



FINANCIAL SERVICES FEDERATION

19 February 2021

Competition & Consumer Policy Team
Building, Resources and Markets
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140
New Zealand

By email to: competition.policy@mbie.govt.nz

Dear Sir/Madam

Re: Issues paper: Regulating to reduce Merchant Service Fees

The Financial Services Federation (“FSF”) is grateful to the Ministry of Business, Innovation & Employment (“MBIE”) for the opportunity to provide this submission on the Issues paper on Regulating to reduce Merchant Service fees on behalf of its members.

By way of background, the FSF is the industry body representing the responsible and ethical finance, leasing, and credit-related insurance providers of New Zealand. We have over sixty members and affiliates providing these products to more than 1.5 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society, and business is attached as Appendix B.

The FSF membership notably contains four entities who are card issuers and they therefore have a keen interest in the regulation of merchant service fees. The FSF’s card issuer members issue credit cards only, so they differ from the larger card schemes which issue both debit and credit options and therefore generate higher revenue from merchant service fees. It is on this basis that the FSF makes the following submission.

In short, the FSF supports the efforts of MBIE in their attempt to support small businesses by regulating merchant service fees. However, upon extensive review of the paper, we have arrived at some issues which we urge MBIE to carefully consider before the next stage of the project is commenced.

Proposed approach to this project

The FSF agrees with the proposed approach to this project. The proposal to carry out a further round of consultation outlining one or more of the options for reform, as stated in paragraph 21 of the Issues paper, will be one in which affected members will wish to participate. The FSF will anticipate the release of an Options paper and the resulting opportunity to submit on this paper. The FSF agrees that an Options paper is an invaluable way to ensure the reform opted for is one which has been highlighted as most beneficial to the majority of interested parties.

However, the FSF would like to note some disappointment that MBIE's initial choice of merchant service fees regulation is certainly the most rigid and stringent choice available. To argue against the proposed idea of rigid regulation: the FSF would like to note the significant work done by financial services, and particularly Non-Bank lenders, at the beginning of the pandemic crisis earlier last year, providing variation of consumer credit contracts to allow for repayment deferrals and further financial assistance in an unforeseen and uncertain period of time.

Non-banks should be strongly acknowledged for all their efforts and the empathy shown towards consumers which was done so without the protection of an exemption in the regulations that the Banks enjoyed so that non-banks bore the full onus of risk and potential illegality. This act of empathy was also expressed by the FSF's card issuer entities, and therefore, further harshly regulating them completely undermines the need for flexibility in the financial sector, bearing in mind the volatility and the unforeseen circumstances that can arise.

The FSF also suggests that it extrinsically appears that many of the decisions regarding whether or not to regulate have already been made prior to the release of the consultation giving the sense that this consultation is merely a formality. Nonetheless, the FSF continues to urge MBIE to consider the issues outlined above and below in this submission as vital in the assessment of the most appropriate options and that whilst aiming to fulfil the Government's commitment to supporting small businesses, this should also include our small domestic card issuers and not just those card issuers that are registered banks.

FSF issuer members' interchange fees and their concerns

As previously stated, FSF members' card issuing schemes are all of the credit card nature. Unlike in overseas jurisdictions, New Zealand card issuers cannot charge fees to make revenue, therefore the interchange fee is disproportionately important to New Zealand issuers. Any further reduction in interchange fees would lead to a greater reliance on interest as revenue which will have negative impacts on the consumer.

This in turn also impacts the development of innovative products and technologies that do not charge interest. Therefore, the FSF submits that the proposed regulated reduction of interchange fees has immensely disproportionate effects on domestic card issuers and consumers, effectively not achieving the Government's principal aim.

It is the larger card schemes which create the largest negative effects on merchants, retailers, and consumers, which has been acknowledged by MBIE in the Issues paper in paragraphs 80 and 85.

The FSF agrees with MBIE that such incentives associated with the larger card schemes can result in a “wealth transfer” and there is difficulty for small businesses to steer consumers away from the use of such cards.

The FSF also agrees with MBIE that such smaller businesses simply do not have the bargaining power required to negotiate with the larger card schemes, or more simply, smaller businesses do not have the resources available to even understand the totality of effects associated with all the different card schemes on the market and their associated incentives.

It is from these realities that the FSF concludes that larger card schemes should be targeted proportionately in MBIE’s options for regulation as opposed to heavy-handed blanket regulation further reducing merchant fees, disproportionately affecting those smaller domestic card issuers who rely on interchange fees as revenue, but who have continued to provide low interchange fees and flexibility in times of crisis.

FSF submits a potential option for reform which would inherently target higher merchant service fees without disproportionately affecting smaller card issuers. This is a surcharge requirement for all merchants. Moves from card issuers to provide unblended and unbundled merchant service fees is an encouraging step towards promoting transparency for consumers and merchants, however, the FSF believes that a merchant surcharge imposed on consumers would initiate total transparency in the consumer realm and would be the most effective avenue of steering consumers into low-cost merchant fee card options.

Merchants would only be passing on the costs that they incur, not the blended costs, and ultimately allowing the “honour all cards” policy to be adopted, giving complete discretion to the consumer to exercise when selecting their card types or card issuers. The FSF does appreciate the system changes and operational costs this option requires; however, we encourage MBIE to consider options of this calibre; total transparency with the consumer, ultimately steering consumers towards a lower merchant service fees options when available.

General comments

Generally, the FSF finds the Issues Paper to be comprehensive and well outlined. The retail payments system is articulated in a clear and concise manner, the “life-cycle” of merchant service fees is also well illustrated.

The FSF wholeheartedly agrees that small businesses have suffered the largest negative implications as a result of the pandemic and recession. As illustrated by the actions of all FSF members during and since the lockdown period they have provided empathetic financial assistance to tens of thousands of consumers and businesses across the country and will

continue to do so. But FSF does not see harsh blanket regulation as the appropriate form of reform. We urge MBIE to consider alternative targeted options for reform in light of this submission.

The FSF's general concern over the introduction of regulation of reduced merchant service fees is in regard to the disproportionate effect this will have on domestic card issuers with potentially less effect on larger card schemes, overseas companies, and other unregulated products. The FSF would again emphasise the consequent concern regarding the potential interest rate increase on credit cards as a result of interchange regulation.

Thank you again for the opportunity to provide the FSF's view on the Issues Paper: Regulating to reduce Merchant Service Fees. We look forward to the opportunity of submitting on further rounds of consultation.

Please do not hesitate to contact me if you wish to discuss the submission any further.

Yours sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and lines, positioned below the text 'Yours sincerely,'.

Diana Yeritsyan
Legal and Policy Manager

Appendix A – FSF Membership List February 2021

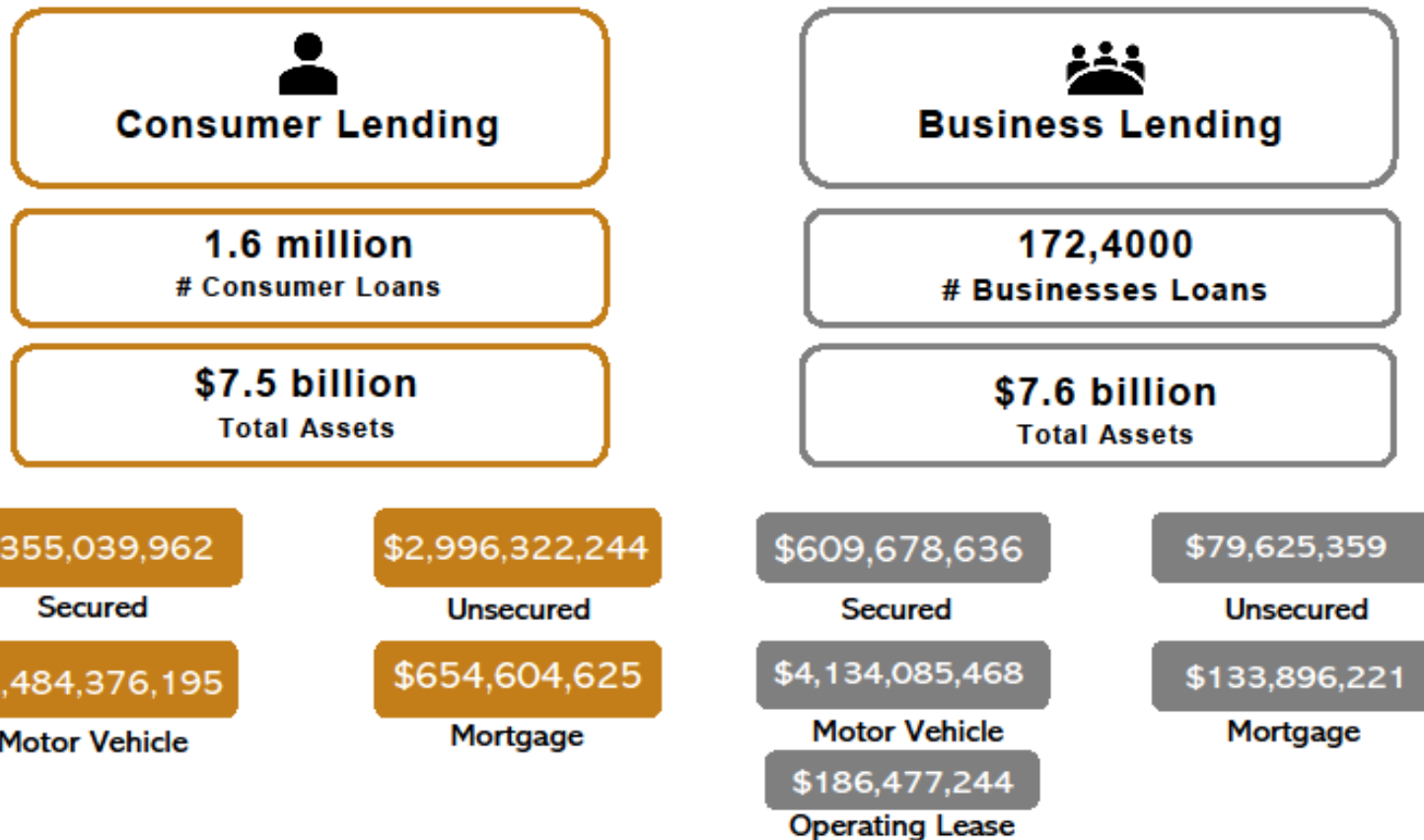
Non-Bank Deposit Takers Leasing Providers	Vehicle Lenders	Finance Company Diversified Lenders	Finance Company Diversified Lenders	Credit-related Insurance Providers	Affiliate Members
<u>Rated</u> Asset Finance (B) <u>Non-Rated</u> Mutual Credit Finance Gold Band Finance ➤ Loan Co <u>Leasing Providers</u> Custom Fleet Fleet Partners NZ Ltd Lease Plan ORIX NZ SG Fleet	AA Finance Limited Auto Finance Direct Limited BMW Financial Services ➤ Mini ➤ Alphaera Financial Services Community Financial Services European Financial Services Go Car Finance Ltd Honda Financial Services Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Toyota Finance NZ Yamaha Motor Finance	Avanti Finance ➤ Branded Financial Caterpillar Financial Services NZ Ltd CentraCorp Finance 2000 Finance Now ➤ The Warehouse Financial Services ➤ Southsure Assurance Future Finance Geneva Finance Home Direct Humm Group Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Metro Finance Pepper NZ Limited Personal Loan Corporation Pioneer Finance Prospa NZ Ltd South Pacific Loans	Speirs Finance Group ➤ Speirs Finance ➤ Speirs Corporate & Leasing ➤ Yogo Fleet Thorn Group Financial Services Ltd Turners Automotive Group ➤ Autosure UDC Finance Limited <u>Credit Reporting & Debt Collection Agencies</u> Baycorp (NZ) ➤ Credit Corp Centrix Collection House Equifax (prev Veda) Illion (prev Dun & Bradstreet (NZ) Limited Intercoll Quadrant Group (NZ) Limited	Protecta Insurance Provident Insurance Corporation Ltd	255 Finance Limited Buddle Findlay Chapman Tripp Experian EY FinTech NZ Finzsoft GreenMount Advisory Happy Prime Consultancy Limited HPD Software Ltd KPMG LexisNexis PWC Simpson Western Total: 65 members

Appendix B



FINANCIAL SERVICES FEDERATION

The Financial Services Federation (FSF) is the association for responsible finance and leasing companies operating in New Zealand. This infographic is a snapshot of our 40 lending members, the membership list can be found at our website www.fsf.org.nz.



FSF lending members data survey period as at 29 February 2020 . Data collected and aggregated by KPMG. Values in NZ\$.