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Competition and Consumer Policy  
Building, Resources and Markets  
Ministry of Business, Innovation and Employment  
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## **SUBMISSION on Retail payment systems issues paper**

### **1. Introduction**

Thank you for the opportunity to make a submission on the "Retail payment systems in New Zealand" issues paper. This submission is from Consumer NZ, New Zealand's leading consumer organisation. It has an acknowledged and respected reputation for independence and fairness as a provider of impartial and comprehensive consumer information and advice.

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### **2. General comments**

Consumer NZ supports the introduction of interchange regulation in New Zealand.

High interchange fees allow banks and card schemes to incentivise consumers to use high-cost credit and debit cards. The use of these cards generates revenue for banks and schemes but increases the cost of doing business for merchants and results in higher prices for consumers.

Credit card providers have argued that interchange regulation would require them to scale-back reward programmes or increase card fees to pay for rewards. We do not consider these are valid reasons to keep interchange unregulated, particularly as most consumers don't benefit from rewards.

Providers have also argued merchants may not pass on cost reductions resulting from lower interchange fees. While this is a risk, it is not a strong argument against regulation. The risk of merchants retaining revenue could also be mitigated by including in regulations rules for transparent fees.

For some time, Consumer NZ has been concerned about the marketing of credit cards and associated reward schemes. Advertising implies these reward schemes, which interchange fees help fund, offer significant benefits to consumers. Our research has found the schemes do not deliver good value for most shoppers.

While not specifically addressed by the issues paper, credit card advertising also needs to be considered alongside the high cost of interest-bearing card debt in New Zealand. Consumers unable to pay off their card balance each month receive no benefit from reward schemes and pay interest significantly above the official cash rate.

### **3. Answers to questions**

Our answers to selected questions from the issues paper are set out below.

#### ***Question 9 - Do you agree with the logic underpinning our assessment that there are regressive cross-subsidies in the credit card market?***

We agree there are regressive cross-subsidies in the credit card market.

Our analysis of credit card reward schemes shows they only benefit big spenders who use their card frequently and are able to pay off the balance in full each month. Low spenders, and those with interest-bearing debt, don't benefit from rewards and are effectively subsidising high spenders.

In our last review (August 2015), we compared rewards earned on 29 credit cards after spending \$25,000 over two years. None of the cards we looked at would pay for a \$600 return flight from Auckland to Sydney. When we deducted the cost of annual fees to get the net value, eight of the 29 cards resulted in a negative return.<sup>1</sup>

The most generous card only earned sufficient points to pay 42 percent of the flight cost.

#### ***Question 12 - Do you think that the issues in the credit card market are of a scale that warrants intervention? If not, do you think that the size of the issue is likely to grow over time?***

Yes, we think the issues are sufficient to warrant intervention for the following reasons:

- Banks and schemes are incentivising consumers to use high-cost credit cards and debit cards. While these cards generate revenue for the banks and schemes, they are increasing costs for consumers and merchants.
- Rewards schemes, which interchange fees help fund, do not offer good value for most consumers. Their value is often difficult for individual shoppers to assess due to the complicated calculations required to convert spend into actual rewards.
- The cost of accepting credit and scheme debit cards in New Zealand are higher than other jurisdictions.
- The costs of the payment system in New Zealand are not transparent, limiting participants' ability to make informed choices about payment options.

In our view, the size of the issue is likely to get worse over time.

#### ***Question 17 - Is the shift towards contactless debit cost-effective, taking into account the costs and benefits to all parties in the system?***

In the absence of regulation, we are concerned about the costs resulting from a shift to contactless debit. The EFTPOS system has served both retailers and consumers well. If contactless debit card use continues to rise, displacing low-cost EFTPOS, consumers are likely to face higher prices as a result.

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<sup>1</sup> Consumer 560, "Rewarding behaviour?" August 2015, pp8-10.

**Question 18 - Do you agree that the lack of price signals in the debit market is likely to lead to inefficient outcomes of a similar nature to those in the credit card market?**

We agree the lack of price signals in the debit card market is likely to lead to inefficient outcomes. While heavy promotion of contactless debit cards is encouraging consumers to use this payment option, the potential costs associated with debit card use are not transparent.

**Question 19 - Do you agree that merchant service fees are likely to increase for contactless debit once acceptance reaches a certain threshold?**

We agree merchant service fees are likely to increase for contactless debit. As we have seen in other industries, it's not uncommon for fees to rise as adoption of a service reaches a given threshold and the "honeymoon" period ends.

**Question 22 - Do you consider the extent of the difference in the interchange relating to small and large merchants to be justified?**

In our view, the extent of the difference is difficult to justify. Smaller merchants appear to face significantly higher interchange fees. While merchants may choose to absorb these costs, it's likely they will pass them on to consumers through higher prices at the check-out.

**Question 23 - Do you agree with our assessment of the two markets against our proposed objectives?**

We agree there are significant concerns about efficiency and the fair distribution of costs in the credit card market. We also agree there is some concern about innovation in the debit market, and growing concern about efficiency and the fair distribution of costs in the debit card market. In our view, these concerns are sufficient to warrant intervention.

**Question 25 - Would there be any benefit in schemes publicly clarifying their intentions in relation to charging for swiped and inserted debit payments?**

We do not believe this option would result in any tangible benefit. Intentions change, so little is likely to be gained from schemes publicly clarifying their intentions in relation to charging for swiped and inserted debit payments.

**Question 26 - Do you think that the benefits of interchange regulation are likely to exceed the costs?**

We think the benefits of regulation are likely to outweigh the costs. We would welcome consultation on specific proposals for regulation.

**Question 33 Have we missed options?**

- *Surcharges*

We would have liked to see the issues paper look at surcharging in more depth. The paper comments that surcharging is not widespread in New Zealand. However, in certain industries (e.g., travel, entertainment) surcharging is prevalent.

Our main concern is the potential consumer detriment from surcharges which exceed the actual cost to the retailer of accepting payment. Overseas experience shows regulation of surcharges has been required to provide consumer protection in this area.

We believe surcharges should be regulated to prevent retailers using them simply for revenue gathering purposes. We recommend the ministry includes surcharging within the scope of proposed regulation.

- *Consumer preferences*

We also recommend the ministry undertake research to better understand consumer behaviour and preferences in the credit and debit card market. Consumer NZ is

currently doing survey research in this area. We are happy to discuss this research with the ministry.

Thank you for the opportunity to make a submission on the issues paper. If you require any further information, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Sue Chetwin". The signature is written in a cursive, flowing style.

Sue Chetwin  
Chief Executive