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Some information has been withheld for the reasons of commercial information and constitutional conventions.

Competition analysis of banning card surcharges

A report for the Ministry of Business, Innovation & Employment

23 May 2025

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Glossary

Term	Definition
APIs	Application programming interfaces (APIs) are secure digital connections. They allow different systems – such as banks, fintechs, or payment platforms – to share data or services, enabling functions like account information sharing, payment initiation or identity verification between trusted parties in a standardised way.
A2A	Account-to-Account (A2A) is a method of transferring funds directly from one bank account to another without using card networks. These payments are typically processed through real-time payment systems or direct debit arrangements.
Acquirer/ Acquiring bank	The financial institution that processes scheme card transactions (such as Visa or Mastercard) on behalf of merchants and settles the proceeds into their accounts. The acquiring bank receives funds from the issuing bank, less the applicable interchange fee, and may also provide related services such as chargeback management and fraud monitoring.
BIN	A Bank Identification Number (BIN) is the first six to eight digits of a payment card number that identify the issuing bank or financial institution. The BIN helps route transactions to the correct card issuer and is used for authorisation, fraud prevention and other functions.
BNPL	Buy Now, Pay Later (BNPL) is A payment option that allows consumers to purchase goods or services immediately and pay for them in instalments over time, often interest-free. BNPL services are typically offered at the point of sale and are facilitated by third-party providers rather than traditional banks.
Cardholder/ Consumer	Buys goods and services from merchants in exchange for payment.
Card scheme	A network that sets the rules and technical standards for processing card payments. Card schemes, such as Visa or Mastercard, enable transactions between cardholders, merchants, banks and payment processors by facilitating authorisation, clearing and settlement.
Contactless transaction/payment	Any transaction made using contactless technology (such as Visa PayWave and Mastercard PayPass) where the customer is in the same physical location as the merchant.
EFTPOS	EFTPOS (Electronic Funds Transfer at Point of Sale) is a payment system that allows cardholders to pay directly from their bank account for goods and services using a debit card and PIN. Transactions are authorised and settled through domestic banking networks and can only be used for in-person payments.
Fintechs	Financial technologies companies (fintechs) use technology to offer innovative financial products or services. Fintechs operate across areas such as payments, lending, investing, and personal finance, often providing alternatives to traditional banks and financial institutions.
Interchange fee	A fee paid by the merchant's bank to the cardholder's bank each time a scheme card transaction occurs. Set by the card schemes, interchange fees are typically passed on to merchants as part of their payment processing costs.
Issuer/ Issuing bank	The financial institution that provides payment cards to consumers and manages their associated accounts. The issuing bank authorises transactions, bills the cardholder, and receives interchange fees when scheme cards (such as Visa or Mastercard) are used.

Merchant	A party that provides goods and services in return for payment. Can include retailers, wholesalers, utilities companies and central and local government.
Merchant service fee	The fee charged to a merchant by its acquiring bank for processing card payments. This fee typically includes the interchange fee, scheme fees charged by the card networks, and the acquirer's own margin. It is usually expressed as a percentage of the transaction value.
Mobile wallet	A digital application on a smartphone or other mobile device that stores payment card details and allows users to make electronic payments. Mobile wallets use technologies such as NFC to enable contactless transactions and may also support online payments, peer-to-peer transfers and the storage of loyalty cards or tickets.
NFC	Near field communication (NFC) is a short-range wireless technology that enables contactless payments by allowing a payment card, smartphone, or wearable device to communicate with a payment terminal when held nearby. In banking, NFC is used to facilitate fast and secure in-person transactions using digital wallets or contactless cards.
Scheme debit card	A type of debit card that is issued under a global card scheme such as Visa or Mastercard. Scheme debit cards allow users to make purchases using funds from their bank account and can be used for both in-person and online transactions, normally processed through the same networks as credit cards.
Scheme credit card	A credit card issued under a global card scheme such as Visa or Mastercard. It allows the cardholder to borrow funds up to a set limit to pay for goods or services, with transactions processed through the scheme's network and repaid at a later date, typically with interest if not paid in full.
Steering	A practice used by merchants to encourage customers to choose certain payment methods over others – typically those with lower acceptance costs. Steering can take various forms, such as applying surcharges, offering discounts or providing verbal prompts at checkout.
Surcharge	An additional fee applied by a merchant to certain payment methods — typically credit or scheme debit cards – to recover the cost of accepting those payments. Surcharges are intended to signal the higher processing fees associated with specific card types and are usually added at the point of sale or checkout.
Switch	A technology platform that routes payment instructions between parties in a transaction, such as between a merchant's bank and a cardholder's bank. Switches ensure that payment messages are securely and accurately transmitted, enabling authorisation, clearing, and settlement. They are a core part of the infrastructure that supports electronic payments.

Executive summary

This report has been prepared by Axiom Economics (Axiom) for the Ministry of Business, Innovation and Employment (MBIE). It examines the potential competition effects of a ban on payment card surcharging in New Zealand, along with the associated high-level costs and benefits. The focus is on competition in the payments system, the banking sector, retail markets for goods and services and on the overall consumer experience.

Full ban – baseline scenario

Summary of key findings

Although banning surcharges would shield consumers from additional charges at the point of sale, that protection would likely come at the cost of reduced competition and innovation in both the payments and banking sectors. It risks constraining opportunities for new providers to enter or expand, while entrenching the market positions of incumbent networks – namely, Visa and Mastercard. There therefore is a strong possibility that the long-term costs of banning surcharges would outweigh the benefits in the baseline scenario.

In the baseline scenario, it is assumed that surcharging is banned across all Visa and Mastercard credit and scheme debit payments (excluding domestic prepaid), for both online and in-person transactions.[1] It is also assumed that current regulated interchange fee caps remain in place.[2] Banning surcharges would generate several real and immediate benefits. The key advantages would include:

- **Clearer pricing at checkout**: Customers would know the full cost of what they were buying before reaching the point of payment. This would make it easier to compare prices across retailers – whether in person or online – and could support more informed consumer decisions.
- **An end to drip pricing**: Surcharges would no longer appear only at the final stage of a transaction, after the customer had already committed time and effort. That would reduce the risk of people being misled and improve the overall checkout experience – especially in online settings.
- **Removal of excess surcharges**: Current surcharge levels often exceed the actual cost of acceptance. The Commission estimates that merchants may be recovering up to $65 million more than necessary each year. A ban would eliminate all of that over-recovery.
- **Simpler rules and enforcement**: A blanket ban would be easier to apply than surcharge caps or carve-outs, which can introduce grey areas and compliance costs. It would also be clearer for customers and merchants alike.

1 Unless stated otherwise, there is no distinction between the treatment of domestic- and foreign-issued cards.

2 A summary table showing current interchange fees and the reductions proposed in the Commerce Commission's draft decision (released in December) is provided in Appendix A.

- **Consistency with overseas practice**: Surcharges have already been banned - either fully or in part – in countries like the UK, the EU, India, and the US. While conditions differ, New Zealand would not be alone in adopting such a policy.

However, these benefits would come with potentially significant costs. Most stem from removing the only practical tool merchants currently possess to influence how their customers pay – taking away an important check on the pricing behaviour of Visa and Mastercard. The resulting implications for competition and innovation could be substantial:

- **No ability to steer customers**: Without surcharges, merchants would be unable to encourage customers to use cheaper options like EFTPOS or 'account-to-account' (A2A) platforms. Signs and prompts are unlikely to be nearly as effective, and few merchants would refuse to accept Visa or Mastercard outright.
- **Stronger position for the card schemes**: Visa and Mastercard would gain from increased card usage and reduced competitive pressure. Their already strong positions in the payments system would become more entrenched.
- **Faster decline of EFTPOS**: The domestic EFTPOS network is already in retreat. Removing the one remaining advantage – cost – would likely accelerate its decline and bring forward the costs of decommissioning the system.
- **Weaker prospects for emerging payment options**: Newer services like A2A rely on their lower costs as a way to win customers. A ban would take that advantage away just as these providers are beginning to get traction. In other countries where surcharges were banned these providers were more established.
- **Higher prices for everyone**: Instead of being paid by those using more expensive cards, the costs of acceptance would be spread across all customers. That would mean higher retail prices, with poorer consumers – who are less likely to use credit cards – paying more to fund the rewards enjoyed by wealthier households.
- **Greater pressure on small businesses**: Larger merchants can often absorb payment costs. Smaller operators, especially in competitive, low-margin sectors, are more dependent on surcharges to cover those fees. A ban would remove that option and may weaken their position relative to bigger competitors.

Consequently, while banning surcharges would shield consumers from additional charges at the point of sale – including excessive surcharges – and result in a greater degree of pricing transparency, that protection would likely come at the cost of:

- **Reduced competition and innovation in both the payments and banking sectors**. It risks constraining opportunities for new providers to enter or expand, while entrenching the market positions of Visa and Mastercard; and
- **Reduced retail competition from smaller merchants** who are more likely to be surcharging at present, and **higher overall retail prices** that would have a regressive impact upon less affluent consumers.

These effects are likely to intensify over time. The consequences may not simply involve a shift in market shares, but a more fundamental narrowing of options for

consumers and businesses. On balance, there is a strong possibility that the long-term costs of fully banning surcharges would outweigh the benefits – at least under the baseline scenario.

Full ban – draft decision scenario

Summary of key findings

Substantially reducing regulated interchange fee caps before banning surcharges could soften some of the competitive concerns noted above. For instance, it would reduce the need for merchants – including smaller retailers – to surcharge in the first place. But it would amplify other effects. The cost advantage of alternatives to Visa and Mastercard would shrink, further weakening their competitive position. Smaller banks and emerging fintechs could also be worse off than in the baseline scenario. Therefore, it is not clear that banning surcharges once interchange fees had already been cut would lead to better outcomes overall.

The Commission's draft decision would reduce interchange fees across a wide range of credit and scheme debit card transactions. The proposed cuts would have far-reaching implications for all major participants in the payments system. The most immediate impacts would include the following:

- **Merchants would face lower costs to accept cards**: One of the most immediate effects of the draft decision would be a significant reduction in merchant service fees, driven by lower interchange outflows. These savings would vary depending on commercial arrangements but are likely to be most pronounced for smaller businesses, which typically face higher effective rates and have less bargaining power than large retailers.
- **Surcharges would likely fall**: With lower costs, many merchants might reduce or remove their surcharges. Past experience suggests they tend to respond to major, system-wide changes – such as the initial introduction of interchange caps or the expiry of Covid-era fee waivers – and the draft decision would send a similarly strong signal. While these practices would remain blunt and imperfect, such adjustments could bring surcharges closer to net cost and help reduce current levels of over-recovery.
- **Credit and scheme debit cards would become more attractive to use**: Although cardholders may see fewer rewards – given that issuing banks would have less interchange revenue to fund them – the effective cost of using a credit or scheme debit card, or mobile wallet, would fall. With fewer merchants applying surcharges, or applying them at lower rates, usage would likely increase – particularly for contactless transactions.
- **Alternative payment methods would become less competitive**: As scheme cards become cheaper to use and accept, other options would likely lose ground. EFTPOS would no longer offer a clear price advantage and could fall further out of favour. Emerging providers – particularly A2A services – would also be affected. Their cost advantage would shrink, giving merchants less incentive to

support them and consumers less reason to switch, particularly if the difference in price signals is no longer as stark.

- **Issuers would be materially worse off**: Interchange revenue would fall by an estimated $260 million per year. While larger banks may be able to offset this loss through other revenue streams, smaller issuers and fintechs may be more exposed. Some fintechs currently rely on card issuance as a commercial foothold and a pathway into broader financial services. If that model becomes less viable, their long-term prospects – and the competitive pressure they place on incumbents – could be diminished.
- **Price transparency might improve, but some problems would remain**: Lower and less frequent surcharges would narrow the gap between displayed and final prices, making costs more visible to consumers and potentially reducing confusion at checkout. However, until surcharges were eliminated, some level of price ambiguity would remain – particularly in online environments where late-stage disclosure and drip pricing are often seen.

In some cases, the cumulative effect of these factors would soften some of the competitive concerns associated with fully banning surcharges. In others, they may intensify them. Relative to the baseline scenario, the key incremental impacts are likely to include the following:

- **Competition in payments:** Alternative payment instruments such as EFTPOS and A2A platforms may be in a slightly weaker position overall since merchants would have even less incentive to accept them, or to use 'non-surcharging' methods such as signage and verbal prompts to steer customers towards them. But the overall competitive position would be broadly similar to the baseline.
- **Competition in banking:** Smaller banks and fintechs could be especially adversely impacted by the loss in interchange revenue that would follow cuts to interchange fees. The combined effect of this initial revenue loss and the ban might well leave those smaller participants in a significantly weaker position than in the baseline scenario.
- **Competition in retail:** Lower interchange fees would reduce the need for merchants – including smaller merchants – to surcharge in the first place. This can be expected to result in surcharges being applied less frequently and at lower rates. This would soften the impact of any subsequent ban, including the magnitude of any headline retail price increases.
- **Consumer experience:** Reducing regulated interchange fees might slightly improve price transparency by reducing the frequency and size of surcharges, narrowing the gap between displayed and final prices. The ban would then eliminate remaining price opacity and drip-pricing, making prices fully transparent and comparable.

As with the baseline scenario, it is unclear whether the benefits of a surcharge ban – once layered on top of the draft decision – would outweigh the costs overall. There remains a significant risk that they would not. It is also unclear whether the overall outcome would be better or worse than under the baseline. That would depend on the relative magnitude of the offsetting effects.

Sensitivity analysis

Summary of key findings

Limiting a surcharge ban to certain card types or payment channels could alter the competitive dynamics described in the previous scenarios. While the specific effects would vary, one conclusion remains consistent: in no case is it clear that the benefits would outweigh the costs. The greatest concern with every variety of ban is that it could entrench the positions of incumbent providers in payment systems and banking – just as open banking reforms might otherwise create opportunities for more competition and innovation. In short, every type of ban considered carries a material risk of leaving consumers worse off overall.

This report also explores several variations on the 'full' surcharging ban considered above. Specifically, it considers how the 'baseline' and 'draft decision' scenarios described above might change if the ban were limited to scheme-debit cards only, or to all in-person payments. The merits of banning surcharges on foreign-issued cards are also separately examined.

Limited to scheme-debit – baseline scenario

If surcharges were banned only on scheme debit transactions, with current interchange fees left in place, some outcomes would differ from the 'full ban baseline scenario' described above. The likely impacts across the key focus areas would be as follows:

- **Practical implementation**: Implementing a debit-only ban would require system updates and configuration changes that some merchants – especially smaller ones- may not complete reliably. As a result, compliance could be uneven, reducing the policy's effectiveness and increasing the risk of legal breaches and customer dissatisfaction.
- **Competition in payments**: Most of the spending that would otherwise shift away from EFTPOS and other low-cost options under a full ban would still do so – but almost entirely toward scheme debit. Competing providers would likely remain in much the same weakened positions as under a full ban.
- **Competition in banking**: A larger share of card turnover would attract the lower debit interchange fee, reducing the average margin earned by issuing banks relative to a full ban. That reduction would fall more heavily on smaller, credit-focused institutions than on the major banks, which already issue most debit cards.
- **Competition in retail**: Debit surcharges would end, reducing the risk of overcharging low-cost payments. Credit card surcharges would remain, so price signals would still be distorted. Smaller merchants could still recover some costs, leaving them slightly better off than under a full ban. Retail prices would likely rise, but less so, with weaker regressive effects.
- **Consumer experience**: Drip pricing on credit cards would likely persist in online settings, but the presence of a surcharge-free alternative in scheme debit

could help curb the worst excesses. However, overall price transparency would remain lower than under a full ban and the inconsistent treatment of card types could still create consumer confusion.

Overall, it is unclear whether a debit-only ban would lead to better outcomes than a full prohibition under current interchange fee policy settings. There is also no firm basis for concluding that it would offer a net improvement over the status quo – and a material risk that it would not.

Limited to scheme-debit – draft decision scenario

Banning scheme debit surcharges in a post–draft decision environment would often have smaller *marginal* effects than under the 'scheme-debit baseline scenario'. However, that is largely because many of the competitive and commercial shifts would already have occurred. In some cases, the overall outcomes could still be less favourable. The chief impacts are likely to include the following:

- **Practical implementation**: Identical to those described above – a debit-only ban would require system updates and configuration changes that some merchants – especially smaller ones – may not complete reliably. Consequently, compliance could be uneven, reducing the policy's effectiveness and increasing the risk of legal breaches and customer dissatisfaction.
- **Competition in payments:** Competing payment providers such as EFTPOS and A2A may already have been placed at a disadvantage by lower interchange fees and the resulting reduction in price signals. The marginal impact of the surcharge ban could therefore be smaller than previously – but only because the competitive position of those providers had already weakened. The competitive position of those alternative payment instruments would probably be slightly worse than in the 'scheme-debit baseline scenario', overall.
- **Competition in banking:** Banks and other issuers would already be earning less from card transactions if the draft decision had taken effect. A debit-only surcharge ban could lead to increased scheme debit usage, particularly if it drew customers away from lower-cost alternatives. That shift might generate some additional interchange revenue. However, with materially lower fee levels than under the baseline, any gains would be more modest – and smaller issuers that rely more heavily on interchange could be worse off overall.
- **Competition in retail:** Merchants would face lower underlying card-acceptance costs if the draft decision was implemented. That could reduce the need to apply surcharges given the narrower gap between credit and debit acceptance costs. Some merchants might benefit overall from lower merchant service fees, while others could lose more from reducing or removing their surcharges than they gain from the fee savings.
- **Consumer experience:** Surcharges would likely be less frequent and smaller, and removing them on scheme debit cards may slightly improve price transparency. However, credit card surcharges would remain, and compliance is unlikely to be universal. The overall impact on transparency would be partial and uneven, and much the same as in the 'scheme-debit baseline scenario'.

In sum, it is unclear whether a debit-only surcharge ban would perform any better if it were preceded by a significant reduction in interchange fees. In many cases, the overall outcome could be marginally worse than under the 'scheme debit baseline scenario'. There is also no strong reason to believe such a ban would deliver a clear improvement over the current arrangements.

Limited to in-person – baseline scenario

Limiting the ban on surcharging to in-person Visa and Mastercard transactions would produce materially different effects from a full prohibition. Relative to the 'full ban baseline scenario' described above, the principal impacts on competition and the overall customer experience are likely to include the following:

- **Practical implementation:** An in-person ban would pose no more practical implementation challenges than a full ban, because the distinction between in-person and online transactions is already embedded in how payments are processed and priced.
- **Competition in payments**: EFTPOS would be affected in the same way as under a full ban, since it cannot be used online. Scheme cards would become more attractive in in-person retail, but their position would strengthen less than if surcharges were removed online as well. A2A providers would face the same disadvantages in-store but retain more opportunity to compete in e-commerce.
- **Competition in banking**: The shift in interchange revenue toward major banks would be smaller than under a full ban. Newer providers and smaller banks may therefore be less impacted than under a full ban. A2A-based entrants could retain a foothold in e-commerce but would still face barriers expanding into physical retail.
- **Competition in retail**: The outcome for bricks-and-mortar merchants would be the same as under a full ban. Online retailers could continue to surcharge, which would give smaller merchants with an online presence more flexibility than a full ban would allow. Some above-cost surcharges – particularly from drip pricing – would remain. The difference in treatment between sales channels may prompt some merchants to steer more transactions online.
- **Consumer experience**: In-store outcomes would mirror those under a full ban, with improved price transparency and the removal of point-of-sale surcharges. Online, however, drip pricing would continue, and the inconsistent treatment across channels could reduce clarity and cause confusion for some consumers.

On balance, it is not obvious a channel-specific ban would lead to better outcomes than a full prohibition under current interchange fee policy settings. There is also no reason to be confident that it would represent a material improvement over the current circumstances, where surcharging is permitted.

Limited to in-person – draft decision scenario

If an in-person surcharging ban were implemented alongside the draft interchange caps, the incremental effects would likely be more muted than under the 'in-person

baseline scenario'. This is primarily because many of the competitive and commercial shifts would already have occurred. Even so, the combined outcome could still be less favourable overall. The key impacts could include the following:

- **Practical implementation:** Identical to the 'in-person baseline scenario'. An in-person ban would pose no more practical implementation challenges than a full ban, since the distinction between in-person and online transactions is already embedded in how payments are processed and priced.
- **Competition in payments:** Competing payment providers such as EFTPOS and A2A would already have been disadvantaged by the reduction in interchange fees. The marginal impact of the ban may therefore be smaller than under the 'in-person baseline scenario' – but only because the competitive position of those providers had already weakened. Overall, the main difference is that A2A providers would find it more difficult to gain traction online, since the reduction in interchange fee caps would erode the cost advantage on which they rely.
- **Competition in banking:** The incremental impact of banning in-person surcharges would be smaller than under the 'in-person baseline scenario', since the main shift in competitive position may have already occurred. However, the combined effect of lower interchange fees and the surcharge ban could still be more adverse for banking competition than the baseline, particularly for smaller banks and new entrants.
- **Competition in retail:** The impact on retailers might be less adverse than under the 'in-person baseline scenario', given the reduced cost burden following the fall in regulated interchange fees. This would ease the pressure to raise headline prices or absorb unrecovered costs and could help moderate the regressive effects identified previously.
- **Consumer experience:** The effects would be similar to the 'in-person baseline scenario'. Banning surcharges in-store would improve price transparency in that channel but leave surcharges in place online. This inconsistency could create a new source of opacity and confusion for customers, particularly where the same card is treated differently depending on where it is used.

Overall, it is unclear whether banning in-person surcharges on top of lower interchange fees would lead to better outcomes. In some cases, the combined effects could be more harmful than under the baseline. There is also little reason to expect that such a ban would deliver noticeable improvements over the status quo.

Foreign-issued cards

Banning surcharges on foreign-issued cards would raise distinct issues of feasibility and impact. The affected consumers would be international visitors, and the relevant costs, incentives and competitive dynamics differ from those in earlier scenarios. The principal effects would be the following:

- **Practical implementation:** Technically straightforward but may not be implemented consistently. While most major payment providers support the ability to identify foreign-issued cards, few merchants use this functionality. Some would require assistance to configure their systems correctly, and some

may choose to abandon surcharging altogether to avoid the complexity. In practice, inconsistent application would be a significant risk.

- **Competition in payments:** Minimal impact. Foreign-issued cards do not compete with domestic payment instruments and banning – or permitting – surcharges on them would not materially affect the competitive dynamics between rival payment instruments. The Commission's draft proposal to cap interchange fees on foreign cards would not change that assessment.
- **Competition in banking:** No material effect. Domestic issuers and acquirers derive most of their revenue from domestic card transactions. Foreign-issued card volumes are smaller by comparison and concentrated in a few sectors. Changes to their treatment would be unlikely to meaningfully alter the competitive position of any bank – irrespective of the level of regulated interchange fees.
- **Competition in retail:** Modest and largely sector-specific. Surcharges on foreign-issued cards help some merchants recover higher acceptance costs. Without them, those costs may be passed on to all customers. Even so, accepting foreign cards may remain commercially preferable to handling cash. The Commission's proposed interchange caps would reduce, but not eliminate, the commercial value of surcharging.
- **Consumer experience:** Only international visitors would be affected. A ban might improve their experience by reducing unexpected charges at checkout. However, if implementation is inconsistent, the result could be confusion rather than clarity. These interactions may shape broader perceptions of New Zealand and carry reputational implications, particularly in tourism-facing sectors.

In sum, implementing any ban that involved treating foreign-issued cards differently to domestic cards could present non-trivial implementation challenges. By and large, the competitive effects would likely be relatively modest. However, it is also unclear whether the overall benefits would outweigh the costs.

Conclusion

New Zealand's current surcharging practices are far from ideal. Surcharges frequently frustrate customers, complicate reliable price comparison and enable online drip-pricing. Merchants almost always apply a single percentage rate across all Visa and Mastercard products, despite wide differences in underlying acceptance costs – and many of those rates materially exceed actual net costs. This flat-rate approach consequently weakens the price signals that surcharging was originally intended to provide.

A complete ban would address these issues by delivering a single, all-inclusive price and eliminating excessive or misleading fees. However, those benefits would come at substantial cost. Removing surcharges would eliminate the only practical mechanism merchants have to steer customers toward lower-cost payment methods – however imperfectly. Visa and Mastercard would face reduced competitive pressure, the domestic EFTPOS network would lose its remaining cost advantage,

and emerging A2A services would find it harder to scale. Smaller banks and fintechs that rely on interchange revenue or low-cost channels to compete with the major banks would also be disadvantaged.

Adjusting the scope of a ban could alter the scale – but not the direction – of these effects. Limiting the prohibition to in-person payments would retain price signals online, moderating some impacts on payment-system and banking competition. A debit-only ban would allow merchants to continue recovering the higher cost of credit cards, reducing pressure on retailers. However, as Table ES.1 shows, each variant amplifies other drawbacks, e.g., an in-person ban leaves online drip-pricing untouched, while a debit-only ban creates inconsistent price signals for customers and adds operational complexity that smaller merchants may struggle to manage.

Consequently, although the present regime is clearly flawed, none of the options examined in this report would represent a clear improvement. Each carries a material risk of reinforcing the market position of the major card schemes at a time when open banking could otherwise expand opportunities for new and emerging competitors. Whether any version of a ban would leave consumers better off overall remains uncertain.

Table ES.1: Summary of competitive effects

Scenario	Implementation	Competition in payments	Competition in banking	Competition in retail	Consumer experience
Status quo: Surcharging permitted	Not applicable	Visa and Mastercard strongly placed; domestics EFTPOS in decline; A2A platforms have sufficient 'headroom' to compete – especially with open banking reforms imminent	Major banks have significant competitive advantages over smaller banks and fintechs	Smaller merchants pay higher fees and are more likely to apply surcharges than larger retailers	Surcharges reduce checkout transparency and enable online drip pricing, but are only levied on those using more expensive payment instruments
Scenario 1: Full ban – baseline	Simple to apply; a blanket ban avoids grey areas **Would involve some implementation costs**	Disadvantages EFTPOS and A2A; strengthens Visa and Mastercard **Potentially significant lessening of competition relative to status quo**	Favours major banks; disadvantages smaller banks and fintechs **Potentially significant lessening of competition relative to status quo**	Removes cost-recovery option for small merchants; prices likely to rise with regressive impacts **Potentially significant lessening of competition relative to status quo**	Greater price transparency and consistency; no drip pricing; but higher headline prices **Potentially a slight improvement in the overall consumer experience**
Scenario 2: Full ban – draft decision	Simple; builds on anticipated merchant adjustments post draft decision **Not materially different from scenario 1**	Further weakens alternatives by reducing 'headroom' to compete; Visa and Mastercard face even less competition **Likely to be materially worse than scenario 1**	Interchange could hit smaller banks and fintechs hardest **Likely to be materially worse than scenario 1**	Ban has less incremental impact on smaller retailers; headline prices likely to rise less than under the baseline **Potentially significantly better outcome than scenario 1, but likely worse than the status quo**	Lower interchange improves things slightly in the interim, then full ban produces same overall outcome as baseline **No material difference to scenario 1**
Scenario 3: Debit-only - baseline	Harder to implement than a full ban; merchant compliance may be patchy **More difficult to implement than scenario 1**	Spending likely to move towards scheme debit; competing providers remain disadvantaged **Not materially different from scenario 1**	Margins likely to fall most for credit-focussed issuers; position of major banks may strengthen **Likely broadly similar to scenario 1**	Merchants can still recover some costs via credit surcharges – headline prices rise less than under a full ban **Slightly better outcome than scenario 1, but likely worse than the status quo**	Some transparency gains, but new sources of confusion also introduced; debit ban helps with online drip pricing **Less checkout transparency than under scenario 1**

Scenario	Implementation	Competition in payments	Competition in banking	Competition in retail	Consumer experience
Scenario 4: Debit-only – draft decision	Same challenges as baseline; harder to implement consistently **More difficult to implement than scenario 2**	Further weakens alternatives; Visa and Mastercard face even less competition **Not materially different from scenario 2**	Smaller issuers likely to be disadvantaged; more usage shifts to low-margin debit **Likely broadly similar to scenario 2**	Interchange fee cuts ease cost burden on merchants, headline prices rise by less; overall impacts vary by retailer type **Maybe slightly better outcome than scenario 2, but likely worse than the status quo**	Lower interchange improves things slightly in the interim, then ban produces same overall outcome as baseline **Less checkout transparency than under scenario 2**
Scenario 5: In-person only – baseline	Straightforward to implement, since in-person vs online distinction already built in **Broadly similar to scenario 1**	Same outcome as a full ban for EFTPOS; A2A retains some scope to compete online. **Likely to be materially better than scenario 1, but still worse than status quo**	Less impact than a full ban; online focussed providers less affected **Likely to be materially better than scenario 1, but still worse than status quo**	No material difference to a full ban for in-person sellers; Online merchants retain ability to surcharge **Maybe slightly better than scenario 1, but likely worse than the status quo**	Mixed effects on overall price transparency; online drip pricing continues **Less price transparency than scenario 1, but may be slightly superior to status quo overall**
Scenario 6: In-person only – draft decision	Same as baseline – no extra implementation issues **Broadly similar to scenario 2**	Further weakens A2A relative to baseline by reducing its ability to compete online **Likely to be materially worse than scenario 5**	Combined effects still favour major banks **Likely broadly similar to scenario 5**	Interchange fee cuts ease cost burden on merchants; headline prices rise by less **Maybe slightly better than scenario 5, but likely worse than the status quo**	Lower interchange improves things slightly in the interim, then ban produces same overall outcome as baseline **Less price transparency than scenario 1, but may be slightly superior to status quo overall**
Scenario 7: Foreign-issued cards	Technically feasible, but inconsistent use likely **More difficult to implement than scenario 1**	No significant impact; foreign cards not competing domestically **Not materially different from the status quo**	No significant effect; limited exposure to foreign card fees **Not materially different from the status quo**	Some merchant sectors that are 'tourist facing' affected **Not materially different from the status quo**	Ban might improve overall visitor experience **Maybe a slight improvement on the status quo for tourists**

1. Introduction

This report has been prepared by Axiom Economics (Axiom) for the Ministry of Business, Innovation and Employment (MBIE). It examines the potential competition effects of banning payment card surcharges in New Zealand, along with the associated high-level costs and benefits. The focus is on competition in the payments system, the banking sector, retail markets for goods and services and on the overall consumer experience.

The report is divided into two broad parts. Sections 2 to 4 provide the factual foundation for the analysis:

- **Section 2** outlines the structure of New Zealand's retail payment system and the factors that have shaped its development.
- **Section 3** introduces the key concept of interchange and the role it has played in the rise of Visa and Mastercard.
- **Section 4** describes how card surcharging has evolved in New Zealand, including several areas where outcomes have diverged from expectations.

Readers already familiar with this background may wish to proceed directly to the competition analysis, which begins in section 5. The report considers several different scenarios:

- **Sections 5** and **6** assess the potential effects of a full ban on surcharging, first with the existing regulated interchange fee caps in place (the 'baseline scenario'), and then with the lower caps proposed in the Commission's recent draft decision[3] (the 'draft decision scenario').
- **Sections 7** and **8** explore how the outcomes in those two scenarios would change if the ban were limited to scheme debit cards.
- **Sections 9** and **10** examine the effects if the ban applied only to in-person payments, with surcharges still allowed online.
- **Section 11** considers the implications of banning – or continuing to allow – surcharges on foreign-issued cards.

Additional background material is provided in the appendices. This includes a more detailed overview of competition between different payment instruments (**Appendix B**), as well as international case studies where surcharging bans have been implemented or are under consideration (**Appendices C** and **D**).

Finally, a word of caution. This report has been prepared under tight timeframes and with limited information. While the analysis reflects the best available evidence and judgement, it is necessarily high level and qualitative in nature. It should be read with those constraints in mind.

[3] Commerce Commission, *Retail Payment System Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper,* 18 December 2024 (hereafter: 'Draft Decision (2024)').

2. Background

This section provides a high-level overview of New Zealand's retail payment system and the factors that have shaped its development. It outlines the key parties involved, the main payment methods in use, and the features that influence uptake by consumers and merchants. It also introduces the potential role of open banking reforms in supporting new forms of low-cost electronic payment. For clarity, the analysis has been kept deliberately brief – more detail is available in **Appendix B.**

2.1 Key parties and payment instruments

New Zealand's retail payment system brings together a range of parties that enable consumers to pay for goods and services electronically. These include the people making and receiving payments, as well as the banks, card schemes and infrastructure providers that support the movement of funds and information. Each plays a distinct role in ensuring that transactions are processed efficiently and securely. The main participants are:

- **Consumers** (or customers) purchase goods and services from merchants in exchange for payment. They initiate transactions and choose among the payment instruments offered by merchants, based on factors such as convenience, functionality and cost.
- **Merchants** supply goods or services in exchange for payment. These include large retailers, sole traders, government agencies and others. Their decisions about which payment methods to accept are shaped by factors such as cost, customer demand, checkout experience, and cash flow considerations.
- **Banks** provide consumers with payment instruments (such as cards and accounts) and enable merchants to accept electronic payments. They manage cards, authorise transactions, supply payment terminals, process settlements and support fraud prevention and dispute resolution. Most banks in New Zealand serve both consumers and merchants.
- **Credit card schemes** facilitate transactions between consumers and merchants using credit. Visa and Mastercard operate 'open' systems, in which cards are issued and merchants are signed up through participating banks.[4] American Express and Diners operate 'closed' systems, where the scheme deals directly with both cardholders and merchants.
- **Switches** use physical data centres, servers and communications networks to move electronic payment information between banks and other participants. They make sure transactions are sent to the right place and processed quickly, so that payments can be authorised, cleared and settled—often within seconds.[5]

[4] Open (or 'four party') credit card networks and the 'interchange fee' arrangements that underpin them are explained in more detail in section 3 below.

[5] Switches do not provide the payment terminals that merchants use. Those devices are typically provided by banks or merchant service providers. The switch operates behind the scenes, handling the routing of transaction data between the merchant's bank and the customer's bank (or card issuer), but not the hardware at the point of sale. Some companies – like Worldline in New

The specific combination of parties involved—and how they interact—depends on the type of **payment instrument** being used. Some instruments rely on global card networks and bank-issued products, while others use domestic infrastructure or newer account-based systems. The main non-cash payment instruments currently used in New Zealand are the following:

- **Credit cards** allow consumers to make purchases using borrowed funds and repay them later. They are accepted for in-person, online and international transactions, and are often linked to rewards programmes or interest-free periods. Most cards support contactless (tap-and-go) payments and operate over international card networks such as Visa and Mastercard. As noted earlier, cards may be issued by banks under the 'open' models used by Visa and Mastercard, or directly by the scheme in the case of American Express and Diners.
- **Scheme debit cards** draw directly from a customer's bank account but are issued under international card brands such as Visa and Mastercard. Unlike EFTPOS (discussed next), they can be used for online, contactless and overseas transactions, making them more versatile for both consumers and merchants. They are also compatible with mobile wallets (see below) and have largely replaced traditional EFTPOS cards as the standard bank-issued product.
- **Domestic EFTPOS** is a debit-only system that links directly to a customer's bank account and operates on a domestic network owned by the major banks.[6] It is used exclusively for in-person payments, with cards that must be inserted (chip) or swiped (magnetic strip) at the point of sale. The system does not support contactless, mobile, online or international transactions. It is widely regarded as low-cost and highly reliable but offers less functionality than other options such as credit cards, scheme debit cards and A2A payments (discussed next).
- **Account-to-account (A2A) payments** are an emerging category of digital payments that allow money to move directly between bank accounts without relying on card networks or the domestic EFTPOS system. They are typically used for online bill payments, peer-to-peer transfers, or recurring transactions, and seen as a potentially lower-cost alternative to card-based payments. In New Zealand, providers include established platforms like POLi[7] and newer services such as Online EFTPOS.[8]

Zealand (operator of the domestic EFTPOS network) – operate both switch services and have commercial arrangements with terminal providers, but the switching function itself is separate from the provision of hardware.

6 In 1989, the major banks formed Electronic Transaction Services Limited (later Paymark, then eventually Worldline) to act as a shared switching utility that owns and operates the domestic EFTPOS network.

7 POLi was developed originally by Centricom and is now operated by Merco (a subsidiary of Australia Post). It works by automating a bank transfer within a user's internet banking session. It does not rely on card networks or the domestic EFTPOS system.

8 As Appendix B explains in more detail, Online EFTPOS is an A2A payment service operated by Worldline used for online and remote transactions. It does not require a physical card or use the domestic EFTPOS network. Instead, at the point of checkout, the customer enters her mobile phone number and selects their bank from a supported list. A secure payment request is then sent to the customer's banking app.

- **Mobile wallets** such as Apple Pay and Google Pay store digital versions of scheme debit and credit cards on smartphones and smartwatches. They do not support domestic EFTPOS. These wallets build on the existing card scheme infrastructure by creating an additional digital payment layer – potentially more secure than physical cards – and allow users to store multiple cards in a single app. They support both in-person contactless payments and online transactions.
- **Buy Now Pay Later (BNPL)** services let consumers spread the cost of a purchase over several instalments without using a credit card. They are most commonly used for online purchases and are particularly popular with younger consumers seeking interest-free payment options outside traditional banking channels. BNPL is typically offered by third-party providers that integrate their services directly into the merchant's checkout process, both online and in store.

Each of these instruments has its own features, applications and technical foundations. Some are widely accepted and used in a broad range of retail settings, while others are more limited in where or how they can be used but may offer advantages in cost, simplicity or control. The next section sets out some broad trends in the overall usage of these instruments, based on the limited available data.

2.2 Broad trends in usage

Although data on the use of different payment instruments in New Zealand are less comprehensive than in countries like Australia, some clear trends are evident. Between 2019 and 2023, the total value of transactions processed per year on the three main card networks rose markedly – from around Commercial billion to Commercial billion. Visa and Mastercard have recorded steady growth over this period, while the value processed through the domestic EFTPOS system has declined slightly. Figure 2.1 illustrates these trends.

Figure 2.1: Annual value of transactions by card network

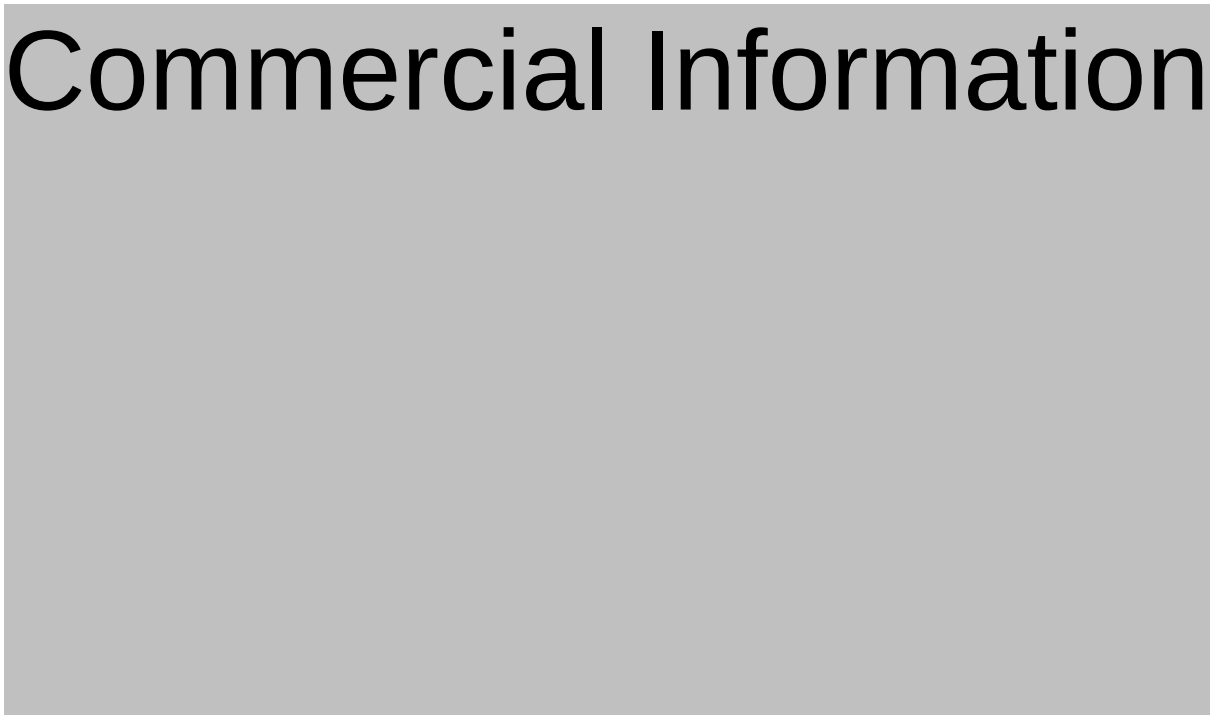


Figure 2.2 shows that similar trends are evident in the annual volume of transactions. Between 2019 and 2023, the total number of card transactions rose from approximately Commercial billion to Commercial billion. Visa and Mastercard volumes overtook domestic EFTPOS in mid-2019 and have continued to grow steadily since. In contrast, EFTPOS volumes have declined materially over the same period. American Express has also recorded some growth in both volume and value but remains a small player relative to the other two networks.

Figure 2.2: Annual number of transactions by card network

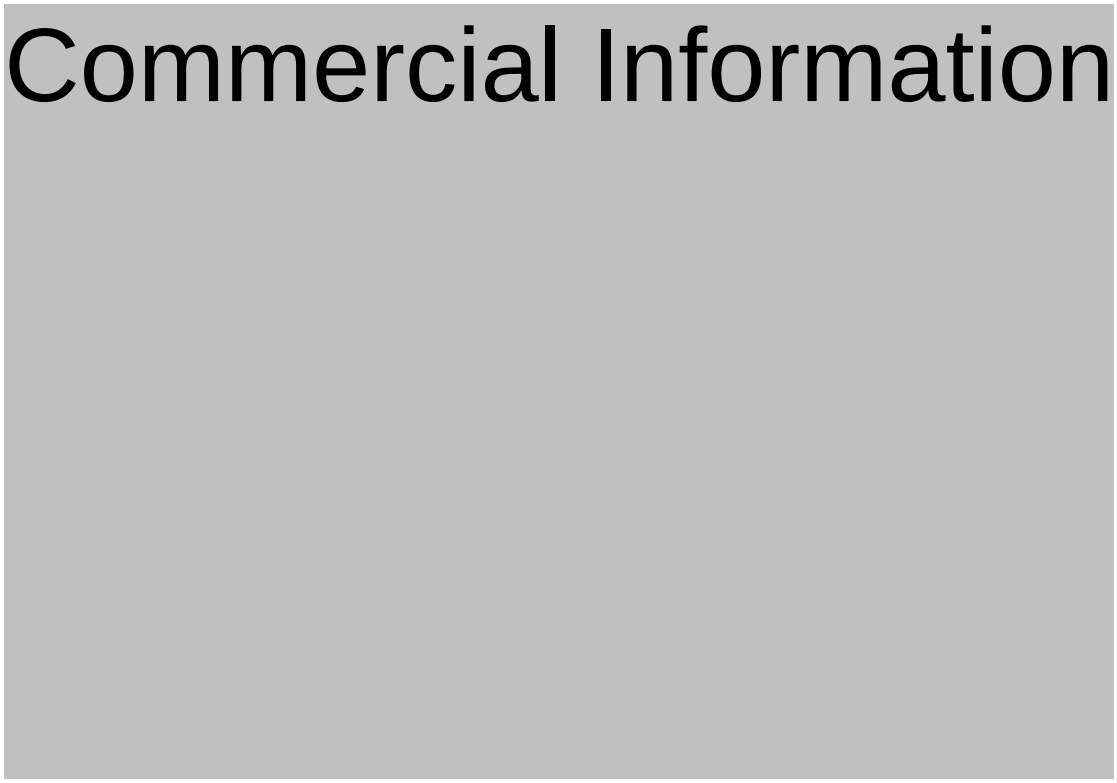
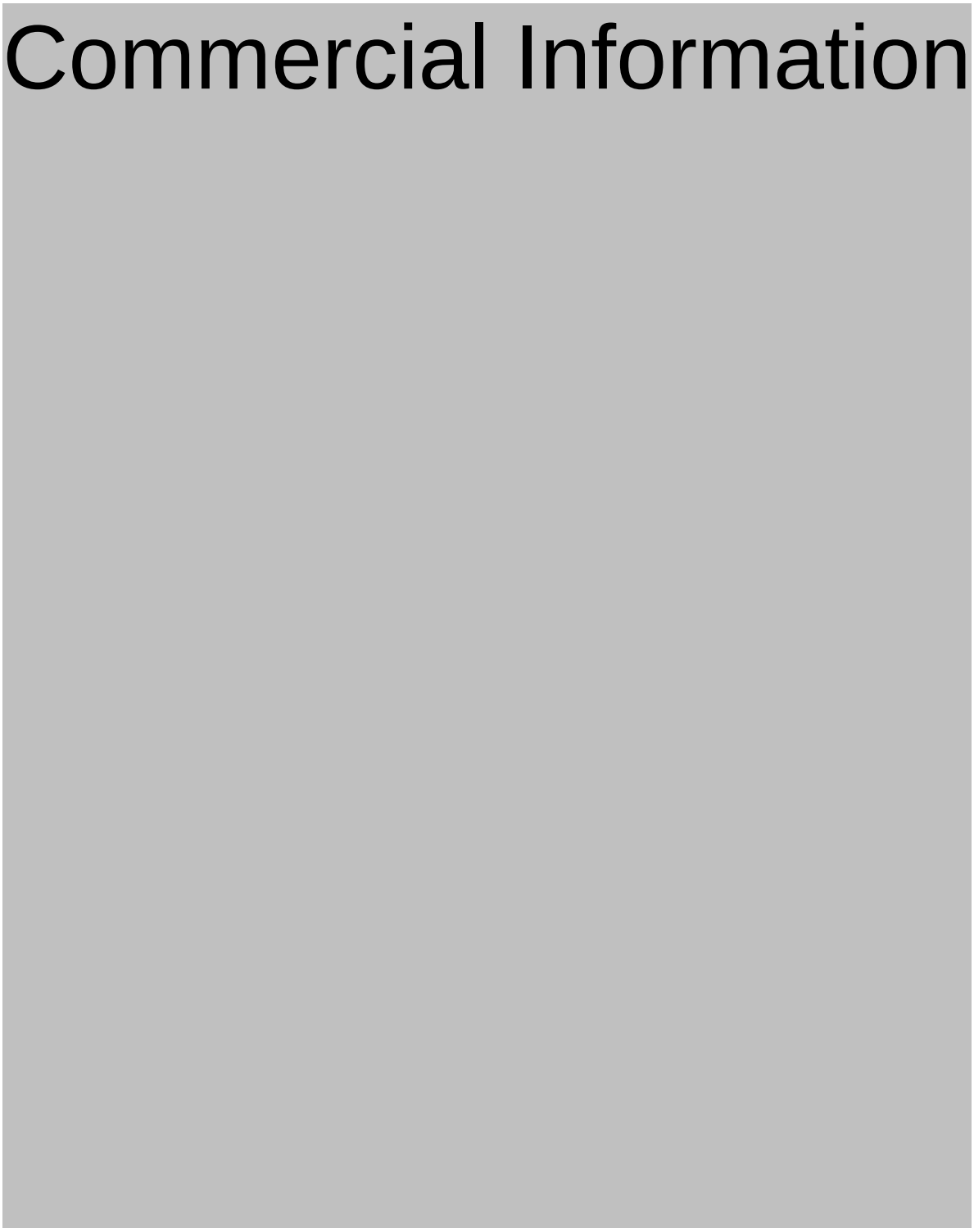


Figure 2.3 provides a breakdown of transaction volumes and values processed through the domestic EFTPOS network. Two types of cards use this network: traditional EFTPOS cards and scheme debit cards (which carry a Visa or Mastercard logo). When a scheme debit card is used for a contactless payment (by 'tapping'), the transaction is routed through the relevant card scheme's network – contributing to the red trendlines in Figures 2.1 and 2.2. However, when the same card is swiped or inserted and a PIN is entered, the transaction is processed via the domestic EFTPOS system.

Although traditional EFTPOS cards still account for a greater number of transactions on the domestic network each month, scheme debit transactions appear to be gradually closing the gap. The shift is even more pronounced in terms of transaction value, where scheme debit cards have nearly overtaken traditional EFTPOS. It now seems likely that scheme debit cards will soon account for a greater total dollar value on the domestic EFTPOS network – underscoring the growing popularity of this payment option.

Figure 2.3: Monthly values and volumes on EFTPOS network by card type



Usage of mobile wallet products, such as Apple Pay and Google Pay is also increasing. In Payments NZ's 2024 survey, 15% of consumers nominated smartphone-based mobile wallets as their preferred method for everyday purchases, up from 10% in 2022.[9] An additional 2% preferred wearable devices such as Fitbits or Apple Watches, bringing the total preference for digital wallet payments to 17%.[10]

[9] Payments NZ, *Payments Direction, Consumer Research 2024, Understanding how consumers in Aotearoa pay – now and in the future*, p.7 (hereafter: 'Payments NZ (2024)').

[10] Payments NZ (2024), p.7.

The strongest growth was among younger adults, whose payment habits tend to reflect digital convenience and frequent device use.[11]

While mobile wallets remain a secondary payment method overall, their rising popularity among younger users points to a potential for further growth as digital habits become more widespread. Moreover, from a merchant perspective, mobile wallets have presented few adoption barriers. They operate through existing point-of-sale terminals, require no new commercial arrangements and align with rising customer expectations for speed and convenience.

BNPL usage has also grown in New Zealand, particularly among younger consumers. According to Payments NZ's 2024 survey, 18% of respondents aged 18-34 years cited BNPL as their preferred payment option for large purchases.[12] In contrast, the rate for those aged 55-64 years was just 9%.[13] Although BNPL remains a niche choice relative to debit and credit cards, it has gained ground since 2022 – especially amongst this younger demographic.

Merchant acceptance of BNPL has also grown but remains modest. According to Kantar, in 2022, BNPL was offered by ~4% of all merchants, rising to ~14% among large businesses.[14] Merchants are often motivated by the belief that BNPL can help drive sales and attract new customers, although some have opted not to offer it due to concerns over cost, complexity or customer debt.[15]

Information on the use of emerging payment platforms, such as A2A payments, is more limited. Research by Payments NZ (2024) suggests that consumer comfort with sharing banking data with open banking providers is increasing,[16] and that many of the features offered by these services – including real-time payments – are highly appealing.[17] The Commission has also estimated that at least 15% of eligible customers have now made an open banking payment.[18] However, current market shares and growth rates for A2A providers are unclear.

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11 Payments NZ (2024), p.10.

12 *Ibid,* p.11.

13 *Ibid.*

14 Kantar Public, *Retail Payment System Research, Research Report*, November 2022, pp.17-18 (hereafter: 'Kantar (2022)').

15 *Ibid*, p.44.

16 When asked about secure data sharing with a third party to take advantage of open banking, 37% of surveyed respondents were comfortable with this – continuing a steady rise from 27% in 2022 and 16% in 2020. *See:* Payments NZ (2024), p.34.

17 Being able to make a payment, or receive it from someone else, and have the money arrive straight away, was appealing to 76% of respondents. *See:* Payments NZ (2024), p.45.

18 Specifically, as of late 2024, approximately 15% of eligible customers at each of New Zealand's four largest banks had used a third-party service to initiate a payment directly from their bank account, with consent. These bank-linked payments are made possible through application programming interfaces (APIs), which allow authorised third-party providers to connect securely with banks to access account data or initiate payments. The 15% figure cited by the Commission refers specifically to payments initiated via such open banking APIs. *See: Commerce Commission, Update on Open Banking Progress,* 10 December 2024, p.2.

The next sections examine the features consumers tend to value most in a payment method, and how those preferences influence their choices in practice. We then consider the factors that shape merchants' decisions about which payment options to offer. Together, these demand- and supply-side drivers help to explain the broader trends outlined above – including the shift away from domestic EFTPOS and toward the card scheme's networks.

2.3 Consumer priorities in payment selection

Consumers are not passive participants in the payment system. While merchants, banks and providers decide which options are available, it is consumers who then determine which methods are actually used. Their choices are shaped by a combination of habits, expectations and practical needs. This section outlines the key features consumers tend to look for in a payment method, and how different payment instruments perform against those expectations.

2.3.1 Convenience and speed

Most consumers value speed and simplicity. The easier a payment method is to use, the more likely it is to be chosen – particularly for everyday purchases. Methods that support contactless or mobile payments are often favoured, while those that require swiping, inserting, PIN entry or multiple steps are often bypassed.

This helps explain the widespread use of credit cards, scheme debit cards and mobile wallets. All support fast payments across a wide range of settings. By contrast, EFTPOS – while cheap and reliable – has steadily declined in use. It cannot be used online, does not support contactless payments and cards must be physically swiped or inserted into a terminal. Even the company behind EFTPOS has now developed an alternative product that works better with mobile and online systems ('Online EFTPOS' – see Appendix B).

The COVID-19 pandemic further accelerated the shift to contactless. During the 2020 lockdowns, many consumers were encouraged or required to avoid physical contact when making purchases. Contactless payments – whether by card or mobile device – offered a fast, hygienic solution. This period also saw a rapid increase in merchant acceptance of contactless, aided by temporary fee waivers. As a result, many consumers became accustomed to 'tapping' by default, and this behaviour persisted long after restrictions eased.

A2A payments could eventually match the convenience of these other options, but most services are not there yet. They are harder to use, less familiar, and not always well integrated into checkout systems. For now, this limits their appeal – but long-awaited open banking reforms may help shift the dial.

2.3.2 Budgeting and financial control

Consumers often seek payment methods that help them stay in control of their spending. Many prefer tools that draw directly from their bank account, allowing

them to track their balance in real time and avoid debt. EFTPOS, scheme debit cards and A2A payments all offer this benefit. For many people, the ability to "only spend what you have" is a built-in budgeting tool.

BNPL services appeal to a different segment of users – particularly younger consumers or those without access to traditional credit. While BNPL does not offer the same real-time balance tracking as debit-linked options, some people find the fixed repayment schedule easier to plan around than a credit card. BNPL use is now common in online and discretionary retail settings, but acceptance remains uneven across sectors, and uptake is often driven more by availability at checkout than by active consumer preference.

Credit cards continue to be used for larger or one-off purchases but are less appealing to consumers focused on budgeting. Revolving credit, interest charges and less predictable repayment timing make them a less natural choice for those looking to manage day-to-day cashflow.

2.3.3 Trust and security

People tend to stick with payment methods they know and trust – especially when the transaction is large or the setting is unfamiliar. Brand recognition, long-standing use and fraud protection help sustain the use of credit cards and scheme debit cards. They come with well-established protections like chargebacks and are backed by international card brands.

At the same time, mobile wallets are becoming more trusted. Their use of fingerprint or facial recognition, encrypted card details and device-based approval gives many users greater peace of mind. Unlike a physical card – which can be taken and tapped by anyone for payments up to $200 – a smartphone is usually locked and requires authentication before use.

A2A services can be just as secure, but that is not always how they are perceived. Because they are less familiar, less visible, and not always linked to well-known brands, many consumers remain cautious – particularly when using them for the first time. Again, those perceptions might change if open banking reforms lead to more widespread adoption of A2A platforms.

2.3.4 Digital fit

As more financial activity moves online, consumers expect payment tools to work well in a digital environment. This means more than just making online purchases – it also includes things like integration with banking apps, real-time balance updates and fast checkout on mobile devices.

Credit cards, mobile wallets and scheme debit cards perform well on this front. EFTPOS does not. It cannot be used on mobile or online platforms and lacks the digital features many consumers now take for granted. This has been a key factor in the steady – perhaps even terminal – decline of the legacy EFTPOS network observable in Figures 2.1 and 2.2.

A2A services are designed for digital use, but their uptake to date has been modest in New Zealand. Limited availability across banks, a lack of visibility at checkout, and inconsistent user experiences have likely constrained broader adoption. These barriers may lessen over time, particularly if open banking improves access.

2.3.5 Transparency and cost awareness

While most consumers do not think much about what a payment method costs the merchant, some are starting to notice – especially when they are asked to pay a surcharge (a topic explored in more detail in section 4). A growing number now say they would switch to a different method if prompted, provided the alternative is just as easy to use – such as inserting a scheme debit card instead of tapping it.

Consumers are also wary of payment methods that might lead to hidden costs. This helps explain the popularity of debit-linked options, which deduct money straight from an account and are easy to monitor. BNPL has also attracted interest by advertising fee-free repayment. Credit cards, on the other hand, have lost some of their appeal due to rising fees, reduced rewards and growing awareness of interest charges.

2.4 Merchant adoption of payment services

Merchants play a decisive role in shaping which payment systems succeed. While they cannot dictate how customers choose to pay, they do decide which options are offered at checkout – and on what terms. Those decisions affect the visibility, usability and relative cost of different instruments, with important implications for system-wide competition. This section considers how merchants make those choices, what constraints they face and how those choices influence the viability of lower-cost alternatives.

2.4.1 Determinants of acceptance

Most merchants offer the payment options their customers expect. In New Zealand, that usually includes a mix of scheme debit cards, credit cards and EFTPOS. Contactless payments are also now common across most sectors. Newer methods – like mobile wallets, BNPL and A2A payments are more often found in larger or more digitally focused businesses.

Customer demand is the main reason merchants accept new payment methods. Many adopt tools like scheme debit, mobile wallets or BNPL not because they save them money, but because customers want to use them. For instance, scheme debit became widespread through a passive rollout by banks – even though contactless debit transactions cost more to process than EFTPOS.

The COVID-19 pandemic accelerated this shift. During the 2020 lockdowns, merchants were strongly encouraged to operate in a contactless manner. In response, several major banks temporarily waived contactless debit fees for small

and medium-sized businesses. This created a strong incentive for merchants to adopt contactless payment terminals.

Contactless transactions surged, accounting for over a third of all payments by number through EFTPOS NZ terminals at their peak. Many merchants invested in new equipment and got used to offering contactless as standard. Even after the fee waivers ended, contactless payments remained firmly embedded in merchant offerings – marking a clear inflection point in the evolution of payment acceptance in New Zealand.

Cost is the main reason merchants reject or remove payment options. Credit cards, contactless transactions and BNPL often come with relatively high processing fees, which can be hard to justify in low-margin or high-volume sectors. EFTPOS, by contrast, remains appealing for its low flat fee and lack of per-transaction charges. But its limited functionality—no contactless, no online, no mobile—has made it harder for merchants to rely on it as their only option.

A2A payments face similar challenges. While merchants may like the idea of bypassing card schemes and the cost saving that would entail, uptake remains low. These services are not yet well integrated into most checkout systems, are less familiar to customers, and often involve inconsistent user experiences. In the absence of stronger infrastructure and clearer benefits, most merchants remain cautious about offering them.

2.4.2 Cost awareness

Many merchants do not have a clear understanding of what it costs them to accept different types of electronic payments. Most use the bank that provides their business accounts to process those payments and receive monthly statements outlining the fees they have paid. But merchants often find those statements hard to comprehend. Fees might be grouped together, shown as broad ranges or split across different categories.

As a result, many merchants cannot tell how much they are being charged for one payment method compared with another – or whether things like surcharges are set at the right levels. This matters. If merchants do not know what different options cost, they cannot make informed choices about which ones to accept – or when and how to steer customers towards lower-cost methods. They also cannot set cost-reflective surcharges, which means those charges are unlikely to send accurate price signals to customers (something that is explored in section 4).

Even when merchants are unhappy with their fees, most do not switch providers. Changing banks often means replacing terminals, renegotiating contracts and retraining staff. For many small businesses, the effort and disruption involved is not worth it. These factors make it harder for newer, lower-cost payment systems – such as A2A services – to gain traction. If merchants cannot easily compare costs, and are often not actively looking for better options, cheaper systems will struggle to compete, no matter how compelling they might be in theory.

2.4.3 Use of surcharges and steering

For the merchants that do respond to higher card costs, surcharging is the most common approach. According to a 2022 Kantar survey, around 22% of merchants accepting credit or contactless payments currently applied a surcharge.[19] Other surveys have produced significantly higher numbers.[20] For example, in a recent submission, Mastercard noted that RFI Global's research of 500 New Zealand merchants in August 2023 showed that 50% of them surcharged.[21]

Almost all merchants applied a single flat percentage surcharge rate across all cards. Few distinguish between credit and debit, between standard and 'premium' cards, or between different card networks. This approach is easy to implement but weakens the price signal that surcharges were intended to send (surcharging is discussed in more detail in section 4).

Deliberate steering – where merchants actively encourage customers to use lower-cost payment methods, beyond simply applying a surcharge – is rare. Staff may occasionally suggest inserting a card instead of tapping, but such prompts are informal and inconsistent. Signage is uncommon and most merchants avoid drawing attention to payment choices. Many are reluctant to create friction at checkout or make staff – or customers – uncomfortable.

2.4.4 Barriers to uptake of lower-cost systems

Merchants face a number of barriers to adopting lower-cost payment systems like EFTPOS and A2A services – many of which have already been discussed. In practice, the limitations of these systems often outweigh their pricing advantages. To recap:

- **EFTPOS** is valued for its low cost and reliability, but cannot be used online, does not support contactless or mobile payments, and is limited to domestic transactions. For many merchants, these constraints make it unsuitable as a primary option.
- **A2A services** are not yet integrated seamlessly into checkout systems, lack consistent branding and are unfamiliar to the majority of customers. Without better design and clearer bank support, many merchants view them as too hard to implement and unlikely to deliver a smooth customer experience.

Open banking reforms may help by making A2A payments more secure, consistent and easier to use. But that infrastructure is still being rolled out. Until it is fully in place – and merchants see tangible benefits – many are likely to continue using systems that are already embedded, even if they come at a higher cost.

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19 Kantar (2022), p.14.

20 The various studies differ in their sample sizes, methodology and, sometimes, in their definitions of surcharging practices. There is therefore no singularly authoritative study conclusively demonstrating the current percentage of merchants that apply surcharges.

21 Mastercard, *Mastercard response to Commerce Commission consultation: Retail Payment System*, 2 September 2024, p.14.

2.5 The role of banks

Banks play a central role in New Zealand's retail payment system. They provide the tools that customers use to make payments – such as debit and credit cards – and the services that allow merchants to accept those payments. Most of this activity is handled by a small number of large institutions, which gives them significant influence over how the system operates. This section looks at the two sides of that involvement: the relationships banks have with customers, and the services they provide to merchants.

2.5.1 Relationships with customers

New Zealand's four largest banks – ANZ, ASB, Westpac and BNZ – are the main providers of payment tools in New Zealand. Between them, they issue most of the debit and credit cards used by consumers. Their mobile apps and digital wallets are also the most common way for people to make payments using a phone or device. These tools are usually linked to the customer's main bank account, which makes them easy to use and part of everyday life.

This setup gives the big banks a clear advantage. Most people do not choose their bank based on the cards or apps it offers—and even fewer actively compare what different banks provide. Instead, they tend to use whatever payment tools their bank gives them. This makes it hard for other providers to compete, even if they offer lower costs or more useful features.

New payment services – like budgeting apps, BNPL and mobile wallets – have mostly come from smaller technology companies. For example, Afterpay, Laybuy and Zip offer BNPL services; PocketSmith and MoneyHub provide personal budgeting tools; and Dosh has launched a domestic digital wallet. But all of these services still rely on banks for key things like access to customer accounts, card credentials or payment processing. Without that access, they cannot offer the same functionality or ease of use as products issued directly by a bank.

The Commission's 2024 market study on personal banking found that the large banks benefit from strong customer loyalty and brand recognition.[22] They also operate at a scale that makes it cheaper for them to offer services. New providers face challenges such as building trust, attracting customers, and connecting with the systems used by the big banks. These same issues limit competition when it comes to providing payment tools.

2.5.2 Relationships with merchants

Banks also provide the services that allow merchants to accept card and digital payments. These services include supplying payment terminals, processing transactions, handling disputes and settling funds. While other companies offer similar services, most merchants still rely on their banks. ANZ, ASB, Westpac and

22 *See:* Commerce Commission, *Personal banking services, Final competition report,* 20 August 2024.

BNZ are again the main providers. Payment acceptance is often bundled with other banking services, helping banks retain business customers and shape how payments are handled in practice.

The cost of accepting payments varies depending on the size and structure of the business. Among small businesses, some are currently paying more than 2.5% of the transaction value in fees when customers use Mastercard or Visa credit or debit cards, while others – typically on simpler pricing plans – are paying closer to 1.5%.[23] These differences reflect the pricing models applied and the limited bargaining power that small merchants often face. By contrast, large businesses that process higher volumes of transactions and have greater negotiating power are often charged significantly lower rates.

As discussed in section 2.3.2, many small merchants also struggle to understand the payment fees they are charged. That lack of transparency – combined with the perceived hassle of switching providers – can discourage merchants from seeking out better deals or adopting lower-cost alternatives. The result is a system where many smaller businesses remain locked into higher-cost arrangements by default, while larger businesses are better placed to negotiate lower rates. This imbalance makes it harder to reduce costs across the board or support wider use of new, cheaper payment methods.

2.5.3 The potential role of open banking

The central role that banks play in the payment system means that any provider seeking to offer a new payment method must find a way to connect with them. Banks control access to customer accounts and handle the settlement of funds between parties. Without access to those systems, new payment services cannot operate at scale – or sometimes at all. This has made it hard for smaller firms to compete, even when their products are more flexible, innovative or affordable.

Open banking is intended to help change that dynamic. It allows consumers to give trusted third parties permission to access their account data or initiate payments on their behalf, using secure digital connections. These services do not rely on traditional card networks and do not require customers to log into online banking or enter account numbers manually. Instead, they offer a faster, more direct way to move money between accounts.[24]

International experience shows how powerful this model can be. In the United Kingdom, for example, open banking reforms introduced in 2018 led to a wave of new payment tools that now process millions of transactions each month. Similar models have been adopted in countries like the Netherlands (iDEAL), India (UPI) and Australia (PayTo), where they support everything from one-off payments at checkout to recurring bills and direct transfers between businesses.

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23 Draft Decision (2024), p.6.

24 These services typically rely on standardised application programming interfaces (APIs), which enable different systems to communicate safely and reliably.

New Zealand is in the early stages of this shift. While some account-based services already exist – such as POLi and Online EFTPOS – most rely on workarounds that are fragile, inconsistent or difficult to scale.[25] The new *Customer and Product Data Bill*, passed in 2024, creates a legal framework for customer-directed data sharing and payment initiation. It is expected to be phased in from late 2025, with technical standards and accreditation rules to be developed in parallel.

If delivered well, these reforms could make it easier for new providers to offer payment services that compete directly with cards. That could support lower costs, faster settlement, and more competition at checkout. But success is not guaranteed. Much will depend on how quickly banks enable access, how easy the new services are to use, and whether merchants and customers are willing to try them. Potential regulatory developments with respect to interchange fees (section 3) and surcharging (section 4) may also prove decisive.

2.6 Summary

This section has provided essential background on New Zealand's payment system. For clarity, it has been kept deliberately brief—more detail is available in Appendix B. Several key factors have shaped the payments landscape in recent years. Consumers tend to favour options that are fast, easy and secure – especially those that work well online and on mobile devices. Merchants, in turn, are guided by customer expectations, cost and checkout efficiency. Most will offer whatever methods customers prefer, even if fees are higher. Newer systems struggle to gain traction if they are unfamiliar, hard to integrate or difficult to price.

Banks play a central role on both sides of this equation – issuing the payment tools that customers use and providing the services that allow merchants to accept them. Their position, reinforced by customer inertia and high switching costs, makes it difficult for newer or smaller providers to compete. These forces have shaped the evolution of different payment methods – with their current market positions summarised below:

- **Credit cards** remain popular for online and high-value purchases, supported by global acceptance and strong protections. But cardholder rewards are shrinking due to regulation, fees are rising, and everyday use is falling.
- **Scheme debit cards** are now often the 'default' for everyday payments. They are issued automatically, widely accepted and work well with contactless and mobile wallets – even though merchant fees are often higher than for EFTPOS.
- **EFTPOS** still appeals to cost-conscious merchants but has steadily declined due to its limited functionality. Its owner is now backing a digital A2A alternative, which could indicate the network will eventually be phased out.

[25] Some rely on screen-scraping: a method by which third-party providers access a customer's bank account by logging in with the customer's credentials and extracting data directly from the online banking interface. It is widely seen as insecure and unreliable, and open banking frameworks are intended to replace it with standardised, permission-based access using secure APIs.

- **A2A services** offer a low-cost alternative to cards but remain niche. Usability issues, low visibility and patchy access to banking infrastructure have slowed growth. However, open banking reforms could be a crucial turning point.
- **Mobile wallets** are growing fast by offering convenience and added security but rely on existing card networks. Hence, merchant costs remain unchanged and greater use only reinforces the position of incumbent schemes.
- **BNPL** continues to expand in e-commerce and discretionary retail, offering interest-free instalments. But merchant fees are high and new credit rules may limit further growth.

Looking forward, the competitive positions of these payment systems are likely to hinge on several crucial factors. One is open banking, which – if implemented effectively – may lower barriers for newer services and shift the balance away from entrenched card-based systems. Another is the set of rules that govern interchange fees and merchant surcharging – the focus of the following sections.

3. Interchange fees

This section introduces interchange fees, which are central to the competition assessment. It outlines the original commercial rationale for these fees and the role they played in the rapid rise of the card schemes. It then explains why interchange fees have come under increasing regulatory scrutiny around the world. The section concludes by summarising the Commission's initial interventions in New Zealand and their effects. Its recent draft decision is considered separately in section 6.

3.1 Solving the 'chicken and egg' problem

When Visa and Mastercard expanded into New Zealand in the 1970s and 1980s, they adopted their now-familiar 'four-party' model. Each card transaction involves four participants: the cardholder, the cardholder's bank (the issuing bank), the merchant, and the merchant's bank. Like all non-cash payment systems, the four-party schemes faced a basic challenge: they needed to get 'both sides of the market' on board.[26] Specifically:

- consumers would only carry and use cards if they were widely accepted; but
- merchants would only accept cards, and invest in the additional equipment that required, if enough customers wanted to pay that way.

As Appendix B explains in more detail, the schemes overcame this 'chicken-and-egg' problem by focusing on the customer side of the market. They put in place commercial arrangements that made it very attractive for banks to issue credit cards. The key was the introduction of an **interchange fee**: every time a cardholder used a card the bank that issued it would receive a small payment from the merchant's bank (the bank receiving the payment for the goods or services).

The more cards that were issued – and the more they were used – the more money the issuing banks would make via interchange. Banks rushed to sign up customers, marketing the products heavily and offering various incentives like low cardholder fees. As customers joined and interchange fees started to flow, the banks channelled that revenue into attracting even more customers, by investing in measures like fraud protection, interest-free periods and reward benefits.

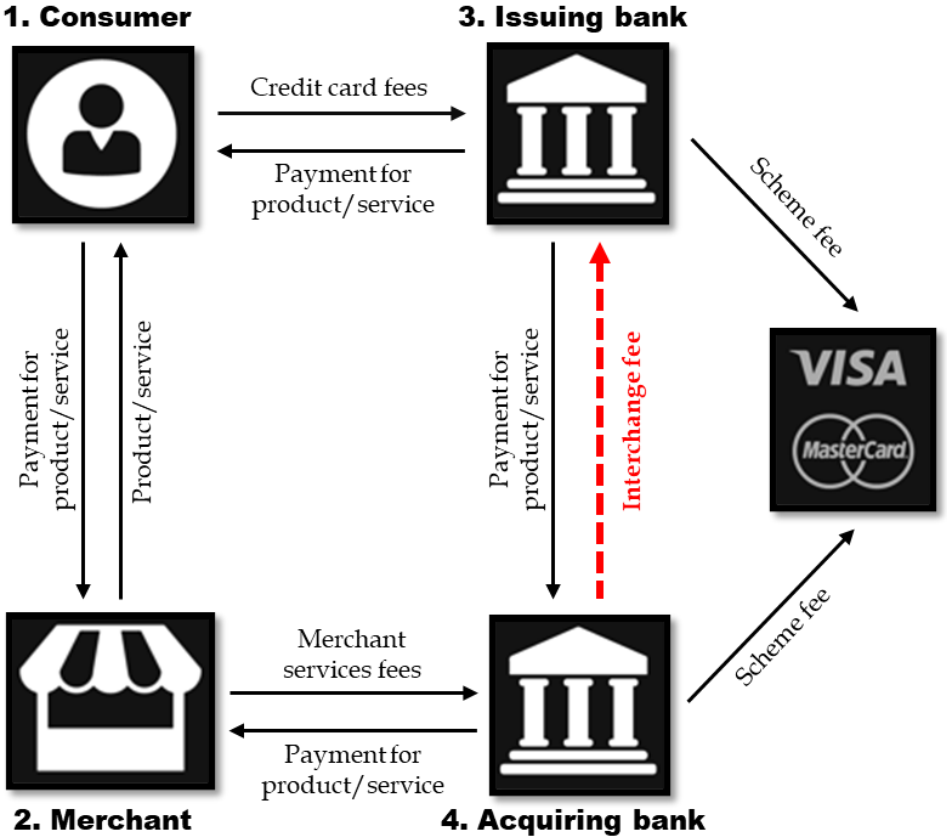
This was great news for cardholders, who embraced the new systems in large numbers. Uptake grew rapidly, driven by convenience, incentives and the growing ubiquity of card acceptance. It was also good news for the banks, which gained new customers and were able to offer them a valuable new product. The interchange fee itself was largely immaterial from the banks' perspective, since they were both receiving and paying it – the effect largely cancelled out.

The news was not so good for merchants. Interchange fees were passed on to them by their banks in the form of higher costs. These fees made up a significant portion

[26] In the case of cash, this problem is overcome by governments making their national currencies legal tender, leaving merchants no choice but to accept it.

of the overall **merchant service fee**,[27] which also covered the cost of payment terminals, transaction processing, fraud monitoring and customer support. But merchants had little real choice in the matter: they could either accept and pay or refuse and risk losing customers who increasingly expected – and demanded – the ability to pay by card. Figure 3.1 summarises these payment flows.[28]

Figure 3.1: Four-party credit card networks



To illustrate the typical flow of fees, consider a $100 credit card transaction in New Zealand. When a customer pays $100 with a credit card, the merchant might pay a $2 merchant service fee to its bank.[29] That bank keeps a portion to cover its own costs but must also pass on an interchange fee – probably around $1.20[30] – to the customer's bank. In addition, both banks will pay scheme fees to Visa or Mastercard – probably of around 10 to 20 cents between them.

27 Currently, interchange fees account for approximately 60% of merchant service fees, on average. *See:* Draft Decision (2024), p.10.

28 In closed 'three-party' card networks such as American Express and Diners Club, the card scheme itself issues the cards and signs up merchants. There are no separate banks involved. Because all the costs and revenues sit within a single business, it can manage both sides of the market directly – setting cardholder fees and merchant charges to suit its commercial strategy. This means it can achieve similar outcomes to a four-party scheme without needing an explicit interchange fee.

29 Merchant service fees can range from less than 1% to more than 2% of the transaction value, depending on the size of the merchant.

30 Based on interchange fees accounting for approximately 60% of merchant service fees.

While part of the $1.20 interchange fee covers the customer's bank's costs, a significant portion is typically returned to the cardholder through rewards. For example, the customer might earn, say, 50 frequent flyer points or accrue other benefits. As noted above, interchange revenue may also be used to support inducements such as reduced annual fees or fee waivers – further encouraging card uptake and additional use. Currently, merchants pay over $600 million a year in interchange fees on credit and scheme debit transactions.[31]

The interchange-driven strategy helped turn Visa and Mastercard into household names and secured their position as leading players in global payment markets. However, the model has come under increasing scrutiny. More and more regulators have become concerned that interchange fees are too high, pushing up costs for merchants and leading to higher prices for all consumers – including those who do not use scheme cards. These concerns have prompted regulatory interventions in many countries – including New Zealand.

3.2 Emerging concerns

The role of interchange fees – and the question of what level was appropriate – has been the subject of intense debate and the focus of several major antitrust cases since the early 2000s. Visa and Mastercard argued that interchange fees were needed to balance the two sides of the market. The idea was that the fees helped ensure both consumers and merchants remained engaged with the system. On this view, regulating interchange fees downward risked upsetting that balance and could end up making things worse rather than better.[32]

Regulators tended to see things differently. Their concern was not just with the level of interchange fees, but with how those fees were set – not through competition between banks, but centrally by Visa and Mastercard. Because most banks operated on both sides of transactions – receiving interchange as issuers on some and paying it as acquirers on others – there was little real incentive for any individual bank to push for lower fees.

On the contrary, both issuing and acquiring banks earned margins from providing cardholder and merchant services, creating a shared interest in growing card usage. The success of the schemes and the banks was therefore closely intertwined: as the former expanded, so too did the latter. The costs were simply passed down the chain to merchants, who had little to no role in setting the fees[33] and limited ability to avoid them.

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31 Draft Decision (2024), Figure 2.1, p.18.

32 This view was also shared by a number of prominent academic commentators. See for example: Evans & Schmalensee, *The Economics of Interchange Fees and Their Regulation: An Overview,* MIT Sloan Working Paper, May 2005; and Gans & King (2000), *The Role of Interchange Fess in Credit Card Associations: Competitive Analysis and Regulatory Issues*, December 2000

33 The limited exception to this was larger merchants, who were sometimes able to negotiate lower merchant service fees than smaller retailers, who were powerless.

The result, in the view of many regulators, was that interchange fees – and the broader merchant service fees that included them – were above the levels that would have emerged in a genuinely competitive market. That was widely believed to be the case even after accounting for the dynamics of a two-sided system.[34] For example, the Commission recently concluded that it was:[35]

> *"… unable to rely on competition alone to drive interchange fees to efficient levels. Competition drives Mastercard and Visa to* ***set interchange fees above efficient levels*** *to win market share by enabling issuers to offer lower cardholder fees or other benefits. Moreover, merchants are susceptible to Mastercard and Visa networks exercising market power over them."* [emphasis added]

Those higher merchant service fees – inflated by the interchange component – were then usually passed on to customers through higher prices at the checkout. But the impact varied. Large retailers often had the bargaining power to negotiate better deals and contain their costs. Smaller businesses, by contrast, often had far less leverage. If they were operating in highly competitive markets, they also had no choice but to pass the higher costs on to their customers.

In theory, retailers could still try to steer customers toward cheaper payment options by offering cash discounts or using verbal prompts or signage at the checkout. But without the ability to surcharge – which was not permitted at the time (this is discussed in section 4) – those strategies carried little weight. Customers had no reason to switch payment options, and merchants had no way to reflect the true cost differences between payment methods at the point of sale.

It might be tempting to assume that the high interchange fees should have created an opening for lower-cost payment systems to enter or expand. In practice, that opportunity was probably more apparent than real. The main non-cash alternative available at the time was EFTPOS, which – although cheap – suffered from the functional limitations described earlier.[36] And no other low-cost options existed that offered any of the features now emerging with A2A systems. Hence, even though merchants might well have been eager to adopt cheaper alternatives, there would have been little reason for customers to use them, thereby defeating the point.

The inevitable result was that all customers ended up paying more for goods and services – whether they used scheme cards or not. With no practical way for merchants to steer payments, the additional costs were simply spread across everyone, including those paying with cash or EFTPOS. The effect was also regressive: lower-income consumers, who could not afford to use scheme cards, were effectively helping to fund the rewards enjoyed by higher-income cardholders.

This conflagration of factors led to interventions to cap interchange fees in a number of countries throughout the world. Rates were capped in the United States (via the

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[34] These two-sided market dynamics are explained in detail in section 2 of Axiom's December 2016 report for the New Zealand Bankers' Association. *See:* Axiom Economics, *Review of Retail Payment Systems Issues Paper, A report for the NZBA,* December 2016, pp.3-6.

[35] Draft Decision (2024), p.20.

[36] For example, no online capability, no international reach and no rewards.

'Durbin Amendment' to the Dodd-Frank Act in 2010), the European Union (via the initial 'Interchange Fee Regulation (IFR)' in 2015), and Australia (following intervention by the Reserve Bank of Australia in 2002–03). New Zealand followed suit in 2022.

3.3 Initial regulatory intervention

At their peak, interchange fees on domestic card transactions in New Zealand reached up to 2.5% of the transaction value for both credit and scheme debit cards.[37] In the 2021–22 financial year, these fees[38] generated approximately $600 million in revenue for card issuers.[39] The Commission considered this to be excessive and pointed to the fact that lower interchange caps had been introduced in comparable jurisdictions, including Australia, the United Kingdom and the European Union.[40]

The Commission also echoed several of the concerns outlined above. In particular, it argued that the level and structure of interchange fees in New Zealand distorted issuer incentives by encouraging banks to promote higher-cost cards over lower-cost options. This was seen as contributing to unnecessarily high merchant service fees. The Commission therefore used its new powers under the *Retail Payment System Act 2022* to impose caps on interchange fees:[41]

- credit card interchange fees were limited to 0.80% for both online and in-person transactions; and
- scheme debit card fees were capped at 0.20% for contactless in-person payments and 0.60% for online transactions.

The caps had a material impact. Shortly after their introduction, the Commission estimated that they would reduce interchange fee costs for acquiring banks by more than $130 million per year, with approximately $105 million expected to be passed on to businesses through lower merchant service fees.[42] While not all of those savings would have been passed through to final consumers, it is reasonable to assume that the prices of goods and services were nonetheless lower than they would have been in the absence of the caps.[43]

37 Draft Decision (2024), p.4, footnote 1.

38 Separate estimates do not appear to be available for credit and debit card interchange revenue.

39 Draft Decision (2024), Figure 2.1, p.18.

40 While those international rates were themselves the product of regulation, the Commission cited them as evidence that interventions had been implemented elsewhere without major disruption.

41 Draft Decision (2024), Table 1.1., p.5.

42 Commerce Commission, *Retail Payment System Observations on the impact of interchange fee regulation*, 8 August 2023, pp.5-6.

43 It is only in very limited circumstances that full pass-through of an input cost reduction can be expected. Specifically, if a reduction is industry wide and there is perfect competition, full pass through can be expected either if demand is 'perfectly inelastic', or if supply is 'perfectly elastic'. For more detail see: Axiom Economics, *Review of Retail Payment Systems Issues Paper*, *A report for the NZBA*, December 2016, pp.13-17.

Unsurprisingly, issuing banks responded to the loss of interchange revenue by raising annual cardholder fees and scaling back reward programmes. These features could no longer be sustained at previous levels. As a result, credit card users bore much of the immediate cost of the reforms. This may have affected overall usage, e.g., some cardholders may have cancelled their credit cards in response to higher fees and reduced rewards. However, as section 4 explains, surcharging was likely a more influential driver of usage at the margin.[44]

Importantly, while the initial interchange fee reductions made credit and scheme debit cards cheaper for merchants to accept, to date, they do not appear to have 'crowded out' emerging competitors such as A2A payment providers. There appears to be sufficient headroom for these new and often lower-cost options to operate viably and earn a margin, even in the presence of regulated caps. However, as Appendix B outlines, the growth of such alternatives has been constrained by other factors—most notably, limited access to open banking infrastructure.

In December 2024, the Commission released a draft decision indicating that it was not satisfied with the results of the initial reforms. Although the original caps had delivered savings for merchants, the Commission remained concerned that interchange fees continued to exceed efficient cost levels and that the underlying fee structure remained distorted. It therefore proposed a further round of reductions. That proposal – and its potential implications for the competition assessment – is examined in more detail in section 6.

3.4 Summary

Interchange fees have played a central role in shaping New Zealand's payments landscape. Originally introduced to solve the coordination challenge facing early card networks, they helped drive rapid card issuance and consumer uptake by rewarding issuing banks for each transaction. But that same mechanism also transferred costs to merchants – and, ultimately, to consumers – in ways that attracted growing scrutiny from regulators as card payments became the norm.

Over time, concerns mounted that interchange fees were being set too high – not through competition, but by centrally administered schemes with limited accountability to merchants. Regulators in New Zealand and elsewhere began to question whether the fees bore any reasonable relationship to the net cost of providing card services. In response, the Commission imposed binding caps under the *Retail Payment System Act.*

[44] Interchange fee caps do not, on their own, materially influence customers' choice of payment method at the point of sale. Their primary effect is to reduce the revenue earned by issuing banks, leading to higher annual cardholder fees and less generous reward offerings. This may deter some customers from acquiring new cards but has limited impact on how existing cardholders choose to pay. For many, some rewards remain better than none – so the marginal payment decision may still favour a credit card, even if its overall value proposition has weakened. In practice, it is the presence and size of a surcharge – rather than the level of the interchange fee itself—that plays a greater role in shaping payment choices. That said, interchange fees can influence whether surcharges are applied, and their magnitude.

Those caps delivered material savings to merchants, though some of the benefit was offset by higher cardholder fees and reduced rewards. To date, the caps appear to have left sufficient headroom for lower-cost options like A2A to operate viably and earn a margin. However, the Commission has since proposed a further round of deeper cuts. Its reasons for doing so – and the potential consequences for the competition assessment – are considered in section 6.

4. Surcharging

This section examines how surcharging has evolved in New Zealand. It begins by explaining why credit card schemes initially prohibited the practice, and how that helped fuel their early growth. It then considers the reasons many countries – including New Zealand – later chose to lift those restrictions and allow merchants to apply surcharges. The section concludes by reviewing how surcharging has played out in practice, including several areas in which outcomes have diverged from expectations.

4.1 No surcharge and honour all cards rules

The interchange-driven model described in section 3 was reinforced by scheme rules that limited how merchants could respond to the higher costs of card acceptance. In particular, schemes prohibited surcharging and required merchants to accept all cards bearing the scheme's logo – regardless of the card type or the associated fee.[45] This meant merchants could neither add a fee to recover their costs nor reject high-cost premium products like Platinum rewards cards while accepting standard ones.

The rationale was simple. The schemes wanted their cards to be attractive to consumers – especially more affluent cardholders drawn to premium products with generous rewards. Allowing merchants to surcharge or refuse expensive cards could have undermined that strategy. Instead, merchants were presented with a take-it-or-leave-it proposition: accept all cards on the scheme's terms or not at all. Given the growing popularity of Visa and Mastercard, most chose to accept.

These rules helped entrench the economics of the four-party model discussed in section 3.1. By preventing selective acceptance or differential pricing, they enabled issuing banks to fund cardholder incentives through interchange fees without facing resistance at the checkout. In doing so, the rules likely played a significant role in the expansion of the networks. But they also made it harder for customers to see – or respond to – the cost of the payment methods they were using.

4.2 Why surcharging bans were lifted

By the early 2000s, regulators and competition authorities in many jurisdictions had begun to examine the rules that prohibited merchant surcharging. Many of the concerns echoed those discussed in relation to interchange fees – and often went hand in hand. The inability to surcharge made it harder for merchants to recover the costs of card acceptance, limited their ability to steer customers toward cheaper options and weakened competitive pressure between payment systems.

In the absence of surcharging, merchants typically bundled these costs into the prices of the goods and services they sold – meaning all customers, regardless of how they paid, contributed to the cost of expensive cards and the rewards attached

45 These were commonly known as the 'no surcharge' and 'honour all cards' rules.

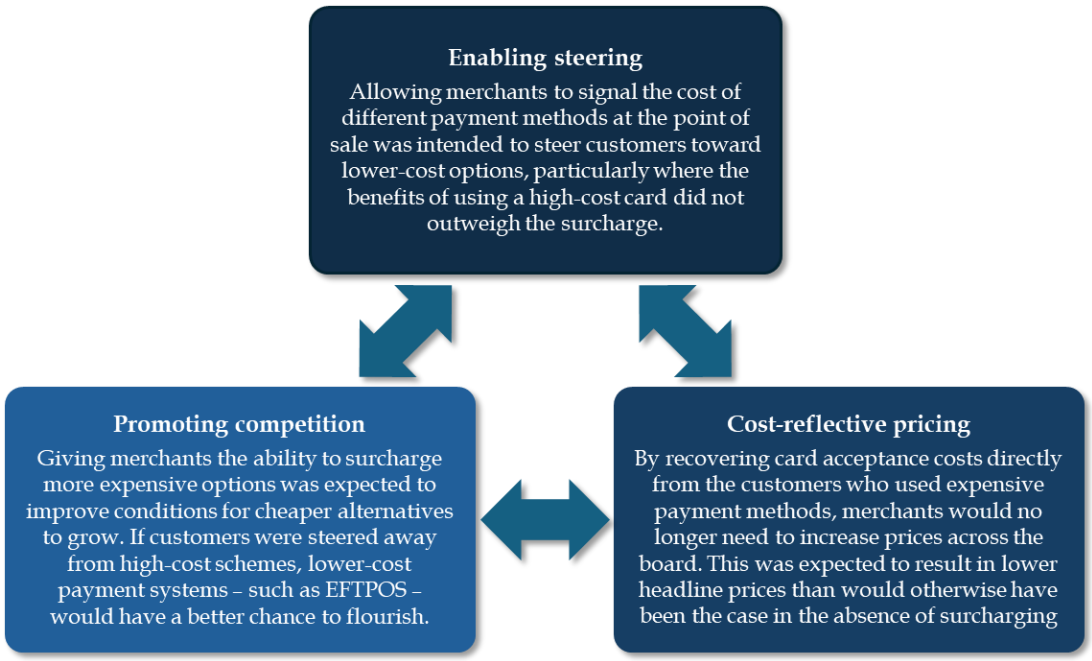
to them. As noted earlier, this was widely viewed as inefficient and regressive, particularly for lower-income consumers who tended to use cash or EFTPOS.

The case for surcharging rested on a standard piece of economic theory. The idea was that, in principle, merchants could set surcharges that reflected the difference between the cost of accepting a particular payment type and the convenience benefits[46] received from doing so. The 'net cost' would then fall on the person choosing to it, rather than being bundled into the prices paid by everyone else. If surcharges were set at that level and a customer chose to pay one, then:

- the business would be left no worse off than if a cheaper payment option had been used and equally, no better off – it would be indifferent;[47] and
- presumably, the customer chose to pay the surcharge because the benefit received – such as reward points or flexibility – outweighed the extra cost.

To avoid losing customers, card systems might then lower their interchange fees to competitive levels, and goods and services would be priced and allocated more efficiently. Motivated by this logic, a growing number of jurisdictions moved to lift the ban on surcharging. The policy objectives were closely linked: to enable steering and, in turn more competition and cost-reflective pricing. Figure 4.1 summarises.

Figure 4.1: Policy objectives behind surcharge bans



46 Those convenience benefits might include reduced checkout times, improved cashflow, lower handling costs (compared to cash), reduced theft and fraud, fewer payment errors, increased sales and greater customer satisfaction.

47 This condition is often described as the 'tourist test'. The idea is to imagine what would happen if all of a merchant's regular customers suddenly behaved like tourists – people the business cannot steer or influence over time. If all of them started using the surcharged payment method, would the merchant still accept it? If the answer is yes, then the surcharge must reflect the true additional cost of acceptance. If not, the surcharge is likely too low (leaving the merchant worse off) or too high (deterring usage or generating excessive margin). The test ensures that the merchant is genuinely indifferent between payment methods and that surcharges reflect cost, not profit.

This reasoning gained particular traction in markets with strong domestic debit schemes, where the cost differences between payment types were significant and well documented. In Australia, for example, surcharging was legalised in 2002 following intervention by the Reserve Bank of Australia. Similar reforms followed in the European Union and the United Kingdom (see Appendix C), where policymakers moved to lift surcharging bans in an effort to promote transparency and improve competitive conditions in the payments sector.

New Zealand followed in 2009, following a settlement between the card schemes and the Commerce Commission settlement. This settlement addressed concerns over anti-competitive practices related to interchange fees and also led to the removal of the no surcharge rule. As a result, from April 2009, merchants were free to apply surcharges – provided they did so in compliance with standard consumer protection laws.

In more recent years, some of the early optimism about the benefits surcharging might deliver has started to fade. While the policy was widely seen as a way to improve outcomes for both merchants and consumers, the results have not always aligned with those expectations. In several jurisdictions, the benefits have proven difficult to realise consistently, particularly where surcharging has been left largely unregulated. That has led some regulators to question whether the policy is achieving its intended purpose – or instead giving rise to a new set of problems.

4.3 Surcharging in practice: lessons and limitations

Surcharging is based on a simple idea: if customers are made aware of the net cost of using a particular payment method, they may think twice about using it. That can help merchants manage costs and reduce the extent to which people using cheaper options end up subsidising those who use more expensive ones. But for that to work, the surcharge needs to at least approximate the net cost of acceptance – and that, in turn, depends on merchants understanding those costs and passing them on accurately. In practice, those conditions have often not been met.

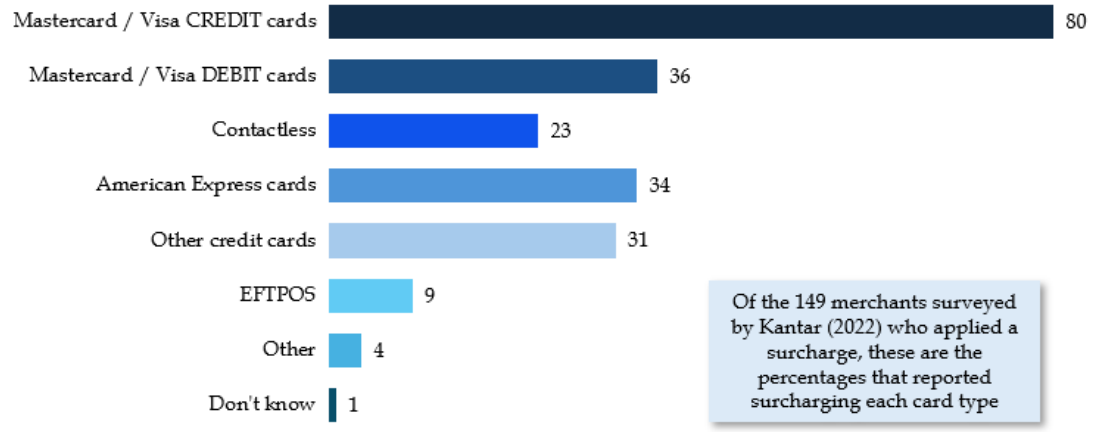
4.3.1 Consumer sentiment

When the ban on surcharging was first lifted, uptake was limited. Only a small number of merchants applied surcharges, typically restricting them to online sales or high-cost credit card transactions. However, over time the practice has become more widespread. According to Kantar's 2022 survey, around 22% of New Zealand merchants that accept credit or contactless payments now apply a surcharge.[48] Other surveys have put this proportion at – or over – 50%.[49] According to that research, surcharges are most commonly applied to Visa and Mastercard transactions, as Figure 4.2 illustrates.

[48] Kantar (2022), p.73.

[49] Mastercard noted that RFI Global's research of 500 New Zealand merchants in August 2023 showed that 50% of them surcharged. *See:* Mastercard, *Mastercard response to Commerce Commission consultation: Retail Payment System*, 2 September 2024, p.14.

Figure 4.2: Most commonly surcharged card types



Source: Kantar (2022), p.78

In total, consumers currently pay up to $150 million in surcharges each year. Although that is a large sum in aggregate, the per-person impact is modest. The average cardholder likely pays around $35 in surcharges annually[50] – less than 70 cents per week. That said, there will naturally be considerable variation: some will pay very little, others far more. Despite the small sums involved, surcharges are widely disliked. But that is hardly surprising, and not especially instructive.

Indeed, few customers enjoy paying more at the point of sale. But not many stop to consider the alternative: that, without surcharging, merchants might simply raise prices across the board to cover their costs. That approach could leave everyone worse off – especially lower-income customers, who are less likely to use cards but would still end up subsidising the cost of those who do. If presented with that trade-off, many consumers might view surcharging in a different light.

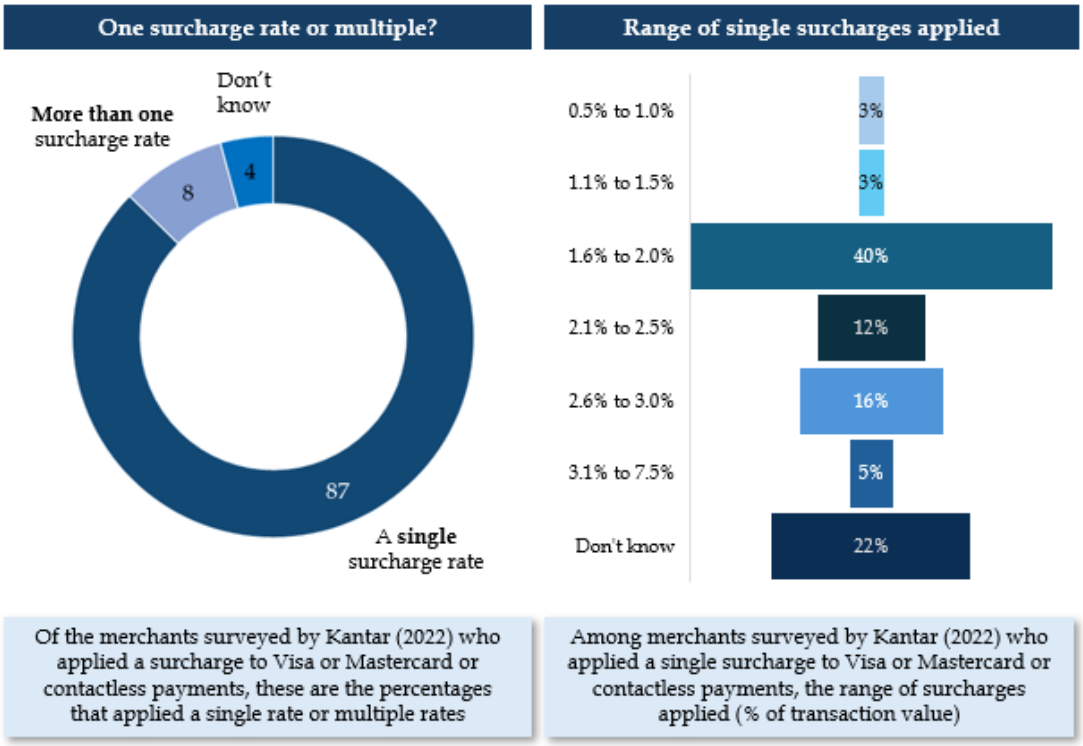
4.3.2 Practical limitations

Consumer sentiment aside, there are more substantive concerns about how surcharging has been applied in practice. For the system to function efficiently, there needs to be a reasonably strong link between the cost of card acceptance – driven primarily by interchange and merchant service fees – and the surcharge rates applied by merchants. That relationship will never be exact. Prices tend to be sticky, and most merchants are unlikely to revise their surcharge settings in response to every marginal shift in underlying costs.

It is also unrealistic to expect merchants to apply finely calibrated surcharges to each individual card type. Some degree of simplification is both inevitable and sensible. Even so, over time, one might expect to see a clear correlation between acceptance costs and surcharge levels. In practice, however, that link has often been somewhat tenuous. As Figures 4.2 illustrate, most merchants apply a single flat rate across all card types, regardless of whether the underlying cost is high or low.

50 Approximately 96.4% of New Zealanders aged 15 and above own at least one debit card (see: here). Assuming an adult population of 4.3 million, that would imply the $150 million annual cost was spread across approximately 4.2 million people: $150 million ÷ 4.2 million = $35.71.

Figure 4.3: Trends in surcharging



Source: Kantar (2022), p.80

Figure 4.3 illustrates not only the near ubiquity of single, flat-rate surcharges, but also a widespread lack of awareness among merchants. Nearly a quarter of those surveyed by Kantar (2022) did not know the surcharge they were applying. The outcomes shown in Figure 4.3 therefore depart from the theoretical ideal in several respects – most notably, the principle that surcharges should approximate the net cost of acceptance. Several factors help to explain this pattern:

- **Poor visibility of costs**: Many merchants do not have a clear understanding of what different payment methods cost to accept. Fee statements are often opaque, fragmented or bundled with unrelated charges such as terminal rental. Without that visibility, setting cost-reflective surcharges becomes nearly impossible.
- **Set-and-forget pricing**: In some cases, surcharge rates may have been programmed by the terminal installer or payment provider – often conservatively, to cover a wide range of card types – and left unchanged for years. Merchants may lack the knowledge or tools to revise those settings, even if their costs have shifted significantly.
- **Aversion to unprofitable transactions**: To break even across all transactions, a merchant would need to apply a surcharge that is above the merchant service fee on some transactions and below it on others. However, many merchants may be unwilling to accept a loss on any transaction and therefore set their surcharge at or above the highest merchant service fee they face.
- **Technological constraints**: Until recently, many terminals lacked the capability to apply differentiated surcharges by card type. A flat rate was often the only available option, regardless of whether the transaction involved a low-cost debit card or a high-fee premium credit card.

Together, these factors – along with more deliberate pricing strategies, discussed in the following section – help explain why surcharges often diverge from actual acceptance costs (net of offsetting convenience benefits). Those discrepancies can be very significant indeed. In New Zealand, the Commission has estimated that merchants are currently over-recovering by between $45 million and $65 million annually through surcharges.[51]

That said, merchants are not immune to change. While few appear inclined to make constant, incremental adjustments to their surcharges, there is evidence that more significant cost shifts or external signals can prompt a widespread response. In the New Zealand context, there have been at least two recent periods during which large numbers of merchants revised their surcharge settings:

- **Following the introduction of interchange caps**, we understand that many merchants reduced their surcharge rates. This may have been driven by the size of the cost reduction, the publicity surrounding the reforms, and the Commission's broader communications effort. For some merchants, it may have been the first time they revisited their surcharge settings since installation.
- **During the Covid-19 pandemic**, when contactless payments became a practical necessity, many merchants upgraded their terminals to support them. Initially, major banks waived fees on these transactions. When those waivers ended, many merchants adjusted their surcharge rates – either to reflect the increased share of contactless payments or to introduce surcharges for the first time.

These examples suggest that merchants are capable of responding to clear, material cost signals – particularly when those changes are salient or accompanied by external prompts.[52] However, in day-to-day operations, a range of practical frictions tends to weaken the link between underlying costs and surcharge rates. That means surcharging, as implemented, remains some distance from the theoretical ideal of transparent, cost-reflective pricing.

4.3.3 Drip pricing and checkout transparency

There are also situations in which merchant behaviour appears more opportunistic. Some have used surcharging as an additional source of revenue – most notably by delaying disclosure of the surcharge until the final stage of a transaction. This is particularly common in online settings, where customers have already invested time and effort and are less likely to abandon the purchase. By introducing the surcharge only after the purchase process is well underway, this form of 'drip pricing' can

51 This figure is based on its assessment of the gap between what many merchants charge and what it estimates it costs them to accept card payments. At the time of the draft decision, the Commission reported that the average merchant service fee was around 1.1%, while the average surcharge was approximately 1.9% - a gap of 80 basis points. *See:* Draft Decision (2024), p.47.

52 That inference is also supported by recent survey data. In Kantar's 2022 survey, merchants who currently apply a surcharge were asked how they would respond if their merchant service fees fell by one percentage point.[52] Three in five said they would reduce their surcharge and one in ten said they would stop surcharging altogether. *See:* Kantar (2022), p.15.

raise the effective price paid by the customer and make it easier for merchants to recover more than the underlying cost of acceptance.

Beyond the specific concerns about over-recovery and drip pricing, there is a broader issue of price transparency. Surcharges were intended to provide a clear – and, ideally, broadly accurate – signal to consumers about the relative costs of different payment methods. However, in practice, they have often made pricing less transparent, not more. Because prices are typically quoted excluding any surcharge, customers frequently do not know the total cost of what they are buying until they reach the point of payment. Drip pricing is one expression of this problem, but it is simply the sharpest version of a wider pattern.

When customers are browsing online or comparing prices across retailers – whether on a website, in an app or walking through a shopping mall – they are likely seeing only part of the price. Most of it, certainly, but not all. And in a competitive retail environment, even a small hidden cost can affect those comparisons – making one retailer appear cheaper than another when, in fact, it is not. Over time, this kind of pricing ambiguity may begin to erode customer trust and confidence at checkout, which is a significant problem.

4.3.4 Relationship between interchange fees and surcharges

Recall that one of the original justifications for allowing surcharging was its potential to place downward pressure on interchange fees. The idea was that if merchants applied efficient surcharges – reflecting the net cost of accepting different payment methods – card schemes might be forced to lower their interchange fees to remain competitive. In turn, merchants could pass those savings on to consumers, leading to more efficient pricing and resource allocation across the economy.

However, as noted in section 3.2, that outcome has not materialised in practice. In response, many regulators – including the Commission – have introduced caps on interchange fees. These interventions have typically aimed to bring interchange fees closer to merchants' net costs of acceptance, while acknowledging that perfect alignment is not feasible.[53] As a result, the need for merchants to surcharge has diminished, or at least the theoretically optimal surcharge rates have fallen.[54]

Specifically, because interchange rates have fallen – and the differences in the underlying costs of accepting different payment mechanisms have shrunk – this has reduced the need for merchants to steer customers. Greater cost-reflectivity has instead been introduced by regulatory fiat, consequently weakening one of the

[53] The net cost of accepting payments can vary across individual card types, making it impractical to set regulated interchange fees that align precisely with each one. Attempting to do so would create excessive complexity and render the system unworkable in practice.

[54] As a matter of pure economic principle, if interchange fees reflect the true net cost of acceptance – then the theoretically optimal surcharge is zero. In that case, merchants would be indifferent to how customers choose to pay, eliminating any efficiency rationale for steering behaviour through surcharges. However, as the previous footnote explained, such idealised conditions do not hold in practice, because it is neither feasible nor advisable to attempt to set interchange fees in this extremely complicated way.

justifications for permitting surcharging in the first place. Indeed, this was one of the primary reasons that surcharging was banned in the EU in 2015, as the following section explains.

4.3.5 Responses in the other jurisdictions

In response to these concerns, some jurisdictions have reconsidered their approach to surcharging. Both the United Kingdom and Australia initially sought to rein in excessive surcharges by capping them, linking allowable surcharge levels to the estimated cost of card acceptance – typically based on the merchant service fee. These policies aimed to preserve the benefits of surcharging – such as cost transparency, price signalling and merchant steering – while limiting over-recovery and reducing perceptions of unfairness.

However, these caps proved difficult to implement in practice. Accurately calculating a cost-reflective surcharge required merchants to have clear, up-to-date information about their acceptance costs. Many – particularly smaller businesses – lacked visibility into the fees associated with different card types and often received complex or opaque billing information from their bank or payment provider. Regulatory oversight was also challenging, making it difficult to monitor compliance at scale.[55]

The European Union chose to ban surcharging under its Revised Payment Services Directive (PSD2), which took effect in January 2018. A key reason for this decision was that, three years earlier, it had already capped interchange fees using the 'Merchant Indifference Test',[56] significantly narrowing the cost differences between payment systems. This was seen as reducing the need for merchants to surcharge to such an extent that continuing to allow the practice risked doing more harm than good. As outlined in Appendix C, the United Kingdom went further still – extending the ban to additional products, including three-party card transactions – citing concerns about checkout transparency

Australia has taken a more gradual approach but is also reassessing its position. In 2024, the Reserve Bank of Australia launched a review of its surcharging framework to determine whether the current rules remain fit for purpose. Among the options being considered are tighter limits, stronger enforcement, and, in some cases, a broader ban. While no decisions have yet been made, the fact that such reforms are under active review reflects growing recognition that, while sound in principle,

[55] Regulators faced the practical challenge of enforcing pricing rules across tens of thousands of businesses, each with different fee arrangements, systems and levels of sophistication. In many cases, enforcement activity was limited and patchy.

[56] As explained previously, the 'Merchant Indifference Test' — or 'Tourist Test' — asks whether a merchant would still accept a particular payment method from a one-time, non-repeat customer, such as a tourist, even without the prospect of recouping the cost through future business. If the answer is yes, the net cost of acceptance must be less than or equal to the benefit, suggesting the interchange fee is not excessive. If not, the fee is likely too high relative to the value provided. In practice, however, a key limitation is that interchange fees must be averaged across card types, since it is not feasible to apply bespoke fees to every possible variation. As a result, while the test offers a useful conceptual benchmark, it cannot be applied precisely in real-world settings.

surcharging can be difficult to implement effectively in practice. A full case study is provided in Appendix D.

4.4 Summary

Surcharging was initially prohibited by the major card schemes as part of a broader strategy to drive card uptake. By preventing merchants from recovering acceptance costs directly or refusing high-cost cards, those rules supported cardholder rewards and helped entrench the four-party model. However, over time regulators and policymakers became increasingly concerned about the effect of those restrictions on cost transparency and merchant flexibility. Surcharging was reintroduced in a number of jurisdictions to allow merchants to recover costs more directly and signal price differences to customers.

The policy rested on a clear theoretical foundation: if merchants could pass on the cost of more expensive payment methods, customers would face more accurate price signals and could adjust their choices accordingly. In practice, however, that logic has proven difficult to realise. Many merchants lack visibility over the cost of accepting different cards, and few set surcharge rates that reflect them. Technical constraints, legacy configurations and simplified terminal setups have reinforced the widespread use of flat-rate surcharges. The available evidence suggests that, in aggregate, surcharges are often set above cost, resulting in significant over-recovery.

That said, merchants are not entirely unresponsive. While few make regular, incremental adjustments, many have reacted to larger, more visible shifts – such as the introduction of interchange caps or the expiry of fee waivers on contactless transactions. But following those occasional, widespread recalibrations in surcharge levels, practical frictions are likely to reassert themselves, causing rates to begin drifting away from underlying acceptance costs once again.

Further concerns have emerged around how surcharges are disclosed. In some cases – particularly online – merchants have delayed their disclosure until late in the purchase process, making it harder for customers to assess the full cost and contributing to wider concerns about drip pricing. At the same time, interchange fee regulation in many jurisdictions has reduced the differences in acceptance costs across payment methods. This has, in turn, arguably lessened the need for merchants to steer customers away from higher-cost options through surcharging.

These issues have prompted some jurisdictions to revisit their regulatory approaches. The European Union banned surcharging on most consumer transactions in 2018 – and the UK went even further, extending the ban to other payment types, including three-party card transactions. More recently, Australia is currently reviewing its current framework and actively considering a similarly widespread surcharging ban.[57] The following section considers the potential impacts on competition if New Zealand banned surcharging.

[57] Further detail is provided in Appendices C and D.

5. Full ban – baseline scenario

This section considers the potential impacts on competition of banning surcharging across all Visa and Mastercard credit and scheme debit payments (excluding domestic pre-paid), for both online and in-person transactions.[58] In effect, it examines a scenario in which New Zealand reverted to the conditions described in section 4.1, when the card schemes enforced 'no surcharge' rules. The analysis assumes that *current caps* on interchange fees would remain in place and serves as the baseline scenario against which subsequent sensitivities are tested.[59]

5.1 Overview of likely impacts

It is helpful to begin with a high-level overview of what would be expected to occur if surcharging were banned under this baseline scenario. The most immediate impacts would include the following:

- **Merchants would lose a source of revenue – both legitimate and excessive:** A ban would remove around $150 million per year in surcharge revenue. This would eliminate any 'excess surcharging'[60] but also deprive merchants of the single most effective tool they have to steer customers toward lower-cost payment methods. Alternatives such as 'verbal prompts', signage or simply refusing to accept payment methods are often impractical or ineffective.
- **Credit and scheme debit cards would become more attractive to use:** With surcharges removed, customers would be able to enjoy all the benefits of credit and debit cards – and the mobile wallets that store them – without having to pay the underlying costs (at least not directly – see below). Usage of these products would therefore rise, benefiting Visa and Mastercard, as well as mobile wallet providers such as Apple Pay.
- **Other payment options would become less attractive:** Use of EFTPOS would likely decline, since it lacks the convenience and digital functionality of credit and scheme debit cards yet would no longer offer a price advantage at checkout. A2A products may also lose ground, since many of their core benefits – such as real-time payment and direct account access – would be obtainable via credit and scheme debit cards, without incurring a surcharge.
- **The prices of goods and services would increase:** Many merchants would respond by raising prices across the board—spreading the cost of higher acceptance fees across all customers, regardless of how they pay. Price increases are particularly likely among smaller merchants, who are more likely to have applied surcharges and operate in highly competitive sectors. The impact would

58 Unless stated otherwise, there is no distinction between the treatment of domestic- and foreign-issued cards in the scenarios described in sections 5 to 10. The potential implications of treating foreign-issued cards differently are explored specifically in section 11.

59 A scenario in which those interchange fee caps are lowered to the levels set out on the Commission's draft decision is considered in the following section.

60 As noted earlier, the Commission has estimated that of the $150 million in surcharges collected annually by merchants, approximately $45 million to $65 million represents excess surcharging, i.e., charges above the underlying cost of acceptance. *See:* Draft Decision (2024), p.47.

fall most heavily on less affluent customers, who are less likely to use credit cards and would no longer benefit from paying with cheaper methods.

- **Simplified pricing and improved transparency:** Although prices would be higher, they would also be more transparent. Customers would be able to compare the full price of products and services more easily, without needing to account for surcharges at checkout. The ban would also eliminate drip pricing in online settings, where a surcharge is often disclosed only at the final stage of a transaction when the customer is less likely to back out.

The following sections examine in more detail the effects on competition across the payments ecosystem and on the overall customer experience. As they show, a ban would deliver some benefits—but only at potentially significant cost.

5.2 Practical implementation challenges

Before exploring the competitive implications, it is worth briefly considering whether a full surcharge ban would be technically and operationally feasible. In short, it would. A blanket ban would be relatively simple for merchants to implement. Unlike rules that depend on card type or transaction channel, a full prohibition would not require any differentiation between products, pricing structures or payment environments (e.g., in-person versus online).

Most payment service providers in New Zealand – including Windcave, Verifone and Worldline – support this functionality and can simply turn off surcharges at the merchant level. For larger retailers and well-supported merchants, this would likely be a straightforward configuration change. For smaller businesses, particularly those using off-the-shelf terminals or e-commerce platforms, some assistance may be required to ensure the settings are properly updated.

While there may still be some risk of delay, confusion or non-compliance during the transition period, the likelihood of widespread implementation issues is materially lower than it would be under more targeted bans. Put simply, from a technical and operational perspective, a full ban would be the most easily administered of the policy options considered in this report.

5.3 Competition in payments

Banning surcharging would have potentially significant effects on the competitive positions of different payment providers. Visa and Mastercard would be clear beneficiaries, with their market positions likely to strengthen as a result. In contrast, lower-cost alternatives – such as domestic EFTPOS and emerging options like A2A platforms – would be materially disadvantaged, with their long-term viability potentially put at risk.

5.3.1 Visa and Mastercard

There is no question that banning surcharging would be highly beneficial to Visa and Mastercard. The card schemes have consistently sought to prohibit surcharging

wherever possible – for the simple reason that doing so advances their commercial interests (see section 4.1). As just noted, a ban would allow their customers to enjoy all the benefits of credit and scheme debit cards – such as contactless payment, rewards and mobile wallet compatibility – without having to pay for them (at least not directly via surcharges).

Usage of these products would therefore increase, as would use of mobile wallets that store them, expanding Visa and Mastercard's market shares and entrenching their already strong market positions. Without the ability to surcharge, there is unlikely to be much that merchants could do to steer customers away from Visa and Mastercard products. Retailers could try to convince customers to use cheaper options using signs or verbal prompts at the point of sale. However, this may have limited appeal, since:

- many merchants may be reluctant to engage in any practice that risks making their customers uncomfortable – or putting their staff in that position either; and
- reflecting that concern, Kantar (2022) found that only 15% of merchants reported trying to steer customers toward an alternative payment method – and it is unclear how often those efforts were successful.[61]

Merchants might also consider refusing to accept the most expensive Visa and Mastercard products- such as platinum or premium rewards cards – that attract the highest fees. However, the practical challenge would be identifying those cards on sight. It is unclear whether most merchants could do this reliably, at least not without causing significant disruption at the point of sale. As noted above, many may also be unwilling to risk placing their staff and customers in potentially confrontational situations.

In theory, the difficulties of distinguishing between card types could be avoided by refusing to accept *all* Visa and Mastercard products. But in practice, few merchants are likely to go to that extreme, given the widespread customer preference for these payment methods. Recent Kantar research found that only 10% of merchants had stopped offering any payment method since the Covid-19 pandemic – and, those that had, most commonly withdrew cash (for hygiene reasons) or more expensive cards, such as American Express.[62]

This would leave merchants with only two real options: attempt to recover at least some of the costs of accepting Visa and Mastercard by increasing the prices of their goods or services or absorb the cost and accept lower margins. Either way, Visa and Mastercard would benefit – at the expense of merchants and customers who do not use their cards. The result would be a further strengthening of their already strong position in the market. Competing payment options, by contrast, would likely be significantly disadvantaged, as the following sections explain.

61 Kantar (2022), p.82.

62 Kantar (2022), p.45.

5.3.2 Domestic EFTPOS

A ban on surcharging would be highly detrimental to domestic EFTPOS – potentially even fatal. Even with surcharging in place – and applied reasonably widely, including at times excessively – EFTPOS is falling ever further behind the card schemes. As Figures 2.1 and 2.2 showed, Visa and Mastercard already process more payments – both in volume and value – than domestic EFTPOS and are steadily pulling further ahead.

A ban would strip EFTPOS of its one remaining competitive advantage: its lower cost to the customer when surcharges are present. Without that price signal at checkout, most customers would have little reason to choose EFTPOS over faster, more versatile alternatives like 'tapping' a credit or scheme debit card. And as the previous section explained, merchants would have few other tools to steer customers in that direction.

Consequently, EFTPOS usage would almost certainly decline further – deepening its disadvantage relative to the card schemes and potentially placing it on a path of terminal decline. It is possible – and perhaps even likely – that the network's days are numbered regardless of whether surcharging is banned. Even its owners have publicly described the platform as 'woefully outdated'[63] and have signalled a shift in focus toward an online replacement.

But that does not mean hastening the demise of the legacy EFTPOS network would be costless – or immaterial to the assessment of competitive effects. On the contrary, bringing forward the potentially substantial outlays associated with decommissioning the network could prove expensive. Just as importantly, the loss of the network would also eliminate any competitive constraint it continues to provide – and the benefits that come with it.

5.3.3 Emerging payment providers

Emerging competitors to the card schemes—most notably A2A providers—would also be adversely affected by a ban on surcharging. These alternatives offer many of the features that EFTPOS lacks, while still aiming to undercut the card networks on cost. Those attributes would continue to hold strong appeal for merchants under a no-surcharge regime—perhaps even more so. The challenge would be convincing customers to use them.

That is because most—if not all—of the advantages offered by A2A platforms would also be available through credit and scheme debit cards, now without any surcharge. This could significantly reduce the incentives customers might otherwise have to try lower-cost alternatives. While data on current uptake remains limited, there are encouraging signs that consumers may be open to using these services. As noted earlier:

63 Worldline New Zealand, *Submission: Draft report on the market study into personal banking services*, 18 April 2024, p.3

- research by Payments NZ (2024) indicates that consumer comfort with sharing banking data with third-party providers is increasing, lowering what has been a significant barrier to adoption;[64]
- the same research shows that many of the features offered by A2A services—such as real-time payments—are highly appealing, and presumably even more so when the only other ways to access them involve surcharges;[65] and
- the Commission has estimated that at least 15% of eligible customers have already used a third-party service to initiate a payment directly from their bank account using open banking interfaces.[66]

Although the current size and growth trajectory of these emerging providers remains unclear, these signals are promising. Moreover, as section 2.5.3 explained, New Zealand is on the verge of rolling out open banking reforms. The new *Customer and Product Data Bill*, passed in 2024, establishes a legal framework for customer-directed data sharing and payment initiation and is expected to be phased in from later this year. These initiatives are designed to support and accelerate precisely these types of payment alternatives.

Specifically, the legislation gives consumers the legal right to share their banking data with third-party providers and to authorise payments directly from their accounts. This removes a major barrier to entry by better-enabling A2A providers to offer real-time payment services that compete directly with the card networks. Just as importantly, it requires banks to provide access on fair and equal terms – helping to level the playing field for new entrants. As noted earlier, international experience shows how effective these reforms can be:

- In the UK, open banking reforms introduced in 2018 led to a wave of new payment tools that now process millions of transactions each month; and
- Similar models have taken hold in countries like the Netherlands (iDEAL), India (UPI), and Australia (PayTo).

Banning surcharging would remove these emerging providers' most important selling point—their lower cost—just as other barriers to entry are finally being addressed. This could undermine the impact of open banking reforms at the very moment they are intended to take effect. With the right conditions, these new providers might expand and start putting more competitive pressure on the incumbent networks – most notably Visa and Mastercard. If surcharging is banned, that prospect could be extinguished while it is still only a spark.

64 When asked about secure data sharing with a third party to take advantage of open banking, 37% of surveyed respondents were comfortable with this – continuing a steady rise from 27% in 2022 and 16% in 2020. *See:* Payments NZ (2024), p.34.

65 Being able to make a payment, or receive it from someone else, and have the money arrive straight away, was appealing to 76% of respondents. *See:* Payments NZ (2024), p.45.

66 *See: Commerce Commission, Update on Open Banking Progress,* 10 December 2024, p.2.

5.3.4 Other payment instruments

Banning surcharging would benefit providers of mobile wallets such as Apple Pay and Google Pay. These are simply digital versions of scheme debit and credit cards so, as noted in section 5.3.1, usage of these instruments would almost certainly increase. Any surcharging ban that encompassed American Express and Diners Club would also make those cards cheaper for consumers, but they are less widely accepted,[67] and merchants may well be in a better position to refuse to take them.[68]

It is unclear whether a surcharging ban would have any meaningful impact on BNPL providers. This payment option occupies a relatively specialised niche that blends short-term lending with streamlined digital payment. Those merchants that accept it do so normally because it allows consumers to buy products when they might have no other viable way of doing so. That being the case, banning surcharging may have little bearing on the use of BNPL products.

5.3.5 Summary

Banning surcharging would pose a clear threat to competition in the supply of payment instruments under the baseline scenario. Visa and Mastercard would stand to gain significantly, with their already strong positions likely to be further entrenched. In contrast, the competitive position of lower-cost alternatives – particularly domestic EFTPOS and emerging A2A platforms – could be seriously undermined. EFTPOS may be pushed into terminal decline, while A2A providers could lose the chance to establish themselves as credible challengers.

5.4 Competition in banking

Although the most immediate effects of a surcharge ban could be felt in the payments sector, there may also be implications for competition in banking. Card issuers could benefit from higher interchange revenue, while some emerging providers – particularly those offering low-cost alternatives as a potential springboard into banking – might find their prospects diminished. The impacts would likely vary depending on the institution's business model.

5.4.1 Major banks

New Zealand's major banks are the principal issuers of Visa and Mastercard credit and scheme debit cards. A ban on surcharging could increase the frequency and breadth of card usage, making these products more valuable to both customers and issuers. That, in turn, may lead to higher interchange revenues – particularly in sectors where surcharges had previously discouraged card use.

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67 In Kantar's 2022 survey of merchants, only 10% of respondents accepted American Express or Diners cards. *See:* Kantar (2022), p.17.

68 Consistent with this, Kantar's 2022 survey found that American Express was among the payment instruments most commonly withdrawn by merchants following the Covid-19 pandemic. *See:* Kantar (2022), p.45.

Those additional revenues might prompt banks to expand their card offerings. For example, some may reinvest by enhancing reward schemes, reducing fees or encouraging uptake through bundling and other incentives. This could reinforce existing usage patterns, deepen customer reliance on cards and further entrench these products as the default means of electronic payment across many sectors.

While the potential magnitude of these effects is uncertain, major banks would be particularly well positioned to respond. Their larger customer bases, broader product portfolios and more extensive distribution networks could allow them to scale up promotional efforts quickly and comprehensively. Over time, this may strengthen their position in both payments and banking and make it more difficult for newer entrants to compete.

5.4.2 Smaller banks and fintechs

Smaller banks and fintechs that issue Visa and Mastercard products could also benefit from higher card volumes and associated interchange revenue. For some, the effects might be particularly significant. Fintechs that rely on card issuance as a core source of income – without the benefit of diversified lending or deposit operations – may find that increased usage materially improves their economics.

However, those benefits may not extend to all providers. A number of fintechs are not focused on card issuance at all, but instead offer low-cost, A2A payment options as a way to build trust and engagement with customers. For some, these services may be intended to serve as a stepping stone toward offering more fulsome banking services, including transaction accounts and credit products.

If those payment options become less competitive – as they likely would under a surcharge ban (see section 5.3.3) —those broader ambitions could be more difficult to realise. A weaker value proposition in payments may slow customer acquisition or reduce engagement, limiting the ability of these providers to scale. The result could be slower development of new, bank-like offerings and reduced pressure on incumbent institutions across the wider banking sector.

5.4.3 Summary

While a surcharge ban could benefit all Visa and Mastercard issuers to some degree, the largest gains may accrue to the major banks. Their scale and product reach might allow them to convert increased card usage into broader customer engagement. Smaller issuers could benefit too, particularly those reliant on interchange revenue. However, for fintechs aiming to disrupt banking by first offering low-cost payment alternatives, the loss of surcharging as a differentiator may hinder growth. This may reduce longer-term competition in banking itself.

5.5 Competition in retail

The effects of a surcharge ban would not be confined to payments and banking. There would also be material consequences for competition in retail markets. These

effects could arise through two main channels. Firstly, a ban would alter how merchants recover the cost of payment acceptance and signal those costs to customers. Secondly, it would also affect different types of merchants in materially different ways. Each of these impacts is examined below.

5.5.1 Price signals and pass-through

As outlined in section 4, the application of surcharges in New Zealand has departed in several respects from the 'textbook ideal' of efficient price signalling. Most merchants apply a single flat-rate surcharge across all card types, regardless of differences in the underlying cost of acceptance. Many do so without a clear understanding of what those costs are. In some cases, surcharge levels were likely determined at the point of terminal installation and left unchanged for years. Even when updated, they are seldom recalibrated regularly.[69]

This practice can distort consumer decision-making. A flat surcharge set too high relative to average acceptance costs may overstate the expense of using certain cards and deter use of some payment methods unnecessarily. There is also a risk that it may steer an inefficiently high share of transactions toward lower-cost options like EFTPOS – regardless of whether those options offer the same functionality, security or user experience.

As noted earlier, according to the Commission's estimates, merchants are collectively recovering between $45 million and $65 million more than their current costs of acceptance through surcharges. That over-recovery represents both a transfer and a potential source of allocative inefficiency. A ban would address that problem directly. It would eliminate excess surcharges and remove the distortions that arise from overstating the cost of particular payment methods.

However, banning surcharges altogether would substantially reduce merchants' ability to signal differences in acceptance costs *at all.* As noted earlier, merchants would retain few, if any, viable means of encouraging customers to use cheaper payment methods. Verbal prompts and signage may have only limited impact, and refusing to accept Visa or Mastercard altogether may be a difficult option for most merchants, given consumers' expectations.

This could give rise to a different set of distortions. Merchants may be forced to choose between absorbing the incremental cost of card acceptance or spreading those costs across all customers through higher retail prices. The result is likely to be a partial shift from targeted cost recovery to generalised pass-through. Customers using low-cost payment methods – such as EFTPOS or A2A services – would then bear a greater share of the cost associated with those using more expensive options.

[69] Merchants have shown a willingness to adjust their surcharges in response to 'big' nudges, such as the initial introduction of interchange fee caps and the Covid-19 pandemic. However, those temporary realignments aside, the correlation between surcharges and costs is far from perfect.

The scale of that shift is difficult to predict.[70] It will vary depending on the competitive dynamics within each retail sector, the prevalence of surcharging prior to the ban and merchants' ability to raise prices. However, it is reasonable to anticipate that a significant portion of the cost previously recovered through surcharges would be passed through to headline prices. That would raise average prices and contribute – at least at the margin – to inflationary pressure.

Any such effect would be regressive. More affluent consumers are more likely to hold and use scheme cards. By contrast, lower-income consumers are more likely to pay using EFTPOS or cash. A surcharge ban may therefore result in poorer consumers subsidising rewards and benefits that accrue to wealthier ones. Accordingly, while a ban would address certain inefficiencies associated with excess surcharging, it would replace them with others – potentially greater in scale and broader in effect.

5.5.2 Disproportionate impact on small merchants

The effects of a surcharge ban would also be unevenly distributed across the retail sector. Larger merchants are less likely to impose surcharges, on average. They typically face lower merchant service fees due to their scale and negotiating power and are more likely to operate on fixed-fee or 'interchange-plus' pricing arrangements. These businesses may also have more flexibility to absorb acceptance costs across a broader revenue base or recover them indirectly through other means.

By contrast, smaller merchants typically pay higher fees to accept credit and scheme debit cards and often face tighter margins in competitive markets. These firms are disproportionately represented in sectors such as hospitality, food services and personal care – industries where average transaction values are lower, and card usage is high. For many of these businesses, surcharges are not an ancillary revenue stream, but an important tool for managing costs.[71]

If a ban is introduced, those smaller businesses currently applying surcharges would face a choice. They would either need to raise prices or absorb the associated costs. Either option may weaken their competitive position – particularly relative to larger businesses that already absorb these costs and do not surcharge. Their prices may rise relative to those rivals, or their margins may erode. In both cases, the ban could be especially detrimental to smaller operators for whom surcharging is currently an economic imperative.

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70 Economic theory suggests that, in highly competitive sectors, a significant portion of those savings would likely be passed through to consumers in the form of lower prices for goods and services.[70] However, that effect is unlikely to be provable or measurable. Payment processing costs tend to be small compared to other input costs, which means econometric techniques struggle to isolate the impact of interchange fee reductions on final prices. For a more comprehensive discussion of the various factors that would influence the level of pass-through, *See:* Axiom Economics, *Review of Retail Payment Systems Issues Paper, A report for the NZBA,* December 2016, pp.13-17.

71 This is reflected in recent Kantar survey findings. The most common reason cited by merchants for applying a surcharge was that they 'could not afford not to'. *See:* Kantar (2022), p.74.

5.5.3 Summary

While a surcharge ban would eliminate current instances of over-recovery and remove some inefficiencies from the retail system, it could introduce others that are more diffuse and regressive. Merchants would lose any meaningful ability to signal differences in payment acceptance costs, leading to broader price increases that disproportionately affect lower-income consumers. Smaller retailers, who tend to rely more heavily on surcharges and face higher card acceptance costs, may be particularly hard hit. This could weaken their position relative to larger rivals and reduce competition in the retail sector overall.

5.6 Consumer experience

The previous section explained why all consumers would pay more for goods and services, *on average*, if surcharges were banned (although cardholders would benefit from higher rewards). However, a ban would also avoid consumers inadvertently paying more than they initially intended by stopping the nefarious practice of 'drip-pricing'. It would also make it easier for them to compare prices in stores and online. Both of these things could benefit the overall customer experience.

5.6.1 Elimination of drip pricing

Most consumers have encountered a situation where after investing time and effort selecting a product or service, they were met with an unexpected surcharge at the point of sale – one that materially increased the final price. Having already committed to the process, many likely proceeded with the purchase, even though they might have made a different decision had the full price been known upfront. These 'drip pricing' practices are undesirable because:

- they can distort consumer choices by obscuring the true cost of a product or service until the final stage of the transaction;
- they may facilitate excessive surcharging and give an unfair advantage to merchants who adopt these tactics, potentially diverting business from competitors who price more transparently; and
- more broadly, they can erode trust in the checkout process and diminish the overall quality of the consumer experience.

These practices are especially common in online settings, where consumers often navigate through multiple screens before reaching the final payment stage. In some sectors – such as ticketing – there are often no practical payment alternatives that allow customers to avoid a surcharge. Options like EFTPOS and cash cannot be used online, and internet banking transfers are generally unavailable, particularly where immediate payment is required to secure a booking.

Banning surcharging would mean that businesses could no longer engage in these practices. This would eliminate any excess returns that are currently being earned via these practices – potentially a material portion of the $45 million to $65 million excess surcharges estimated by the Commission. It would also result in greater price

transparency and enable customers to more easily compare the final prices of products without being misled. Both are significant potential benefits.

5.6.2 Greater overall price transparency

Beyond the specific concerns about drip pricing, there is a broader issue of price transparency. As section 4 explained, surcharges were intended to provide a clear – and ideally accurate – signal to consumers about the relative cost of different payment methods. However, in practice, they have often made pricing less transparent, not more. Because prices are typically quoted excluding any surcharge, customers often do not know the total cost of a purchase until they reach the point of payment.

Drip pricing is one expression of this issue, but it reflects a wider pattern. Whenever customers shop online or compare prices across retailers – whether through a website, an app, or in person – they may be seeing only part of the total price. Most of it, certainly, but not all. In a competitive retail environment, even a modest hidden cost can distort those comparisons – making one retailer appear cheaper than another when, in fact, it is not. Over time, this kind of pricing ambiguity may erode trust and undermine confidence at checkout.

A ban on surcharging would address that concern. While it would result in higher headline prices for goods and services (for the reasons set out above), those prices would be more transparent – something many consumers may welcome. As Appendix C explains, this issue of checkout transparency was a central factor in the UK's decision to extend its ban on surcharging beyond what was required under the 2015 EU directive. However, it is worth noting that this decision was made in the context of more advanced open banking reforms than exist in New Zealand, meaning the concerns discussed in section 5.3.3 were less acute.

5.6.3 Summary

While banning surcharging would lead to higher average prices for goods and services, it could also improve the overall shopping experience by removing one of the most common sources of pricing confusion. Drip pricing and other forms of incomplete price disclosure can mislead consumers, distort competition and undermine trust in the checkout process. A ban would eliminate these practices and make it easier for customers to compare final prices, supporting fairer competition and more confident purchasing decisions.

5.7 Other considerations

A few additional considerations may be relevant when assessing whether to proceed with a full ban on surcharging. Firstly, such a move would not be unprecedented. Surcharges have already been banned outright in several jurisdictions, including the EU, the UK and Malaysia. In other countries, such as the United States and India, surcharges have been prohibited on debit cards. New Zealand would not be going out on a limb by following suit.

However, it is important to recognise that the contexts in which those bans were introduced differ in material respects. Most of the jurisdictions that have implemented full or partial bans on surcharging are significantly further advanced than in terms of open banking reform. In those settings, alternative payment options – such as A2A services – may already be more established. That means regulators in those countries likely faced less risk that a ban would stifle the growth of emerging providers. In New Zealand, where open banking is still in its formative stages, the risk of curtailing future competition may be more pronounced. That warrants a degree of caution before simply adopting the approach taken elsewhere.

Secondly, while consumers may dislike surcharges – and might even favour banning them if asked – their general sentiment should arguably not carry decisive weight in the analysis. As section 4.3.1 explained, many customers may not have considered the broader consequences of a ban, including the near-certain increase in headline prices that would result. If they did, many may oppose a ban. For that reason, consumer dislike – though understandable – should not be treated as a substitute for careful cost-benefit analysis.

5.8 Conclusion

Banning surcharges would generate several real and immediate benefits. It would improve price transparency, remove a common source of frustration at checkout and eliminate some of the worst excesses associated with current surcharging practices. It would also be relatively straightforward to implement and would align New Zealand with approaches adopted in several other countries. The key advantages would include:

- **Clearer pricing at checkout**: Customers would know the full cost of what they were buying before reaching the point of payment. This would make it easier to compare prices across retailers – whether in person or online – and could support more informed consumer decisions.
- **An end to drip pricing**: Surcharges would no longer appear only at the final stage of a transaction, after the customer had already committed time and effort. That would reduce the risk of people being misled and improve the overall checkout experience – especially in online settings.
- **Removal of excess surcharges**: Current surcharge levels often exceed the actual cost of acceptance. The Commission estimates that merchants may be recovering up to $65 million more than necessary each year. A ban would eliminate all of that over-recovery.
- **Simpler rules and enforcement**: A blanket ban would be easier to apply than surcharge caps or carve-outs, which can introduce grey areas and compliance costs. It would also be clearer for customers and merchants alike.
- **Consistency with overseas practice**: Surcharges have already been banned - either fully or in part – in countries like the UK, the EU, India, and the US. While conditions differ, New Zealand would not be alone in adopting such a policy.

However, these benefits would come with potentially significant costs. Most stem from removing the only practical tool merchants currently possess to influence how their customers pay – taking away an important check on the pricing behaviour of Visa and Mastercard. The resulting implications for competition and innovation could be substantial:

- **No ability to steer customers**: Without surcharges, merchants would be unable to encourage customers to use cheaper options like EFTPOS or A2A platforms. Signs and prompts are unlikely to be nearly as effective, and few merchants would refuse to accept Visa or Mastercard outright.
- **Stronger position for the card schemes**: Visa and Mastercard would gain from increased card usage and reduced competitive pressure. Their already strong positions in the payments system would become more entrenched.
- **Faster decline of EFTPOS**: The domestic EFTPOS network is already in retreat. Removing the one remaining advantage – cost – would likely accelerate its decline and bring forward the costs of decommissioning the system.
- **Weaker prospects for emerging payment options**: Newer services like A2A rely on their lower costs as a way to win customers. A ban would take that advantage away just as these providers are beginning to get traction. In other countries where surcharges were banned these providers were more established.
- **Higher prices for everyone**: Instead of being paid by those using more expensive cards, the costs of acceptance would be spread across all customers. That would mean higher retail prices, with poorer consumers – who are less likely to use credit cards – paying more to fund the rewards enjoyed by wealthier households.
- **Greater pressure on small businesses**: Larger merchants can often absorb payment costs. Smaller operators, especially in competitive, low-margin sectors, are more dependent on surcharges to cover those fees. A ban would remove that option and may weaken their position relative to bigger competitors.

Consequently, while banning surcharges would shield consumers from additional charges at the point of sale – including excessive surcharges – and result in a greater degree of pricing transparency, that protection would likely come at the cost of:

- **Reduced competition and innovation in both the payments and banking sectors**. It risks constraining opportunities for new providers to enter or expand, while entrenching the market positions of Visa and Mastercard; and
- **Reduced retail competition from smaller merchants** who are more likely to be surcharging at present, and **higher overall retail prices** that would have a regressive impact upon less affluent consumers.

These effects are likely to intensify over time. The consequences may not simply involve a shift in market shares, but a more fundamental narrowing of options for consumers and businesses. On balance, there is a strong possibility that the long-term costs of fully banning surcharges would outweigh the benefits – at least under the baseline scenario.

6. Full ban – draft decision scenario

This section examines the potential effects of banning surcharges on all Visa and Mastercard scheme debit and credit payments, assuming the Commission's draft decision on interchange fees was implemented. The proposed cuts would have far-reaching implications for all major participants in the payments system. In some cases, they could soften the competitive effects of a ban relative to the baseline scenario; in others, they may intensify them.[72]

6.1 The draft decision

In December 2024, the Commission released a draft decision proposing substantial reductions to regulated interchange fees. While observing that the initial caps had delivered savings for merchants, the Commission considered that interchange revenue still exceeded the efficient cost of supplying card payment services. It also reiterated earlier concerns about the structure of those fees.[73]

The Commission pointed to the limited uptake of lower-cost options – such as A2A services - as more evidence of a problem. In its view, the fact that these alternatives remained on the margins despite their cost advantages suggested that market forces alone were still not delivering efficient outcomes. It thought further regulatory intervention was necessary to correct ongoing imbalances in the payment system. It therefore proposed the fee rates summarised in Table 6.1 below.

Table 6.1: Interchange fee caps

Card type	Payment method	Current cap	Draft cap
Domestic debit	In-person – contacted	0.00%	No change
	In-person – contactless	0.20%	No change
	Online	0.60%	0.40% ↓
Domestic credit	In-person	0.80%	0.20% ↓
	Online	0.80%	0.40% ↓
Commercial credit	In-person	Not regulated	0.20% ↓
	Online	Not regulated	0.40% ↓
All domestic pre-paid cards	In-person and online	Not regulated	No change
Foreign-issued cards	In-person	Not regulated	0.60% ↓
	Online	Not regulated	1.15% ↓

Source: Draft Decision (2024), Table 1.1., p.5.

72 Note that the practical implementation challenges – or, more specifically, the lack thereof – described in section 5.1 would be identical in this scenario and are not repeated here.

73 In particular, banks continued to receive higher interchange payments for premium and rewards-based cards, creating strong incentives to promote higher-cost products, even when the additional functionality or value to users was limited.

This report does not take a position on the merits of the draft decision – that is not its purpose. However, its potential implications are highly relevant and must be taken into account. The proposed changes are significant and would be expected to prompt a range of responses from merchants, banks, consumers and competing payment providers. The remainder of this section considers those effects and their impacts on the baseline scenario.

6.2 Overview of potential impacts

The draft decision would reduce interchange fees across a wide range of credit and scheme debit card transactions. It is helpful to begin with a high-level overview of what might be expected to occur if those cuts took effect. The most immediate impacts would likely include the following:

- **Merchants would face lower costs to accept cards**: One of the most immediate effects of the draft decision would be a significant reduction in merchant service fees, driven by lower interchange outflows. These savings would vary depending on commercial arrangements but, over the longer-term, are likely to be most pronounced for smaller businesses, which typically face higher effective rates and have less bargaining power than large retailers.
- **Surcharges would likely fall**: With lower costs, many merchants might reduce or remove their surcharges. Past experience suggests they tend to respond to major, system-wide changes – such as the initial introduction of interchange caps or the expiry of Covid-era fee waivers – and the draft decision would send a similarly strong signal. While these practices would remain blunt and imperfect, such adjustments could bring surcharges closer to net costs and help reduce current levels of over-recovery.
- **Credit and scheme debit cards would become more attractive to use**: Although cardholders may see fewer rewards – given that issuing banks would have less interchange revenue to fund them – the effective cost of using a credit or scheme debit card, or mobile wallet, would fall. With fewer merchants applying surcharges, or applying them at lower rates, usage would likely increase – particularly for contactless transactions.
- **Alternative payment methods would become less competitive**: As scheme cards become cheaper to use and accept, other options would likely lose ground. EFTPOS would no longer offer a clear price advantage and could fall further out of favour. Emerging providers – particularly A2A services – would also be affected. Their cost advantage would shrink, giving merchants less incentive to support them and consumers less reason to switch, particularly if the difference in price signals is no longer as stark.
- **Issuers would be materially worse off**: Interchange revenue would fall by an estimated $260 million per year. While larger banks may be able to offset this loss through other revenue streams, smaller issuers and fintechs may be more exposed. Some fintechs currently rely on card issuance as a commercial foothold and a pathway into broader financial services. If that model becomes less viable, their long-term prospects – and the competitive pressure they place on incumbents – could be diminished.

- **Price transparency might improve, but some problems would remain**: Lower and less frequent surcharges would narrow the gap between displayed and final prices, making costs more visible to consumers and potentially reducing confusion at checkout. However, until surcharges were eliminated, some level of price ambiguity would remain – particularly in online environments where late-stage disclosure and drip pricing are often seen.

These changes would reshape the economics of payments for merchants, banks, cardholders and competing providers. In doing so, they could soften some of the competitive concerns associated with banning surcharges, while amplifying others. We explore the implications for the analysis of competitive effects below.

6.3 Competition in payments

The Commission's draft decision would reduce interchange fees across a wide range of credit and scheme debit card transactions. This would narrow the cost gap between those cards and alternative payment methods – such as EFTPOS and emerging A2A platforms – and likely result in less surcharging, making it harder for those options to compete on price. If surcharging were then banned outright, two further effects would follow:

- merchants would lose their most effective tool for steering customers toward lower-cost payment methods; and
- relative to the baseline scenario, they would have less incentive to try steering customers through other, less effective means – such as signage, verbal prompts, or selective card acceptance – because the cost differential between payment methods would be smaller.

The marginal impact of banning surcharges may therefore be smaller in this scenario than under the baseline, since the preceding reduction in interchange fees may already have weakened the position of competing payment instruments. Even so, the combined effect of both measures could still leave those providers in a less favourable position overall.

6.3.1 Potential effects of the draft decision

The draft decision would reduce the interchange revenue earned by issuing banks, particularly on premium credit card products and online scheme debit transactions. At the same time, it would lower the cost to merchants of accepting Visa and Mastercard products. Past experience suggests that such system-wide changes[74] can prompt merchants to revise their surcharge settings. A similar response might be expected here. That would reduce the frequency and size of surcharges, making scheme cards more attractive to consumers.

It is reasonable to anticipate that consumers would respond by using their Mastercard and Visa cards more often, since the effective price of usage would have

[74] Like the initial introduction of interchange caps or the expiry of Covid-era fee waivers.

dropped. Survey data from Payments NZ suggest that surcharges have a meaningful impact on consumer behaviour:[75]

- between 2022 and 2024, the share of customers who said they "always tap" fell from 49% to 36%; and
- in 2024, 28% said they tap only when no surcharge is applied.

However, the impact may differ depending on whether a merchant removes a surcharge entirely or merely reduces it. Full removal would likely prompt more frequent use of credit and scheme debit cards. But if a merchant simply lowered the surcharge rate, the response would be less certain. Many cardholders appear to avoid surcharges not because of their size, but because of their existence. Few are likely to weigh the difference between a 1.2% and 1.6% fee; most probably adopt a blanket rule – choosing another payment method whenever a surcharge is applied.

Those customers already in the habit of avoiding card-based or contactless payments might therefore continue to do so, even if fees were lowered. While some cardholders may respond to reduced fees at the margin, the behavioural effects of partial reductions are far less predictable than those of full removal. Nonetheless, behavioural subtleties aside, it seems reasonable to conclude that Visa and Mastercard transaction volumes would rise – potentially by a significant amount.

Those effects would likely come at the expense of other payment methods. Domestic EFTPOS would lose its principal point of differentiation: its relative cheapness. With reduced surcharging on competing cards, EFTPOS would become less attractive to consumers and less important to merchants. That could accelerate its ongoing decline and potentially bring forward the network's decommissioning.

Emerging A2A providers could also be affected significantly. These businesses rely on offering many of the features of scheme cards – such as digital integration and real-time settlement – while undercutting them on price. The current interchange caps appear to leave enough margin for that business model to remain viable. However, the further reductions proposed in the draft decision could narrow the price advantage to the point where their competitive appeal might be materially reduced.

The Commission has acknowledged these risks but considers them manageable, citing the unchanged in-person debit cap and the exclusion of domestic prepaid cards. It has also suggested that open banking providers, particularly for online payments, "will need to compete on their own merits."[76] However, that perspective may understate the importance of price differentiation in the early stages of market development. New providers must recover high fixed costs while still scaling. Without a meaningful price gap, it becomes harder for new providers to attract early users or convince merchants to integrate their services – especially for digital-first firms like Stripe that operate entirely online.

75 Payments NZ (2024), p.18.

76 Draft Decision (2024), p.27.

Although open banking reforms are expected to improve access to infrastructure and data, the timing is critical. The draft decision may narrow the cost gap just as those reforms are beginning to take effect, potentially reducing the commercial viability of the very services they were designed to enable.

6.3.2 Implications for the baseline scenario

By the time any surcharge ban took effect, the competitive position of alternative payment providers – such as EFTPOS and A2A platforms – may have already been materially weakened by the draft decision. The reductions in interchange fees would reduce the cost of accepting scheme cards, prompting many merchants to lower or remove surcharges, and narrowing the cost differential that underpins the appeal of alternative instruments. That shift would make it more difficult for those alternatives to attract support from merchants or users – independent of any surcharge ban.

In that environment, the *incremental* impact of banning surcharges would likely be more modest than under the baseline scenario. Many of the behavioural responses that undermine competition – such as reduced merchant willingness to support cheaper alternatives and weaker price signals at the point of sale – could already be in play. As a result, the additional impact on competition directly attributable to a surcharge ban may be relatively small.

However, the *overall* competitive position of alternative payment providers could still be worse in absolute terms. In the baseline scenario, the larger cost differential between scheme cards and lower-cost options would leave merchants with stronger incentives to steer customers – even if their ability to do so was limited. Under the draft decision scenario, those incentives would be diminished. Although the marginal impact of banning surcharges may be smaller, the combination of lower interchange fees and a surcharge ban could still leave competing payment instruments in a less favourable position than under the baseline.

6.3.3 Summary

The draft decision would reduce the cost gap between scheme cards and competing payment instruments. Banning surcharges on top of that would then further restrict merchants' ability to encourage use of lower-cost options. The marginal impact of the ban on rivalry may be smaller than under the baseline scenario, since tighter interchange caps would already have reduced both the prevalence of surcharging and merchants' incentive to steer customers toward lower-cost options. Even so, the cumulative effect of the two changes would likely leave competing payment instruments in a weaker overall position, relative to the baseline.

6.4 Competition in banking

The draft decision to cap interchange fees, combined with a potential ban on surcharging, could reshape competitive conditions in banking. The cap would reduce issuer revenue across the board, with smaller banks and fintechs likely to be

hit hardest. A surcharging ban could offset some of that loss by boosting card volumes – but those gains would be modest if interchange fees are already tightly capped. The overall effect may be to weaken competitive pressure from new entrants and reinforce the position of the major banks.

6.4.1 Potential effects of the draft decision

On the issuing side, the proposed cap would significantly reduce the interchange revenue earned by banks that issue Mastercard and Visa cards. The Commission estimates that total revenue would fall by around $260 million per year.[77] That income currently supports features such as rewards programmes, interest-free periods and other cardholder benefits. A sharp reduction would likely prompt changes to card design and pricing. In particular:

- credit and debit cards may offer fewer benefits and carry higher fees; and
- banks may have less incentive to issue or promote certain products – especially premium cards that currently attract high interchange rates.

Lower interchange revenues may also discourage investment in product development, because issuing banks may face greater difficulty recovering the costs. A 2020 review of the EU's Interchange Fee Regulation (IFR) by Edgar, Dunn & Company found that card industry innovation had slowed following the introduction of fee caps – particularly when compared with the earlier rollout of contactless payments.[78]

Some submitters[79] on the draft decision raised concerns that smaller banks and new entrants, including fintechs, may be disproportionately affected. These institutions often rely more heavily on interchange revenue and have fewer alternative income sources than the major banks. For them, reduced revenue could limit growth, constrain innovation and make long-term viability harder to achieve. Fintechs using A2A as a stepping stone into banking might also be disadvantaged. Specifically:

- Fintechs offering products like card-based wallets – such as Dosh and Emerge – use interchange income to support core operations and gradually expand into broader financial services, including transaction accounts and small business lending. Interchange caps would place pressure on that model and risk cutting off a viable path to entry.
- Other fintechs are pursuing a different route, offering low-cost A2A payment options to build trust and engagement. These services may also be used to support a staged entry into banking. However, if the cap is imposed, A2A platforms could become less competitive (see section 6.3.1), further reducing the viability of that pathway.

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77 That would comprise approximately $200 million from transactions involving domestic cardholders and $60 million from transactions involving foreign-issued cards. *See:* Draft Decision (2024), p.18.

78 Edgar, Dunn & Company, *Interchange Fee Regulation Impact Assessment Study*, January 2020, p.4.

79 *See for example:* TSB, *Consultation Paper Response: Draft Decision on interchange fee regulation for Mastercard and Visa networks*, March 2025, p.1.

On the acquiring side, banks and other payment providers would benefit from lower interchange outflows and, in some cases, simpler fee structures. Some of these savings would be passed through to merchants via lower merchant service fees. [80] The Commission also expects the changes to reduce acquirer margins. [81] As outlined in section 6.5, merchants would likely be the main beneficiaries.

6.4.2 Implications for the baseline scenario

Although all banks would lose revenue under the draft decision, the relative impacts could vary. Larger banks might be better placed to absorb the loss, given their scale and diversified revenue models. Smaller banks and fintechs could be less resilient. As a result, the caps might strengthen the relative market position of the major banks. For smaller players, including fintechs, the effects could be twofold:

- card-linked offerings would become less financially attractive if interchange income falls; and
- at the same time, the cost advantage of A2A platforms would narrow, making it harder for these alternatives to compete.

If a surcharging ban is introduced alongside the cap, it could lead to some recovery in interchange revenue by making Visa and Mastercard products more attractive to consumers. However, any rebound may be limited, because:

- surcharges would already have dropped following the cap, reducing the scope for further substitution away from low-cost options (see section 6.3.1); and
- even where usage rises, the revenue earned per transaction would be lower than in the baseline scenario.

The upshot is that a surcharge ban might offer only modest compensation for the initial revenue loss that would follow any reduction in the interchange caps. For smaller banks and fintechs, the combined effect of the two policies could therefore leave them in a weaker competitive position relative to the major banks than under the baseline scenario.

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80 There have been some concerns about the extent to which interchange fee reductions will be passed through to merchants—and ultimately to consumers. Retail NZ has noted that unregulated components of merchant service fees, such as scheme and acquiring fees, could be increased by acquiring banks to offset lost interchange revenue, thereby diluting the intended savings (*See:* Retail NZ, *Draft Decision on interchange fee regulation for Mastercard and Visa networks,* 18 March 2025, p.2). Similar concerns have been raised in other jurisdictions. Across the European Union, merchant service fees fell by only 18 basis points on average following the introduction of interchange caps in 2015, despite a 32 basis point reduction in the underlying interchange fees (*See:* Edgar, Dunn & Company, *Interchange Fee Regulation Impact Assessment Study*, January 2020, p.3). This suggests that pass-through may be incomplete but is still likely to be substantial.

81 The Commissions has suggested that its draft proposal could result in greater transparency, more consistent pricing and increased merchant willingness to shop around may drive more active competition in the provision of payment acceptance services. While the scale of this effect is uncertain, it could reinforce the passthrough of savings to merchants and strengthen competitive discipline in the acquiring market.

6.4.3 Summary

The proposed interchange cap would reduce revenue for all issuers, but smaller banks and fintechs might be most exposed. Those relying on interchange to fund new services or to support a path into full-service banking may find it more difficult to remain competitive. A surcharging ban could bring limited relief by boosting scheme card volumes, but the gains would be smaller if interchange rates are already capped. In combination, the two measures therefore carry some risk of further entrenching the positions of the major banks.

6.5 Competition in retail

The draft decision would materially affect conditions in the retail sector. By reducing interchange fees, it would lower merchant service costs and deliver particular benefits to smaller retailers, who typically face higher effective charges. The changes could also prompt simpler pricing structures and trigger a widespread reassessment of surcharging behaviour. While a subsequent surcharge ban would still constrain merchant choice, its incremental impact would be less severe if introduced in the wake of sharp fee reductions.

6.5.1 Potential effects of the draft decision

Merchants would be expected to be the primary beneficiaries of the draft decision. Acquiring banks and payment providers would face lower interchange outflows, and a substantial portion of those savings could be passed through as reduced merchant service fees. While many larger businesses already pay rates below the proposed caps, smaller merchants—who typically face higher effective charges – stand to gain the most – at least in the long-run.[82]

The changes may also prompt simpler and more transparent pricing structures. As noted earlier, many small businesses struggle to interpret their merchant service statements or understand how much they are being charged for different payment methods. A more standardised and predictable set of underlying costs could help improve that understanding.

The draft decision is therefore likely to prompt many merchants to reassess their surcharging practices. As discussed in section 4.3.2, widespread adjustments tend to follow major, visible system-wide shifts—such as the introduction of regulation or the end of fee waivers during the COVID-19 pandemic. A further sharp reduction in

[82] In practice, the extent to which merchants benefit from reductions in interchange fees often depends on the terms of their individual commercial agreements. When interchange fees were first capped in the European Union, larger merchants tended to benefit most – at least initially – because they were typically on 'interchange-plus-plus' contracts, which passed through the reductions directly. By contrast, smaller merchants were often on blended-rate contracts that did not immediately reflect changes in underlying interchange fees (*See:* Edgar, Dunn & Company, *Interchange Fee Regulation Impact Assessment Study*, January 2020, p.3). Nevertheless, smaller merchants should stand to benefit more in the long-run, once those reductions have had a chance to feed-through into contractual arrangements.

merchant service fees could have a similar effect. Kantar's 2022 survey supports this view: among merchants currently applying surcharges,

- three in five said they would reduce their surcharge if fees fell by one percentage point; and
- one in ten said they would stop surcharging altogether under those conditions.

Experience suggests that once surcharge levels are adjusted, many merchants leave them unchanged for extended periods. Over time, applied surcharges and actual acceptance costs may once again begin to diverge. However, by tightening the cap on interchange fees and potentially simplifying pricing structures, the draft decision could reduce the scale of that divergence – even without frequent price resets.[83]

A key consequence is that instances of excessive surcharging – where fees significantly exceed the underlying cost of acceptance – could become less common. While the draft decision would not eliminate incentives to engage in online drip pricing, it would likely reduce the overall extent of excess surcharging, potentially cutting into the Commission's estimated $45 million to $65 million in annual consumer detriment.

By making Visa and Mastercard cheaper to accept, the draft decision would also weaken the rationale for surcharging in the first place – making merchants less likely to surcharge at all, and less likely to apply excessive rates when they do. While that may be unwelcome for payment instruments seeking to compete with the card schemes (see section 6.3.1), it would be a clear win for merchants – particularly smaller retailers.

6.5.2 Implications for the baseline scenario

Banning surcharges after sharply cutting interchange fees would, by definition, eliminate any remaining excess surcharges – including those linked to online drip pricing. The incremental benefit would be smaller than under the baseline scenario, since tighter fee caps would already have reduced the incidence and scale of above-cost surcharging. Nonetheless, the end result – complete removal of excess surcharges – would be the same in both cases.

A surcharge ban would also limit merchants' ability to signal remaining differences in acceptance costs to customers. This would again fall more heavily on smaller retailers, who – despite benefiting from the draft decision – would still face higher merchant service fees than larger rivals and, in many cases, continue to surcharge. However, the detriment would be less pronounced than under the baseline.

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83 In principle, merchants could also adopt more granular surcharge structures. Modern terminals are now technically capable of applying different surcharges to different card types – a feature that was not as widely available during earlier mass realignments. In practice, however, relatively few merchants might choose to take this approach. Multiple surcharges at checkout could create confusion for staff and customers, and the Commission's draft caps would likely reduce the pricing differences between scheme debit and credit cards – lessening the incentive for more complex surcharge arrangements.

That is because the draft decision would make Visa and Mastercard cheaper to accept, weakening the incentive to surcharge – especially at high rates. A ban would be imposed at a time when merchants were probably already less inclined to surcharge and more likely to be applying lower fees. As a result, the additional impact on merchants, particularly smaller ones, would be more muted than in the baseline scenario.

By easing cost pressures on smaller retailers while narrowing the gap in payment acceptance costs between them and larger firms, the draft decision would therefore improve the relative competitiveness of smaller businesses. Compared with the baseline scenario, this could help level the playing field in retail and improve the ability of smaller businesses to compete.

This dynamic would also flow through to final retail prices. Lower interchange fees would reduce merchant service costs, meaning less would need to be recovered through a mix of retail prices and surcharges. Banning surcharges in that context would leave a smaller gap to fill through price increases. The inflationary – and regressive – effects of a ban would therefore be less pronounced if preceded by a sharp reduction in interchange fees.

6.5.3 Summary

Reducing regulated interchange fees would lower merchant service costs, especially for smaller retailers who typically face higher charges. That would prompt merchants to revisit their surcharging practices and reduce the incidence of excessive surcharging. If a ban on surcharges followed, the additional burden on merchants and the inflationary effect on prices would be smaller than under the baseline, since there would be fewer costs to recover and less incentive to surcharge. Smaller retailers would also be better placed to compete with larger rivals.

6.6 Consumer experience

By reducing the size and frequency of surcharges, the draft decision might marginally improve price transparency—narrowing the gap between displayed and final prices – but the effect is likely to be limited. A surcharge ban layered on top of that would remove that gap entirely, whilst also eliminating drip pricing.

6.6.1 Potential effects of the draft decision

For the reasons outlined above, the draft decision would likely result in surcharges becoming less common and lower on average. Given how unpopular they are with consumers, this outcome would likely be well received. However, as noted in section 5.7, general consumer sentiment should be treated with caution in any cost–benefit assessment. Many consumers might also favour removing GST, income tax, or any number of other charges – regardless of the broader policy implications.

Consumer sentiment aside, the draft decision could slightly improve price transparency. With surcharges likely to be lower and less common, the gap between

displayed and final prices may narrow – or disappear altogether in some cases. This could make price comparisons marginally easier, reduce confusion at checkout, and result in fewer consumers being misled into purchases they might have avoided had the surcharges been disclosed earlier.

However, that benefit may be limited in practice – unless the decision led to the widespread removal of surcharges. If surcharges remained common, even at lower levels, some degree of price ambiguity would persist. This would be particularly true in online settings, where late-stage disclosure and drip pricing would be likely to remain prevalent. Indeed, the draft decision would do little, if anything, to combat these more opportunistic strategies.

6.6.2 Implications for the baseline scenario

Banning surcharges would eliminate any remaining opacity in final prices. While headline prices would likely be higher overall, they would be more transparent and easier to compare. The incremental gain in transparency may be slightly smaller than under the baseline scenario, since some improvement would already occur through reduced interchange fees. However, the overall 'endpoint' – in which final prices are fully disclosed upfront – would be largely the same in both scenarios. The ban would also remove the unwelcome practice of drip pricing in online settings, again with much the same effect as under the baseline.

To the extent that consumer sentiment is relevant – and, as discussed in section 5.7, this should be treated with caution – the additional benefit of a ban may also be weaker. If surcharges became less common and lower following the draft decision, they may provoke less frustration overall. A ban would still be welcomed by many, but the reduction in annoyance – and the resulting shift in sentiment – would likely be more modest than under the baseline. However, this consideration should arguably be immaterial in the overall cost-benefit calculus.

6.6.3 Summary

The draft decision would deliver some improvement in the overall consumer experience but would not eliminate price ambiguity—particularly in online settings. A surcharge ban would go further, creating full checkout transparency and removing drip pricing. The incremental benefits of a ban might therefore be marginally smaller than in the baseline scenario if transparency has already improved slightly following the interchange fee reductions. However, the end result would be largely identical in the two scenarios.

6.7 Conclusion

The draft decision would reduce interchange fees across a wide range of scheme credit and scheme debit card transactions, reshaping the economics of payments for merchants, banks, cardholders and competing providers. This would soften some of the competitive concerns associated with banning surcharges, while amplifying others. Relative to the baseline scenario, the key impacts would be the following:

- **Competition in payments:** Alternative payment instruments such as EFTPOS and A2A platforms may be in a slightly weaker position overall since merchants would have even less incentive to accept them, or to use 'non-surcharging' methods such as signage and verbal prompts to steer customers towards them. But the overall competitive position would be broadly similar to the baseline.
- **Competition in banking:** Smaller banks and fintechs could be especially adversely impacted by the loss in interchange revenue that would follow cuts to interchange fees. The combined effect of this initial revenue loss and the ban might well leave those smaller participants in a significantly weaker position than in the baseline scenario.
- **Competition in retail:** Lower interchange fees would reduce the need for merchants – including smaller merchants – to surcharge in the first place. This can be expected to result in surcharges being applied less frequently and at lower rates. This would soften the impact of any subsequent ban, including the magnitude of any headline retail price increases.
- **Consumer experience:** Reducing regulated interchange fees might slightly improve price transparency by reducing the frequency and size of surcharges, narrowing the gap between displayed and final prices. The ban would then eliminate remaining price opacity and drip-pricing, making prices fully transparent and comparable.

As with the baseline scenario, it is unclear whether the benefits of a surcharge ban – once layered on top of the draft decision – would outweigh the costs overall. There remains a significant risk that they would not. It is also unclear whether the overall outcome would be better or worse than under the baseline. That would depend on the relative magnitude of the offsetting effects.

7. Limited to scheme debit – baseline scenario

This section examines how the competitive impacts would differ if a surcharge ban applied only to Visa and Mastercard scheme-debit transactions, while allowing surcharges to continue for credit cards.[84] The analysis assumes that current interchange fee caps remain in place and serves as a comparison to the 'full ban baseline' scenario described in Section 5.

7.1 Practical implementation challenges

Before exploring the competitive implications, it is worth briefly considering whether limiting a surcharge ban to scheme debit cards is even technically and operationally feasible. While the distinction between debit and credit is encoded in each card's Bank Identification Number (BIN), applying different surcharges in practice depends on whether the terminal or payment gateway can reliably detect the card type and automatically apply the correct surcharge.

Most major payment service providers in New Zealand – such as Windcave, Verifone and Worldline – do offer this capability. However, as noted earlier, most merchants do not use it. Most, particularly smaller merchants, apply a single flat surcharge across all Visa and Mastercard products. This is not due to technical limitations, but instead reflects a preference for simplicity and, in many cases, limited awareness of cost differences.

If surcharges on scheme debit were prohibited, merchants would be required to change these practices to comply. That would mean adjusting surcharge settings, updating POS configurations, or working with their providers to apply card-type-specific rules. While this may be straightforward for large retailers or merchants with advanced systems, it could prove more difficult for smaller businesses – especially those using basic terminals or off-the-shelf e-commerce platforms.

Consequently, some merchants may lack the support, technical capability or understanding needed to implement the changes correctly. As a result, there is a material risk that compliance would be uneven. Some merchants might continue applying flat surcharges in breach of the rules, either inadvertently or due to system limitations. Others might disable surcharging altogether to avoid the complexity, losing a valuable cost recovery mechanism in the process.

It follows that any policy that relied on ongoing differentiation between scheme debit and credit cards would face real-world implementation challenges. Those difficulties would likely be particularly pronounced for smaller or less well-supported merchants.

84 No distinction is mad between domestic and foreign-issued cards throughout this section. Foreign-issued cards are considered separately in section 11.

7.2 Competition in payments

Banning surcharges on scheme debit cards alone would substantially affect how consumers selected between payment methods. While a full ban would shift spending away from EFTPOS and other low-cost options toward both scheme debit and credit cards, a debit-only ban would concentrate almost all of that shift on scheme debit. Some users may also switch from *credit* to debit to avoid surcharges, further increasing scheme debit volumes.

For domestic EFTPOS, the competitive effect would be nearly indistinguishable from that of a full ban. Surcharging is its main point of differentiation. Without it, EFTPOS would struggle to compete with scheme debit, which offers superior functionality – including contactless, online and mobile wallet capabilities – while still drawing from consumers' bank accounts. The loss of its only real advantage would likely accelerate the decline of the legacy network.

Emerging A2A providers would face similar pressures. These services aim to compete on cost, offering many of the same features as scheme debit but at lower merchant fees. Without surcharges to expose that price difference, A2A platforms would lose a crucial point of leverage just as open banking reforms are starting to gain traction. Their growth could be materially constrained, limiting their ability to challenge the card schemes.

In effect, the outcome would mirror that of a full ban. Scheme debit would absorb most of the shift in payment volumes, rather than that shift being split between debit and credit. But for alternatives like EFTPOS and A2A, the overall competitive impact would likely be just as severe.

7.3 Competition in banking

A ban limited to scheme debit cards would have distinct implications for competition in banking. The shift in transaction volume toward scheme debit would alter the revenue mix for financial institutions. Because a larger share of card turnover would attract the lower debit interchange fee (capped at 0.20% for contactless in-person and 0.60% for online), the average margin earned by issuing banks would fall relative to a full ban.

The impact would vary by business model. Major banks, which already issue most debit cards in New Zealand, might be well placed to benefit. Their scale and reach could enable them to offset lower per-transaction margins through higher volumes, potentially leaving them in a similar – or even slightly stronger - position than under a full ban.

Smaller banks and fintechs that rely more heavily on credit card revenues may fare less well. Unlike in a full ban scenario, they would not benefit from increased credit volumes – and may even see reductions if consumers shift to scheme debit to avoid surcharges. Any offsetting revenue gains could therefore be limited.

For fintechs using A2A platforms as a springboard into banking, the challenges would also remain significant under a debit-only ban. Removing surcharges on scheme debit would take away a key mechanism for merchants to signal the cost advantage of A2A payments, limiting these providers' ability to build a customer base and expand into broader financial services.

7.4 Competition in retail

A ban limited to scheme debit cards would have uneven effects across the retail sector. By removing surcharges on low-cost debit transactions, it would eliminate much of the current over-recovery created by flat-rate surcharges that often do not reflect the lower cost of acceptance. However, surcharges on credit cards would remain, and in many cases continue to exceed underlying costs – especially if merchants persisted in applying a single percentage rate across all Visa and Mastercard products. As a result, the narrower ban would be less effective than a full prohibition in addressing excessive surcharging.

Merchants' ability to steer customers would also be only partially constrained. Under a full ban, merchants would lose all ability to influence payment choices between scheme products. A debit-only ban would preserve surcharges on credit cards, allowing merchants to retain some ability to discourage the use of higher-cost options. However, that price signal would remain imprecise. As noted above, a flat surcharge applied to all credit cards would typically overstate the true cost difference between credit and debit, reducing the effectiveness of any steering.

For smaller merchants, the ability to continue surcharging credit cards would likely be welcomed. For the reasons set out earlier, these businesses are more likely to apply surcharges than larger retailers and often operate on tighter margins in highly competitive sectors. Retaining some flexibility to manage payment costs may leave them marginally better off than under a full ban – though not as well off as under the status quo, where surcharges can be applied across all scheme products.

Finally, continued cost recovery through credit card surcharges would reduce the need for merchants to increase prices across the board. This would make a debit-only ban somewhat less regressive in its effects than a blanket ban. That is because the extent of cross-subsidisation from non-cardholders to rewards card users would be reduced—though not eliminated.

7.5 Consumer experience

A ban limited to scheme debit cards would create an inconsistent surcharging framework that could affect the consumer experience in several ways. For debit card users, the removal of surcharges would improve price transparency and make the checkout process more straightforward. Consumers would see the full cost of their purchases upfront and would no longer face unexpected fees for using a debit card – at least in theory.

However, credit card surcharges would remain, meaning consumers could still encounter different prices depending on their payment methods. This might create some confusion. For example, a customer holding a debit and credit card from the same bank may be surprised to find that one attracts a surcharge while the other does not, even though both carry the same Visa or Mastercard logo.

In practice, the experience may be even less consistent. As noted earlier, many merchants currently apply a single flat surcharge across all scheme cards and may lack the technical capability or support to adjust this easily. If compliance with the new rules was uneven, consumers could encounter incorrect or inconsistent surcharges, particularly at smaller or less well-supported businesses. This could lead to frustration, disputes at checkout, and a perception that surcharging was arbitrary or unfair.

Unlike a full ban, a debit-only ban would not eliminate drip pricing in online settings, since surcharges could still be applied to credit cards at the final stage of checkout. However, the presence of a surcharge-free option – scheme debit – would give consumers a clear alternative. This could reduce the extent to which drip pricing undermines transparency, even if it did not eliminate the practice entirely.

7.6 Summary

If surcharges were banned only on scheme debit transactions, with current interchange fees left in place, some outcomes would differ from the baseline scenario described in section 5. The likely impacts across the key focus areas would be as follows:

- **Practical implementation**: Implementing a debit-only ban would require system updates and configuration changes that some merchants – especially smaller ones- may not complete reliably. As a result, compliance could be uneven, reducing the policy's effectiveness and increasing the risk of legal breaches and customer dissatisfaction.
- **Competition in payments**: Most of the spending that would otherwise shift away from EFTPOS and other low-cost options would still do so – but almost entirely toward scheme debit. Competing providers would likely remain in much the same weakened positions as under a full ban.
- **Competition in banking**: A larger share of card turnover would attract the lower debit interchange fee, reducing the average margin earned by issuing banks. That reduction would fall more heavily on smaller, credit-focused institutions than on major banks, which already issue most debit cards.
- **Competition in retail**: Debit surcharges would end, reducing the risk of overcharging low-cost payments. Credit card surcharges would remain, so price signals would still be distorted. Smaller merchants could still recover some costs, leaving them slightly better off than under a full ban. Retail prices would likely rise, but less so, with weaker regressive effects.
- **Consumer experience**: Drip pricing on credit cards would likely persist in online settings, but the presence of a surcharge-free alternative in scheme debit

could help curb the worst excesses. However, overall price transparency would remain lower than under a full ban and the inconsistent treatment of card types could still create consumer confusion.

Overall, it is unclear whether a debit-only ban would lead to better outcomes than a full prohibition under current interchange fee policy settings. There is also no strong basis for concluding that it would offer a net improvement over the status quo – and a material risk that it would not.

8. Limited to scheme debit – draft decision scenario

This section examines how the outcomes in the previous scenario might change if the same ban were implemented in a setting where the Commission's draft decision had already taken effect. Specifically, it considers how the impacts of banning scheme debit surcharges might be amplified or diminished once the changes described in section 6.2 were already in place.[85]

8.1 Competition in payments

For the reasons set out in Section 6.3.2, the competitive position of alternative payment providers – such as EFTPOS and A2A platforms – may already have been affected by the time the ban took effect. The draft decision could reduce the cost of accepting scheme cards, prompt some merchants to lower or remove surcharges, and narrow the cost differential that supports the appeal of alternative instruments.

That shift could make it more difficult for those alternatives to attract support from merchants or users – independent of any surcharge ban. The incremental impact of banning surcharges on scheme debit in those circumstances may therefore be less pronounced than in the scenario described in Section 0. But that would only be because their competitive position had already been weakened.

It is possible that competing payment providers would still be in a less favourable position *overall* than under the baseline scenario. With larger acceptance cost differentials persisting under the baseline, merchants may have retained stronger incentives to steer customers away from scheme debit – even if their ability to do so was constrained. Under this draft decision scenario, those incentives would not be as strong.

In summary, the marginal effects of banning scheme debit surcharges on the competitive position of alternative payment instruments may be smaller if the draft decision has already taken effect. However, the combination of lower interchange fees and a selective surcharge ban could still leave those alternatives in a less favourable overall position than under the baseline scenario described in Section 7.2.

8.2 Competition in banking

If the Commission's draft decision had already taken effect, all banks would be earning less from interchange fees on domestic credit and debit transactions. The Commission estimates that issuer revenue could fall by around $260 million per year. As explained in section 6.4.1, larger banks might be better placed to absorb those reductions through other income streams. Smaller banks and fintechs – particularly those more reliant on interchange – may face greater difficulty.

85 Note that the practical implementation challenges described in section 7.1 would be identical in this scenario and are not repeated here.

Banning surcharges on scheme debit cards in that environment would not materially change the outlook. Debit and credit interchange fees would already be aligned at lower levels, limiting the revenue earned per transaction. Even if the ban led to greater use of scheme debit cards, the resulting increase in income may be modest – particularly for smaller issuers – given the reduced margins and the limited ability to encourage switching based on price.

For smaller banks and fintechs, the combined effect could make it harder to sustain card-based growth strategies. Some providers currently rely on scheme debit issuance as a point of entry into retail banking or broader financial services. The removal of debit surcharges would reduce the visibility of cost differences at the point of sale, limiting their ability to attract customers on that basis.

Overall, the impact on banking competition could be more negative than under the baseline scenario described in section 7.3. Although the marginal effect of the debit-only ban might be smaller, it would be occurring in a setting where issuing margins had already narrowed – potentially leaving smaller banks and new entrants in a weaker position than before.

8.3 Competition in retail

With interchange fees already reduced, some merchants are likely to have reviewed and adjusted their surcharge settings. Some would have removed them entirely; others would have reset them to lower rates. As section 6.5.1 explained, this would have reduced the extent of 'over-recovery' the Commission estimates is currently taking place via excess surcharging. Removing debit surcharges would then eliminate any remaining over-recovery in relation to that product.

A narrower gap between scheme credit- and debit-acceptance costs may also weaken the case for surcharging scheme credit cards. Interchange fees typically account for around 60% of the merchant service fee, so alignment would compress the overall cost gap. Credit cards might still be somewhat more expensive to accept – due to higher scheme fees, chargeback exposure and other risk-related costs – but the remaining difference may not be large enough to justify a separate surcharge. Some merchants might continue applying surcharges; others might stop.

For smaller merchants – who are more likely to apply surcharges and face greater difficulty recovering costs through headline prices – the implications would be mixed. The reduction in fee caps would lower their underlying card-acceptance costs, which could have two principal impacts:

- on one hand, it would reduce the net cost they incur when processing scheme credit card transactions; but
- on the other hand, with interchange fees now much lower – and aligned with those for scheme debit cards – it may be harder to justify applying a surcharge.

Consequently, some merchants might choose to reduce or remove their surcharges; others might retain them but apply lower rates. Some could end up slightly better off overall; others might lose more in surcharge revenue than they gain in savings.

The net effect relative to the scenario described in Section 7 – including for smaller merchants – is uncertain.

Lower acceptance costs could also lessen the need for merchants to raise headline prices. Any price increases might be smaller, and the regressive shift from cash and EFTPOS users to cardholders could ease. Some cross-subsidy would probably persist wherever merchants spread residual costs across all prices.

8.4 Consumer experience

Reducing regulated interchange fees might slightly improve price transparency by reducing the frequency and size of surcharges, narrowing the gap between displayed and final prices. However, as section 6.6.1 explained, a difference would still often remain between listed prices and surcharge-inclusive prices across the retail sector. Drip pricing practices would also continue.

The incremental impacts of a debit-only surcharge ban would then be much the same as those described in section 7.5. Scheme debit cards would not attract surcharges; scheme credit cards still could – and compliance with the new rule is unlikely to be universal. Drip pricing would also continue in online settings. The overall impact on price transparency would therefore be mixed.

8.5 Summary

Banning scheme debit surcharges in a post–draft decision environment would often have smaller *marginal* effects than under the baseline scenario. However, that is largely because many of the competitive and commercial shifts would already have occurred and, in some cases, the overall outcomes could be less favourable. The chief impacts are likely to include the following:

- **Practical implementation**: Identical to those described in section 7.1 – a debit-only ban would require system updates and configuration changes that some merchants – especially smaller ones – may not complete reliably. Consequently, compliance could be uneven, reducing the policy's effectiveness and increasing the risk of legal breaches and customer dissatisfaction.
- **Competition in payments:** Competing payment providers such as EFTPOS and A2A may already have been placed at a disadvantage by lower interchange fees and the resulting reduction in price signals. The marginal impact of the surcharge ban could therefore be smaller than under the baseline scenario – but only because the competitive position of those providers had already weakened. The competitive position of those alternative payment instruments would be likely to be slightly worse than in the baseline scenario, overall.
- **Competition in banking:** Banks and other issuers would already be earning less from card transactions if the draft decision had taken effect. A debit-only surcharge ban could lead to increased scheme debit usage, particularly if it drew customers away from lower-cost alternatives. That shift might generate some additional interchange revenue. However, with materially lower fee levels than

under the baseline, any gains would be more modest – and smaller issuers that rely more heavily on interchange could be worse off overall.

- **Competition in retail:** Merchants would face lower underlying card-acceptance costs if the draft decision was implemented. That could reduce the need to apply surcharges but also make them harder to justify – particularly given the narrower gap between credit and debit acceptance costs. Some merchants might benefit overall from lower merchant service fees, while others could lose more from reducing or removing their surcharges than they gain from the fee savings.
- **Consumer experience:** Surcharges would likely be less frequent and smaller, and removing them on scheme debit cards may slightly improve price transparency. However, credit card surcharges would remain, and compliance is unlikely to be universal. The overall impact on transparency would be partial and uneven, and much the same as in the baseline scenario described above.

In sum, it is unclear whether a debit-only surcharge ban would perform any better if it were preceded by a significant reduction in interchange fees. In many cases, the overall outcome could be marginally worse than under the baseline scenario described in section 7. There is also no strong reason to believe such a ban would deliver a clear improvement over the status quo.

9. Limited to in-person – baseline scenario

This section considers how the competitive effects might change if the surcharge ban applied only to in-person Visa and Mastercard transactions – both scheme debit and credit – while leaving online payments unaffected. The analysis assumes existing interchange fee caps remain in place and provides a point of comparison to the full ban outlined in section 5.

9.1 Practical implementation challenges

Limiting a surcharge ban to in-person transactions, while continuing to allow surcharges online, would pose fewer practical implementation challenges for merchants than a ban based on card type. That is because the distinction between in-person and online transactions is already embedded in how payments are processed and priced. Merchants and their payment service providers routinely differentiate between card-present and card-not-present channels for the purposes of fraud detection, fee structures, and payment settings.

In most cases, in-store and online transactions are processed through separate terminals or gateways, often with distinct merchant configurations. This makes it relatively straightforward to apply different surcharge rules across the two channels. Major payment providers in New Zealand – including Windcave, Verifone and Worldline – already support channel-specific surcharging as a standard feature, and many merchants make use of it today.

Unlike a card-type-based rule, which requires real-time identification of whether a particular card is debit or credit, a channel-based rule requires no card-level classification. The payment system inherently knows whether the transaction is online or in person and can apply the relevant surcharge policy accordingly. As a result, the risk of inconsistent implementation or accidental non-compliance would be significantly lower. From a merchant perspective, a channel-based ban would therefore be much easier to administer and enforce than a card-specific prohibition.

9.2 Competition in payments

Compared to a scenario where surcharges are prohibited across all channels, limiting the restriction to in-person payments would reduce – but certainly not eliminate – the adverse effects on payment system competition. The ability to continue surcharging online would preserve some pressure on higher-cost payment methods, though only in part of the market.

For domestic EFTPOS, which can only be used in-store, the effect would be the same as prohibiting surcharges entirely. Credit and scheme debit cards would be less strongly favoured than under a full ban but would still benefit. Without surcharges in-store, these cards would become more appealing and would be used more often. However, the ability to surcharge online would continue to place some downward pressure on card fees in that part of the market.

The impact on A2A payment providers would depend on where they operate. Providers focused on online transactions- such as Online EFTPOS – would be in a better position than under a full ban, since merchants could still pass through cost differences to customers via surcharges. But those aiming to serve physical retail would remain disadvantaged. Without the ability to surcharge, merchants would have little reason to offer these lower-cost options at all.

Overall, the ability to surcharge online would give some competing providers – including A2A platforms – a better chance than under a full ban. But for those operating in physical retail – which still accounts for most transactions – nothing would change. Merchants may have little inclination to offer those alternatives in physical stores, given that most customers would opt to pay with a card.

9.3 Competition in banking

Compared to a full ban, a restriction limited to in-person payments might result in a smaller shift in interchange revenue and a less pronounced effect on the competitive positions of different providers. Major banks, which issue most scheme cards in New Zealand, would be expected to benefit from increased card usage in physical retail. However, the continued ability to surcharge online could constrain growth in that channel, limiting the overall revenue uplift relative to a full ban.

For smaller banks and card-focused fintechs, the effects might vary. Those that issue scheme cards and operate in physical retail might still gain, though only in that channel. The gains would likely be smaller than under a full ban, which would have increased usage across all settings. Providers focused primarily on online payments might be less affected, since customer behaviour in that environment might not change significantly.

Fintechs that rely on A2A payment services as part of a broader entry strategy into banking might be in a slightly better position than under a full ban. The continued ability to surcharge online could help sustain their value proposition in e-commerce, preserving some opportunity to attract and retain customers. However, any expansion into physical retail would remain difficult, given the loss of price-based differentiation at the point of payment.

Overall, this scenario might reduce the extent of the revenue shift caused by a full ban, particularly for institutions focused on online payments. However, the gains from increased card usage in physical retail would likely continue to accrue mainly to the major banks. Newer entrants seeking to build a customer base across both online and in-person channels could remain at a structural disadvantage.

9.4 Competition in retail

If surcharges were banned only for in-person transactions, the outcome for physical retailers would be the same as under a full ban. They would no longer be able to apply any surcharges at the point of sale, including those that exceed the cost of acceptance. Most would need to either raise prices across all customers or absorb the

additional cost through lower margins. Smaller businesses would remain particularly exposed. Regressive effects, where customers who do not use scheme cards subsidise those who do, would also continue to arise in this setting.

Merchants operating online would continue to apply surcharges. This would allow them to reflect the higher cost of accepting scheme cards in that channel—a tool that may be especially important for smaller retailers, who tend to face higher fees and have less capacity to absorb them. However, it would also mean that above-cost surcharges would also remain in place, including those applied through drip pricing. If more sales shift online, the scale of this behaviour may increase.

These differences could affect how businesses structure their operations. Retailers with both online and physical channels might try to steer more transactions online, where surcharges remain permitted. Bricks-and-mortar businesses would not have that option and would no longer be able to pass card-related costs through to specific customers at the point of payment.

9.5 Consumer experience

Compared to a full ban, this scenario would produce more mixed outcomes for consumers. In physical stores, surcharges would no longer apply, delivering the same benefits as a full ban: greater price transparency at checkout and fewer unexpected fees. Online, however, surcharges could still be applied. This would allow drip pricing to continue and may become more prominent if more sales shift to digital channels.

The inconsistency in surcharge treatment could also create confusion. The same card might attract a fee online but not in-store, leaving customers uncertain about when and why surcharges apply. This could be particularly problematic for businesses operating across both channels, where consumers may expect a consistent payment experience regardless of where they are shopping.

Finally, it is worth noting that consumers are often most constrained in online settings, where viable alternative payment methods are limited. For in-person purchases, most customers can use EFTPOS or cash, which do not attract surcharges. However, these options are unavailable online, where immediate payment is typically required and few practical alternatives exist. From that perspective, it may seem counterintuitive to prohibit surcharging for in-person transactions – where surcharge-free options exist – but allow it for online purchases, where they do not.

9.6 Summary

Limiting the ban on surcharging to in-person Visa and Mastercard transactions would produce materially different effects from a full prohibition. Relative to the scenario described in section 5, the principal impacts on competition and the customer experience are likely to include the following:

- **Practical implementation:** An in-person ban would pose no more practical implementation challenges than a full ban, because the distinction between in-person and online transactions is already embedded in how payments are processed and priced.
- **Competition in payments**: EFTPOS would be affected in the same way as under a full ban, since it cannot be used online. Scheme cards would become more attractive in physical retail, but their position would strengthen less than if surcharges were removed online as well. A2A providers would face the same disadvantages in-store but retain more opportunity to compete in e-commerce.
- **Competition in banking**: The shift in interchange revenue toward major banks would be smaller than under a full ban. Newer providers and smaller banks may therefore be less impacted than under a full ban. A2A-based entrants could retain a foothold in e-commerce but would still face barriers expanding into physical retail.
- **Competition in retail:** Merchants would face lower underlying card-acceptance costs if the draft decision was implemented. That could reduce the need to apply surcharges given the narrower gap between credit and debit acceptance costs. Some merchants might benefit overall from lower merchant service fees, while others could lose more from reducing or removing their surcharges than they gain from the fee savings.
- **Consumer experience**: In-store outcomes would mirror those under a full ban, with improved price transparency and the removal of point-of-sale surcharges. Online, however, drip pricing would continue, and the inconsistent treatment across channels could reduce clarity and cause confusion for some consumers.

On balance, it is not obvious a channel-specific ban would lead to better outcomes than a full prohibition under current interchange fee policy settings. There is also no reason to be confident that it would represent a material improvement over the current circumstances, where surcharging is permitted.

10. Limited to in-person – draft decision scenario

This section examines how the outcomes in the previous scenario might be affected if the same ban was imposed after the Commission's draft decision had already been implemented. Specifically, it considers how the impacts of banning in-person surcharging might be exacerbated or lessened once the changes described in section 6.2 were already in place.[86]

10.1 Competition in payments

For the reasons set out in Section 6.3.2, the competitive position of alternative payment providers – such as EFTPOS and A2A platforms – would likely already have been affected adversely by the time the ban took effect. The draft decision would reduce the cost of accepting scheme cards, likely prompting some merchants to lower or remove surcharges, and reducing the cost differential that supports the appeal of those competing instruments.

That shift would be likely to make it harder for those cheaper options to garner support from merchants or users – regardless of any surcharge ban. The incremental impact on those providers of banning surcharges on in-store purchases may therefore be less significant than in the scenario described in section 9. But this again would only be because their competitive positions had already been compromised, reducing the additional harm that could be done by the ban.

For domestic EFTPOS, the overall result would be exactly the same as in the previous section – and under a full ban. The continued availability of surcharges online would be neither here nor there, since it cannot be used in that environment in any case. For Visa and Mastercard, the reduction in interchange fees would make them comparatively cheaper online than they would be under the baseline, which would strengthen their competitive position in that space.

In contrast, alternative online payment options – such as A2A providers would see their cost advantage in that setting eroded by the draft decision. Merchants would therefore be less likely to adopt them and, with surcharges likely to become less frequent online – and lower – customers would be less likely to select them. The net result would likely be a weakening in the competitive position of emerging providers, relative to the scenario described in Section 9.

10.2 Competition in banking

If the draft decision had already been implemented, all banks would be earning less from interchange fees. As explained in section 6.4.1, larger banks would likely be better placed to absorb those reductions. Smaller banks and fintechs – especially those more reliant on interchange – could be more exposed.

86 Note that the practical implementation challenges described in section 9.1 would be identical in this scenario and are not repeated here.

A ban on in-person surcharges would not change that underlying shift, but it would still reinforce the competitive advantage of the larger banks. As in the previous scenario, the removal of merchant steering would accelerate the shift away from EFTPOS and toward scheme debit. That shift would primarily benefit the the larger banks that issue the majority of scheme debit cards.

However, with lower interchange rates already in place, the additional revenue earned from those extra scheme debit transactions would be smaller than under the baseline. Larger banks would still gain, but the incremental benefit would be reduced. Smaller issuers – especially those without a significant card portfolio – would remain at a disadvantage, but the extra harm caused by the surcharge ban would be more limited than in section 9.

Fintechs pursuing A2A strategies would also face a more difficult path. The narrower cost differential resulting from lower interchange fees would make it harder to gain traction – particularly in online settings, where A2A options compete directly with scheme cards and merchant surcharges would remain possible. The opportunity to use payments as a stepping stone into broader banking services might therefore be more limited than under current conditions.

In short, the incremental impact of banning in-person surcharges would be smaller than under the baseline scenario in section 9 – but only because the main shift in competitive position would have already occurred. The combined effect of lower interchange fees and the surcharge ban could still be more adverse for banking competition than the baseline, particularly for smaller banks and new entrants.

10.3 Competition in retail

Merchants may respond to the reduction in interchange fees by lowering or removing their surcharges. This would reduce the extent of 'over-recovery' currently occurring. The remaining benefit from eliminating excess surcharges on in-person transactions would therefore be smaller than in the previous scenario – but the overall outcome would be the same.

The fall in interchange fees would soften the impact of the surcharge ban by making Visa and Mastercard cheaper to accept, meaning fewer merchants would apply surcharges in the first place. In effect, the opportunity cost of being unable to surcharge would be lower – particularly for smaller merchants. Online surcharges could still be applied but, for the same reasons, they may be less common and set at lower rates.

Overall, the impact on retailers might be less adverse than under the baseline scenario, given the smaller cost burden for merchants to manage. This would also reduce the pressure to raise headline prices or absorb unrecovered fees. It could help moderate the regressive effects described in section 9.4.

10.4 Consumer experience

Reducing regulated interchange fees might marginally improve price transparency by reducing the frequency and size of surcharges, narrowing the gap between displayed and final prices. However, as section 6.6.1 explained, a difference would still often remain between listed prices and surcharge-inclusive prices across the retail sector. Drip pricing practices would also continue.

The incremental impacts of an in-person surcharge ban would then be much the same as those described in section 7.5. Namely, banning surcharges in-store would create full price transparency in that setting. But it would create a discrepancy between the way products are priced in-store versus online that might create a new source of opacity and confusion for customers.

10.5 Summary

If an in-person surcharging ban were implemented alongside the draft interchange caps, the incremental effects would likely be more muted than under the baseline scenario. This is primarily because many of the competitive and commercial shifts would already have occurred. Even so, the combined outcome could still be less favourable overall. Key impacts would likely include the following:

- **Practical implementation:** Identical to the scenario described in section 9. An in-person ban would pose no more practical implementation challenges than a full ban, since the distinction between in-person and online transactions is already embedded in how payments are processed and priced.
- **Competition in payments:** Competing payment providers such as EFTPOS and A2A would already have been disadvantaged by the reduction in interchange fees. The marginal impact of the ban may therefore be smaller than under the baseline – but only because the competitive position of those providers had already weakened. Overall, the main difference is that A2A providers would face greater difficulty gaining traction online, since the reduction in interchange fee caps would erode the cost advantage on which they rely.
- **Competition in banking:** The incremental impact of banning in-person surcharges would be smaller than under the baseline scenario, since the main shift in competitive position may have already occurred. However, the combined effect of lower interchange fees and the surcharge ban could still be more adverse for banking competition than the baseline, particularly for smaller banks and new entrants.
- **Competition in retail:** The impact on retailers might be less adverse than under the baseline scenario, given the reduced cost burden following the fall in regulated interchange fees. This would ease the pressure to raise headline prices or absorb unrecovered costs and could help moderate the regressive effects identified previously.
- **Consumer experience:** The effects would be similar to the baseline scenario. Banning surcharges in-store would improve price transparency in that channel but leave surcharges in place online. This inconsistency could create a new

source of opacity and confusion for customers, particularly where the same card is treated differently depending on where it is used.

Overall, it is unclear whether banning in-person surcharges on top of lower interchange fees would lead to better outcomes. In some cases, the combined effects could be more harmful than under the baseline. There is also little reason to expect that such a ban would deliver noticeable improvements over the status quo.

11. Foreign-issued cards

This section considers the potential implications of banning surcharges on foreign-issued cards. It presents a standalone assessment and does not draw direct comparisons to the scenarios analysed earlier in this report. Where relevant, it also considers the impact of the draft decision, which proposes introducing capped interchange fees for foreign-issued cards for the first time.

11.1 Practical implementation challenges

Before addressing the competitive implications, it is important to consider whether a differentiated approach to foreign-issued cards would be operationally feasible. Many of the same issues identified in section 7.1 also apply here. As with card-type-specific bans, implementing different surcharge rules for foreign-issued cards would require payment systems to detect specific card attributes and apply the appropriate settings at the point of transaction.

In physical stores, this would mean identifying the card's country of issue and automatically applying or withholding a surcharge based on that information. Most major payment providers in New Zealand – including Windcave, Verifone and Worldline – offer this capability. However, as noted in section 7.1, most merchants do not actually use it. Rather, most apply a single flat surcharge across all scheme cards. To treat international cards differently within any ban, terminals would therefore need to be reconfigured, and many merchants would require assistance from their payment service provider to make the necessary changes.

Identifying the country of issue introduces additional complexity. While this information is embedded in each card number, it is not always used in standard surcharge configurations. Some terminals may not support this functionality without custom development, and others may not support it at all.

In online settings, the same challenges apply. Payment gateways would need to detect the card's origin and apply the relevant surcharge rule. This may be technically possible but could require additional configuration, which may not be supported by standard e-commerce platforms. Smaller merchants using off-the-shelf checkout systems might lack access to these features entirely.

Overall, while it is technically feasible to treat foreign-issued cards differently from domestic ones, doing so would be more complex than a full ban or a rule based solely on card type. Some merchants – particularly smaller or less well-supported ones – may struggle to implement the distinction correctly. Others may choose to disable surcharges entirely to avoid the added complexity.

11.2 Competition in payments

The competitive impact of banning surcharges on foreign-issued cards would be limited. Foreign cardholders represent a modest share of overall payment volumes

and are primarily concentrated in sectors such as tourism, international e-commerce and accommodation.

Domestic payment providers such as EFTPOS and A2A platforms focus primarily on local transactions and do not generally compete for payments made using foreign-issued cards. As a result, the treatment of foreign cards under any surcharging regime would have little or no bearing on the competitive dynamics between domestic payment instruments.

Even within scheme cards, the implications would likely be minimal. Foreign-issued card payments occur in contexts where most customers' only viable alternative is paying with cash and, as such, merchants have limited ability to influence payment choice in any event – besides refusing to accept particular instruments.

The Commission's draft decision to cap interchange fees on foreign-issued cards would not materially change that assessment. While the caps may reduce the cost of accepting foreign cards, they would have no real effect on competition between domestic payment instruments. The changes may affect merchant costs but would be unlikely to materially alter the competitive landscape.

11.3 Competition in banking

A foreign-card-specific surcharge ban would have minimal implications for domestic banking competition. New Zealand banks derive the vast majority of their revenue from domestic card transactions. Foreign-issued cards account for only a modest share of total payment volumes, and changes to their treatment would be unlikely to materially affect the commercial position of domestic issuers.

The same is true on the acquiring side. While foreign transactions can involve higher fees, the volumes involved are much smaller than for domestic transaction and concentrated in a narrow set of sectors. The draft decision would reduce interchange fees on these transactions, but the impact on overall acquiring margins – and on competitive dynamics – could be negligible.

Fintechs and smaller banks would also be relatively unaffected. Their competitive position is likely to be shaped to a much greater extent by treatment of domestic cards, where the exclusion or inclusion of foreign-issued products has little to no practical bearing.

11.4 Competition in retail

For most retailers, a surcharge ban limited to foreign-issued cards would have little impact. Their customer bases are primarily domestic, and their pricing strategies are shaped by domestic card costs.

However, businesses that serve international customers – such as those in tourism, hospitality and international e-commerce – may be more affected. Foreign-issued cards often carry higher acceptance costs, and the ability to surcharge can be an important tool for recovering those costs. Without that option, merchants may need

to increase general prices to maintain margins, which spreads the burden across all customers. That kind of cross-subsidy is both distortionary and regressive.

Even so, accepting foreign-issued cards may remain commercially advantageous. In practice, the only feasible alternative for many visitors is cash, which can impose higher operational costs. Card acceptance – even at higher cost – may help merchants secure sales they would otherwise lose, and avoid the handling, security and banking burdens associated with cash.

As noted earlier, the draft decision has proposed capping interchange fees on foreign-issued cards for the first time. That would reduce – though not eliminate – the cost differential between domestic and foreign card transactions. As a result, the commercial value of retaining surcharges would be smaller than at present, but not immaterial.

11.5 Consumer experience

The consumer experience in this case is fundamentally different from the scenarios examined earlier in this report. By definition, the consumers affected would not be New Zealanders. Even so, their experience is not irrelevant. For international visitors, the way payments are handled in New Zealand may shape their broader impressions of the country. Over time, those perceptions could have reputational spillovers, particularly in sectors like tourism and hospitality.

Banning surcharges on foreign-issued cards could improve the payment experience for these customers. All else equal, most would prefer not to face additional fees at checkout – particularly if they have already incurred exchange rate or foreign transaction costs from their bank. A clean, surcharge-free experience might be seen as more welcoming and less transactional.

11.6 Summary

Banning surcharges on foreign-issued cards would raise distinct issues of feasibility and impact. The affected consumers would be international visitors, and the relevant costs, incentives, and competitive dynamics differ from those in earlier scenarios. The principal effects would be the following:

- **Practical implementation:** Technically straightforward but may not be implemented consistently. While most major payment providers support the ability to identify foreign-issued cards, few merchants use this functionality. Some would require assistance to configure their systems correctly, and some may choose to abandon surcharging altogether to avoid the complexity. In practice, inconsistent application would be a significant risk.
- **Competition in payments:** Minimal impact. Foreign-issued cards do not compete with domestic payment instruments and banning – or permitting – surcharges on them would not materially affect the competitive dynamics between rival payment instruments. The Commission's draft proposal to cap interchange fees on foreign cards would not change that assessment.

- **Competition in banking:** No material effect. Domestic issuers and acquirers derive most of their revenue from domestic card transactions. Foreign-issued card volumes are smaller by comparison and concentrated in a few sectors. Changes to their treatment would be unlikely to meaningfully alter the competitive position of any bank – irrespective of the level of regulated interchange fees.
- **Competition in retail:** Modest and largely sector-specific. Surcharges on foreign-issued cards help some merchants recover higher acceptance costs. Without them, those costs may be passed on to all customers. Even so, accepting foreign cards may remain commercially preferable to handling cash. The Commission's proposed interchange caps would reduce, but not eliminate, the commercial value of surcharging.
- **Consumer experience:** Only international visitors would be affected. A ban might improve their experience by reducing unexpected charges at checkout. However, if implementation is inconsistent, the result could be confusion rather than clarity. These interactions may shape broader perceptions of New Zealand and carry reputational implications, particularly in tourism-facing sectors.

In sum, implementing any ban that involved treating foreign-issued cards differently to domestic cards could present non-trivial implementation challenges. By and large, the competitive effects would likely be relatively modest. However, it is also unclear whether the overall benefits would outweigh the costs.

12. Conclusion

New Zealand's current surcharging practices are far from ideal. Surcharges frequently frustrate customers, complicate reliable price comparison and enable online drip-pricing. Merchants almost always apply a single percentage rate across all Visa and Mastercard products, despite wide differences in underlying acceptance costs – and many of those rates materially exceed actual net costs. This flat-rate approach consequently weakens the price signals that surcharging was originally intended to provide.

A complete ban would address these issues by delivering a single, all-inclusive price and eliminating excessive or misleading fees. However, those benefits would come at substantial cost. Removing surcharges would eliminate the only practical mechanism merchants have to steer customers toward lower-cost payment methods – however imperfectly. Visa and Mastercard would face reduced competitive pressure, the domestic EFTPOS network would lose its remaining cost advantage, and emerging A2A services would find it harder to scale. Smaller banks and fintechs that rely on interchange revenue or low-cost channels to compete with the major banks would also be disadvantaged.

Adjusting the scope of a ban could alter the scale – but not the direction – of these effects. Limiting the prohibition to in-person payments would retain price signals online, moderating some impacts on payment-system and banking competition. A debit-only ban would allow merchants to continue recovering the higher cost of credit cards, reducing pressure on retailers. However, as Table 12.1 shows, each variant amplifies other drawbacks, e.g., an in-person ban leaves online drip-pricing untouched, while a debit-only ban creates inconsistent price signals for customers and adds operational complexity that smaller merchants may struggle to manage.

Consequently, although the present regime is clearly flawed, none of the options examined in this report would represent a clear improvement. Each carries a material risk of reinforcing the market position of the major card schemes at a time when open banking could otherwise expand opportunities for new and emerging competitors. Whether any version of a ban would leave consumers better off overall remains uncertain.

Table 12.1: Summary of competitive effects

Scenario	Implementation	Competition in payments	Competition in banking	Competition in retail	Consumer experience
Status quo: **Surcharging permitted**	Not applicable	Visa and Mastercard strongly placed; domestics EFTPOS in decline; A2A platforms have sufficient 'headroom' to compete – especially with open banking reforms imminent	Major banks have significant competitive advantages over smaller banks and fintechs	Smaller merchants pay higher fees and are more likely to apply surcharges than larger retailers	Surcharges reduce checkout transparency and enable online drip pricing, but are only levied on those using more expensive payment instruments
Scenario 1: **Full ban – baseline**	Simple to apply; a blanket ban avoids grey areas **Would involve some implementation costs**	Disadvantages EFTPOS and A2A; strengthens Visa and Mastercard **Potentially significant lessening of competition relative to status quo**	Favours major banks; disadvantages smaller banks and fintechs **Potentially significant lessening of competition relative to status quo**	Removes cost-recovery option for small merchants; prices likely to rise with regressive impacts **Potentially significant lessening of competition relative to status quo**	Greater price transparency and consistency; no drip pricing; but higher headline prices **Potentially a slight improvement in the overall consumer experience**
Scenario 2: **Full ban – draft decision**	Simple; builds on anticipated merchant adjustments post draft decision **Not materially different from scenario 1**	Further weakens alternatives by reducing 'headroom' to compete; Visa and Mastercard face even less competition **Likely to be materially worse than scenario 1**	Interchange could hit smaller banks and fintechs hardest **Likely to be materially worse than scenario 1**	Ban has less incremental impact on smaller retailers; headline prices likely to rise less than under the baseline **Potentially significantly better outcome than scenario 1, but likely worse than the status quo**	Lower interchange improves things slightly in the interim, then full ban produces same overall outcome as baseline **No material difference to scenario 1**
Scenario 3: **Debit-only - baseline**	Harder to implement than a full ban; merchant compliance may be patchy **More difficult to implement than scenario 1**	Spending likely to move towards scheme debit; competing providers remain disadvantaged **Not materially different from scenario 1**	Margins likely to fall most for credit-focussed issuers; position of major banks may strengthen **Likely broadly similar to scenario 1**	Merchants can still recover some costs via credit surcharges – headline prices rise less than under a full ban **Slightly better outcome than scenario 1, but likely worse than the status quo**	Some transparency gains, but new sources of confusion also introduced; debit ban helps with online drip pricing **Less checkout transparency than under scenario 1**

Scenario	Implementation	Competition in payments	Competition in banking	Competition in retail	Consumer experience
Scenario 4: Debit-only – draft decision	Same challenges as baseline; harder to implement consistently **More difficult to implement than scenario 2**	Further weakens alternatives; Visa and Mastercard face even less competition **Not materially different from scenario 2**	Smaller issuers likely to be disadvantaged; more usage shifts to low-margin debit **Likely broadly similar to scenario 2**	Interchange fee cuts ease cost burden on merchants, headline prices rise by less; overall impacts vary by retailer type **Maybe slightly better outcome than scenario 2, but likely worse than the status quo**	Lower interchange improves things slightly in the interim, then ban produces same overall outcome as baseline **Less checkout transparency than under scenario 2**
Scenario 5: In-person only – baseline	Straightforward to implement, since in-person vs online distinction already built in **Broadly similar to scenario 1**	Same outcome as a full ban for EFTPOS; A2A retains some scope to compete online. **Likely to be materially better than scenario 1, but still worse than status quo**	Less impact than a full ban; online focussed providers less affected **Likely to be materially better than scenario 1, but still worse than status quo**	No material difference to a full ban for in-person sellers; Online merchants retain ability to surcharge **Maybe slightly better than scenario 1, but likely worse than the status quo**	Mixed effects on overall price transparency; online drip pricing continues **Less price transparency than scenario 1, but may be slightly superior to status quo overall**
Scenario 6: In-person only – draft decision	Same as baseline – no extra implementation issues **Broadly similar to scenario 2**	Further weakens A2A relative to baseline by reducing its ability to compete online **Likely to be materially worse than scenario 5**	Combined effects still favour major banks **Likely broadly similar to scenario 5**	Interchange fee cuts ease cost burden on merchants; headline prices rise by less **Maybe slightly better than scenario 5, but likely worse than the status quo**	Lower interchange improves things slightly in the interim, then ban produces same overall outcome as baseline **Less price transparency than scenario 1, but may be slightly superior to status quo overall**
Scenario 7: Foreign-issued cards	Technically feasible, but inconsistent use likely **More difficult to implement than scenario 1**	No significant impact; foreign cards not competing domestically **Not materially different from the status quo**	No significant effect; limited exposure to foreign card fees **Not materially different from the status quo**	Some merchant sectors that are 'tourist facing' affected **Not materially different from the status quo**	Ban might improve overall visitor experience **Maybe a slight improvement on the status quo for tourists**

Appendix A Interchange fee caps

Table A.1 provides the current interchange fee caps the Commission's draft interchange fee caps. The current interchange caps are the specified maximum interchange fee rates from the initial pricing standard.

Table A.1: Interchange fee caps

Card type	Payment method	Current cap	Draft cap
Domestic debit	In-person – contacted	0.00%	No change
	In-person – contactless	0.20%	No change
	Online	0.60%	0.40% ↓
Domestic credit	In-person	0.80%	0.20% ↓
	Online	0.80%	0.40% ↓
Commercial credit	In-person	Not regulated	0.20% ↓
	Online	Not regulated	0.40% ↓
All domestic pre-paid cards	In-person and online	Not regulated	No change
Foreign-issued cards	In-person	Not regulated	0.60% ↓
	Online	Not regulated	1.15% ↓

Source: Draft Decision (2024), Table 1.1., p.5.

Table A.2 shows the draft caps compare with the regulated interchange fee rates that are payable in other jurisdictions: Australia, the European Union and the United Kingdom.

Table A.2: Regulated interchange fee rates in other jurisdictions

	Payment product	Australia	EU	UK	Draft cap
Contacted	Domestic debit	10c or 0.20%	0.20%	0.20%	0.00%
	Domestic credit	0.50%/0.80%	0.30%	0.30%	0.20%
	Domestic prepaid	10c or 0.20%	0.20%	0.20%	Not regulated
	International	1.20%-2.40%	0.20%/0.30%	1.15%/1.50%	0.60%
Contactless	Domestic debit	10c or 0.20%	5c or 0.20%	0.20%	0.20%
	Domestic credit	0.50%/0.80%	0.30%	0.30%	0.20%
	Domestic prepaid	10c or 0.20%	0.20%	0.20%	Not regulated
	International	1.20%-2.40%	0.20%/0.30%	1.15%/1.50%	0.60%
Online	Domestic debit	10c or 0.20%	0.20%	0.20%	0.40%
	Domestic credit	0.50%/0.80%	0.30%	0.30%	0.40%
	Domestic prepaid	10c or 0.20%	0.20%	0.20%	Not regulated
	International	1.20%-2.40%	1.15%/1.50%	1.15%/1.50%	1.15%

Source: Draft Decision (2024), Table 3.1., p.29.

Appendix B How payment systems compete

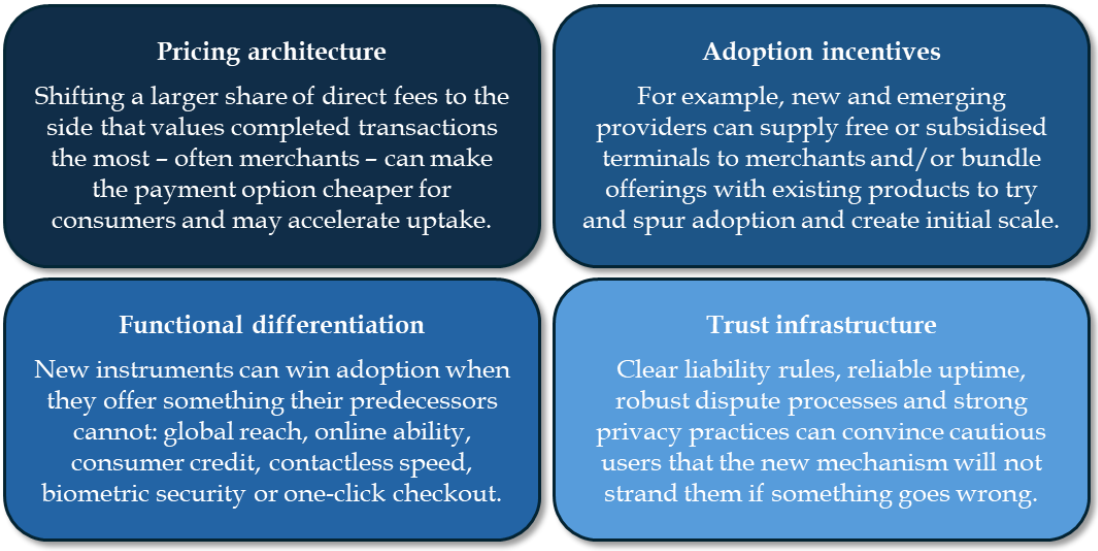
This appendix outlines the basic obstacles any non-cash payment instrument must overcome to compete in New Zealand's retail-payments market. It then reviews how each major instrument has gone about this challenge. Some have already achieved scale, others remain nascent, and one – EFTPOS – appears to be in decline as a market force. This background is important, because any change to the surcharging framework could alter the effectiveness of these strategic approaches and, consequently, the relative market position of each payment instrument.

B.1 The 'chicken-and-egg' problem

Payment systems provide a textbook example of a two-sided market. A provider runs a platform connecting consumers, who want a convenient way to pay, with merchants, who need a dependable way to receive funds. The value to each group rises with the expected size of the other, creating strong indirect network externalities. Until enough users stand on both sides, neither side has an incentive to join – an adoption deadlock akin to a classic chicken-and-egg problem.

Cash escapes this dilemma, because legal-tender laws compel merchants to accept it. Providers of non-cash mechanisms must earn acceptance the hard way. Merchants hesitate to invest in terminals, training, and fees until they believe many customers already carry the instrument. Meanwhile, consumers refuse to adopt until they expect widespread acceptance. Most payment systems try to break this deadlock by deploying some mixture of the strategies summarised in Figure B.1.

Figure B.1: Strategies for encouraging uptake



When these strategies attract an initial nucleus of users, the resulting network externalities raise the platform's value and can accelerate further adoption, creating a mutually reinforcing cycle. The next sections describe how each major payment option in New Zealand has used these strategies – some achieving scale, others continuing to seek critical mass – in their efforts to break the coordination deadlock and compete in the retail-payments market.

B.2 Credit-card schemes

The credit card networks operated by Visa and MasterCard are commonly referred to as 'four-party' or 'open' networks. This is because there are four parties involved in each transaction: the cardholder, the merchant, the financial institution that issues the card to the cardholder (the issuer[87]) and the financial institution that provides payment services to the merchant (the acquirer[88]). In these platforms, issuers and acquirers compete to attract cardholders and merchants, respectively.

There are also two principal 'three-party' or 'closed' networks in New Zealand: American Express and Diners Club. As the name suggests, they involve only three parties: the cardholder, the merchant and the network owner that plays the role of both issuer and acquirer of all transactions. The only fee payable in closed networks is therefore the merchant service fee, which is payable by the merchant to the acquirer/issuer (i.e., American Express or Diners Club).[89]

B.2.1 Pricing architecture

In open (four-party) card networks, issuers and acquirers compete to attract cardholders and merchants, respectively. If each side set fees independently, it would consider only its own costs and revenues. Issuers would ignore the added value that each new cardholder generates for merchants, while acquirers would overlook the issuer-side gains from expanding merchant acceptance. Prices would diverge from levels that maximise total transaction volume.

Interchange fees – paid by acquirers to issuers – were introduced to address this coordination problem. By transferring some merchant-side revenue to issuers, interchange enables lower cardholder fees and funds incentives such as fraud protection, interest-free periods and rewards. This rebalancing has supported higher issuance and usage, albeit at the cost of elevated merchant service fees. Interchange-funded incentives were instrumental in the rapid growth of open credit card networks in the 1980s and remain a core feature of their economics.

In closed (three-party) networks such as American Express and Diners Club, the same entity performs both issuing and acquiring roles. Because the platform internalises all costs and benefits, it can directly manage adoption and acceptance by setting a single schedule of cardholder and merchant fees. In effect, it sets an 'implicit' interchange rate by adjusting these prices in tandem.

87 Issuers are responsible for signing up cardholders, producing and distributing cards, assessing and managing default risk, developing and advertising credit card products, billing and collecting payments, providing credit facilities, handling chargebacks and other complaints.

88 Acquirers are responsible for signing up merchants, installing, servicing and providing training in the use of electronic terminal equipment to merchants, relaying authorisation requests to the network and relaying the response to the merchant, settling with issuers and merchants, dealing with chargebacks and managing the risk of fraud.

89 The three-party networks offer credit cards and also charge cards. Charge cards are similar to credit cards but require the account to be paid in full by the end of the statement period.

At their peak in New Zealand, interchange fees on domestic scheme credit and debit card transactions reached up to 2.5% of the transaction value.[90] In 2021–22, credit and scheme debit interchange[91] generated approximately $600 million in issuer revenue.[92] Following the introduction of caps under the *Retail Payment System Act 2022*, the maximum credit card interchange rate was reduced to 0.80% for both online and in-person transactions.[93] By 2023, credit and debit interchange revenue had declined to $560 million—around $160 million lower than it would have been in the absence of caps.[94]

Merchant evidence confirms that merchant service fees remain material, despite the introduction of regulatory caps on interchange fee levels. According to Kantar research, in 2022, two in five merchants claimed to be paying a single merchant service fee on transactions, and two in five claimed to be paying a range of rates.[95] Among those merchants surveyed:[96]

- those being charged a single merchant service fee claimed rates most commonly fell between 1.1% and 2%;
- those being charged a range of rates, the lowest rate most commonly fell between 0.5% and 2%, and the highest rate between 1.5% and 4%; and
- twice as many claimed their rate had increased (20% of respondents) rather than fallen (9%) over the twelve months to March 2023.

As noted earlier, the Commission has proposed a second, deeper round of regulation, which it estimates would reduce annual interchange revenue by a further $260 million.[97] Meanwhile, surcharging has become the principal merchant response to card costs:

- According to 2022 Kantar research, 22% of merchants that accepted credit or contactless payments levied a surcharge at that time,[98] and four in five of those

90 Draft Decision (2024), p.4, footnote 1.

91 Separate estimates do not appear to be available for credit and debit card interchange revenue.

92 Draft Decision (2024), Figure 2.1, p.18.

93 *Ibid*, Table 1.1., p.5.

94 *Ibid*, Figure 2.1, p.18.

95 Kantar (2022), p.13.

96 *Ibid*.

97 The draft decision would reduce the domestic credit-card cap to 0.20% for in-person and 0.40% for online transactions, extend caps to commercial and foreign-issued cards (0.20%/0.40% and 0.60%/1.15%, respectively) and trim the scheme-debit online cap from 0.60%-0.40%. *See:* Draft Decision (2024), pp.4-5 and 10-11.

98 Active steering is also growing – 15% of surveyed merchants encouraged customers to use lower-cost methods, usually by verbal prompt (Kantar (2022), p.14-15).

applied it to Visa/Mastercard credit transactions.[99] Other surveys have found much higher rates of surcharging.[100]

- Nearly all surcharging merchants (92% of respondents) applied a single percentage rate across all cards (this is likely to have been at least partly attributable to technological limitations of terminals at the time).[101]

The Commission, using transaction-level acquirer and terminal-provider data, has calculated that New Zealanders now pay $45–65 million a year in excessive surcharges, with the average surcharge 'almost double' the average merchant-service fee for the businesses concerned.[102] This likely reflects the fact that many merchants face tiered or card-specific merchant-service fees but historically could load only a single surcharge into their terminals. When that single rate is pitched to cover the highest-fee tier it over-recovers on lower-fee transactions.

B.2.2 Adoption incentives

Visa and Mastercard issuers have historically used interchange revenue to fund cardholder incentives. Waived annual fees, large sign-on bonuses and co-branded airline rewards reduced entry costs and accelerated network growth. On the merchant side, two scheme-funded investment waves shaped adoption:

- **Terminal roll-out (late 1980s – mid-1990s).** Acceptance Development Funds, financed by issuer contributions, reimbursed acquirers for the cost of installing dial-up terminals at small retailers that could not otherwise justify the expense.
- **Contactless transition (early 2010s).** The same funds subsidised NFC-enabled devices, hastening the move from chip-and-PIN to tap-and-go payments.

The combined effect was to embed credit-card acceptance widely before alternative digital options had reached scale. This growth as reinforced by 'honour-all-cards' and 'no-surcharge' rules that limited merchant's ability to steer customers toward cheaper payment mechanisms.[103] Merchants therefore faced a binary choice: accept every Visa and Mastercard variant on the networks' terms or decline the brands entirely. Given the networks' rapid rise to near-ubiquity, most accepted.

Capping interchange and removing those rules have altered the equation for merchants. *The Retail Payment System Act 2022* eliminated both restraints and, if implemented, the Commission's draft decision would cut interchange a further $260

99 Kantar (2022), p.14.

100 Mastercard noted that RFI Global's research of 500 New Zealand merchants in August 2023 showed that 50% of them surcharged. *See:* Mastercard, *Mastercard response to Commerce Commission consultation: Retail Payment System*, 2 September 2024, p.14.

101 Kantar (2022), p.14.

102 Draft Decision (2024), p.6.

103 The underlying rationale was straightforward: if merchants could steer customers away from high-interchange products, issuer-funded incentives would be undermined. By limiting this steering, the rules protected the networks' revenue model and supported issuer-driven growth.

million a year.[104] Issuers had already pared back rewards catalogues and increased annual fees and any deeper cuts would be expected to trim incentives again and tilt the cost-benefit calculus towards cheaper payment instruments.[105]

Despite these historical adoption incentives, credit card acceptance today is broad but not universal. Kantar's 2022 merchant survey shows that only one-third of all businesses offer Visa or Mastercard credit-card payments – although the share rises to 67% among firms with at least twenty employees.[106] On the customer side, usage has eroded gradually. For example, the Payments NZ's 2024 study found that:

- the popularity of credit cards as the preferred payment choice for everyday purchased declined between 2022 and 2024 for respondents aged 18-34 (27%-23%), 35-44 (41%-30%) and 45-54 (44%-31%);[107] and
- for large purchases, that decline was observed across every age demographic, i.e., 18-34 (34%-27%), 35-44 (44%-37%), 45-54 (59%-44%), 55-64 (52%-48%) and 65+ years (05%-57%).[108]

Taken together, shrinking issuer – and in turn, cardholder – incentives, the legalisation of merchant steering and a visible shift in consumer preferences have weakened the structural advantages that once underpinned open-loop credit-card growth. Future adoption is therefore likely to depend less on headline rewards and more on relative cost, seamless digital integration and the perceived convenience of alternative real-time payment options.

B.2.3 Functional differentiation

Credit cards have always offered features that other retail-payment options do not combine in the same way. They give cardholders an unsecured credit line that defers settlement, provide rewards that range from cash-back to airline points, are accepted by roughly two thirds of medium-to-large New Zealand merchants,[109] and can be used with minimal friction overseas through the schemes' global authorisation networks.

In recent years, the card schemes have introduced new features to improve security and reduce fraud, particularly for online purchases. Early internet transactions relied on simple checks like the three-digit Card Security Code and basic address verification. As e-commerce grew, the schemes added extra layers, including a password or text-message check for higher-risk purchases (commonly known as '3-

104 Draft Decision (2024), p.18.

105 *Ibid,* p.19.

106 Kantar (2022), pp.17-18.

107 Payments NZ (2024), p.10.

108 Payment NZ (2024), p.11.

109 Kantar (2022), p.18.

D Secure'). More recently, they have adopted tokenisation.[110] Security remains a core concern for merchants: 91% rate it 'important' and 58% 'very important'.[111]

The 2011 nationwide roll-out of near-field-communication cards extended convenience at the point of sale. Tap-and-go transactions up to $200 settle without a PIN and shorten each checkout by about 15 seconds in high-throughput outlets such as supermarkets and quick-service restaurants. The same infrastructure supports mobile wallets such as Apple Pay and Google Pay, which store card credentials on smartphones and smartwatches (see below for more detail). Contactless use is now almost universal: 88% of adults tap at least occasionally.[112] However, price signals influence behaviour. According to research by Payments NZ:[113]

- from 2022-24 the share of customers who always tap fell from 49% to 36%; and
- currently, 28% tap only when no surcharge is applied.

The functional attributes described above reinforce the core strengths that have long distinguished credit cards, yet they sit against a backdrop of rising cost sensitivity. Evidence from both merchant and consumer surveys suggests that the next phase of competition may hinge significantly on whether cards can continue to pair robust fraud protection and near-universal acceptance with fee structures that remain attractive relative to real-time account-to-account alternatives (discussed below).

B.2.4 Trust infrastructure

Credit-card networks operate longstanding systems that support safe, compliant and reliable payments across a wide range of environments. Together, they have made cards a trusted option for both domestic and cross-border transactions, including those that carry higher risk. Key elements include:

- **Fraud prevention:** Card schemes operate real-time fraud detection systems using machine learning to flag suspicious transactions.[114]
- **Compliance infrastructure:** Centralised systems support compliance with anti-money laundering, privacy and data security rules across jurisdictions.
- **Operational reliability:** Credit card networks are highly reliable and rarely go offline. However, if a merchant loses internet access, card payments may not be possible, since most credit card transactions require real-time approval.[115]

110 Tokenisation replaces the visible 16-digit card number with a one-time-use digital code whenever a card is saved or used online. This makes it harder for stolen card details to be reused.

111 Kantar (2022), p.32.

112 Payments NZ (2024), p.18.

113 *Ibid*.

114 EMV chip adoption sharply reduced counterfeit card fraud, while tools like 3D Secure 2.0 improved online authentication.

115 In contrast, some New Zealand EFTPOS terminals support 'offline mode', allowing merchants to continue accepting payments temporarily when internet connectivity is lost. In this mode, transactions are stored securely on the terminal and authorised once the connection is restored.

- **Consumer trust:** Credit cards continue to be perceived as secure. This is particularly important for high-value and cross-border transactions.
- **Dispute resolution:** Credit card payments are backed by well-established chargeback processes, offering consumers protection in cases of fraud, non-delivery or merchant insolvency.

This trust infrastructure remains a central strength of the credit-card model. It continues to distinguish the schemes from newer, lower-cost payment methods that may not yet offer the same level of protection or reliability.

B.2.5 Current trajectory

Credit cards continue to occupy a significant position in New Zealand's retail payment system. They remain widely accepted, particularly among medium and large merchants and are commonly used for higher value, online and international transactions. Their core features – including access to unsecured credit, embedded buyer protection and global acceptance – are not generally replicated by other payment methods.

However, that position is becoming less secure. The introduction of interchange fee caps has reduced issuer revenue, prompting some issuers to scale back reward programmes and increase annual fees. In parallel, the removal of scheme rules has enabled merchants to steer customers more actively towards lower-cost payment options, most notably through surcharging. Kantar's 2022 merchant survey found that 22% of businesses accepting credit or contactless payments applied a surcharge, with nearly all of them applying a single percentage rate across all cards.[116]

However, recent developments have altered some of the conditions that previously supported this position. The introduction of interchange fee caps has reduced issuer revenue, prompting some issuers to scale back reward programmes and increase annual fees. In parallel, the removal of scheme rules has enabled merchants to steer customers more actively towards lower-cost payment options, most notably through surcharging:

- Kantar's 2022 merchant survey found that 22% of businesses accepting credit or contactless payments applied a surcharge, with nearly all of them applying a single percentage rate across all cards (other surveys have put the incidence of surcharging much higher – up to 50% of merchants[117]); and

116 Kantar (2022), p.14.

117 Mastercard noted that RFI Global's research of 500 New Zealand merchants in August 2023 showed that 50% of them surcharged. *See:* Mastercard, *Mastercard response to Commerce Commission consultation: Retail Payment System*, 2 September 2024, p.14.

- Payments NZ's 2024 research suggests that an increasing proportion of consumers are adjusting their payment behaviour in response to surcharges, reducing credit and contactless usage when alternatives are available.[118]

Survey data also indicates a gradual shift in overall preferences. Use of credit cards for both every day and large purchases has declined across most age groups since 2022.[119] While acceptance remains widespread among medium and large merchants, uptake among smaller businesses is more limited. Kantar's 2022 survey found that only one-third of all merchants accepted Visa or Mastercard credit card payments, although the figure rose to two-thirds for those with 20 or more employees.[120]

Taken together, these developments suggest that the future role of credit cards may depend more on their relative cost and functionality than on historical patterns of adoption. While cards continue to offer distinct features and remain well-suited to particular use cases, their long-term position in the payments mix is likely to reflect the extent to which those features continue to justify the associated costs, particularly in an environment where account-to-account and mobile-based alternatives (discussed below) are becoming more widely used.

B.3 Domestic EFTPOS

New Zealand's domestic Electronic Funds Transfer at Point of Sale (EFTPOS) system was introduced in the late 1980s and became widely adopted for in-person retail transactions over the next decade.[121] Unlike international card schemes, EFTPOS operates as a domestic-only system that links directly to customers' bank accounts. It provides a debit-only service without credit functionality, allowing transactions to be authorised and processed in real-time.

A key feature of the New Zealand EFTPOS ecosystem is that the same physical terminals typically support multiple payment types. These terminals – manufactured primarily by Verifone and Ingenico (now part of Worldline) – can process both domestic EFTPOS transactions and international scheme payments (including Visa and Mastercard debit and credit), despite these transactions being routed through different networks and attracting different fee structures.[122]

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118 For example, the share of consumers who "always tap" declined from 49% to 36% between 2022 and 2024, while 28% now report tapping only when no surcharge is applied. *See:* Payments NZ (2024), p.18.

119 Payment NZ (2024), pp.10-11.

120 Kantar (2022), pp.17-18.

121 This section refers exclusively to New Zealand's traditional EFTPOS system, which is used for in-person, card-present transactions via the domestic switching network. Online EFTPOS – a separate service offered by the same provider (Worldline NZ) – operates over different infrastructure and is discussed later in the context of Account-to-Account (A2A) payment systems.

122 This introduces complexity into merchant decision-making and consumer choice at the point of sale, since functionally identical hardware processes transactions with potentially significantly different economics depending on which payment option consumers select.

B.3.1 Pricing architecture

The New Zealand EFTPOS system operates on a distinct pricing model that sets it apart from international card schemes. Its defining feature is the absence of interchange fees. Unlike credit-card and scheme-debit (discussed below) networks, EFTPOS does not involve any payment from the merchant's bank (the acquirer) to the customer's bank (the issuer). This removes the central transfer mechanism that funds rewards, credit provisioning and other issuer-side incentives in global schemes, resulting in a fundamentally different cost structure.

- For merchants, EFTPOS is generally priced through fixed monthly terminal fees rather than per-transaction charges. While fees vary by provider and contract terms, the flat-rate structure tends to benefit high-volume merchants by offering lower average acceptance costs than scheme-based cards.[123]
- For consumers, EFTPOS transactions have traditionally been fee-free.[124] Banks absorbed the associated costs as part of general account servicing, often bundling them into broader relationship pricing. This approach supported the early transition away from cheques and cash, encouraging adoption of electronic payments throughout the country.

The combination of zero interchange, flat merchant pricing and no consumer-facing fees therefore made EFTPOS highly accessible and attractive to both sides of the market. However, this low-cost model has also imposed constraints. The absence of transaction-based revenue has limited investment in feature upgrades, particularly as customer expectations shift toward digital interfaces, online compatibility and mobile integration.

Unlike international card schemes, which have used interchange-funded incentives and scheme development funds to drive functional enhancements, EFTPOS has relied more heavily on direct investment by banks and terminal providers—often with slower adoption. As expectations continue to evolve and competing platforms improve their cost-to-functionality balance, the sustainability of EFTPOS's current pricing model may therefore face increasing pressure.

B.3.2 Adoption incentives

The development of EFTPOS in New Zealand was underpinned by a coordinated investment strategy by the major trading banks. Unlike international credit card schemes – where issuers competed to grow cardholder numbers using rewards and other incentives – EFTPOS was built on shared infrastructure and collective goals. Banks pursued simultaneous expansion on both sides of the market, distributing cards to their customers while encouraging merchants to install terminals. This coordinated approach helped overcome the early-stage interdependence problem that often hinders new payment systems.

123 In Kantar's 2022 survey, 79% of merchants cited the cost of accepting a payment mechanism as an 'important' consideration to the business. *See:* Kantar (2022), p.35.

124 MBIE (2016), *Retail Payment Systems in New Zealand – Issues Paper*, 1 October, pp.11–13.

However, a key structural challenge soon emerged. Each EFTPOS transaction imposed costs on the issuing bank (e.g., fraud prevention, network maintenance, reconciliation), but the system lacked a natural mechanism for cost recovery. There were no interchange fees, no transaction-based merchant charges and no consumer-facing fees. In 1989, the major banks responded by forming Electronic Transaction Services Limited (later Paymark) to act as a shared switching utility. By consolidating the back-end infrastructure, the banks reduced duplication and preserved the zero-interchange model while containing cost pressures.

This shared ownership model allowed the banks to resolve the classic chicken-and-egg problem. It enabled rapid deployment of terminals and cards and by the early 2000s EFTPOS was accepted at the majority of retail locations and used for a large share of in-person payments. Its appeal rested on ease of use, reliability, and zero cost to the end user.

However, the structural features that supported EFTPOS's early success have also limited its ability to evolve. With no interchange or per-transaction revenue, there has been no dedicated funding stream for system upgrades. While international card schemes have financed enhancements through issuer fees and network contributions, EFTPOS has relied largely on the commercial incentives of banks and terminal providers. As customer expectations have shifted toward digital functionality, online use and mobile integration, this model has not kept pace. Paymark Limited recently offered the following succinct assessment:[125]

> *'Eftpos is woefully outdated. The rules for issuing and accepting Eftpos are owned and managed by PNZ yet these rules, and therefore the product, have not been kept current. The substantive acceptance and card design rules remain the same as they were in the 80s.'*

For consumers, the absence of rewards and limited digital functionality have made EFTPOS less appealing relative to emerging alternatives. Younger users in particular have a growing preference for payment methods that offer convenience, data integration and mobile compatibility—areas where EFTPOS has historically underperformed. While cost remains a strength, the long-term appeal of EFTPOS will likely depend on whether it can evolve to meet rising expectations without undermining the pricing model that made it successful.

B.3.3 Functional differentiation

The New Zealand EFTPOS system was designed around simplicity, reliability and low cost. It has served these goals well, especially for in-person retail. However, the system was not built for adaptability and that has limited its ability to evolve alongside changes in technology and customer expectations. EFTPOS continues to offer several distinctive features that have supported its long-term use:

- **Offline capability:** Some terminals can store transactions during network outages and forward them when reconnected.

125 Worldline New Zealand, *Submission: Draft report on the market study into personal banking services*, 18 April 2024, p.3

- **Cashout:** Customers can withdraw cash during purchases at participating merchants, reducing reliance on ATMs.
- **Retail-specific features:** The system supports fuel pre-authorisation, split payments and simple refund handling.

These strengths remain valued by many merchants. However, as the payments landscape has modernised, EFTPOS's limitations have become more evident. Key functional constraints include:

- **No online capability:** EFTPOS relies on PIN entry at a physical terminal and cannot be used for e-commerce or remote transactions.[126]
- **No contactless functionality:** Transactions require card insertion or swiping and PIN entry, typically taking 15–20 seconds longer than tap-and-go options.
- **No international acceptance:** EFTPOS is restricted to domestic use and cannot be used overseas or for cross-border purchases.
- **Limited digital integration:** The system does not interface with mobile wallets, apps, or wearables, reducing its appeal in a smartphone-centric environment.

These constraints have reduced EFTPOS's relevance in a market that increasingly values convenience, speed and digital compatibility. While EFTPOS remains trusted and cost-effective, particularly for in-person spending, its ability to retain market share will depend on whether these strengths remain sufficient as the broader ecosystem continues to evolve.

B.3.4 Trust infrastructure

EFTPOS has built a strong reputation for security and reliability. These attributes remain central to its appeal among both merchants and consumers and are supported by several well-established features:

- **PIN authentication:** Every transaction requires a PIN, providing strong first-line security. Liability for fraud generally rests with the bank unless the PIN has been compromised.
- **Real-time authorisation:** Transactions are approved against available funds at the point of sale, reducing the risk of declines or overdrafts and providing immediate certainty to merchants.
- **Domestic processing:** All EFTPOS transactions are processed within New Zealand using locally regulated infrastructure, reducing exposure to offshore disruptions and supporting regulatory oversight.
- **Certified terminals and encryption:** Devices must meet security standards and encrypt payment data before transmission, consistent with rules maintained by Payments NZ and scheme operators.

126 Online EFTPOS – a separate service offered by Worldline NZ – operates over different infrastructure and is discussed later in the context of Account-to-Account (A2A) payment systems.

These attributes help explain why EFTPOS is still regarded as one of the most secure and dependable options for in-person payments. As real-time account-to-account platforms continue to evolve (see below), maintaining trust will remain essential – but so too will the ability to integrate into the broader digital ecosystem.

B.3.5 Current trajectory

EFTPOS remains a widely used and trusted payment method for in-person retail transactions in New Zealand. Its core strengths – low cost, strong security and domestic processing – continue to make it attractive to many merchants and consumers, particularly for everyday spending. Acceptance remains high among small and medium-sized businesses and the system is consistently rated well on reliability and ease of use.

However, its role in the broader payment ecosystem appears to be narrowing. EFTPOS lacks online functionality, is not compatible with mobile wallets or wearable devices and cannot be used for international or cross-border transactions. These constraints have limited its relevance in an environment where customer expectations are shifting toward speed, convenience and omnichannel capability. While other payment methods have evolved through interchange-funded investment or digital integration, EFTPOS has faced greater barriers to innovation.

Recent consumer research suggests that these limitations are starting to affect usage significantly. Younger customers, in particular, are gravitating toward mobile-based and account-to-account options (discussed below) that offer greater flexibility and richer features. At the same time, merchants increasingly weigh not only cost and reliability, but also the ability of a payment method to support digital engagement and customer experience.

For now, EFTPOS remains reasonably well embedded in New Zealand's payments landscape. But its long-term position is uncertain. Its future success—or even continued viability – will depend on whether it can adapt to evolving expectations without undermining the low-cost structure that has underpinned its appeal.

B.4 Scheme debit

Scheme debit cards represented a significant development in New Zealand's payments landscape. Introduced by Visa and Mastercard in the mid-2000s, these dual-network cards combine access to the domestic EFTPOS system with the international functionality of the respective card schemes. Unlike traditional EFTPOS-only cards, scheme debit cards enable both in-person and online payments, including overseas transactions, while drawing directly from a customer's transaction account.

Adoption increased substantially from 2010 onwards, as major New Zealand banks began issuing them as standard with everyday banking products. This offered consumers a hybrid product that preserved the real-time, account-linked nature of EFTPOS while extending usability across a wider range of channels and acceptance

environments. By broadening payment functionality without requiring a credit facility, these cards expanded consumer choice and increased the relevance of bank-issued debit products.

B.4.1 Pricing architecture

Scheme debit cards operate on the same four-party model as credit cards, involving a cardholder, merchant, issuer and acquirer. Unlike EFTPOS, scheme debit relies on interchange fees – although typically at lower rates than credit cards. A key distinction lies in how transactions are routed:

- **Contactless (tap) transactions** are processed through Visa or Mastercard and attract an interchange fee.
- **Insert or swipe transactions with PIN entry** are routed through the domestic EFTPOS network and do not incur interchange.

This dual-routing capability affects the total merchant service fee, which includes the underlying interchange component. Contactless scheme debit transactions are typically more expensive for merchants because they involve both interchange and scheme fees. Before regulation, interchange on scheme debit could reach 2%.[127] These rates are now capped at 0.6% for online and 0.2% for in-person transactions. EFTPOS-routed transactions remain interchange-free.

For merchants, this distinction can translate to a material difference in cost – particularly for high-volume or high-value retailers. While scheme debit is cheaper to accept than credit cards, it is still more expensive than EFTPOS which, as noted earlier, is usually charged at a fixed monthly terminal fee rather than a percentage per transaction. Kantar's 2022 survey revealed half the surveyed merchants refused to accept contactless payments for in-person transactions (credit and debit) – and 51% of respondents cited the cost of acceptance as a reason.[128]

From the consumer perspective, scheme debit cards are generally offered without per-transaction fees. Most banks recover costs through bundled account charges, with scheme debit either included as a standard feature or provided as part of a premium account package with a monthly fee. Scheme debit also continues to generate revenue for issuing banks. Although fee caps and the removal of rules such as 'no surcharge' have reduced this income, it remains substantial.[129]

B.4.2 Adoption incentives

Scheme debit has expanded rapidly in New Zealand by leveraging the global infrastructure of Visa and Mastercard. Unlike EFTPOS, which required coordinated domestic investment, scheme debit entered the market through an established international framework that already connected issuers, acquirers and merchants.

127 MBIE, *Retail payment systems in New Zealand, Issues Paper,* October 2016, Table 5, p.38.

128 Kantar (2022), p.42.

129 Combined credit and debit interchange revenue totalled approximately $600 million in 2023. *See:* Draft Decision (2024), pp.4-5.

This reduced infrastructure costs and enabled banks to scale deployment quickly once adoption began.

Issuers have played a central role in this expansion. Many now issue scheme debit cards by default with new accounts, especially for younger customers or those not eligible for credit products. This passive rollout – undertaken without formal migration campaigns – has enabled banks to grow cardholder numbers without the upfront acquisition costs associated with credit cards.

Merchant adoption has also proceeded with little friction. Most modern terminals in New Zealand support EFTPOS, credit and scheme debit on a single device. This has allowed merchants to accept scheme debit transactions without additional hardware or onboarding. While merchant service fees for scheme debit are higher than for EFTPOS, many businesses have accepted the cost as contactless payments became standard. In Kantar's 2022 survey, 71% of merchants cited customer expectation as a key driver for offering contactless functionality, including scheme debit.[130]

These supply-side conditions – default card issuance, infrastructure compatibility and broad contactless uptake – have enabled scheme debit to expand quickly. Unlike EFTPOS, its growth has not depended on coordinated infrastructure rollout or formal migration strategies. This has allowed issuers and merchants to adopt the product with minimal disruption.

B.4.3 Functional differentiation

Scheme debit cards offer broader functionality than EFTPOS, addressing many of the constraints that have limited EFTPOS's relevance in a more digitally integrated payments environment. This added versatility has contributed to their growing use – particularly among consumers who prioritise convenience, remote access and mobile compatibility. Key features include:

- **Online capability:** Scheme debit can be used for e-commerce, digital subscriptions and other online purchases that EFTPOS does not support.
- **Contactless payments:** Tap-and-go functionality reduces checkout time for transactions under a set threshold (typically $200).
- **International acceptance:** Cards are usable worldwide wherever Visa or Mastercard is accepted.
- **Mobile integration:** Can be added to wallets such as Apple Pay and Google Pay and to proprietary bank apps.
- **Online authentication:** Supports secure online purchases through two-step verification and other mechanisms embedded in merchant checkout processes.

While EFTPOS continues to be valued for its low cost and reliability, the broader functionality of scheme debit has made it more suitable in contexts where flexibility and digital access are expected. The ability to bridge in-person and remote

130 Kantar (2022), p.41.

payments gives scheme debit a competitive advantage as the use of physical cards, mobile wallets and online platforms increasingly converges.

B.4.4 Trust infrastructure

Scheme debit cards operate within the same global security and compliance frameworks as credit cards. This includes a range of features designed to support trust in both in-person and online payments. Contactless limits, PIN entry and secure authentication processes all contribute to reducing fraud risk and building user confidence. Additional safeguards include:

- **Fraud monitoring:** Real-time systems scan for unusual or suspicious activity and can block or flag transactions as needed.
- **3D Secure protocols:** Online transactions are protected by two-step verification tools such as Verified by Visa and Mastercard Identity Check.
- **Dispute resolution:** Cardholders have access to processes for reversing payments in cases of fraud, non-delivery or error, including chargebacks.

These protections apply across both domestic and international transactions and have helped establish scheme debit as a secure option in settings where EFTPOS is not accepted or provides more limited recourse. While trust infrastructure remains a key enabler of scheme debit adoption, other factors such as convenience, acceptance breadth, and compatibility with digital wallets also contribute to its growing use.

B.4.5 Current trajectory

Scheme debit has become a widely used and broadly accepted payment method in New Zealand. It combines many of the functional benefits of credit cards – such as online capability, international acceptance and mobile integration – with the familiarity of a debit product linked directly to a customer's account. For many consumers, it now serves as a default option for both in-person and digital transactions.

This growth has been supported by passive issuance strategies, contactless functionality and broad merchant acceptance through integrated terminals. Scheme debit continues to generate revenue for banks through interchange. For merchants, it remains more expensive than EFTPOS but is often accepted for its convenience and compatibility with contactless and online payments.

Despite fee caps and the removal of scheme rules that once limited merchant discretion, scheme debit remains economically viable for issuers and operationally straightforward for merchants. From the consumer perspective, its versatility and compatibility with mobile wallets and online commerce continue to drive uptake – especially as expectations shift toward unified, digital-first payment experiences.

Looking ahead, scheme debit appears well positioned to maintain a strong role in the payment mix. Its future share will depend on how well it continues to balance functionality, cost and convenience relative to both credit cards and emerging account-to-account alternatives (discussed below).

B.5 Account-to-Account (A2A)

Account-to-Account (A2A) payment solutions represent a growing alternative to card-based systems in New Zealand, enabling direct transfers between bank accounts without relying on Visa or Mastercard networks. By bypassing traditional card infrastructure, A2A systems remove the need for interchange fees and offer the potential for lower-cost electronic payments. Notable A2A services currently available in New Zealand include POLi Payments[131] and Worldline NZ's Online EFTPOS,[132] both of which rely on users' bank credentials to initiate payments from transaction accounts.

However, New Zealand's A2A ecosystem remains limited in scope and functionality compared with jurisdictions where open banking is more advanced. In countries like the UK, the Netherlands and Australia, more mature open banking frameworks have supported the development of fully integrated A2A platforms such as Trustly,[133] iDeal,[134] UPI (United Payments Interface)[135] and PayTo.[136] These providers offer real-time payments embedded directly into online checkouts or recurring billing systems, competing directly with card schemes for online and subscription payments.

131 POLi is an Account-to-Account (A2A) payment service that enables consumers to make online payments directly from their bank accounts without using a debit or credit card. Developed originally by Centricom and now operated by Merco (a subsidiary of Australia Post), POLi works by automating a bank transfer within the user's internet banking session. It does not rely on card networks or the domestic EFTPOS system.

132 Online EFTPOS is an A2A payment service operated by Worldline (formerly Paymark), the provider of New Zealand's domestic EFTPOS infrastructure. Unlike traditional EFTPOS, it is used for online and remote transactions and does not require a physical card or use the domestic EFTPOS switch. Instead, at the point of checkout, the customer enters a mobile phone number and selects a bank from a supported list. A secure payment request is then sent to the customer's banking app, where the transaction is authenticated using a login or biometric credentials. Once authorised, funds are transferred directly from the customer's account to the merchant in near real time. The service supports payments from participating banks including ASB, BNZ, Westpac and Heartland, and is commonly used for bill payments, online retail, and government services. Although provided by the same entity as traditional EFTPOS, Online EFTPOS operates on a separate infrastructure and is tailored to the growing demand for digital A2A payment solutions.

133 Trustly is a Sweden-based payment provider that enables consumers to make instant payments directly from their bank accounts without using cards. It is widely adopted across Europe for e-commerce, online gaming and travel, and is integrated with thousands of banks in the EU and UK.

134 iDEAL is a bank-led A2A payment system used in the Netherlands that allows consumers to make online purchases by initiating real-time transfers from their bank accounts. It has become the dominant online payment method in the country, accounting for the majority of domestic e-commerce transactions – surpassing even Visa and MasterCard.

135 UPI is a real-time A2A payment system developed by the National Payments Corporation of India. It enables instant fund transfers between bank accounts via mobile devices, QR codes or virtual payment addresses. UPI has seen rapid adoption and now processes billions of transactions monthly; outpacing card use in India.

136 PayTo is an Australian payment service developed under the New Payments Platform (NPP) and operated by NPP Australia. It allows consumers to authorise and manage merchant-initiated A2A payments directly from their bank accounts, offering real-time processing and greater transparency than traditional direct debits.

B.5.1 Pricing architecture

Account-to-account (A2A) payment systems operate on a fundamentally different pricing model from card-based schemes. Their key distinction is the absence of interchange fees. Unlike card networks – where a portion of the merchant service fee is passed to the issuing bank – A2A providers retain the full merchant fee and do not share revenue with banks. This creates a more direct commercial relationship between the payment provider, the merchant and the consumer.

For merchants, A2A payments are typically lower cost than card alternatives. Pricing models vary but often include flat per-transaction fees, tiered volume discounts or bundled subscription arrangements. These options can offer material savings for businesses with high transaction volumes, recurring billing structures or tight operating margins. As noted earlier, in Kantar's 2022 survey, cost was the most frequently cited barrier to credit and contactless acceptance, highlighting the appeal of lower-cost alternatives.[137] This is a key selling point for A2A providers.

On the consumer side, A2A payments are generally free to use. Banks do not impose per-transaction fees and payment providers rarely charge end users. This makes it possible for merchants to offer low-cost payment options to consumers without applying surcharges.

However, the absence of interchange revenue also creates constraints. A2A providers have limited ability to fund loyalty programmes, cashback or other card-style incentives. In the absence of strong merchant steering or clear functional advantages, this has made it more difficult to influence consumer choice. These structural challenges are compounded by the limited availability of open banking infrastructure, which restricts third-party access to bank data and slows the rollout of A2A services at scale.[138]

B.5.2 Adoption incentives

A2A providers in New Zealand have used a range of strategies to address the two-sided adoption challenge that typically confronts emerging payment systems. On the merchant side, the core appeal lies in significantly lower acceptance costs. By offering materially cheaper alternatives to card payments – particularly for high-value or recurring transactions – A2A systems have gained traction in:

- **E-commerce settings**, where average transaction values tend to be higher;
- **Subscription and billing models**, where cost predictability is valued; and
- **Government and utility payments**, where budget sensitivity is high.

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137 Kantar (2022), p.41.

138 The Commerce Commission's 2024 market study into personal banking services identified open banking as a critical enabler for broader innovation and competition in payments. But it also noted that New Zealand lags behind comparable economies in implementation. As a result, the A2A sector here remains relatively nascent, with further growth contingent on the pace and effectiveness of open banking rollout. *See:* Commerce Commission, *Final Report – Personal Banking Services Market Study* (August 2024, amended 27 August), pp.266-284

On the consumer side, adoption has been slower. Without interchange revenue, A2A providers cannot offer rewards, cashback or other incentives that have historically supported cardholder uptake. To compensate, many have focused on trust and usability; for example:

- **Security messaging**: Emphasising that card details are never shared and payments are completed via secure bank-to-bank transfers;
- **User experience investment**: Developing intuitive, app-based interfaces to simplify the payment process;
- **Merchant integration**: Partnering with large, trusted merchants to build familiarity and encourage trial use; and
- **Bank-linked access**: Allowing customers to pay directly from their bank accounts without creating separate credentials or joining new platforms.

Some providers have also partnered with banks to offer A2A payment options within existing online or mobile banking environments. This reduces friction by using familiar channels, but success often depends on how actively those options are promoted and supported. Structural barriers continue to limit the growth of A2A payments. In particular, the absence of consistent open banking infrastructure in New Zealand restricts third-party access to bank data and functionality.

B.5.3 Functional differentiation

A2A payment systems differ from card-based networks not just in pricing, but also in how payments are initiated, authorised and settled. These structural differences create both advantages and limitations, depending on the context in which the payment is made. Some key advantages include:

- **Real-time settlement:** Integrated A2A platforms often support near-instant bank transfers using domestic clearing systems. This enables merchants to receive funds promptly and improves cash flow visibility.
- **Rich remittance data:** A2A transactions can carry detailed payment references, supporting invoice-level reconciliation and reducing processing time.
- **Bank platform integration:** Most A2A systems redirect the customer to their existing online banking interface to approve the payment. This avoids the need for separate credentials or new app downloads, and leverages familiarity with existing platforms.
- **Lower merchant costs:** By avoiding card networks and interchange fees, A2A payments can materially reduce transaction costs—especially for high-value or recurring payments.

However, several functional limitations have constrained broader adoption, including the following:

- **Inconsistent user experience:** Because each bank designs its own authentication and interface flows, the user experience varies considerably. This can cause confusion or friction, particularly at checkout.

- **Domestic scope:** Most A2A platforms in New Zealand are limited to local payments and cannot support cross-border transactions.
- **Authentication overhead:** Bank security requirements often involve multi-factor authentication. While appropriate from a security perspective, these extra steps can interrupt the flow of a transaction – especially on mobile or in-app platforms.
- **No consumer incentives:** A2A providers do not generate interchange revenue and therefore lack the means to fund cashback, rewards or loyalty programmes. This can reduce consumer uptake in competitive contexts where card-based products continue to offer tangible benefits.

In summary, A2A payment systems offer clear benefits for certain domestic use cases, particularly where cost and reconciliation matter most. But limited reach, inconsistent design and the absence of rewards continue to constrain their competitiveness in mainstream retail settings.

B.5.4 Trust infrastructure

A2A payment systems rely heavily on bank-grade security infrastructure to ensure transaction integrity and compliance. Because these systems route payments through established banking channels, they inherit many of the protections associated with online banking – such as strong customer authentication, encrypted communication, and real-time account verification. Beyond these safeguards, A2A platforms incorporate several mechanisms specifically designed to enhance trust:

- **Credential minimisation:** A2A systems typically avoid storing sensitive personal or financial data. Payment credentials are entered and authorised directly within a user's bank interface, reducing the exposure of customer information to third-party platforms.
- **Liability frameworks:** Responsibility for unauthorised or erroneous payments is shared among banks, A2A providers and merchants. However, these arrangements are often less visible and less familiar to consumers than chargeback rights under card schemes.
- **Regulatory oversight:** A2A systems fall under the oversight of the Reserve Bank of New Zealand and Payments NZ, which establish operational and security standards for participants in the payment ecosystem.
- **Limited remedial options:** Unlike credit card networks, A2A payments do not offer standardised chargeback protections. In the absence of well-known dispute processes, this can reduce perceived consumer protection in cases of fraud or merchant default.

These features have supported the use of A2A payments in trusted environments such as bill payment and government services. However, consumer surveys continue to show lower trust in newer or third-party payment systems. As noted earlier, consumers remain concerned about the security of their personal data when bank details are shared with other organisations. This ongoing apprehension –

particularly combined with limited awareness of the protections that do exist – remains a significant hurdle to broader adoption.

Building confidence in A2A payments is likely to require more consistent dispute resolution frameworks and clearer communication of rights and responsibilities. Over time, visible reliability in a wider range of retail settings may also help to improve trust and support broader uptake.

B.5.5 Current trajectory

A2A payment systems remain in the early stages of development. While there is clear interest from both merchants and consumers in lower-cost, bank-linked payment methods, uptake to date has been limited. Unlike more mature markets, such as the United Kingdom or Australia, New Zealand lacks a formal, industry-wide open banking regime – constraining the ability of A2A providers to access the data and functionality needed to support seamless payment experiences.

Nonetheless, some early momentum is evident. As of late 2024, approximately 15% of eligible customers at each of New Zealand's four largest banks had used a third-party service to initiate a payment directly from their bank account, with consent.[139] While encouraging, this figure still represents a modest level of adoption. The hope is that forthcoming regulatory reforms will act as a catalyst for broader use.

The key development in this regard is the introduction of the *Customer and Product Data Act 2025,* which will establish a consumer data right for the banking sector. The banking sector is expected to be formally designated in late 2025, with a phased implementation plan to follow.[140] These reforms will, for the first time, give accredited third-party providers secure access to customer account information and the ability to initiate payments directly from those accounts – subject to user consent.

Access to bank account information and payment initiation functionality is likely to be critical for the viability of A2A platforms. Without it, these providers are unable to deliver the seamless, embedded payment experiences that consumers increasingly expect or to compete effectively with the convenience of card-based alternatives. The forthcoming open banking reforms are therefore central to the future success of this payment model.

Cost efficiency remains central to the appeal of A2A platforms. By bypassing card networks and avoiding interchange fees, they can offer materially lower acceptance costs to merchants. However, this advantage is only relative. For example, if regulated interchange fees on credit and debit cards are reduced further ahead of

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139 These bank-linked payments are made possible through application programming interfaces (APIs), which allow authorised third-party providers to connect securely with banks to access account data or initiate payments. The 15% figure cited by the Commerce Commission in December 2024 refers specifically to payments initiated via such open banking APIs. *See: Commerce Commission, Update on Open Banking Progress,* 10 December 2024, p.2.

140 MBIE (2024), *Discussion paper – Open banking regulations and standards under the Customer and Product Data Bill*, pp.13-14.

open banking implementation, the margin between card-based and A2A payments could narrow, dampening adoption before these alternatives have had the opportunity to scale.

In short, the long-term success of A2A payment systems in New Zealand will depend on the effective implementation of open banking reforms, the ability of providers to develop consumer-friendly offerings, and the preservation of cost differentials that make A2A payments attractive to merchants.

B.6 Mobile wallets

Mobile wallets have become an increasingly prominent feature of New Zealand's payments landscape, offering a digital interface for card-based transactions via smartphones and wearable devices. Apps such as Apple Pay, Google Pay and various bank-specific offerings use NFC technology to enable contactless payments in stores. While they provide an alternative to carrying physical cards, they are not standalone systems. Instead, they operate as extensions of existing card networks, relying on Visa and Mastercard infrastructure. Their role is therefore complementary to, rather than competitive with, the established card schemes.

B.6.1 Pricing architecture

Because mobile wallets are built on top of existing card networks, they share the same underlying pricing structure. Payments made using Apple Pay, Google Pay or similar apps are processed through the card schemes' infrastructure and attract the same interchange fees, acquirer charges and merchant service fees as a standard Visa or Mastercard transaction. This has two important pricing implications:

- **No direct consumer charges**: Users are not charged for making payments via mobile wallets. Instead, wallet providers receive a small per-transaction fee from the issuing bank – around 0.15% in the case of Apple Pay.
- **No change in merchant pricing**: Merchants incur the same fees for mobile wallet payments as they would for equivalent physical card transactions. The use of a mobile interface does not alter the merchant service fee.

This structure has enabled mobile wallets to gain traction without introducing new costs or requiring changes to existing merchant infrastructure. Their adoption has been supported by broader growth in contactless usage and by shifting consumer preferences toward digital channels. According to Payments NZ's 2024 survey, 15% of consumers nominated smartphone-based mobile wallets as their preferred method for everyday purchases, up from 10% in 2022.[141] An additional 2% preferred wearable devices such as Fitbits or Apple Watches, bringing the total preference for digital wallet payments to 17%.[142]

141 Payments NZ (2024), p.7.

142 *Ibid*.

Although mobile wallets provide a more convenient way to use existing cards, they do not alter the economics of the underlying payment mechanism. Each mobile wallet transaction is still processed through the card schemes and priced accordingly. Their growth increases the volume of Visa and Mastercard payments but does not introduce a new platform or pricing model. Rather than competing with the schemes, mobile wallets reinforce their position – while taking a small cut in the process.

B.6.2 Adoption incentives

The adoption of mobile wallets in New Zealand has been shaped by their ease of integration into existing behaviours and systems. For consumers, the appeal lies in being able to use familiar devices to make everyday purchases quickly and securely, without changing providers or learning a new payment method. Consumer interest in mobile wallets has increased in recent years, driven by convenience and the growing normalisation of smartphone-based services.

As noted earlier, mobile wallet preference for everyday purchases increased between 2022 and 2024.[143] The strongest growth was among younger adults, whose payment habits tend to reflect digital convenience and frequent device use.[144] While mobile wallets remain a secondary payment method overall, their rising popularity among younger users points to a potential for further growth as digital habits become more widespread.

From a merchant perspective, mobile wallets have presented few adoption barriers. They operate through existing point-of-sale terminals, require no new commercial arrangements, and align with rising customer expectations for speed and convenience.

On the issuing side, as noted above, banks incur a small fee per mobile wallet transaction. While this reduces revenue per transaction, it may support overall volume growth if wallet features drive more frequent card use or improve customer retention. Over time, however, increasing reliance on mobile wallets could shift a growing share of card-related revenue away from banks and toward external providers. If wallet-based payments continue to displace traditional card use, issuers may face declining margins on transactions while still bearing the costs of issuing and servicing cards.

Mobile wallet uptake has grown steadily by building on the existing card system. Rather than replacing it, they offer a more convenient way for consumers to use their existing cards. This has helped drive adoption, but without changing how payments are priced or processed. As a result, mobile wallets have expanded card use without altering the structure or cost of the underlying system.

143 Payments NZ (2024), p.8.

144 *Ibid*, p.10.

B.6.3 Functional differentiation

Mobile wallets provide a digital interface for making card-based payments using smartphones and wearable devices. While they operate on existing credit and debit card infrastructure, they offer a range of additional features that enhance convenience, security and usability for consumers, without requiring any changes from merchants.

Payments are typically authorised using biometric verification – such as fingerprint or facial recognition – on the user's device. Instead of transmitting the actual card number during a transaction, most mobile wallets use tokenisation. This helps protect users against fraud and limits the value of intercepted data. Mobile wallets also offer a key security advantage over contactless plastic cards: if a smartphone is lost or stolen, built-in authentication requirements prevent others from using it to make payments. By contrast, many contactless card transactions can be completed without a PIN, making unauthorised use more likely in the event of loss.

Mobile wallets also enable card consolidation, allowing consumers to store multiple credit, debit and loyalty cards in a single application. Many provide a more streamlined checkout experience, both in-store and online, by eliminating the need to manually enter card details or carry physical cards. Some also support the storage of non-payment items, such as event tickets or transit passes, although these uses remain limited in New Zealand.

Because mobile wallets are built on top of existing card systems, they remain compatible with standard contactless payment terminals. From a merchant's perspective, a mobile wallet transaction is functionally identical to one made with a contactless card and does not require additional infrastructure or incur different fees.

By layering digital functionality over traditional card payments – without introducing new hardware, credentials or networks – mobile wallets have positioned themselves as a user-friendly extension of the existing system. Their continued growth may depend less on introducing entirely new capabilities and more on increasing consumer comfort and habitual use.

B.6.4 Trust infrastructure

As outlined in the previous section, many of the functional enhancements offered by mobile wallets – such as tokenisation and biometric authentication – also serve to reinforce user trust. These features reduce the risk of unauthorised access and fraud, particularly when compared with contactless cards, which can often be used without PIN entry if lost or stolen.

Beyond these security functions, mobile wallets maintain the same liability protections as physical cards. Because they operate on existing Visa and Mastercard rails, cardholders retain access to established dispute mechanisms and fraud safeguards, including chargebacks. From a consumer perspective, this continuity

helps ensure that the shift from card to mobile does not involve any loss of protection.

Additional trust is derived from the wider ecosystem in which mobile wallets operate. Most are backed by large, well-known technology firms and supported by major banks. Wallet providers are subject to the same security standards and certification requirements as traditional payment processors. In some cases, real-time fraud detection is also enhanced through the use of device-level signals – such as location or usage patterns – alongside standard network monitoring.

These overlapping safeguards have contributed to mobile wallets being perceived as secure by many users. While New Zealand-specific trust data are limited, international experience suggests that familiarity, consistent performance and strong default security settings all play an important role in building confidence over time.

B.6.5 Current trajectory

Mobile wallets have gained traction in New Zealand as more consumers adopt smartphones and grow comfortable with digital-first payment experiences. They do not operate as standalone payment systems but rather as extensions of existing credit and debit card networks. As such, their role is complementary to the card schemes: they provide a convenient, secure interface while preserving the schemes' underlying economics. According to Payments NZ's 2024 survey: [145]

- 15% of consumers nominated smartphone-based mobile wallets as their preferred method for everyday purchases, up from 10% in 2022; and
- An additional 2% preferred wearable devices such as Fitbits or Apple Watches, bringing the total preference for digital wallet payments to 17%.

From a merchant perspective, mobile wallet payments are processed exactly like contactless card transactions, using the same terminals and attracting the same fees. Their rise has therefore involved minimal disruption to acceptance infrastructure. For issuers, however, growing mobile wallet use introduces small but accumulating costs: wallet providers such as Apple charge issuers a per-transaction fee – reportedly around 0.15% of the transaction value. While this may be offset by increased card usage overall, it can reduce issuer margins over time.

Looking ahead, mobile wallet adoption might be expected to continue its gradual rise, supported by familiarity, convenience and device integration. The payment option's success has relied not on changing the payments infrastructure, but on reshaping the user experience. Barring the emergence of lower-cost alternatives – such as open banking-enabled A2A options – mobile wallets appear well positioned to consolidate their role as the preferred digital interface for scheme-based payments.

145 Payments NZ (2024), p.7.

B.7 Buy Now Pay Later (BNPL)

Buy Now Pay Later (BNPL) services have emerged as a distinct and increasingly influential retail payment option in New Zealand, especially in e-commerce and youth-oriented sectors. These platforms enable consumers to split purchases into interest-free instalments – typically paid fortnightly over 4-6 weeks – with the first instalment often due at the time of purchase.

Major BNPL providers in the New Zealand market include Afterpay, Zip, Laybuy and Klarna, with growth accelerating since their introduction in the mid-2010s. BNPL appeals particularly to consumers under 35, offering a digital-first experience and interest-free short-term credit without the formal application processes of traditional lending.

B.7.1 Pricing architecture

BNPL services differ fundamentally from traditional payment models in their pricing structure. Rather than charging consumers interest or transaction fees, BNPL providers derive most of their revenue from merchants and – secondarily – from late payment fees. This merchant-funded model is what enables BNPL platforms to offer short-term instalment credit to consumers without direct interest charges.

Merchants typically pay a fee composed of a fixed per-transaction charge (often around $0.30–$0.50) and a percentage-based commission on the transaction value, which generally ranges from 4% to 6%. These charges are substantially higher than the merchant service fees associated with regulated credit card payments (1–2%) or domestic EFTPOS, which involves fixed terminal rental charges rather than per-transaction fees.

According to Kantar, in 2022, BNPL was offered by ~4% of all merchants, rising to ~14% among large businesses.[146] The most common reasons for offering BNPL are customer expectations (cited by 55% of merchants) and a belief that it may help attract more customers or boost basket sizes (cited by 60%).[147] In other words, many merchants appear willing to absorb the extra cost of accepting BNPL because it is viewed as more than just a payment mechanism: it is seen as a marketing tool.

Despite this, merchant dissatisfaction with BNPL is relatively high. Kantar's survey shows that only 21% of BNPL-accepting merchants are 'very satisfied', with the option, while 18% are dissatisfied – mostly due to its cost.[148]

On the consumer side, BNPL platforms are generally free to use for those who meet repayment terms. Most revenue from consumers is generated via late payment fees and, in some cases, premium features. The option to avoid credit card debt while

146 Kantar (2022), pp.17-18.

147 *Ibid*, p.43.

148 *Ibid*, p.31.

still accessing flexible, short-term credit has made BNPL particularly attractive to younger and budget-conscious consumers.[149]

However, BNPL's expansion raises questions about longer-term sustainability and regulatory oversight. The model depends on ongoing merchant willingness to fund the service – and on consumers maintaining repayment discipline in the absence of traditional credit assessments. Some merchants that do not offer BNPL also cite ethical concerns (22% of those surveyed by Kantar in 2022) such as customer over-indebtedness, in addition to cost and lack of demand.[150]

B.7.2 Adoption incentives

BNPL providers have employed distinct strategies to drive uptake among both merchants and consumers, reflecting their dual function as payment mechanisms and sales enablement tools. Unlike traditional payment systems, which expanded through infrastructure investment and financial partnerships, BNPL platforms have focused on ease of integration, marketability and consumer appeal.

On the merchant side, BNPL adoption is often motivated by perceived revenue benefits rather than cost efficiency. As noted earlier, merchants cite customer expectations, increased sales volumes, and ease of use as the primary reasons for offering BNPL options.[151] Many providers also promote app-based marketplaces and joint marketing campaigns as additional tools to attract customers- positioning themselves not just as facilitators of payment but as customer acquisition channels.

For consumers, BNPL has been marketed as a transparent and flexible alternative to traditional credit. The Payments NZ 2024 survey found that BNPL users are drawn to its interest-free structure, straightforward instalment plans and ability to spread costs over time without formal credit applications.[152] Affordability, budgeting flexibility and convenience are the most frequently cited reasons for preferring BNPL over other options – particularly for large purchases.[153]

These incentives have resonated most strongly with younger adults. Respondents aged 18–34 were notably more likely than older groups to prefer BNPL as their primary account for large purchases. In the Payments NZ 2024 survey, 18% of respondents aged 18-34 cited BNPL as their preferred payment option for large purchases – a 6% increase since 2022.[154]

While BNPL's rapid growth has been underpinned by user appeal and merchant willingness to absorb high acceptance costs, the model's continued expansion may be vulnerable to changes in consumer sentiment, economic conditions or regulatory

149 Payments NZ (2024), pp.11-12.

150 Kantar (2022), p.44.

151 Kantar (2022), p.43.

152 Payments NZ (2024), pp.12-13.

153 *Ibid.*

154 *Ibid,* p.11.

treatment. As competition increases and margins tighten, the sustainability of BNPL's current pricing and adoption incentives could come under pressure.

B.7.3 Functional differentiation

BNPL services occupy a functional space that blends short-term lending with streamlined digital payment. Unlike debit or EFTPOS transactions, BNPL purchases are settled over a fixed schedule of instalments. This fixed structure is one of the product's key points of differentiation: it offers users a defined repayment plan without the open-ended borrowing of credit cards.[155]

Most BNPL providers operate through app-based platforms that allow consumers to track repayment schedules, view transaction history and receive reminders. While these apps offer basic functionality, they generally lack the additional features or bundled benefits associated with traditional credit cards – such as rewards, cashback or travel insurance.

Approval processes tend to be rapid, relying on behavioural or transactional data rather than traditional credit checks. This has made BNPL attractive to younger users and those with thin or limited credit histories. Initial spending caps are typically low and may rise with positive repayment history, creating a controlled entry point that balances accessibility with risk management.

Despite these advantages, BNPL platforms face important functional constraints. Services are limited to merchants with which individual providers have agreements, and transaction values are typically capped at modest levels. They are not well suited to recurring payments, non-discretionary spending, or smaller in-person transactions, which are still dominated by cards and EFTPOS. As a result, BNPL is generally used alongside, rather than instead of, other payment methods.

B.7.4 Trust infrastructure

As relatively new entrants in the payments ecosystem, BNPL providers have developed trust mechanisms distinct from those used in traditional credit or payment systems. These include both consumer-facing safeguards and back-end controls to monitor risk and compliance. Given their hybrid model – combing elements of payment, lending and e-commerce – BNPL providers face unique regulatory and reputational pressures.

Key consumer trust features include transparent repayment terms, capped late fees and automated spending controls that adjust credit limits based on repayment behaviour. Unlike credit cards, BNPL users typically face no compounding interest or annual fees and payment schedules are disclosed clearly at the point of purchase. Some platforms offer limited purchase protection for non-delivery or product disputes, though coverage varies significantly by provider.

155 Payments NZ (2024), pp.12-13.

At the system level, providers employ algorithmic monitoring to detect excessive use, irregular repayment patterns or potential financial distress. However, most BNPL platforms do not report to credit bureaus in New Zealand, which can create blind spots in affordability assessments and allow consumers to overextend across multiple providers. This has been a focus of concern among regulators, particularly as BNPL use becomes more widespread.

New Zealand's regulatory framework for BNPL remains in development. While BNPL is not currently captured under the *Credit Contracts and Consumer Finance Act (CCCFA)*, MBIE and the Commerce Commission have signalled growing interest in extending consumer protections to this sector. Likely reforms include requirements for affordability assessments, enhanced disclosure standards and stronger dispute resolution mechanisms.

BNPL's long-term trustworthiness will depend on how providers adapt to these regulatory developments and whether they can retain simplicity and accessibility while meeting higher compliance expectations. In the meantime, their reputation with consumers – particularly younger users – remains relatively strong, supported by predictable payment terms and user-friendly digital interfaces.

B.7.5 Current trajectory

BNPL usage has grown in New Zealand, particularly among younger consumers. According to Payments NZ's 2024 survey, 18% of respondents aged 18-34 years cited BNPL as their preferred payment option for large purchases. In contrast, the rate for those aged 55-64 years was just 9%.[156] Although BNPL remains a niche choice relative to debit and credit cards, it has gained ground since 2022 – especially amongst this younger demographic.

Merchant acceptance has also grown but remains modest. According to Kantar, in 2022, BNPL was offered by ~4% of all merchants, rising to ~14% among large businesses.[157] Merchants are often motivated by the belief that BNPL can help drive sales and attract new customers, although some have opted not to offer it due to concerns over cost, complexity or customer debt.[158]

Looking ahead, BNPL's trajectory will depend on several factors. One is the regulatory response: policymakers in New Zealand have signalled plans to bring BNPL under the scope of the *Credit Contracts and Consumer Finance Act (CCCFA)*, which could introduce new compliance requirements and affect business models. Another is the potential for competitive responses from banks and card networks, which could conceivably offer instalment-based payment options with stronger protections or broader acceptance.

156 Payments NZ (2024), p.11.

157 Kantar (2022), pp.17-18.

158 *Ibid*, p.44.

BNPL may evolve in one of two directions: either toward deeper integration within the broader financial system (with increased regulation and interoperability), or toward further specialisation as a retail-focused, platform-based offering. Its future as a mainstream payment method remains uncertain – but its role as a catalyst for innovation in short-term credit is already evident.

Appendix C Case study – the United Kingdom

The regulation of payment card surcharges in the United Kingdom (UK) has evolved significantly over the past decade. This appendix outlines the development of the UK's regulatory approach, from early concerns about consumer detriment to the adoption of comprehensive legislative measures. It highlights the economic considerations that influenced policy decisions at each stage, including recognition of both the potential harms and possible efficiency benefits of surcharging.

C.1 Early concerns and initial responses (2011-2012)

The UK's journey toward regulating payment surcharges began with growing consumer concerns about hidden and excessive fees, particularly in the transportation sector. These concerns led to formal complaints and the development of the initial regulatory framework.

C.1.1 The Which? super-complaint

In March 2011, the consumer advocacy group Which? submitted a 'super-complaint' to the Office of Fair Trading (OFT) relating to surcharges imposed by transport companies on passengers paying by debit or credit cards.[159] The super-complaint addressed two key issues: the lack of transparency around such surcharges, and their excessive levels, which often exceeded the actual costs incurred by merchants in accepting card payments.[160]

Following an investigation, the OFT published its response in June 2011. It found that excessive surcharges were widespread in the passenger transport sector and concluded that this practice was likely to cause significant consumer detriment. The OFT recommended that the government introduce measures to prohibit merchants from imposing surcharges on debit card payments, to ensure a meaningful and consistent solution across the economy.[161]

C.1.2 The government's initial response

In December 2011, the government announced that it would take action to tackle excessive surcharges on all payment methods – not just debit cards – in most sectors of the economy. It further announced its intention to consult on early implementation of a provision of the EU Consumer Rights Directive (CRD), with the goal of banning above-cost surcharges by the end of 2012, ahead of the Directive's implementation deadline of June 2014.

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159 The super-complaint to the Office of Fair Trading estimated that the airline industry alone imposed approximately £300 million in card surcharges in 2010.

160 Department for Business, Innovation and Skills (2012), *Consultation on the Early Implementation of a Ban on Above Cost Payment Surcharges – Impact Assessment*, September 2012, p.10 (hereafter: 'BIS (2012)').

161 *Ibid.*

The government's response formed part of a package of measures coordinated with the OFT's enforcement actions to ensure that all transaction charges in the passenger transport sector were made clear to customers at the beginning of a transaction, rather than revealed only at the final stage. The OFT also indicated it would consider extending this initiative to other sectors as necessary.[162]

C.1.3 Market research and economic impact

The government's impact assessment estimated that the total value of card payment surcharges (both cost-reflective and above-cost) in the United Kingdom in 2010 was approximately £473 million across various sectors,[163] based on market research carried out by HM Treasury in 2011. The sectors most affected by surcharging were airlines (£289 million), ferries (£86.3 million), rail (£49.3 million) and leisure: £48.7 million.[164]

In contrast, surcharging was much less common in face-to-face retail transactions. The impact assessment noted that most retailers did not impose payment surcharges in physical stores; surcharging was concentrated in online and telephone transactions.[165] This pattern suggested that concerns were particularly acute in sectors with significant online sales and advance booking systems.

C.1.4 Economic rationale for intervention

The government's impact assessment identified several key economic problems that, in its view, warranted regulatory intervention:

- **Information asymmetry and drip pricing:** Payment surcharges were "typically employed as a form of drip pricing, whereby the consumer does not see the final transaction price until after completing several forms".[166] This practice created information asymmetry that hindered consumers' ability to make informed decisions.
- **Impaired competition:** The dilution of price transparency weakened competition and was expected over time to inhibit innovation and growth.[167]
- **Consumer detriment:** The OFT found that consumers were often unaware of surcharges until they reached the final stages of a purchase, particularly in online transactions. This timing left consumers inconvenienced or reluctant to cancel transactions after committing significant time and effort.[168]

162 BIS (2012), p.10.

163 BIS (2012), p.9.

164 BIS (2012), p.12.

165 *Ibid*.

166 *Ibid,* p.2.

167 *Ibid*.

168 *Ibid*.

- **Economic inefficiency:** Above-cost surcharges were seen as economically inefficient, since they did not accurately signal to consumers the true relative costs of different payment methods.

The government acknowledged that payment surcharges could, in principle, offer efficiency benefits, such as steering consumers toward lower-cost payment methods. However, it noted that merchants often imposed a uniform surcharge across all card types, regardless of actual processing costs. This blunt approach hindered effective steering and reduced the potential benefits.

Furthermore, as previously noted, surcharges were often used as a form of drip pricing, obscuring the true cost of transactions and undermining market transparency. As a result, any theoretical benefits from steering were eroded, with consumers confronted by poorly disclosed, blanket surcharges across various payment options, rather than clear, cost-reflective price signals.

C.2 The Consumer Rights (Payment Surcharges) Regulations 2012

In response to the concerns regarding excessive and opaque payment surcharges, the UK government introduced the Consumer Rights (Payment Surcharges) Regulations 2012, which represented its first significant regulatory action to limit such charges.

C.2.1 Implementation of the regulations

The 2012 regulations were designed to implement Article 19 of the EU Consumer Rights Directive. This provision mandated that:[169]

> "*Member States shall prohibit traders from charging consumers, in respect of the use of a given means of payment, fees that exceed the cost borne by the trader for the use of such means.*"

The UK government brought the regulations into force on 6 April 2013, ahead of the June 2014 deadline set by the EU Directive. The regulations prohibited traders from charging consumers more than the direct cost of processing the chosen payment method. This approach was intended to stop merchants from inefficiently inflating prices under the pretext of recovering payment processing costs.[170]

C.2.2 Scope and limitations

The 2012 Regulations applied to contracts between consumers and traders for goods, services, digital content, and utilities. However, several sectors were

169 BIS (2012), p.18.

170 Department for Business, Energy & Industrial Strategy (2018), *Guidance on the Consumer Rights (Payment Surcharges) Regulations 2012*, updated June 2018, p.4 (hereafter: 'BEIS (2018)').

excluded from the regulations, including social services, healthcare services, gambling and banking.[171]

Under the regulations, merchants were still permitted to impose surcharges, but the surcharges were strictly limited to the direct costs associated with using a particular payment method. This included:[172]

- **Merchant service fees**: Fees paid to payment service providers for processing transactions; and
- **Transaction fees**: Costs related to intermediaries involved in processing payments.

The government made it clear that indirect costs, such as general business overheads (e.g., administrative costs, staff training, or equipment setup) could not be included in the surcharge. This distinction between direct and indirect costs was vital to the framework, since it sought to ensure that surcharges remained transparent and directly tied to the cost of the payment method itself.

Implementing and enforcing these regulations subsequently proved challenging. Merchants and payment service providers had to establish systems to properly track and report the direct costs associated with each payment method, adding complexity to the implementation process. Moreover, distinguishing between direct and indirect costs was often not straightforward, making it difficult to determine what constituted a legitimate cost for inclusion in a surcharge.

C.3 Payment Services Directive II implementation

Although the 2012 Regulations restricted payment surcharges to direct costs, concerns about consumer harm persisted. Enforcement difficulties and the complexity of payment systems meant that the regulations had only limited practical impact. These continuing problems ultimately prompted further action at the European level, requiring the UK to adopt more comprehensive measures.

C.3.1 Limitations of the initial approach

The 2012 Regulations sought to prevent excessive surcharges by limiting them to the actual costs incurred by merchants. However, as foreshadowed earlier, defining and enforcing what constituted a legitimate 'cost' proved difficult. The complex structure of card payments – including multilateral interchange fees, scheme fees and processor margins – made it hard for merchants to calculate compliant surcharges and for regulators to assess them.

171 BEIS (2018), p.7. Note that these exclusions were based on specific policy considerations and the unique nature of these industries, which typically had different regulatory requirements.

172 BIS (2012), p.8.

Recognising these problems, the Department for Business, Energy & Industrial Strategy later observed that the regulations had only had:[173]

> *"…limited effect. As a result, the EU adopted the [Second Payment Services] Directive in 2015, requiring Member States to ban surcharges on consumer credit and debit cards from 13 January 2018."*

The perceived shortcomings of the cost-based regulations led to the view that a simpler and more enforceable approach might be necessary.

C.3.2 The European Union Payment Services Directive II (PSDII)

In response to the perceived limitations of the cost-based approach, the European Union (EU) developed the Second Payment Services Directive (PSDII), which was officially published in the Official Journal of the European Union on 23 December 2015. PSDII aimed to address the shortcomings of the previous regulations by going further than simply limiting surcharges to the actual cost of payment processing.

Instead, PSDII introduced a full ban on surcharges for certain widely used payment methods, including credit and debit cards, to address concerns about transparency and the potential for excessive fees. By eliminating surcharges on these payment methods, the directive aimed to standardise payment practices across the EU and ensure greater price consistency for consumers.

C.4 The UK's Implementation of PSDII (2017)

Building on previous regulatory efforts, the UK government significantly expanded payment surcharge regulation through its implementation of PSDII, exceeding the minimum requirements set by the European directive.

C.4.1 The Surcharging Ban under PSDII

Under PSDII, retailers were prohibited from charging consumers for using payment instruments subject to regulated interchange fees under the Interchange Fee Regulation (IFR) ((EU) 2015/751). This primarily impacted the most widely used debit and credit cards, particularly those issued by Visa and Mastercard. Together, these accounted for approximately 96% of the UK cards market.[174] The move to an outright ban was designed to address the enforcement challenges of the previous cost-based approach and simplify the regulatory landscape.

C.4.2 The UK Government's approach

Although the Directive provided Member States with flexibility in implementing its provisions, the UK government opted to extend the surcharging ban beyond the minimum requirements. Following a consultation with industry stakeholders,

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173 BEIS (2018), p.5.

174 HM Treasury (2017), *Impact Assessment: Consumer Rights (Payment Surcharges) (Amendment) Regulations 2017*, p.39 (hereafter: 'HM Treasury (2017)').

consumer advocates, and other interested parties, the government chose to broaden the scope of the ban:[175]

> *"Following its consultation, the Government is using the flexibility to extend the ban on surcharging to a broader range of payment instruments that are not currently regulated under the IFR and is extending it to all retail payment instruments."*

Rather than restricting the prohibition to payment instruments covered by the Interchange Fee Regulation, the UK extended it to include:

- Three-party card schemes (e.g., American Express and Diners Club);
- Electronic money (e-money) payment methods; and
- Payment methods that might emerge, such as Payment Initiation Services (PIS).

A key reason for expanding the ban's scope was to create a so-called 'level playing field' for all retail payment instruments. The government did not want merchants to have the ability to surcharge certain schemes and emerging payment technologies but not Visa and Mastercard, because this could place specific payment methods at a competitive disadvantage. The decision was therefore made to apply the ban more broadly. This rationale – and its implications for competition – is considered in more detail below.

C.4.3 Economic assessment of the surcharging ban

The economic assessment undertaken by HM Treasury in support of the surcharge ban sought to quantify likely impacts on merchants, sectors, consumers and the broader market.

C.4.3.1 *Estimated Merchant Costs and Pricing Adjustments*

The government's starting point was an estimate of the total value of card surcharges in the UK. Based on 2010 data, HM Treasury estimated that consumers were paying approximately £473 million per year in card surcharges.[176] This figure included both above-cost and cost-based surcharges, despite the fact that above-cost surcharging had already been prohibited under the *Consumer Rights (Payment Surcharges) Regulations 2012*.[177]

Additionally, merchant card acceptance costs had declined significantly since 2013, following regulatory caps on multilateral interchange fees.[178] HM Treasury consequently applied an average 48% reduction to its initial estimate to reflect these developments, producing a revised total surcharge estimate of £227 million per year.[179] Of this:

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175 HM Treasury (2017), p.35,

176 *Ibid*, p.36.

177 Consumer Rights (Payment Surcharges) Regulations 2012.

178 HM Treasury (2017), p.29.

179 *Ibid*, p.38.

- £161 million was associated with payment cards covered by the mandatory PSDII ban;[180] and
- a further £4.5 million was associated with other payment instruments voluntarily brought into scope.[181]

The estimated total direct cost to merchants of the expanded ban was therefore £165.5 million annually. This represented the estimated cost of accepting payment methods that merchants would no longer be able to recover directly from consumers following the ban. These costs would instead need to be absorbed, passed on through higher prices or new fees, or avoided altogether by limiting acceptance of certain instruments.

Merchants were expected to respond through a combination of:

- Increasing headline prices;
- Adding non-payment-related fees (e.g. delivery or administration);
- Offering discounts for lower-cost payment types (e.g. cash);
- Declining to accept high-cost instruments.

These changes aligned with the UK government's policy objective of ensuring that all costs were reflected in the advertised price rather than applied at checkout. The policy also aimed to eliminate 'drip pricing' practices, which were known to frustrate consumers and lead to abandoned purchases in online settings.

C.4.3.2 *Impacts across sectors*

The assessment focused heavily on the travel and hospitality sectors, which had the highest levels of surcharging. The 2011 BIS study had found these sectors responsible for a disproportionate share of total surcharges, owing to both high card usage and elevated surcharge rates. The 2011 super-complaint to the OFT estimated that airlines alone imposed around £300 million in surcharges in 2010.[182]

Conversely, little attention was paid to the potential impacts within the payments sector itself. As discussed in the next section, this omission is significant given the central role of payment providers – including emerging participants – in shaping the competitive dynamics of the market.

C.4.3.3 *Competition, market structure and innovation*

While the assessment presented the surcharge ban as a pro-competitive measure, its analysis of market structure and longer-term competitive dynamics was limited. The government argued that surcharges had been applied unevenly across payment instruments, potentially discouraging uptake of non-traditional providers. By

180 HM Treasury (2017), p.29.

181 *Ibid.*, p.39

182 Office of Fair Trading (2012), *Response to Which? Super-complaint: Payment Surcharges*.

banning all surcharges, it claimed the policy would eliminate these distortions and create a more level playing field.

However, the extent to which surcharging practices at the time disadvantaged emerging payment mechanisms is unclear. The impact assessment presented no empirical evidence to show that merchants were systematically applying higher or more frequent surcharges to non-traditional instruments than to mainstream schemes such as Visa or Mastercard. It is possible that the concern was more forward-looking – intended to pre-empt a scenario in which, unable to surcharge Visa or Mastercard, merchants might have shifted cost recovery efforts onto alternative payment options instead.

As noted earlier, at the time of assessment, Visa and Mastercard accounted for 96% of UK card transactions.[183] The government anticipated that merchants would become more active in negotiating lower fees with providers and that this pressure could drive down transaction costs.[184]

The assessment did not explore the potential for the ban to reinforce incumbent dominance. By removing one of the few mechanisms merchants could use to steer customers toward lower-cost instruments, the policy may have reduced competitive pressure on the dominant schemes. It also did not consider how emerging providers – such as digital wallets, closed-loop systems, and account-to-account solutions enabled by open banking – might be disadvantaged by the loss of surcharge-based pricing incentives.

At the time of the ban's implementation, the UK was widely seen as a leader in open banking, with the nine largest current account providers required to develop open APIs under CMA oversight.[185] While still early in commercial development, infrastructure for Payment Initiation Services (PIS) had already been laid. These providers often depended on offering lower fees than card schemes to win merchant adoption. The ban risked weakening this competitive edge.

No quantitative analysis was provided to examine these risks, nor were any scenarios modelled to test how the ban might affect market structure over time. Given the speed of change in the payments sector, and the potential for the ban to influence adoption pathways, this represented a significant gap in the evaluation.

C.4.4 Implementation and enforcement

The *Consumer Rights (Payment Surcharges) (Amendment) Regulations 2017* were laid before Parliament on 19 July 2017 and came into force on 13 January 2018, in line with the PSDII deadline.[186] Enforcement responsibilities were shared between the

183 HM Treasury (2017), p.39.

184 *Ibid,* p.37.

185 *See:* Competition and Markets Authority, *Retail Banking Market Investigation: Final Report*, 9 August 2016.

186 The Consumer Rights (Payment Surcharges) (Amendment) Regulations 2017 (SI 2017/752).

Competition and Markets Authority (CMA), Trading Standards, and the Department for the Economy in Northern Ireland.

Consumers could seek refunds for unlawful surcharges or refuse to pay them. Trading Standards could seek injunctions, while the CMA could take broader action under Part 8 of the *Enterprise Act 2002* in cases of widespread harm.[187] Businesses were advised that offering discounts for particular payment types remained permissible, provided this did not effectively reintroduce surcharges.[188] The government did not expect material additional enforcement costs, since it intended to rely on existing legal and institutional infrastructure.

C.5 Summary

The UK's regulatory approach to payment surcharges evolved over several years. It began with the 2011 super-complaint by Which?, which raised concerns about the prevalence and magnitude of surcharging in the airline and travel sectors. This led to the 2012 Consumer Rights regulations, which sought to prohibit above-cost surcharges but proved difficult to enforce in practice.

With the introduction of the revised EU Payment Services Directive (PSDII), the UK government shifted its approach. Recognising the enforcement difficulties associated with a cost-based regime, it opted to move from regulating surcharge levels to banning surcharges altogether for certain payment instruments. It then went further, extending the scope of the ban beyond the minimum required by EU law to encompass other payment mechanisms.

The rationale was to simplify compliance, prevent circumvention, ensure that all costs were reflected in advertised prices and create consistent treatment across payment methods. The government's economic assessment attempted to estimate the cost of the ban to merchants and anticipate business and consumer responses. It projected a shift away from surcharges toward broader pricing adjustments and anticipated that merchants might become more active in negotiating lower fees with payment providers.

However, while the assessment addressed sectoral impacts, it paid little attention to the broader competitive dynamics within the payments market. It did not explore how removing surcharges might reinforce the market position of incumbent schemes or disadvantage lower-cost alternatives such as those enabled by open banking. These omissions limit the extent to which the policy's longer-term competitive effects can be assessed.

Although the ban likely improved pricing transparency and addressed persistent consumer complaints about last-minute fees, it remains unclear whether it helped support a more competitive and innovative payments sector.

187 *Enterprise Act 2002*, Part 8.

188 BEIS (2018), p.9.

Appendix D Case study – Australia

Australia was among the first jurisdictions to intervene in card payment markets, implementing both interchange fee caps and surcharging reforms well ahead of other countries. These interventions have shaped the evolution of its retail payments system, but the outcomes have been mixed and remain subject to ongoing review.

D.1 Regulatory timeline and approach

The Reserve Bank of Australia (RBA) began regulating card payments in the early 2000s. It first imposed an average cap of 0.50% on credit card interchange fees in 2003 and later extended similar caps to scheme debit and domestic EFTPOS transactions.

At the same time, the RBA moved to prohibit scheme rules that prevented merchant surcharging. The aim was to give merchants a practical tool for cost recovery and to enable price signals that would support more efficient outcomes. Surcharging became legal in 2003 and was widely expected to place downward pressure on fees by encouraging switching to lower-cost options.

D.2 Evolution of surcharging practices

Surcharging outcomes ultimately diverged from expectations. Uptake was initially limited to a handful of sectors – particularly online travel and hospitality – but gradually spread more widely. Most merchants applied a flat percentage rate across all card types, regardless of underlying acceptance costs. Few tailored their surcharges to specific card networks or transaction types.

Some businesses imposed seemingly excessive surcharges, particularly in online settings. Consumer complaints became more frequent, and public trust in the practice declined. Despite the theoretical appeal of surcharging as a pricing tool, practical implementation remained a challenge – especially for smaller merchants with limited pricing visibility or system capability.

D.3 The 2016 surcharging reforms

In response to these challenges, new rules were introduced in 2016 under the *Competition and Consumer Act*. These prohibited excessive surcharging and limited the amount that could be charged to the actual cost of acceptance, as defined in RBA standards. The Australian Competition and Consumer Commission was given responsibility for enforcement and supporting compliance.

The revised rules were phased in from 2016 to 2017, beginning with large businesses. Although they curbed some of the worst excesses, implementation challenges persisted. Many small merchants continued to use flat surcharges and lacked the systems or awareness needed to ensure compliance. Public confidence remained fragile, particularly in sectors where drip pricing was common.

D.4 Current policy settings and review

The RBA has previously supported the principle of surcharging but is now reassessing whether the current framework remains fit for purpose. It has acknowledged that many merchants – particularly smaller ones – continue to face practical and technical barriers to setting cost-reflective surcharges. Enforcement has also proven resource-intensive, and compliance remains uneven across sectors and transaction channels.

In 2024, the Australian Government announced it was considering a ban on debit card surcharges from 2026, citing concerns over consumer confusion and inconsistent application. At the same time, the RBA launched a broader review of retail payments regulation, covering interchange fees, surcharging and open banking.[189] That review remains ongoing.

D.5 Summary

Surcharging has been a feature of the Australian payments landscape for over two decades. Although it has delivered some benefits – particularly for larger merchants – it has also encountered persistent compliance problems, uneven application and growing scrutiny. While the original regulatory intent was to promote transparency and competition, those objectives have not always been realised in practice. The role of surcharging remains contested, and its future status in Australia is now the subject of active regulatory and political debate.

189 *See:* Reserve Bank of Australia, *Merchant Card Payment Costs and Surcharging – Issues Paper*, October 2024.