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Competition & Consumer Policy
Building, Resources and Markets
Ministry of Business, Innovation & Employment
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To whom it may concern

ANZ submission on the Issues Paper: Regulating to reduce Merchant Service Fees

Thank you for the opportunity to respond to the Ministry of Business, Innovation and Employment (**MBIE**) on the recently released Issues Paper: "Regulating to reduce Merchant Service Fees" (**Issues Paper**).

ANZ Bank New Zealand Limited (**ANZ**) welcomes the Issues Paper and MBIE's endeavours to understand the topic of merchant service fees (**MSF**) in NZ, and potential options for addressing the costs of MSF on merchants and consumers. ANZ understands that the Issues Paper signals the commencement of a project (**the project**) seeking to reduce MSF through rules or regulation, and that MBIE will be undertaking further targeted consultation after reviewing the initial round of submissions.

At the outset of the project, ANZ considers that it is important that MBIE have a complete picture of NZ's retail payment environment before moving forward with proposed regulatory options.

The key points we would like to draw to MBIE's attention are summarised in the following table.

Key points

1. **There are costs and value associated with all payment types.**

   MSF supports the ongoing development of bank and scheme payment capability (infrastructure, fraud management, innovation etc.). This capability then provides merchants with an ability to market their businesses and accept payments globally. The global networks that support these electronic payment methods then invest in delivering continual improvements to the customer experience for both merchants and consumers.

2. **We recommend that MBIE's "systems approach" to reviewing MSF should be expansive in nature and assess MSF within the broader electronic payments environment.**

   Any proposed rules or regulations for MSF should consider the impact of all payment schemes (Visa, MasterCard, UnionPay, American Express and Diners Club), NZ's EFTPOS model, together with wider and future market participants (such as Buy Now Pay Later or Open Banking payment use cases).

3. **NZ's EFTPOS model is unique and consideration should be given to the impact of EFTPOS on New Zealand's electronic payments environment, especially in comparisons made to other jurisdictions.**

   Currently, the majority of Point of Sale (POS) electronic payments made in New Zealand (both in volume and value) are processed via the EFTPOS model. EFTPOS has historically served both NZ consumers and merchants well, but because it is free for merchants, has not invested in the online and digital capability increasingly demanded by both sides of the market. ANZ wishes to draw to MBIE's attention, the following:
   - **a.** The other jurisdictions mentioned in the Issues Paper (Australia, UK, EU) have EFTPOS equivalents that charge fees. ANZ understands the average MSF for debit transactions in NZ is lower than both the Australian and UK markets.
   - **b.** ANZ expects that payment innovation and increasing customer pressure for digital, global solutions will drive further change in how consumers and merchants use electronic payment methods in New Zealand.

4. **Merchants have choice when it comes to payment acceptance and ANZ is committed to continue helping lower the costs of acceptance.**

   Merchants today can choose:
   - **a.** To accept payment types that best meet both their business and customer needs, which may or may not include contactless or credit transactions.
   - **b.** To surcharge or not, although ANZ notes this is not currently required to be linked to the cost of acceptance.
   - **c.** To move between acquirers to obtain optimal pricing or different product features. The options available to merchants and competitiveness in the merchant acquiring market assist in creating a degree of market discipline.
   - **d.** Furthermore, to facilitate merchant choice and informed decision making, ANZ is committed to pricing transparency and has led the market with separate, transparent contactless rates across credit and debit since 2011.

Implementation timeframe of any potential regulation

ANZ notes that there is significant regulatory change impacting the banking sector, including the introduction of Financial Services Legislation Amendment Act 2019, changes to the Credit Contracts and Consumer Finance Act 2003 and BS11 requirements. Given the scale of recent regulatory changes, ANZ requests that if further regulation eventuates, consideration is given to ensuring banks and other industry participants have reasonable timeframes to implement regulatory requirements. This will ensure that ANZ has sufficient time to deliver any required technical updates, and communicate changes to customers.

More detail in support of the above can be found in the responses to the specific questions from the Issues Paper in Appendix I.

Support for NZBA submission

ANZ is a party to, and wishes to note its support of the New Zealand Bankers' Association submission.

About ANZ

ANZ is the largest financial institution in NZ. ANZ offers a full range of financial products and services including a significant range of financial advisory services, personal banking, institutional banking and wealth management products and services.

Request for confidentiality

ANZ requests that the parts identified in this submission as requiring confidentiality are kept confidential on the grounds of commercial sensitivity or that they contain personal information.

Contact for submission

If MBIE would like to discuss the contents of this submission with ANZ, please contact [redacted]

Yours sincerely

[redacted]

[redacted]

Appendix I – Responses to questions in the Issues Paper: Regulating to reduce MSF

#	Question	ANZ response
1	Do you have any feedback on our proposed approach to this project?	ANZ considers that the proposed approach outlined in the Issues Paper is, overall, a reasonable one. However, ANZ would recommend MBIE consider the following comments in response to the proposed approach to review and regulate MSF: 1. The Executive Summary refers to the preference of taking a "systems approach" to effectively reduce MSF. However this is not defined, or expanded on. ANZ considers that taking an expansive view is appropriate, and that a review of MSF, and any potential regulation, should encompass all significant electronic payment products or channels typically used by merchants, which include: - contact and contactless debit card transactions, - contact and contactless credit card transactions, - other scheme products such as American Express (**Amex**), Diners, UnionPay - EFTPOS transactions - emerging payment forms, such as Buy Now Pay Later (**BNPL**) and new forms of Open Banking solutions, which impose an acceptance cost on merchants. a. ANZ considers that a more expansive review of MSF is necessary because it provides valuable contextual information that is relevant to obtaining a full picture of the electronic payments landscape in NZ. b. ANZ notes that in NZ, MSF is charged on a significantly lower proportion of electronic transactions than in almost all other markets, including the regulated markets used for comparison in the Issues Paper. For ANZ merchants, EFTPOS and swiped or inserted debit card transactions account for approximately 54% of card present transactions today and incur no MSF. These equivalent transactions incur fees in almost all other markets, including regulated markets in Australia, the UK and the EU, which has led to investment and innovation in the electronic payments environment in those markets. c. At paragraph 37 of the Issues Paper, MBIE notes that the no-MSF model for swiped or inserted scheme debit transactions is unusual internationally. ANZ considers this point should have been given more weight in the analysis and outcomes of the Issues Paper, and should be considered in the discussion of proposed options for reducing MSF. ANZ also notes that emerging payment forms can introduce higher merchant acceptance costs per transaction than the acceptance costs for scheme payments (as we understand is the case for certain BNPL propositions).

		d. Due to the unique and complex nature of NZ's payments environment, ANZ considers that a broad and fulsome review will assist with the development of options that will maintain NZ's strong electronic payment landscape. This would include discussion and consideration given to the value to merchants of accepting electronic payments vs other payment types, which should also be factored into any proposed options. e. ANZ notes that a somewhat expansive approach was taken in Australia, and that Australian regulations specifically include the EFTPOS system (refer to the Reserve Bank of Australia (RBA) standard https://www.rba.gov.au/payments-and-infrastructure/review-of-card-payments-regulation/pdf/standard-no-2-of-2016-debit-and-prepaid-card-interchange-2019-05-31.pdf) 2. With reference to paragraph 21, ANZ considers that it would be preferable if MBIE set out more than one proposed option, following the review of the first round of submissions.
2	Have we described the retail payments system accurately? Is there any additional information that you would like to provide?	ANZ considers that the description of the retail payments system in the Issues Paper is adequate. However, ANZ provides the following comments for MBIE's consideration: 1. EFTPOS and swiped or inserted debit cards, and other schemes such as Amex, Diners and UnionPay cards account for a very large share of transactions and therefore should be included in the further analysis and outcomes. 2. As outlined above in ANZ's response to Question 1, the payments landscape continues to evolve and ANZ would expect to see new payment forms and propositions progressively enter the market. Recognising this potential and an expectation that each of these forms may utilise similar, or seek to introduce new, commercial models, it would be sensible for this review to take a broad systems approach. ANZ makes some additional comments, with reference to the following paragraphs in the Issues Paper: 3. Paragraphs 41 and 50: a broad range of the issuers' costs associated with a transaction are covered by interchange, beyond just the rewards costs on specific products. These costs include: - switching and authorising transactions, - scheme fees, - fraud protection, - credit risk and payment guarantees to the merchants.

		4. Further referencing paragraphs 41 and 50: ANZ notes that interchange also provides funding for innovation, enhanced security and the creation of new functionality on payments products. There is no interchange associated with EFTPOS or swiped/dipped scheme cards and a lack of innovation has resulted in less security features and functionality such as contactless. 5. Paragraph 44: ANZ considers that the paragraph should be expanded and clarified to confirm that: a. Apple Pay and Google Pay wallets are provided by the bank issuers at no additional cost to cardholders, acquirers or merchants. b. BNPL propositions are not provided by banks (issuer or acquirer) and merchants choose to accept and pay fees independently of their acquiring/MSF arrangements. c. Therefore, acquiring banks add no additional MSF margin for wallet, BNPL and similar payment methods. In some cases, the interchange (and MSF) can be lower due to the additional security provided when the transaction is tokenised. 6. Paragraph 52: ANZ's view is that it is not practical to set numerous rates that differ from the scheme caps as the bilateral arrangements required to ensure that these benefits are passed through to merchants would be large in number and complex to maintain. [redacted] 7. Paragraph 55(b): ANZ notes that merchant surcharges are widely used by online retailers and in certain industries, including the travel, hospitality and accommodation industries, as well as utility providers, taxis and government departments. ANZ considers that a merchant's right to surcharge should be retained but that the amount or value of the surcharge should not exceed the MSF. 8. Paragraph 67: ANZ can advise that the majority of our small merchants have received material reductions in MSF on scheme debit transactions. ANZ's contactless debit maximum rate cap for ANZ banked customers was reduced from 0.95% to 0.70%, effective 1 August 2020. 9. [redacted]

3	Please provide information on your understanding of the levels of MSF in NZ, any trends in relation to those fees, and how they compare to MSF in overseas jurisdictions.	ANZ has included current data extracts relating to ANZ acquired merchants, as requested by the Issues Paper. This data is in a table set out below and highlights the reduction in both Interchange and how this has flowed through to lower MSF for both small and larger merchants since 2017. Notably: - Weighted average MSF for ANZ merchants has declined substantially across all transaction categories - [redacted]

		As discussed in our response to Question 1, ANZ notes that in Australia and the UK, MSF for contactless debit applies to all scheme debit transactions including swiped or inserted debit card transactions. Further, Australia also has a MSF charge for EFTPOS transactions (approx. 17c/0.35%). Within Australia: - [redacted] - MSF for EFTPOS is approx. 17c per transaction vs nil in NZ. ANZ considers that the UK MSF rates are understated, especially for contactless debit. ANZ commissioned external analysis of small businesses shows that while interchange is set at the low regulated rates (0.20%) total merchant service fee is higher than in NZ with our information showing that MSF for small businesses in the UK averages approximately 1-1.10% due to a higher acquirer margin above interchange. Some information on average merchant fees in the UK can be found at https://startups.co.uk/payment-processing/credit-card-processing-fees. ANZ also notes that average MSF for contactless debit is lower in NZ, despite both the Australian and UK markets being significantly larger than the NZ market and being able to spread costs over transaction volumes that are many times larger than in NZ and that NZ's smaller market size should also be taken into account when comparing markets. With reference to the following paragraphs in the Issues Paper: 1. Paragraph 70: ANZ has provided unbundled credit and debit rates since 2011. This has provided greater transparency and certainty to merchants, and has had the result of passing through the benefit of lower debit interchange rates to merchants. ANZ's contactless debit maximum MSF for ANZ banked customers was reduced from 0.95% to 0.70%, effective from 1 August 2020. For non-ANZ banked customers the contactless debit maximum MSF reduced from 1.5% to 1.3%, effective from 1 August 2020. 2. Paragraph 71: Transactions with no MSF (domestic EFTPOS and swiped or inserted debit transactions) are still a very material share of transactions in NZ. Therefore, it is ANZ's view, that merchants in NZ receive a substantial cost subsidy in comparison to other markets where MSF are attached to EFTPOS and swiped or inserted debit transactions. The NZ model requires issuing banks to bear the cost of providing EFTPOS and swiped or inserted debit transactions, [redacted] Given Issuing banks today bear this cost, there is also a risk that support for EFTPOS by these banks declines over time in favour of scheme debit and credit which have commercial models attached.

		3. With further reference to paragraph 71: it is ANZ's view that the current free proprietary EFTPOS model limits the attractiveness of wider market and product innovation. Electronic payment methods with MSF have a vehicle for funding the development of new and enhanced capabilities. As EFTPOS does not have a revenue model attached to it, the EFTPOS model has remained largely static since it was first introduced into the market. In particular, the inconvenience of EFTPOS not having contactless capability has been highlighted during the Covid-19 pandemic. From NZ being a global leader in payments when EFTPOS was introduced, we now lag other markets in contactless take-up, despite our average MSF for contactless debit being lower (as noted above). 4. ANZ therefore suggests the current EFTPOS model should be factored into any policy decisions related to the regulation of MSF or interchange. 5. ANZ also notes however, that, even with enhanced functionality the EFTPOS model has inherent limitations that would prevent consumers from using it beyond the NZ (and possible Australian) market. ANZ considers that customer demand for cross-border functionality is very high and is one of the main drivers for the rapid uptake of credit/debit scheme cards by New Zealanders as an alternative to EFTPOS. This may limit future customer demand for EFTPOS. 6. Paragraph 72: BNPL providers independently set and retain 100% of their respective MSF. As discussed at questions 1 and 2, a fulsome review capturing all electronic payment methods would add value to this exercise, and provide valuable context in the assessment of regulation to lower acceptance costs for NZ merchants. 7. Paragraph 73: ANZ notes that the Issues Paper states that the retail payments system is "not performing as well as it could". The NZ market has a higher proportion of electronic transactions and lower proportion of cash than most markets, including the regulated ones cited. NZ's payment market has for a long time been regarded as one of the world's most advanced, with electronic payment utilisation far higher than many other countries. This environment materially lowers acceptance risks and broader costs associated with cash management and has enabled many small businesses to build a global, online presence, building their potential markets and creating new revenue opportunities. It also provides increased security for both merchants and consumers, including comprehensive fraud protections.

4	What is your view on charges incurred by cardholders for the use of payment methods?	With reference to the following paragraphs in the Issues Paper: 1. Paragraph 74: consumers choose payment methods based on a wide range of factors, not just cost. For example, an ability to transact online, by phone or overseas, or the need for the line of credit. Benefits include convenience, fraud protections, security (of not having to hold cash), access to more retailers (especially remote customers able to make purchases online) and access to revolving credit to manage cash flow. 2. Paragraph 75: consumers "self-select" products based on multiple factors, including card benefits such as travel insurance, ability to earn rewards, interest free days, protection against fraud, card fees, or interest rates. Responsible lending and our product suitability programs ensure that customers choose products that are best suited to their needs. ANZ has tools online to assist customers with comparing products' interest rates, fees and benefits. These tools can be found here: https://tools.anz.co.nz/credit-cards/which-credit-card/ and https://tools.anz.co.nz/credit-cards/compare-credit-cards/. 3. Further, ANZ has an ongoing suitability programme to ensure customers are informed about other card options that may meet their needs (for example, informing customers about low interest rate credit cards), and how to reduce their interest costs across all products by repaying in full by the due date. ANZ also provides information on credit cards and how they work online with a series of articles focussed on credit card education, https://www.anz.co.nz/personal/credit-cards/credit-card-education/. 4. With further reference to paragraph 75: ANZ notes that these products also provide significant value to merchants, for example, time and cost savings, ability to sell remotely without having to hold stock in retail premises, access to customers overseas, and reducing cash handling and associated risks. 5. Paragraph 76: as discussed in the response to question 2, Apple Pay and other digital wallet transactions do not add additional costs to merchants as they generally replace contactless card transactions, not dip or swipe as the terminal still needs to be contactless enabled. There are no additional merchant or cardholder fees for these digital wallet transactions. The card issuers carry the costs associated with maintaining the technology required to provide these services. 6. Paragraph 77: ANZ offers both EFTPOS and Scheme Debit options to consumers currently, so they are able to select the product that best meets their needs. ANZ has robust measures in place to ensure customers are able to select the most appropriate product for their needs and has ongoing credit card suitability programmes referenced in point 3 above. [redacted]

5	What impacts do you believe rewards and inducements have on the retail payments system?	Rewards products are offered in response to customer demand and competition Reward credit cards provide value to customers for repeated use, in a similar way to retail loyalty programmes that provide value to consumers and merchants for repeat custom. Reward and loyalty programmes are highly valued within the NZ market, with retailers, loyalty program providers and airlines all competing for customers through programmes and incentives. However, as noted in our response to Question 4, reward programmes are only one factor in a customer decision to select a certain product.
6	What is your view on charges incurred by merchants for the use (acceptance) of payment methods?	ANZ considers that there are costs and value associated with all payment types for both merchants and consumers. For example, scheme payments, for which merchants incur MSF, enable NZ businesses to accept a wide range of payment types, including international and online payments. Further, merchants are able to leverage global research and innovation to deliver improved customer experiences for consumers and businesses. Due to the COVID 19 pandemic, large numbers of merchants enabled contactless acceptance as payment transaction "hygiene" became a key consideration for both merchants and cardholders. Many merchants also benefited from being able to accept transactions online, providing access to a wide network of local and global online customers. Importantly, in NZ, merchants are able to choose the payments methods that they will accept based on benefits, costs and customer demand. Many merchants steer customers to lower cost products by choosing the products that they will accept. A large number of merchants in NZ choose to accept only EFTPOS transactions rather than scheme transactions, [redacted] and many others that accept scheme transactions do not accept contactless transactions, ensuring that all EFTPOS and scheme debit card transactions remain MSF free. As discussed in our response to Question 3, approximately 50% of card-present transactions in NZ (post-Covid lockdown) are either EFTPOS or swiped or inserted debit transactions that do not incur a MSF to the merchant. When taking these transactions into account average MSF across all electronic in NZ is lower than in other regulated markets including Australia. With reference to the following paragraphs in the Issues Paper: 1. Paragraph 80(a): for merchants that accept scheme transactions steering customers to a lower cost card may not be a viable option as customers may not have the alternative. For example, a customer with a platinum card may not have a gold or classic card, and a customer with an overseas issued card may not have a domestic card. Electronic payment products provide significant value to merchants, including time and cost savings, certainty of payment and the ability to sell remotely without having to hold stock in retail premises (including access to customers overseas). Particularly in the case of credit cards, the customer may need to access the credit to make the purchase. In

		this case the alternative for the merchant may be to lose the sale altogether or to accept an even higher cost payment such as BNPL or hire purchase. 2. Paragraph 80(b): As discussed in response to Question 2, surcharging is now common across a number of industries, and continues to grow as POS Terminal capability to automatically surcharge exists and is being enhanced. Merchants that choose not to implement surcharges have made a decision that accepting the sale and associated MSF is preferable to the risk of not making that sale at all or have incorporated the cost of acceptance, along with other costs, in the price of the goods and services being sold. We also note that there are examples where the level of surcharging appears to exceed the merchant's actual MSF. This has resulted in additional costs being borne by consumers, above the cost of supply of card services to the merchants. 3. Paragraph 80(c): ANZ does not issue scheme debit cards in preference to EFTPOS and [redacted] However, scheme debit cards do provide benefits and value to both cardholders and merchants compared with EFTPOS cards. For example, the ability to accept payments online is of significant value to both customers and merchants, and the alternative could be that the sale is not made at all. ANZ understands that the terminal capability to distinguish between card types and charge different levels of surcharge based on the card type is currently in development in NZ. 4. Paragraph 81: ANZ believes that the payment-acquiring market is highly competitive and that the majority of merchants "shop around" to ensure they are provided with a strong acquiring service at an efficient price. There is a growing number of merchants selecting non-bank acquirers and various online gateways. The MSF alone may not be the deciding factor for merchants when choosing their acquiring bank, as broader banking arrangements, customer service, the technical solution and overall cost of banking are further considerations.
7	Please provide your views on barriers to merchants steering consumers to lower cost payment methods and the extent that steering occurs?	ANZ's views on this are captured in the response to question 6, above.
8	Please provide your views on the barriers to merchants surcharging and the extent that surcharging occurs?	ANZ's views on this are captured in the response to question 6, above. ANZ notes that with regard to merchant surcharges, there are examples where the level of surcharging appears to exceed the merchant's actual MSF, which results in additional costs being borne by consumers, above the cost of supply of card services to the merchants. ANZ recommends that surcharging should be limited to the MSF.

9	What is your view of the wealth transfer by merchants passing on MSF in the price of goods and services to all their consumers?	ANZ's view is that MSF are another cost incurred by merchants, such as rent, power, freight and wages that is recovered through the price of goods sold. ANZ considers that use of electronic payment services provides merchants with material offsetting efficiencies and risk benefits (as opposed to cash acceptance only, with its high management cost and risk). Many merchants also choose to recover the cost of certain electronic payments through a surcharge. We note that there are also costs associated with non-card based payment types, such as BNPL products. BNPL fees are charged by the BNPL provider directly to merchants, these fees can be significantly higher than MSF (market commentary indicates merchant fees of up to 5%). ANZ considers that it is reasonably likely other emerging payment types, driven by open banking capability, will also have commercial models attached.
10	What barriers do small businesses face to obtaining competitive MSF?	ANZ's view is that the merchant acquiring market is highly competitive with customers easily able to switch providers. Merchants can change acquirers, terminal providers and networks, with the majority of acquirers (including ANZ) removing or not enforcing long-term contract terms for small business customers. There are many factors that determine the MSF for a business, including: - the payment products that the merchant chooses to accept (for example they can choose EFTPOS only or not to accept contactless debit cards) - the volume of transactions that they accept - the average transaction size - sales channels, e.g. ecommerce - whether they have a low or high proportion of overseas customers - the overall size and nature of their banking relationship ANZ provides a wide range of transparent MSF pricing options to all merchants that enable them to select the pricing option that best suits their business needs. ANZ also notes that generally, small business can attract higher marginal costs due to lower volumes and therefore less ability for suppliers to spread fixed support costs over large volumes. This is similar in most industries. ANZ small merchants receive specialised support and expertise alongside their merchant facilities. However, certain interchange rates could be further reduced to support reducing the overall cost of payment acceptance for small businesses – including reducing Platinum and Commercial credit card rates, and reducing Card Not Present Debit rates. Reductions to these

		rates would assist in lowering the current disparity between transaction types, and further support the increasing number of businesses looking to trade online.
11	What information or assistance would assist small business to obtain better deals?	Following the discussion at Question 10, ANZ considers that assisting small businesses to obtain better deals requires an understanding of their business needs, customer and transaction mix and selecting the best pricing option. ANZ believes that offering unbundled pricing (separating various transaction types) provides transparency to assist customer choice and ensures they are easily able to compare providers. ANZ also provides reference material on our website to help build merchant understanding of how pricing works, so they are able to make informed decisions. This can be found here: https://www.anz.co.nz/business/products-services/merchant-services/merchant-fees-explained/
12	What cost differences are there for providing merchant services to small businesses compared with larger businesses?	ANZ considers that the cost differences lie with the fact that businesses with smaller volumes will face higher processing costs as there is a lower volume of business to spread costs over, and there are fixed costs in terms of providing customer support and service. Furthermore, smaller businesses that accept scheme cards will not benefit from the lower strategic rates that apply to transactions with the very largest merchants. While many interchange rates have reduced in recent years as mentioned in Question 3 (and in particular halving of the average MSF on Scheme debit contactless for small merchants), ANZ supports exploring options to continue to narrow the gap between the interchange rates for smaller businesses compared with larger merchants. This includes reducing Platinum and Commercial credit card rates, and reducing Card Not Present Debit rates. Reductions to these rates would assist in lowering the current disparity between transaction types, and further support the increasing number of businesses looking to trade online.
13	How much competitive discipline does EFTPOS provide on scheme debit card MSF and are there any barriers to domestic EFTPOS providing more competitive discipline on MSF?	One barrier to domestic EFTPOS providing more competitive discipline on MSF is that it does not have a sustainable commercial model which allows it to invest in line with competitor payments methods. This is in contrast to the Australian model, which charges MSF and has developed enhanced capability and now offers contactless acceptance. We note NZ's EFTPOS model cannot currently offer: - contactless acceptance - international payment acceptance - online payments - protection for consumers against fraud - contactless payments via mobile (e.g. ApplePay) - card controls via mobile apps (e.g. block or cancel stolen or missing card)

		- interest free days for credit - other rewards benefiting consumers such as Airpoints and cash back The above list is also expected to grow over time due to continued innovation with scheme products to improve the customer experience. EFTPOS does offer another option for merchants, and provides value in offering merchants the ability to accept free electronic payments. As discussed in question 1, we believe the average merchant in NZ pays less on average per transaction than markets we are commonly compared to such as the UK and Australia, despite NZ's much smaller market size and volume of transactions. As discussed throughout this submission (in particular in response to Question 3), EFTPOS transactions and swiped or inserted debit transactions account for half of all electronic transactions, and so ANZ considers that EFTPOS will continue to provide a degree of competitive pressure in electronic payment methods. However, NZ's unique fee-free EFTPOS service impinges proposition development and acts as a competitive barrier to market development. Global scheme based propositions have materially advanced in parallel with consumer transition to a mobile and online environment. Customers increasingly demand mobile and online payment capability, neither of which EFTPOS can provide as explained above. Following on from the discussion at Question 3, ANZ considers that unless material investment is made to upgrade the functionality of EFTPOS, it is expected that the competitiveness of EFTPOS and its share of transactions in electronic payments, will fall over time. Further, ANZ predicts that merchant payment acceptance options will continue to advance, and ultimately this may lead to the demise of the present POS terminals which are standard in the NZ market – a further factor which may impact the present EFTPOS proposition. We note however that open banking capability may provide of the introduction of next-generation EFTPOS-like solutions. Payments NZ is presently developing recommended open banking standards. With reference to the following paragraphs in the Issues Paper: 1. Paragraph 91: ANZ comments that swiped scheme debit card transactions are effectively EFTPOS transactions. 2. Paragraph 92: ANZ considers that it was not the" joint" ownership of the EFTPOS network that was the key factor limiting its functionality enhancement. Rather, domestic market

		participants have recognised the value of leveraging the material innovation capability of global payment scheme providers – as evidenced in a number of other technology segments. We note that online EFTPOS was developed by Paymark while it was under bank ownership. We also note that it is not ANZ practice to issue scheme debit cards to EFTPOS customers on renewal or re-issue. 3. Paragraph 93: As stated in response to Question 6 a large number of merchants in NZ choose to accept only EFTPOS transactions rather than scheme transactions [redacted] and many others that accept scheme transactions do not accept contactless transactions, which ensures that all EFTPOS and scheme debit card transactions remain MSF free.
14	What impact is product innovation having on MSF?	There is significant competition for card issuance and acquiring/acceptance in NZ beyond just Visa and MasterCard. These include American Express, Diners, UnionPay, WeChat, Alipay, multiple EFTPOS products and private label/store cards. With reference to the following paragraphs in the Issues Paper: 1. Paragraph 95: ANZ questions MBIE's conclusion that "competitive disciplines on interchange fee setting are relatively weak". In ANZ's view, the transition to mobile and online environments is resulting in increased product innovation across the ecosystem. Due to the way EFTPOS was developed and implemented, and it's lack of sustainable commercial model, there has been no product innovation since its introduction in 1987. As discussed at Questions 3 and 13, ANZ's expectation is that future physical card-based innovation is unlikely while EFTPOS's operating model remains free from MSF. 2. For scheme-based products, product innovation has been comprehensive (including development of card controls within mobile apps, mobile payments etc.) – leading to the provision of a very strong, global, digital proposition which continues to progress quickly. In the NZ market, MSF have also progressively reduced in parallel. We believe that these fees will further reduce as innovators reach scale. 3. NZ's open banking environment is in its development phase. As this builds we expect an increased number of entities to enter the payments market. However, recent new entrant activity (in particular noting the emergence of a number of BNPL propositions) has highlighted that this innovation may not result in reduced MSF (immediately or in the medium term). BNPL propositions deliver customers strong digital first propositions which result in merchant acceptance costs materially higher than existing acceptance levels. 4. Paragraph 97: ANZ notes that most (but not all) new payment systems are using scheme infrastructure because of the existing rich functionality and revenue to cover development and ongoing costs, neither of which exist with EFTPOS. In markets where EFTPOS has a revenue stream, such as Australia, enhanced functionality and new products are being developed on the EFTPOS system.

15	Is open banking likely to provide sufficient competitive discipline on scheme debt and credit fees?	In ANZ's view, this is unclear. Globally, open banking (with or without regulated payment elements) is in a development phase. A core opportunity associated with open banking is the potential for "direct to bank account" payments - which could provide an alternative to a scheme based model for certain payment flows. However, payments is a highly complex area requiring scale, significant ongoing investment, an engaged customer and merchant base, a sustainable commercial model and, ideally, global and multi-channel capability (point of sale, online, international ecommerce). In addition, the "unseen" requirement is strong fraud protection and operational resilience. To date, local "direct to bank account" solutions have been unable to build scale and customer / merchant engagement given this complexity and focus on the domestic market. We expect however that as open banking builds globally that alternative, global payment propositions will increasingly present themselves in the NZ market.
16	Do you agree that there is a gap in regulatory governance of the retail payments system relating to promoting competition and outcomes that are in the long term benefits of end-users?	ANZ does not believe there is a gap in governance, but notes there is room for further reduction in interchange within some key categories such as Platinum and Commercial credit cards and Card Not Present Debit. Reductions in these areas could be achieved through undertakings with industry participants. ANZ also notes there is an opportunity to lessen disparity between large and small merchant pricing, and is continuing to explore this currently, further to the reductions merchants have received since 2017, as mentioned in question 3. With reference to the following paragraphs: Paragraph 99: Payments NZ is a rules and governance body with no commercial/pricing mandate. Its mandate was set by the Reserve Bank of New Zealand (**RBNZ**).
17	Please feel free to provide information on any other issues of concern with the performance of the retail payments system.	ANZ notes the Woolard Review, published by the Financial Conduct Authority UK on 2 February 2021. This review notes an urgent need to regulate all BNPL products due to the significant potential consumer harm. ANZ considers that parallels can be drawn between UK and NZ, and a similar gap in regulation of BNPL exists in NZ, both from a CCCFA and payment acceptance perspective.

18	Do you agree with the objectives for the retail payments system in NZ?	ANZ considers that retail payments system pricing should consider the different value provided by various payment methods, and further that regulation methodology should be broad enough to fairly capture all significant payment options sufficiently flexible to cater for new products and channels as they emerge. ANZ supports transparency and fair pricing for all merchants and believes the NZ payment environment should encourage innovation to ensure both NZ consumer and NZ business interests are able to be advanced. It is important to ensure that the objectives and outcomes ensure that an open and commercially sustainable market is maintained.
19	Please provide feedback on the aspects of the proposal for interchange regulation, including any changes that would improve the impact of it, with supporting evidence of any benefits or costs.	ANZ considers that the proposal to only include Mastercard and Visa credit and contactless debit interchange fails to recognise to take account of differences between the NZ market and overseas markets where EFTPOS is either specifically included in the regulations (for example, in Australia) or does not represent a large proportion of transactions, such as in the UK. Failure to take account of EFTPOS and other existing and emerging payment options, such as other schemes and BNPL options is likely to result in unintended consequences and the need to amend the regulations again in the near future. ANZ notes continued development of regulation in Australia to address unintended consequences and extend the scope of regulation. ANZ also notes that for any regulated outcome, cap or limit, there will need to be an economic rationale and methodology for setting the appropriate level of the caps.
20	Please provide feedback on which body or bodies would be best placed to act as the regulator for interchange fee regulation.	ANZ considers that RBNZ is best placed to act as a regulator for interchange fee regulation given its present oversight of key payments infrastructure and processes.
21	Please provide your views on the impacts of the above classes of options, with supporting evidence of the benefits and costs.	ANZ considers that there is a range of options that could support the objectives for the retail payments system and that it would be appropriate to consult on these options at the next stage of consultation.
22	Please provide your views on any other feasible options that should be considered, with supporting evidence of the benefits and costs of these options.	ANZ considers that many of the objectives for the retail payments system could be achieved in a more timely manner through direct discussions and agreement with key participants in the payments system.