Interchange fees" available at <https://www.mastercard.co.nz/en-nz/business/overview/support/interchange.html>. Visa "Interchange fees" available at <https://www.visa.co.nz/about-visa/interchange.html>.

⁶⁰ If a contactless-in-person debit card interchange fee is charged by cents (for example, a flat fee rather than a percentage of the transaction value), 5 cents per transaction is the cap.

⁶¹ Mastercard international interchange fee rates available at <https://www.mastercard.com.au/en-au/business/overview/support/interchange.html>.

⁶² Visa Foreign Card: Asia Pacific Intra-regional Interchange Rates and Asia Pacific Inter-regional Interchange Rates available at <https://www.visa.com.au/about-visa/ap-intra-regional-interchange.html>.

Table 4.2 Overview of current drivers for variations between interest fee rates and how these could be reconsidered

Drivers for variation in interchange fee rates	Current treatment	Alternative treatment
New Zealand card transactions versus international card transactions	Interchange fee rates vary significantly between domestic and international card transactions.	Some international transactions could be treated the same as domestic transactions and subject to the same interchange fee caps.
New Zealand credit card transactions versus debit card transactions	Interchange fee rates vary between domestic debit and credit card transactions.	Debit and credit transactions could be treated the same and subject to the same interchange fee caps.
New Zealand transactions where the physical card is present versus those transactions where it is not	Interchange fee rates vary between card present and card not present transactions.	These transactions could be treated the same and subject to the same interchange fee caps. Except for contacted debit transactions continuing to have no interchange applied.
Variation in interchange fee due to the merchant type	Currently strategic merchants and some other merchants receive lower interchange fee rates.	All merchants could be treated the same and subject to the same interchange fee caps.

Should credit and debit transactions be treated differently?

- 4.34 In our view, there should be no difference between the interchange fees for credit and debit transactions. This would drive competition and efficiency by decreasing complexity, increasing transparency, and enabling businesses to assess pricing options more easily.
- 4.35 We note one rationale for a higher rate for credit is due to some merchants seeing additional demand from offering credit as well as debit. We understand the underlying costs for issuers, including those relating to systems and processes in place for security, protection, and fraud, apply equally to credit and debit.
- 4.36 The underlying costs relating to other consumer benefits are likely to differ eg, cost of providing interest free periods, cost associated with providing credit (including losses), rewards, and benefits. It is not clear why the cost of credit should be borne by the merchant in the first instance. Rather than these costs being borne by all consumers through retail prices, we query whether these should be borne by the card user eg, in the form of annual card fees and interest charges.

Mastercard, Visa, Issuers: What evidence is there to support higher interchange fee rates for credit versus debit card payments?

Should payments be treated the same irrespective of whether the physical card is present?

4.37 Domestically we consider there to be no reason for a difference in interchange fee rates between transactions where the physical card is present (card present) and transactions where it is not (card not present).⁶³ The exemption is in-person debit card payments routed via the Eftpos network, which receive zero interchange.

4.38 In response to a 2008 Reserve Bank of Australia paper on interchange fees, Visa asserted that there should be a difference between interchange fee regulation for debit card present and card not present transactions:⁶⁴

Visa believes that the RBA's proposed alignment of scheme debit interchange fees and EFTPOS interchange fees is illogical given that scheme debit offers card-not-present functionality not available from EFTPOS. Whilst we believe that all regulation of debit interchange fees harms consumers and competition, if there is to be any alignment of fees across debit cards it should be limited to rates that are applied to card present transactions. There are valid justifications for higher interchange fees applicable to card-not present transactions within Visa Debit.

4.39 There could be greater costs (such as fraud costs) associated with transactions where the card is not present. However, over time there have been many new security features introduced and developments in authentication processes. Innovations such as stronger customer authentication are likely to further reduce the incidence of successful fraud. We are interested in the remaining materiality of these costs.

Mastercard, Visa and Issuers: We welcome quantitative evidence justifying higher interchange rates on domestic card not present transactions.

Should transactions using domestic-issued cards and foreign-issued cards be treated differently?

4.40 We want to understand what drives higher interchange fee rates for foreign-issued cards used in New Zealand and why this varies so significantly between cards issued within the Asia-Pacific region (inter-regional) and those issued outside of the Asia-Pacific region (intra-regional).

⁶³ Card not present is a transaction where the customer cannot physically present the card at the point of sale, most commonly these are online and Mail Order Telephone Order transactions.

⁶⁴ Visa "Submission by Visa Inc. Regarding the Payment System Board of the Reserve Bank of Australia's Discussion of Major Policy Issues and Options Regarding Interchange Fees in the Preliminary Conclusions of The 2007/08 Review" p4 available at <https://www.rba.gov.au/payments-and-infrastructure/payments-system-regulation/past-regulatory-reviews/review-of-card-payment-systems-reforms/pdf/review-0708-pre-conclusions/visa-30062008-3.pdf>.

- 4.41 We note the European Union sets an interchange fee cap of 1.15% for cards issued outside of the European Economic Area and used online.⁶⁵ We want to understand the impact of applying an interchange fee cap of this kind to all transactions using foreign-issued cards in New Zealand.
- 4.42 There is a large difference between domestic and international interchange fee rates in New Zealand. Notably, it appears that cards issued in Australia and used in New Zealand can have higher interchange fees than cards issued from outside of the Asia-Pacific region and used in New Zealand (eg, the United Kingdom).⁶⁶
- 4.43 We consider there may be merit in having a different rate for foreign-issued cards used at New Zealand merchants because:
- 4.43.1 There are fewer viable alternative payment methods that these consumers can use.
 - 4.43.2 The potential higher incidence of fraud. We would like to understand if there is more fraudulent card use for domestic-issued cards versus foreign-issued cards used at New Zealand merchants compared with other jurisdictions and who is liable for the fraud.
- 4.44 In the Payment Systems Regulator's current review of cross-border interchange fees, Visa stated that:⁶⁷

Cross border, ecommerce transactions have unique characteristics, including higher risk of fraud and the need for greater vigilance and investment by issuers to ensure their security and efficiency.

Mastercard, Visa: We are seeking evidence on the rationale and methodology used to set the difference between interchange fee rates on cards issued within New Zealand and foreign issued cards.

⁶⁵ The European Union international debit card not present has a cap of 1.15%.

⁶⁶ Visa Foreign Card: Asia Pacific Intra-regional Interchange Rates and Asia Pacific Inter-regional Interchange Rates available at <https://www.visa.com.au/about-visa/ap-intra-regional-interchange.html>.

⁶⁷ Payment System Regulator "Market review on UK-EEA cross-border interchange fees – Interim Report" (December 2023) p59 available at <https://www.psr.org.uk/media/au4km234/xbif-interim-report-public-dec-2023-eu.pdf>.

- 4.45 In this same report, the Payment Systems Regulator did not identify any evidence of the structure or level of international interchange fees to be linked to fraud risk and cost, or that it provides incentives for card issuers to invest in fraud prevention.⁶⁸

Mastercard, Visa: Why are two categories of rates for foreign-issued cards (inter-regional and intra-regional) necessary?

Mastercard, Visa, Issuers, Acquirers: Who is liable for the fraud costs associated with transactions made using a foreign-issued card?

Mastercard, Visa, Issuers, Acquirers: We are seeking quantitative evidence of differences between levels of fraud for domestic and foreign-issued cards.

Should some merchants get lower interchange fee rates?

- 4.46 Certain larger businesses processing greater transaction volume or value (eg, strategic merchants) and other businesses such as fuel stations are classified by Mastercard and Visa to attract lower interchange fee rates. These interchange fees vary from fixed debit rates of 2-5 cents per transaction to credit transactions attracting rates of 0.45-0.80% (including commercial credit). In turn, these merchants pay a lower merchant service fee than small merchants.

- 4.47 We consider this may impact competition and efficiency because:

4.47.1 **Businesses treated differently:** We are concerned that different interchange rates between different business types may not be justified. It does not appear that the current variations in interchange rate caps for certain businesses is in relation to the risk being higher or that business facing different choices in alternative payment system networks. We would not expect to see such large differences persisting in a workably competitive market.

4.47.2 **Added complexity:** Retaining a flat fee or lower rates for some merchant categories could keep costs low for some merchants but could also continue to drive complexity of interchange and compliance costs.⁶⁹

⁶⁸ Payment System Regulator "Market review on UK-EEA cross-border interchange fees – Interim Report" (December 2023) p6 available at <https://www.psr.org.uk/media/au4km234/xbif-interim-report-public-dec-2023-eu.pdf>.

⁶⁹ Some recent investigations into potential non-compliance with the initial pricing standard have been due to errors in assigning strategic merchant rates. This illustrates the added complexity these rates introduce to the retail payment system.

- 4.48 These lower rates may suggest that current interchange rates can be lowered to these levels for all merchants.

Mastercard, Visa, Acquirers: We welcome evidence and rationale for why merchants are treated differently for interchange fee application.

Considering options for applying interchange fee caps

Applying a 'hard cap' to interchange fees versus a weighted average cap

- 4.49 Current interchange fee regulation imposes a hard cap on the 'total interchange fee' for an individual regulated transaction.⁷⁰ In effect this means the 'total interchange fee' for a specific transaction must not exceed the applicable fee cap.⁷¹
- 4.50 Other forms of caps such as weighted average caps can add even more complexity to interchange fees. For example, Australian interchange fee regulation uses a combination of weighted average and hard caps and has significantly more rates.⁷²
- 4.51 Hard capping interchange fees, as opposed to applying a weighted average, is less complex for merchants and increases transparency by reducing the number of rates.⁷³ This makes it easier for regulated parties to comply with interchange fee regulation.

Setting percentage rates for interchange fees versus a flat fee

- 4.52 The current interchange fee caps are a mix of percentage-based rates and fixed flat fees depending on whichever is lower. The question is whether the costs for processing, clearing, and settling a transaction vary depending on the transaction amount or are the costs fixed per transaction.
- 4.53 Our initial view is that percentage rate caps on interchange fees are easier to standardise and provide decreased complexity and increased transparency. This approach supports the argument of interchange fees existing to cover fraud costs if this is in fact the case.

Mastercard, Visa, Acquirers, Issuers: We welcome evidence of the impact of hard caps and percentage rates on compliance costs.

⁷⁰ The 'total interchange fee' for a transaction is the sum of the interchange fee plus any net compensation that can reasonably be attributed to the transaction.

⁷¹ The applicable fee cap being the lower of the specified maximum set out in clause 7 of Schedule 1 of the Retail Payment System Act 2022 and the "interchange fees per transaction as at 1 April 2021".

⁷² Visa "Visa Interchange on Domestic Transactions in Australia" available at <https://www.visa.com.au/about-visa/interchange.html>. Mastercard "Interchange" note Australian domestic transactions are referred to as 'intracountry' available at <https://www.mastercard.com.au/en-au/business/overview/support/interchange.html>.

⁷³ Weighted average caps enables Mastercard and Visa to have more rates across the various categories.

Mastercard, Visa, Acquirers, Issuers: Please provide evidence of any other aspects of the implementation of any changes to interchange fee caps that impact compliance or other business costs.

Ensuring any change to current interchange fee regulation has the intended impact

- 4.54 This section focuses on the considerations in ensuring the intent of interchange fee regulation is realised and how this impacts other payment methods (including the Eftpos network).

Ensuring a reduction in merchant service fees

Average merchant service fees paid for domestic transactions could be reduced to approximately 0.70%

- 4.55 Whilst merchants do not directly pay interchange fees, the cost is passed through to them by acquirers in the form of a merchant service fee (as shown in **Figure 4.1**). We want to ensure interchange fee savings are passed through to merchants in the form of lower merchant service fees and to consumers in the form of lower and more accurate surcharging. Further, we want merchants to be aware of the new rates and their savings, improving competition between acquirers.

Figure 4.1 How interchange fee regulation impacts merchants and consumers



- 4.56 If a business is on a fixed or blended merchant service fee pricing plan, a reduction in interchange fees may not automatically be passed onto the merchant through a lower merchant service fee. We estimated that approximately 80% of interchange fee savings made in the first year of interchange fee regulation passed through to total merchant service fee savings.⁷⁴

Acquirers: How would you reduce merchant service fee rates for your customers on fixed or blended pricing?

Acquirers: How would you provide your customers with an overview of the intended impact on them of further price regulation?

⁷⁴ Commerce Commission "Observations on the impact of interchange fee regulation" (8 August 2023) para 2.4 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring#projecttab>.

- 4.57 The bank acquirers in New Zealand offer the acceptance of contactless debit card payments with merchant service fees in the order of 0.70%.⁷⁵ These payments currently have an interchange fee of 0.20%. If the possible caps discussed above were implemented, we would expect to see merchant service fees for other domestic payments to reduce to a similar level.

Ensuring a reduction in surcharging

We expect a reduced need for merchants to surcharge and if they did, it could drop to no more than 0.70%

- 4.58 Consumers realise the benefits of interchange fee regulation through merchants passing on savings due to lower merchant service fees. This could come in the form of:
- 4.58.1 offsetting other cost increases, reducing the need for price rises; or
 - 4.58.2 reduced surcharging rates or need to surcharge to begin with.
- 4.59 A reduction in merchant service fees for domestic payments to levels of around 0.70% alongside simplification of rates could lead to more businesses no longer surcharging. For those businesses that do surcharge, simplification should also enable more accurate surcharging where consumers should expect to see a surcharge at the point of sale of around 0.70%.
- 4.60 If merchants did not respond to a reduction in merchant service fees by reducing surcharges, we could seek to address this by setting caps on maximum surcharges that can be applied and publicising this cap.⁷⁶ We could address this by targeting merchant surcharging behaviour or terminal provider support. This would provide for much simpler monitoring of compliance by consumers and us. We recognise that imposing regulation here would nonetheless involve costs. Therefore, we would prefer to see if simplification largely resolves this issue.
- 4.61 Putting in a surcharging cap now when merchant service fees are very complex would result in higher compliance costs for businesses and not be easy for us or consumers to monitor. However, we do expect terminal providers, if they are asked to apply a surcharge rate of more than 2%, to sight merchant service fee statements to confirm businesses' average cost of acceptance.

⁷⁵ Commerce Commission "Observations on the impact of interchange fee regulation" (8 August 2023), figure 2.3 available at <https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring#projecttab>.

⁷⁶ We could do this by exercising our power to issue a merchant surcharging standard setting caps on maximum surcharges that can be applied.

Ensuring the intent of the possible caps is not avoided

- 4.62 There is an anti-avoidance provision in the current interchange fee regulation.⁷⁷ This is intended to ensure that the objective of reducing interchange fees is not subverted by the scheme compensating issuers by, for example, reducing their scheme fees or increasing their scheme benefits. While the focus of the current anti-avoidance is focused on issuer compensation, the fact of acquirers bearing additional cost is also relevant.
- 4.63 The main issue with such compensation is where it is being funded (in whole or in part) by acquirers, for example, through increased scheme fees or decreased scheme benefits. These additional costs would likely be passed on by acquirers to merchants, undermining the intent of interchange fee regulation reducing costs for merchants.
- 4.64 We consider that there is a continued need for a provision limiting net compensation to understand whether issuers are receiving compensation at the potential expense of acquires, merchants, and consumers. We are also concerned about the way the net compensation provision is framed and would prefer it focus on effect rather than intent.
- 4.65 As part of any review of the current interchange fee regulation, we may also consider whether the anti-avoidance provision can better target acquirer costs and the lack of transparency around these. We could consider imposing requirements relating to the public disclosure of average acquirer scheme fees and rebate information on an annual basis, as well as their historical levels.
- 4.66 This would promote cost efficiencies and allow us, and other interested stakeholders, to monitor any increases which could be assessed against issuer compensation to help determine whether any anti-avoidance is occurring. It would also provide increased transparency on the costs of the Mastercard and Visa networks. We are interested in stakeholder views on the operation of the current 'net compensation' provision.

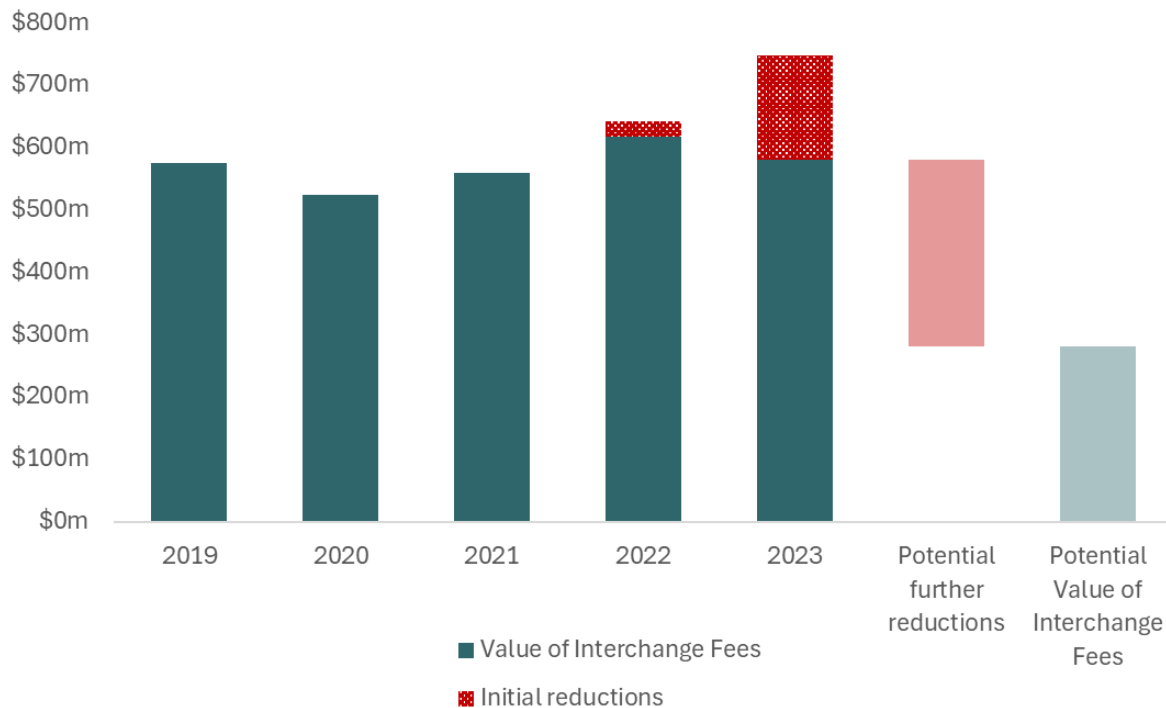
Mastercard, Visa, Issuers, Acquirers: How fit for purpose is the current anti-avoidance provision? Please provide evidence of any challenges and whether there are other more efficient solutions.

⁷⁷ 'Net compensation' is defined as the net value of any payments, rebates, incentives, or other means of monetary and non-monetary compensation that are made after the date on which the Retail Payment System Act receives the Royal assent and that have a purpose of compensating an issuer for the effect of the standard. It is one component of the 'total interchange fee' that can reasonably be attributed to the transaction and is assessed for compliance against the relevant fee cap.

How the level of interchange fees could reduce

4.67 **Figure 4.2** provides a graph of the level of interchange fees paid in New Zealand between 2019 and 2023 and how these fees could reduce under our proposed interchange rates.

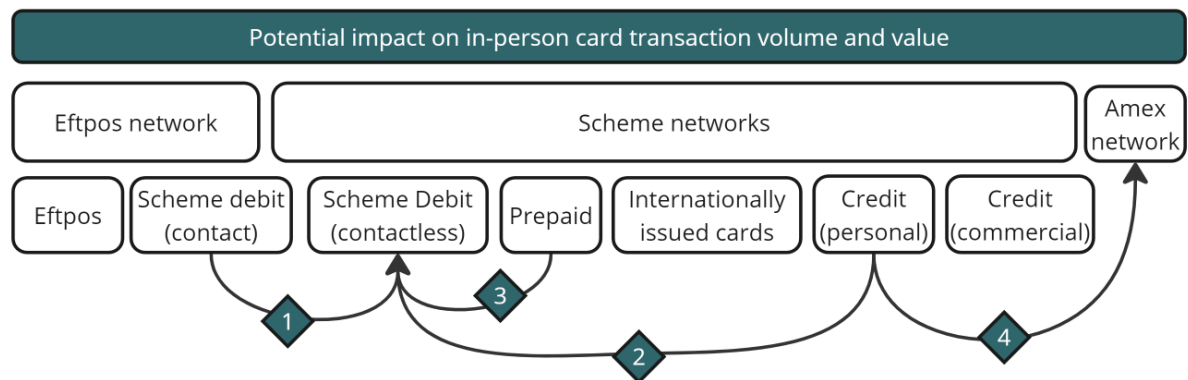
Figure 4.2 The level of interchange fees paid in New Zealand and how this could reduce due to possible further interchange fee regulation⁷⁸



How further interchange fee regulation could change the way consumers pay

4.68 Further interchange fee regulation has the potential to significantly change the way consumers choose to pay. This is shown in **Figure 4.3** for in-person transactions and outlined in this section.

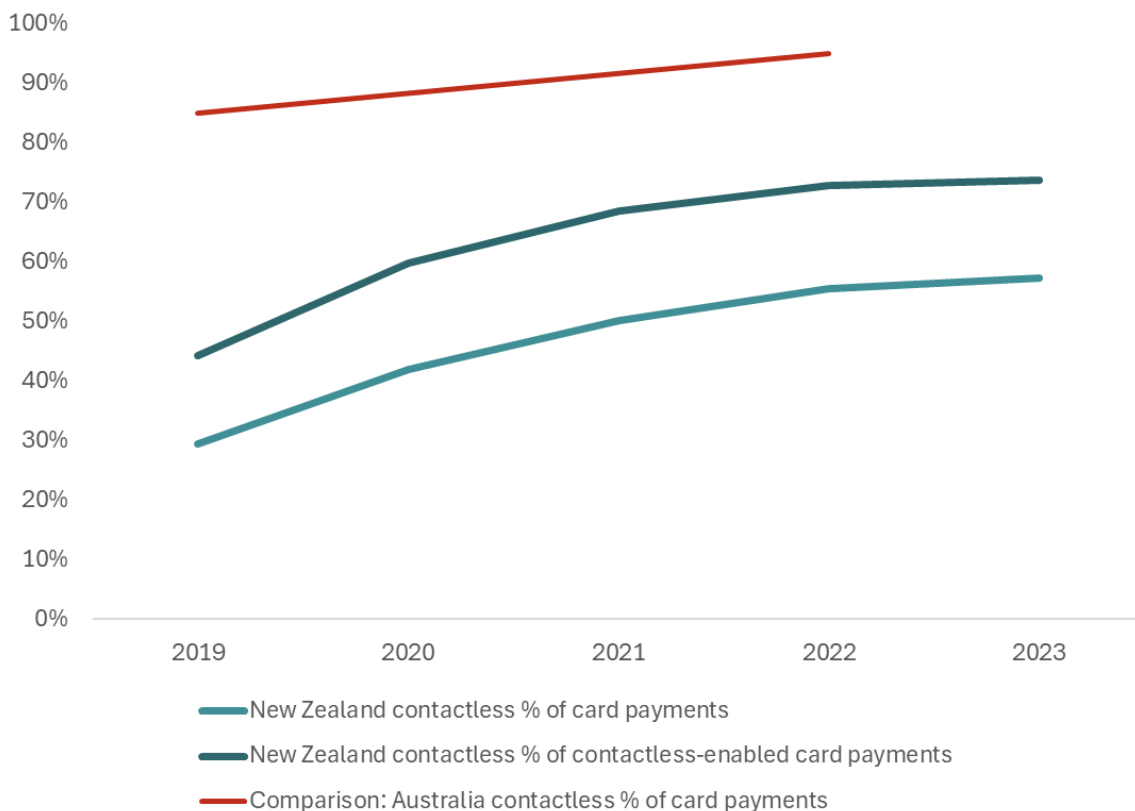
⁷⁸ Source: Commission internal analysis of data provided by Mastercard and Visa. For the value of interchange fees if there were no initial pricing standard, our estimates are based on the levels observed in the quarter ending September 2022.

Figure 4.3 How further interchange fee regulation could change in-person behaviour**A shift to contactless payments***(1) Shift from Eftpos to contactless payments*

- 4.69 Irrespective of regulation, we expect consumer preferences to make contactless payments and any eventual replacement of proprietary Eftpos cards will continue to drive transactions off the Eftpos network to the Mastercard and Visa debit networks. The speed in which these transactions come off the Eftpos network will depend on how much merchant surcharge rates decrease in response to our proposed decreases.
- 4.70 In 2023, 30% of the in-person transactions on contactless-enabled debit cards were contacted and processed through the Eftpos network. Whilst uncertain, we provisionally estimate this to reduce to around 20%. This would lead to an approximate increase of \$5 million in merchant costs.⁷⁹
- 4.71 **Figure 4.4** shows how in-person transactions have shifted from contacted to contactless over time and how this compares to Australia. In 2023, 57% of all in-person card payments in New Zealand were contactless, an increase of 28% from 2019.⁸⁰

⁷⁹ Commission internal analysis based on data provided by Mastercard, Visa, Worldline, Verifone and Windcave. We assume a 90% pass-through of interchange fee reduction to merchant service fees and perfect pass-through to surcharge to derive the estimates.

⁸⁰ Commission internal analysis of data provided by Amex, Mastercard, Visa Worldline, Verifone and Windcave.

Figure 4.4 How contactless in-person transactions have increased over time⁸¹***(2)(3) Shift to contactless debit from credit and prepaid***

- 4.72 In addition to an expectation of consumers moving from credit to debit due to higher fees and less rewards, the reduction in surcharges may increase demand for more convenient payment methods as they become more affordable. Similarly, contactless digital wallet transactions are expected to increase.

A shift to American Express (4)

- 4.73 Consumers who value credit card rewards may seek out an American Express credit card. American Express reduced its merchant service fees upon the initial pricing standard coming into force in 2022, so we would expect it to further reduce its fees in response to any further regulation. We also note its recent growth in the New Zealand market, aligning with inclusion in BNZ's merchant service product.

⁸¹ New Zealand contactless % of card payments includes data from Amex, Mastercard, Visa, Verifone, Windcave and Worldline. New Zealand contactless % of contactless-enabled card payments includes data from Amex, Mastercard and Visa. Australia data sourced from Reserve Bank Australia "The Evolution of Consumer Payments in Australia: Results from the 2022 Consumer Payments Survey", p27 available at <https://www.rba.gov.au/publications/rdp/2023/pdf/rdp2023-08.pdf>.

- 4.74 We are not considering any recommendation to designate the American Express network at this stage. However, we will continue to monitor the number of cards issued and transactions processed by American Express in New Zealand and the merchant service fees charged.

Where do other high cost card payment options sit?

- 4.75 We will also continue to monitor the number of transactions processed by other payment options, such as the Buy Now, Pay Later providers that incur merchant service fees of up to 5%.

Shifts in consumer behaviour for online payment providers

- 4.76 Given the Eftpos network cannot be used for online purchases, there is unlikely to be any change in consumer behaviour. However, as card-not-present (online) payments will reduce in cost to merchants the corresponding surcharges should reduce too. This may have an impact on consumers' willingness to use services such as Poli Pay which are often not surcharged but have other costs and risks.

Potential impact on innovation within the payment system

- 4.77 A reduction in interchange fee revenue for issuers could result in a relative change to banks' incentives to invest in open banking payments. We also recognise the potential for reduced interchange fees to dampen interest from merchants and consumers in new alternative payments methods.
- 4.78 New products and services should be able to compete on their own merits. We expect competition from these new methods will emerge in the future. This is expected to bring further efficiency to the retail payment system in the long-term.

All stakeholders: Please provide any evidence of other impacts a material reduction in interchange fees for Mastercard and Visa could have on the New Zealand retail payment system.

Attachment A Our regulatory role in the retail payment system

Purpose of this attachment

- A1 This attachment describes the legal framework applying to the retail payment system and our role. It has a particular focus on the current interchange fee regulation applying to the Mastercard and Visa networks.

The retail payment system

- A2 The retail payment system is comprised of various retail payment networks – which include the participants, arrangements, contracts, and rules that enable a class of retail payments to be processed. Examples of retail payment networks include credit card and debit card networks (eg, Mastercard, Visa, Eftpos), the interbank payment network and buy now-pay later networks (eg, Afterpay).
- A3 A retail payment is the transfer of monetary value by a consumer to a merchant for the supply of goods and services.⁸² Merchants and consumers can be people, businesses or other entities depending on their role in the supply of goods or services. A consumer is a person (including any individual or business) that acquires goods or services from a merchant.⁸³

Our role under the Retail Payment System Act 2022

- A4 The Retail Payment System Act 2022 (Act) came into force in November 2022 and introduced a new regulatory regime for the retail payment system. The purpose of the Act is to promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand.⁸⁴

⁸² Services includes the supply of goods or the performance of work under a contract for service.

⁸³ In this paper we use the terms “business” and “merchants” interchangeably and these terms include entities such as the Crown, individuals and sole traders.

⁸⁴ Retail Payment System Act 2022, section 12.

- A5 The Act gives us a range of functions and powers, including:
- A5.1 recommending a network is designated;⁸⁵
 - A5.2 regulating of the designated network(s) (including their participants) through network standards and/or directions;⁸⁶
 - A5.3 issuing merchant surcharging standards;⁸⁷
 - A5.4 market monitoring and information dissemination;⁸⁸
 - A5.5 assisting law enforcement or regulatory agencies that carry out a role in relation to the retail payment system;⁸⁹ and
 - A5.6 investigating, compliance monitoring and enforcement.⁹⁰
- A6 Our functions and powers must be exercised for the statutory purpose of promoting competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand.⁹¹
- A7 To the extent that we consider them relevant, we must also consider the following principles when exercising our function and powers:⁹²
- A7.1 merchants and consumers should pay no more than reasonable fees for the supply of payment services; and
 - A7.2 that the retail payment system provides a reasonable degree of transparency.

⁸⁵ Retail Payment System Act 2022, section 12.

⁸⁶ Retail Payment System Act 2022, sections 17 and 24.

⁸⁷ Retail Payment System Act 2022, section 30.

⁸⁸ Retail Payment System Act 2022, section 6(a) to (c).

⁸⁹ Retail Payment System Act 2022, section 6(d).

⁹⁰ Retail Payment System Act 2022, Part 3.

⁹¹ Retail Payment System Act 2022, section 4(1).

⁹² Retail Payment System Act 2022, section 4(2).

Current regulation of interchange fees

A8 The Act provides for the regulation of interchange fees by:

A8.1 designating the Mastercard and Visa credit and debit networks;⁹³ and

A8.2 imposing an initial pricing standard which sets caps on the interchange fees for transactions on the Mastercard and Visa credit and debit networks.

A9 The initial pricing standard came into force on 13 November 2022 and set the following 'total interchange fee' caps:⁹⁴

(2) This standard requires that total interchange fees for credit retail payment networks (excluding commercial credit payment products and payment instruments that are issued outside New Zealand (for example, foreign-issued cards)) must not exceed the lower of—

(a) 0.80% per transaction:

(b) the interchange fees per transaction as at 1 April 2021.

(3) This standard requires that total interchange fees for debit retail payment networks (excluding prepaid payment products and payment instruments that are issued outside New Zealand (for example, foreign-issued cards)) must not exceed the lowest of—

(a) the interchange fees per transaction as at 1 April 2021:

(b) whichever of the following applies:

(i) in the case of any contacted-in-person payment method, 0.00% per transaction:

(ii) in the case of any contactless-in-person payment method, 0.20% per transaction:

(iii) in the case of any online or any other payment method, 0.60% per transaction:

(c) if a contactless-in-person debit card interchange fee is charged by the cents (for example, a flat fee rather than a percentage of the transaction value), 5 cents per transaction.

A10 The 'total interchange fee' for a transaction is the sum of the interchange fee plus any net compensation that can reasonably be attributed to a transaction.⁹⁵ Certain Mastercard and Visa credit and debit transactions are currently excluded from the initial pricing standard, including transactions using prepaid, commercial credit and foreign-issued cards.

⁹³ Retail Payment System Act 2022, subpart 2 of Schedule 1.

⁹⁴ Retail Payment System Act 2022, clause 7 of Schedule 1.

⁹⁵ Retail Payment System Act 2022, clause 7(4) of Schedule 1. 'Net compensation' is the net value of any payments, rebates, incentives, or other means of monetary and non-monetary compensation that are made after the date on which the Act received the Royal assent and that have a purpose of compensating an issuer for the effect of the initial pricing standard.

Our powers to revoke or replace the initial pricing standard

- A11 We have the power to issue a new or amended pricing standard to replace or revoke the initial pricing standard.⁹⁶ In deciding whether to issue a new or amended pricing standard, and deciding on its terms, we must consider whether there are any features of the retail payment network, or any conduct of participants in the network, that reduces or are likely to reduce competition and efficiency.⁹⁷
- A12 Before issuing a new or amended pricing standard, we must make the proposed standard publicly available and consult affected persons, or persons that we consider to be representative of affected persons, about the proposed standard and our reasons.⁹⁸

⁹⁶ Retail Payment System Act 2022, clause 9(1) of Schedule 1.

⁹⁷ Retail Payment System Act 2022, section 18. In the case of the Commission deciding whether to impose access requirements as part of that pricing standard, the Commission would also need to consider the effect on innovation in the retail payment system of issuing a network standard.

⁹⁸ Retail Payment System Act 2022, section 19(1).