Submission template

Regulating to reduce Merchant Service Fees

Your name and organisation

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[Double click on check boxes, then select 'checked' if you wish to select any of the following.]

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1	Do you have any feedback on our proposed approach to this project?
	N/A
2	Have we described the retail payments system accurately? Is there any additional information that you would like to provide?
	We agree with MBIE's description of the retail payment system.
3	Please provide information on your understanding of the levels of merchant service fees in New Zealand, any trends in relation to those fees, and how they compare to merchant service fees in overseas jurisdictions.
	Based on our experience the level of awareness is low amongst both consumers and businesses, with many businesses not aware of varying charges in detail. As a result, where surcharging is applied it is often not a reflection of the true cost of the payment type. Two key trends in relation to these charges are: • Non-scheme charges becoming more prevalent. • More companies taking a "clip" of the ticket in e-com transactions such as Google, Apple and large integration platforms such as Shopify and Woo Commerce. This applies to interchange and non-scheme merchant service fees equally. The amount these companies take would not be reduced if the New Zealand Government created a cap on the overall amount of interchange. Interchange funds the payment infrastructure, most importantly security. One example is protecting merchants and customer when cards are stolen or lost and then used at a merchant. Typically this results in a chargeback. A chargeback is when a stolen card is used at a merchant and then the issuer is required to refund the money. Without interchange potentially the customer or the merchant would need to cover this cost. In addition, the significant investment made in security would not be possible without interchange.
4	What is your view on charges incurred by cardholders for the use of payment methods?
	In our view it is unavoidable there will be some charge regardless of payment method. This reflects the value exchange to run a payment network and the significant investment required to do so, particularly in making the network secure. We submit that the key issue is the regulation of these changes to allow customer choice and foster innovation, rather than regulation in such a way that allows banks to dominate. We believe it is critical that any charges imposed are clearly articulated to and understood by consumers, so they are able to make a well-informed choice.
5	What impacts do you believe rewards and inducements have on the retail payments system?
	Rewards and inducements are significant factors that determine what payment method a consumer will select. We issue two reward cards, Flight Centre Mastercard and Farmers Mastercard and offer cashbacks which reduce costs of purchases to consumers. The consumer benefits most from this transaction. It is important to note that interchange funds innovation, security investment and reduces the cost to consumers for products.

6	What is your view on charges incurred by merchants for the use (acceptance) of payment methods?
	We believe the market is more competitive that it initially appears, and the competition in the payments industry has grown significantly in the past few years without intervention. We believe this competition could increase further if the government allowed revenue streams other than interchange or interest. We would agree that small merchants are less able to negotiate merchant service fees with issuers.
7	Please provide your views on barriers to merchants steering consumers to lower cost payment methods and the extent that steering occurs?
	Payment choice is dictated by the consumer and increasingly is not rewards driven but rather based on the transparency and overall cost of the payment type. For example, a longer interest free period, or no interest ever, will drive tender type. Credit cards are in decline in New Zealand, not because of the cost of interchange, but because consumers have better options on how to pay. Our experience globally is that consumer will continue to shun interest bearing products, creating a greater dependency by financial organisation on alternative revenue streams such as interchange. In most countries, fees can generate revenue. Our experience in other markets is that customers prefer transparent fees that offer clear value, rather than interest. It is also our view the most common example of steering is where smaller merchants do not offer contactless payments or impose a dollar threshold to use credit.
8	Please provide your views on the barriers to merchants surcharging and the extent that surcharging occurs?
	Surcharging is a complex issue in New Zealand as we do not have the prescriptive regulation in Australia. Our merchant terms and conditions require that merchants do not surcharge without out express written approval. For those merchants, they are required to make the charge and the amount clear to the customer and include information that the surcharge is a payment to the merchant not to humm as the credit provider. We believe that customers should be entitled to make a choice on which payment method they use. This relies on merchants offering to consumers a genuine range of payment methods and clearly stating the charges that apply to each one. These charges must be transparent and relative to the costs incurred.
9	What is your view of the wealth transfer by merchants passing on merchant service fees in the price of goods and services to all their consumers?
	We expressly prohibit this practice in our merchant terms and conditions. We believe that surcharging is a preferred option so that consumers can clearly identify the charge that applies to each different payment method. This kind of wealth transfer also results in consumers choosing payment methods with no charge subsidising consumers using higher cost payment methods.

10	**What barriers do small businesses face to obtaining competitive merchant service fees?**
	There is no doubt that larger merchants can negotiate lower merchant service fees due to the volume they can provide to issuers and acquirers. At humm group we are focussed on providing good customer outcomes and fostering innovation in the consumer credit sector. We also provide commercial products so are in the unique position of wanting to do the best for both our consumer and merchant customers. To are proposing to launch two new Buy Now Pay Later products in 2021: (a) A BNPL product for businesses to allow them to better manage their cashflow and repay in instalments and a lower cost than current offers in market. There is no merchant service fee on this product. We see this as a gap in the New Zealand market and are hopeful that it can support small businesses particularly in the current economic climate. (b) An open loop BNPL product run on Mastercard rails that charges no fees or interest for the base product with no merchant service fees. Without interchange these products would struggle to cover the cost of funding.
11	**What information or assistance would assist small business to obtain better deals?**
	We believe it is important for small businesses to understand the range of products that currently exists and the pros/cons for each method so they can provide a greater range as possible for their customers. We would also encourage MBIE to consider the barriers to innovation our current regulation creates, that is not consistent with other markets.
12	**What cost differences are there for providing merchant services to small businesses compared with larger businesses?**
	None.
13	**How much competitive discipline does EFTPOS provide on scheme debit card merchant service fees and are there any barriers to domestic EFTPOS providing more competitive discipline on merchant service fees?**
	EFTPOS is an outdated technology that does not align to digital wallets, it is not global, is not widely accepted in e-commerce and has no inbuilt fraud or security tools. These are all poor customer experiences. In our view, continuing to benchmark costs against EFTPOS is a significant factor preventing New Zealand from building a truly world class payments system.

14	What impact is product innovation having on merchant service fees?
	In credit payments, with more than 230 competitors in the consumer lending market, there could be the expectation the market would be consumer-centric, and price competitive. This is not the case, as shown by the lack of price competition, and consumer-centric innovation. Instead, competition is more focused on convenience or in the case of credit card, reward schemes. We are only now finally seeing material innovation for non-scheme products and in the increase of BNPL products. We submit the lack of innovation has been driven by: (i) a regulatory framework focused on protecting the status quo; (ii) reliance on interest to generate revenue rather than transparent fees; (iii) lack of investors and capital for New Zealand based fintechs; and (iv) an open banking framework that is controlled by the banking sector.
15	Is open banking likely to provide sufficient competitive discipline on scheme debt and credit fees?
	The banking sector dominates in several ways. Banks have a large share of the personal lending market, driven by their domination of credit cards and a sizable personal loan base. Non-bank lenders such as humm group are also customers of the banks, borrowing funds to lend to customers. Banks, then monitor the risk of their loan through setting indicators such as approval rates, the level of fraud, and bad debts. This creates an element of control over the non-bank sector. The focus for Banks generally is competing for a home loan and deposit customers, which means the interest rates are very competitive. Usually, credit cards and personal loans are upsold/cross-sell products, which allows an opportunity to drive margin. Banks also routinely engage in anti-competitive behaviour such as requiring home loan customers to only hold credit cards with that bank. We believe open banking is critical as it will provide customers the choice to switch between banks and non-bank lenders, and give customers control of their data. Banks currently have the ability to effectively block or dissuade customers from doing so in the following ways: • informing customers that using open banking providers is a breach of their terms and conditions and consequently customers will hold all liability for fraud; • informing customers that the security of their account has been compromised; • changing their APIs so that open banking providers can no longer access customer statements, even with customer consent. Open banking will also allow non-bank lenders to easily comply with income and expense verification requirements while giving customers easy access to credit.
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?
	Yes.

17	Please feel free to provide information on any other issues of concern with the performance of the retail payments system.
	We suggest that a related area requiring review is the regulation of consumer credit fees in New Zealand. Customer focus testing shows a move away from credit cards to no interest products. The only way to derive revenue from BNPL is by interchange (for open loop on scheme rails) or by MSF for closed loop. If the fee regime were revised so that a provider could charge a reasonable and transparent (and regulated) fee for customers to choose between interest, indirect payment of interchange through rewards, indirect payment of an MSF through surcharging and a more transparent fee – we believe this would be beneficial to customers as they then will receive the full range of choice. Overseas, nonbanks favour reasonable and transparent fees over interest with consumer lending, as do consumers based on high take up rates (for example Klarna, Monzo, Transferwise or Bankmobile). There is no doubt customers are moving away from credit cards and payment of interest and towards BNPL products. Merchant service fees must be regulated in such a way that BNPL products can not only continue to be viable but also develop and adapt to provide best possible customer outcomes. Our BNPL products are app based so customers can see at any time how much they are spending, with built in budget tools and easy to view transactions with categories. BNPL products also provide more real-time analysis and monitoring of customer spending and repayment behaviour so we are able to pick up changes in this behaviour more quickly.
18	Do you agree with the objectives for the retail payments system in New Zealand?
	Yes.
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.
	As a non-bank lender. we need to be able to compete in such areas as offering reward points. We are unable to treat our products as "loss leaders" as banks have the ability to do. Revenue we collect in interchange fees helps us fund customer benefits, innovation and ultimately better customer outcomes through more secure products, better customer experience and lower costs – as evident in the new products we are bringing to market. If interchange fees are lowered significantly, we would not be able to offer the current benefits we do to customers or these new products. It would also no longer be viable to offer our open-loop BNPL product as we do not charge fees or interest on this product. Both results will less competition, product innovation and disadvantage customers. If interchange fees are regulated non-bank lenders will lose revenue which will affect the viability of some products (for example our open loop BNLP product). We cannot charge other credit fees as these must only be used for transaction specific cost recovery, which is something we take very seriously in our fee justification process. Banks however have considerably more scope to replicate these lost fees in several other ways. Ultimately this will significantly reduce the competition in the sector, reducing innovation and creating poorer customer outcomes.

20	Please provide feedback on which body or bodies would be best placed to act as the regulator for interchange fee regulation.
	No response provided.
21	Please provide your views on the impacts of the above classes of options, with supporting evidence of the benefits and costs.
	We support the capping of interchange fees based on classes of merchants. Bigger merchants get better rates for being able to provide more volume.
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.
	No response provided.