

**Block Inc's Submission to the Commerce Commission's Retail Payment System - Interchange fee regulation  
for Mastercard and Visa networks: Draft Decision and Reasons Paper**

Thank you for the opportunity to provide a submission to the Commerce Commission's retail payment system review on interchange fee regulation. Block is a financial services and digital payments company that offers buy now pay later services through our brand Afterpay in New Zealand. Block also offers payment and software solutions to merchants through our brand Square in the [8 countries](#) globally, but is not currently available in New Zealand. Our responses to relevant questions are provided below.

- ❖ ***Q1. Overall, do you agree with the proposed simplified and lowered interchange fee caps? If not, why not? Please provide reasoning and evidence for the proposed caps you disagree with.***
- ❖ ***Q2. Overall, do you agree with our reasons for this draft decision, including how this impacts competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers? If not, why not? Please provide reasoning and evidence. Response for Questions 1 & 2 below:***

**Differential interchange for small issuers can bring much needed competition to the card issuing market**

The consultation paper notes that lowering interchange fees can play a role in lowering overall merchant service fees and help support payment system efficiency. However, one unintended consequence of reductions in interchange caps that should be considered is the impact on competition in the card issuing market.

Smaller card issuers disproportionately rely on interchange to be commercially viable. This is because most small issuers do not benefit from the economies of scale or diversified product offerings of the major banks, which represent the vast majority of card issuing market share. Smaller issuers cannot easily cross-subsidise with other products (such as deposit taking and lending), or have the ability to avoid or negotiate lower scheme fees by leveraging intra-bank (i.e. 'on-us') transactions. In this context, wholesale interchange reductions can disproportionately impede smaller card issuers' ability to enter the market and grow. To address this, efforts to support smaller card issuers should be considered; including differentiated interchange caps, access to different card types, or other incentives (see Question 9).

**Case study: United States debit interchange regulation and impact on small issuers (Durbin Amendment)**

Since 2011, debit interchange has been regulated in the United States, under the 'Durbin Amendment' of the Dodd Frank Act, aimed at driving competition, transparency and choice among issuers and networks. Notably, small issuers (those with assets under \$10 billion) are ['exempt'](#) from the interchange cap, as are three-party systems like Amex which directly link merchants and consumers (i.e. no explicit interchange fee paid to a customer's bank).

Evidence suggests that exempting small issuers has increased competition in the US card issuing market. From 2020 to 2021, growth in transaction volumes for exempt smaller issuers was 14.9% compared to 12.8% for larger issuers. This has also spurred partnerships between fintechs and small issuers, fostering innovation and new services.

- ❖ **Q3. Do you agree with our base interchange fee level of 0% for contacted debit and a maximum of 0.20% for contactless debit? If not, why not? Please provide substantive quantitative evidence. (Relevant sections: Chapter 3)**

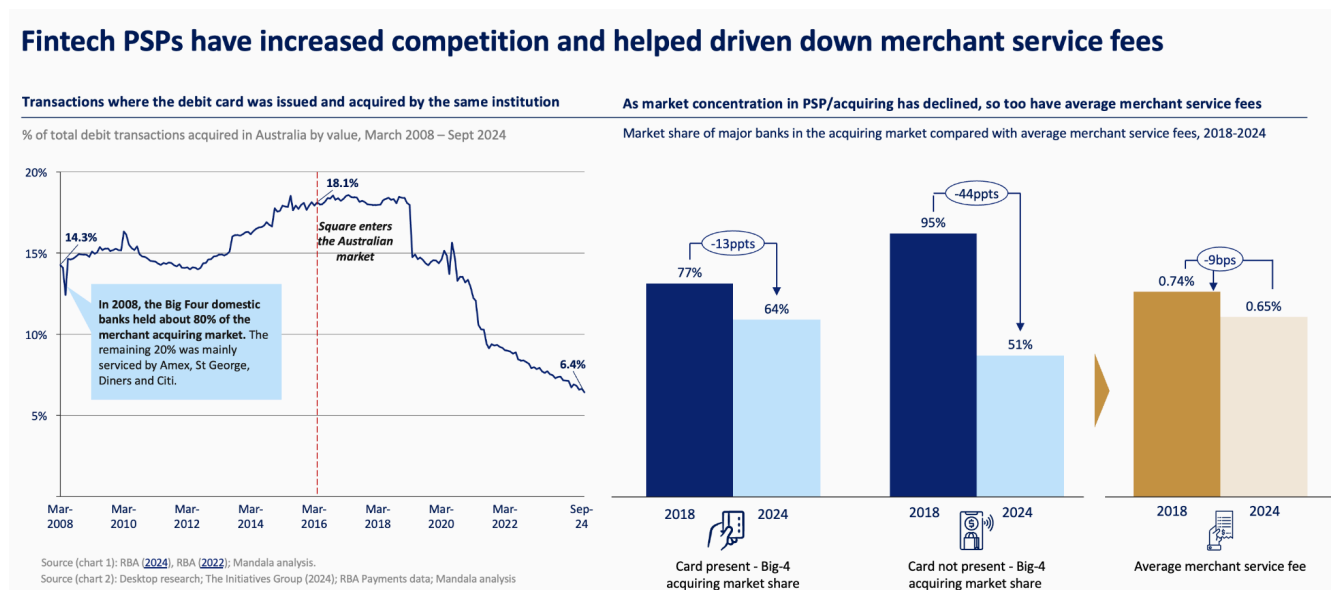
### Interchange for debit should be calibrated to ensure the domestic eftpos network remains competitive

Having a competitive, secure and innovative domestic card scheme can provide additional competition and choice in the payment system. However, zero interchange has led to underinvestment and declining presence of New Zealand's domestic electronic funds transfer at point of service ("eftpos") network. Between 2017 and 2022, the domestic eftpos network declined by 20%, due in part to interchange regulations making it unattractive for card issuers to offer debit cards<sup>1</sup>. A lack of investment has also potentially impacted product development and security. This includes security issues related to [magnetic stripe technology](#) used by the network and lack of support for contactless payments. By comparison, Australia's domestic eftpos scheme, which is funded by comparatively low interchange/scheme fees, has remained in a more sustainable position<sup>2</sup>.

### Increasing competition in the acquiring market would yield significant benefits to merchants and the payments system

Evidence from other jurisdictions indicates that greater competition in the acquiring/payment service provider (PSP) market could also significantly improve services for merchants and overall efficiency and competition in the payments system. For example, since non-bank PSPs/acquirers became prominent in Australia, the proportion of debit transactions where the card was issued and acquired by the same institution fell from 18% in 2016 to 6.4% today.<sup>3</sup> Between 2018 and 2024, the market share of the four major banks in the PSP market declined from 77% to 64%, with a corresponding 12% reduction in merchant service fees<sup>4</sup>. Over the same period service offering and satisfaction rates have also increased significantly among small businesses with their providers<sup>5</sup>.

*Figure 6 (left): Proportion of debit card transactions with the same Issuer and Acquirer (Mandala, 2024)*  
*Figure 7 (right): Issuer and Acquirer market share and Merchant Service Fee comparison (Mandala, 2024)*



<sup>1</sup> Bolt, [The Retail Payment System in New Zealand: Efficiency, Pricing and Competition - Expert Report to NZ Commerce Commission](#), 2023

<sup>2</sup> Reserve Bank of Australia, [Payments Industry Statistics](#), 2024

<sup>3</sup> Block inc., Submission to the [Reserve Bank of Australia Review of Merchant Payments Costs and Surcharging](#), 2024

<sup>4</sup> The Reserve Bank of Australia, [Payments Data and Statistics](#), 2024

<sup>5</sup> The Initiatives Group, [Payment Acceptance at Small Businesses](#), 2024 (commissioned by Square)

❖ **Q9. Do you agree with our draft decision to leave interchange fees for transactions using domestic prepaid cards unregulated for now? If not, why not? (Relevant sections: Chapter 3).**

As the consultation paper notes, pre-paid cards are often used as a gateway product for new entrants and products into the payments market. Imposing interchange caps on these products would further reduce the already limited ability for small card issuers to compete. This would reduce the very limited competition in card issuing in New Zealand and would likely lead to increased costs and reduced efficiency in payments with very limited benefits.

As outlined in responses to Question 1 and 2, smaller card issuers disproportionately rely on interchange to be commercially viable. In this context, maintaining interchange rules for pre-paid is vital to enable smaller card issuers' ability to compete with major bank acquirers. Over time, increased competition among issuers directly benefits consumers, supports new entrants, and improves the overall efficiency of the payments system.

❖ **Q13. Do you agree that it seems likely that some form of surcharging regulation will be needed? What are your views on the possible options we discuss? Do you see other possible options? If so, which? We welcome feedback on possible options to address excessive surcharging. (Relevant sections: Chapter 5).**

Block would be concerned with surcharging policy proposals that risk reducing competition in the payments system. For example, the proposal to ban debit card surcharging in Australia is likely to significantly reduce competition and entrench the existing legacy financial institutions<sup>6</sup>. A full ban on all card surcharges, combined with measures to support small businesses, is preferable because it is less likely to have deleterious impacts on competition, and mirrors the approach adopted in the UK and EU.

Surcharges should only be considered to be permitted where there is a clear market failure and normal market forces are not functioning as intended. Regulation of surcharges in Australia were designed specifically to address an inherent lack of competition in the card scheme market. Surcharge regulation is not appropriate for emerging payment systems which do not have material market share of retail payments and are generating greater competition.

---

<sup>6</sup> Block inc, [Submission to the Reserve Bank of Australia's review of Merchant Payment Costs and Surcharging](#), 2024.