



SUBMISSION TO MBIE

RETAIL PAYMENTS SYSTEMS IN NEW ZEALAND

BACKGROUND - ABOUT THE MOTOR TRADE ASSOCIATION OF NEW ZEALAND INC.

1. The Motor Trade Association (Inc.) (MTA) was founded in 1917 and currently represents approximately 3,700 businesses within the New Zealand automotive industry and its allied services. Members of our association operate businesses including automotive repairers (both heavy and light vehicle), collision repairers, service stations, vehicle importers and distributors and vehicle sales. In total MTA members employ more than 40,000 staff across New Zealand.
2. MTA is a well-resourced and managed organization led by its Chief Executive and Management Team, and governed by The Board comprising a President, Vice President, three Directors elected by the members, and two appointed Directors.
3. The membership predominantly consists of businesses employing less than 10 staff with sales turnover of less than \$10m revenue p.a.

INTRODUCTION

4. MTA welcomes the opportunity to provide a Submission to the Ministry of Business, Innovation & Employment's 'Retail payment systems in New Zealand' Issues Paper Dated October 2016.
5. The views, comments and recommendations outlined in this submission are based on observations and experiences gained by MTA staff in providing advocacy and support to its members day-to-day, and during a year-long exercise of reviewing and re-structuring the 'MTA Members Banking Package'.

A key outcome of this exercise was to provide members with a more competitive Merchant Services offering. Our experiences and learnings from these activities mean MTA is well placed to contribute to this discussion.

6. This Submission is specifically focused on MTA's members in the following motor vehicle sub-sectors: automotive repairers (both heavy and light vehicle), collision repairers, service stations, vehicle importers and distributors, and vehicle sales.

EXECUTIVE SUMMARY

7. The current situation of Premium Credit Cardholders, Scheme Owners and Acquiring Banks actively increasing (rewards) benefits and profit by placing the cost burden on merchants is not acceptable and is unfair.
8. MTA supports findings in the Issues paper of regressive cross-subsidisation based on the way credit card reward schemes are structured⁽ⁱ⁾.

MTA's view is that the cost burden of these reward schemes is borne by retailers rather than consumers. Schemes and Banks determine pricing based on their marketing strategies, with only the largest (national and multi-national) retailers being able to influence Merchant Fee costs.

9. Small and independent businesses have little ability to negotiate fairer Merchant Fees.⁽ⁱⁱ⁾ There are numerous examples among MTA members incurring significantly higher Merchant costs than larger members in the same industry sector.
10. Whilst quantifying the financial impact of regressive cross-subsidisation of Merchant Fees is valuable, MTA also considers the impact of not addressing this issue will have an increasingly detrimental impact on small business in New Zealand.
11. MTA strongly encourages and supports MBIE's view that further investigation and action is warranted⁽ⁱⁱⁱ⁾

Notwithstanding that technology and market practice has evolved, the rapid introduction of premium credit cards and rewards programmes, market practices and that many of the issues addressed in the Issues Paper are similar to those addressed in The Commerce Commission's 2009 Settlement supports further investigation and review.

OBSERVATIONS AND COMMENT

11. The complexity and closed nature of the New Zealand payment system and aligned interests of the Scheme Owners and Acquiring Banks does not promote;
 - transparency and ability for businesses to understand the payment system model and pricing drivers.
 - meaningful discussion, negotiation, mediation, arbitration circular of the New Zealand Card payment system
12. MTA has observed many instances where merchant fees charged to smaller businesses in the automotive industry have been significantly greater than that charged to larger national and multi-national businesses serving the same customer segment with similar services with similar transaction sizes.

On its member's behalf, MTA has engaged with Banks and Visa to discuss and negotiate more consistent, fairer pricing. Invariably, these discussions result in being referred to Acquiring Banks. Discussions with Banks invariably end with a referral to Visa and MasterCard. MTA have incurred considerable cost in engaging scheme owners and banks on behalf of its members with little positive change in merchant pricing for members.

13. MTA has just finalised and is about to offer members the choice of a satisfactory banking package that provides benefits including a special merchant service fee structure. This has been achieved by 'bundling' financial and banking needs of MTA's members, rather than a narrower focus on one product; i.e. Merchant Acquiring.
14. This 'bundling' of banking services, and more attractive merchant fees available to 'Strategic Industries' suggests there is ability for acquiring banks and perhaps scheme owners to apply flexible pricing.
15. The burden of costs for reward points is keenly felt in industries where profit margin for products and services is low. The fuel retailer sector of the automotive industry is an example of this. Small and independent fuel retailers must compete with national and global fuel retailers who have negotiated lower Merchant fees.
16. Further, regressive cross subsidisation is also illustrated by the example of fuel retailers in major tourist areas of New Zealand. Although tourism is one of New Zealand's leading foreign exchange earners, fuel retailers in areas with significant tourist activity must accept smaller profit margins than others in the industry due to high merchant fees because of the number of international premium cards presented by foreign tourists. Market acceptance and competitive pressure is a significant disincentive for merchants to actively steer customers away from scheme rail transactions to other credit cards or forms of payment. ^(iv)
17. Whilst quantifying the financial impact of regressive cross-subsidisation of merchant fees is valuable, MTA also considers the impact of not addressing this issue on small businesses is arguably more important.

That merchant fees charged to small merchants increased at nearly twice the rate of the weighted average interchange fees, and current fees charged to small merchants are two and a half times those charged to strategic merchants is unacceptable^(v).

MBIE's Small Business Fact Sheet 2016 details the importance of small business to NZ's economy and social fabric. The importance of recognizing inequalities in business infrastructure and ability of small businesses to be successful is important. The report notes that 20% of employees are employed by businesses with less than 20 employees; in 2014, 47 all new jobs created were in firms employing less than 20 staff; 26 % of N.Z.'s GDP was generated by businesses with less than 20 employees.

18. New payment technologies and the increasing Fintech disruption in the Banking industry will continue to challenge existing business models and new entrants and

existing payment industry participants. MTA believes there needs to be regular oversight and monitoring of changes in technology and behaviours to ensure all business sectors interests are protected.

19. It is often the case the most vulnerable suffers most when industries are provided the freedom to self-govern. Retailers and specifically small business retailers appear the most vulnerable and least able to protect themselves from unfair Merchant Fee practices.

MTA contends the appropriate party that should bear the cost of rewards should be those that benefit from those rewards; the Cardholder.

20. MTA is concerned that the increase of debit transactions on scheme cards will encourage introduction of fees; leading to further increased costs for merchants.
21. MTA supports the introduction of an education campaign to assist small business owners to improve their knowledge in the merchant services and business banking systems that operate in New Zealand.

This knowledge will provide business owners with the confidence to discuss merchant fees with their provider and consider options available in the market.

Ends.

- (i) MBIE Retail payment systems in New Zealand Issues Paper October 2016. Issue 2. Paragraph 12.
- (ii) MBIE Retail payment systems in New Zealand Issues Paper October 2016.
- (iii) MBIE Retail payment systems in New Zealand Issues Paper October 2016 Issue 5: Paragraph 22
- (iv) MBIE Retail payment systems in New Zealand Issues Paper October 2016. Next Steps Paragraphs 26 & 27.
- (v) MBIE Retail payment systems in New Zealand Issues Paper October 2016. 3.2.4 Steering Paragraphs 160-163