

How can we reduce merchant service fees ?



The Ministry of Business, Innovation and Employment is seeking submissions on a discussion paper, *Regulating to reduce Merchant Service Fees*, to enable us to advise the Government on the approach to regulating.

Understanding Merchant Service fees



When a customer uses a credit card or a contactless debit card to make a payment, the business pays a Merchant Service Fee to its Bank.



A merchant service fee is comprised of an array of fees charged by the business' bank in return for processing a payment transaction. One of the main components of this is the interchange fee paid by the business' bank to the customer's bank for clearing a payment.



Depending on how a payment is made, merchant service fees are on average between 0% (for EFTPOS) to 1.5% (credit cards), but can be over 3% for some merchants. These fees are generally passed onto all consumers through higher prices or absorbed as a cost by merchants. Some merchants also surcharge to recover the cost of the fee.



The EFTPOS network is essentially fee-free for the business, but as the prominence of contactless debit card and online transactions has increased, the use of EFTPOS cards has declined. As a result, merchants of all sizes have had to absorb higher fees to accept these payment methods.

The Government is planning to regulate interchange fees

The system currently relies on banks, schemes and Payments NZ to lead innovation that will reduce merchant service fees. System participants have taken steps to introduce different rates for the various payment methods, increase transparency around the fees and reduce fees for contactless debit card payments.

To reduce merchant service fees further, the Government intends to regulate interchange fees for MasterCard and Visa credit and debit cards by introducing hard caps, which may be targeted for different classes of merchants. These caps will be supported by other measures to ensure a systems approach is taken.

Other possible regulatory options that can supplement regulating interchange fees include:

Facilitating collective bargaining to support small businesses

Codifying rules and practices around surcharging, bundling of merchant service fees, rewards and loyalty schemes

Requiring banks to disclose specified information about merchant service fees to improve transparency

How do high merchant service fees affect consumers and businesses?

Merchant Service Fees are higher than in other countries

- › New Zealand banks charge higher merchant service fees for credit card payments than other countries.
- › System participants have made voluntary changes to reduce interchange fees, especially for contactless debit card payments, which has brought these fees in line with Australia.
- › Despite these changes, a 2019 study by Retail NZ has found that fees for credit cards are almost double the weighted average in Australia and UK (1.5% in New Zealand, 0.8% in Australia and 0.6% in the United Kingdom).

Consumers are incentivised to use higher cost payment methods

- › Banks offer rewards and inducements to consumers who use their credit cards which incentivises consumers to use these payment methods over EFTPOS cards.
- › Contactless payments and digital wallets are seen to be more convenient for consumers encouraging consumers to use debit or credit cards over other lower cost payment methods. But unless surcharged, consumers don't directly face these costs.

Merchant Service Fees have become a cost of doing business that generally gets passed on to all customers

- › Merchant Service Fees incurred from higher cost payment options may be treated simply as a cost that is included in the price of goods and services. As a consequence, all consumers, regardless of their payment method, pay these costs.
- › This often disproportionately affects consumers on lower incomes who are less likely to use the higher cost payment methods which reward consumers.
- › Surcharging, as a tool to distribute these additional costs to customers that use higher cost payment methods, is more equitable but merchants risk losing customers if their rivals do not follow the same approach and it is technically difficult to pass on the costs accurately.

Small businesses are unfairly disadvantaged by their lack of bargaining power

- › Small businesses lack bargaining power to negotiate lower fees or shop around for more suitable fee structures. Often small businesses will select a merchant services supplier based on convenience (i.e. their current bank) rather than shopping around for the best deal.
- › The retail payment system is complex, leading to knowledge and capability gaps among businesses to bargain for a better deal.
- › Some banks have only recently moved to allow all merchants to pay different merchant service fees depending on the card type used in transaction. Previously banks offered a blended rate which may not have been cost effective for all businesses.

Use of EFTPOS is declining as system innovation focuses on schemes

- › Use of EFTPOS is declining as consumers are incentivised to use debit cards or credit cards. This means that the competitive constraint provided by EFTPOS is likely to be reducing over time
- › Many banks have exclusivity arrangements with either Visa or MasterCard, making it difficult for competitors to grow their network.
- › New payment products, like Apple Pay or Afterpay, are available. However, these products often still require a debit or credit card for payment. They may also impose additional charges over the top, further increasing the Merchant Service Fee.

No clear regulatory governance to oversee the retail payment system

- › New Zealand currently has a relatively light-handed approach to oversight of retail payment systems, with the self-regulatory body, Payments NZ, having a leading role.

We need your thoughts

As a consumer:

- › What is your view on charges incurred by cardholders for the use of payment methods?
- › What impact do rewards and inducements have on your payment method choice?

As a small business owner:

- › What barriers do small businesses face to obtaining competitive merchant service fees?
- › What is your view on charges incurred by small business owners to accept of payment methods
- › What are the fees do you pay for processing card payments?

What other regulatory options should be included to supplement the Government's proposed approach to regulation?



You can read the full discussion paper and make your submissions on MBIE's website or e-mail us at competition.policy@mbie.govt.nz