



Retail ^{NZ}

2019 Retail NZ Payments Survey

Understanding Merchant Service Fees

Every time a customer uses a credit card or a contactless debit card to make a payment, the seller pays a merchant service fee (MSF) to its Bank.

In New Zealand, these fees are unregulated and, while Retail NZ's 2019 payments survey has recorded a small reduction in weighted average merchant service fees, payments for contactless debit and credit card transactions remain higher here than in Australia and the UK.

	Contactless debit	Credit
New Zealand*	1.1%	1.5%
Australia**	0.6%	0.8%
United Kingdom***	0.3%	0.6%

* Weighted average merchant service fees based on a survey of Retail NZ members and others in 2019.

** Reserve Bank of Australia.

*** British Retail Consortium Payments Survey.

What is a merchant service fee?

A merchant service fee is paid to the bank providing payments services to a merchant. A MSF is comprised of interchange (fees paid by an acquiring bank to an issuing bank) which cover, inter alia, the cost of rewards programmes, scheme fees (paid to credit card companies), switching fees (paid to the company operating the data switch), fees to cover the cost of systems, fraud, foreign exchange, and a profit margin for the acquiring bank.

Small reductions in fees

During 2018, Visa and Mastercard reduced some of the maximum interchange fees that apply in the New Zealand market. This may have contributed to the small reduction seen in overall merchant service fees in the 2019 payments survey.

Unbundling

Over the past year, some banks have moved to 'unbundle' their merchant customers - moving to charge a differential rate for different kinds of card. This is an area to watch over the next 12 months. If other banks follow suit, unbundling is likely to reduce the overall MSF for contactless debit payments in particular. Our survey shows that merchants with an unbundled rate for contactless debit pay, on a weighted-average basis, 0.1 per cent less than those on a bundled rate.

EFTPOS is free

New Zealand is unique in having a domestic EFTPOS network which is essentially fee-free for the merchant. This means that merchants face a particular cost challenge as customers migrate away from traditional EFTPOS and towards contactless debit, either with a card, Apple Pay or Android Pay.

Buy now - pay later

The New Zealand payments landscape is continuing to evolve. Over the past 24 months, we have seen a significant uptake of "buy now, pay later" schemes. These are proving to be popular with consumers, but come at a high price for retailers, often more than three times the cost of a credit card transaction.*

*Insufficient information was gathered through the survey to provide reliable weighted-average costs for these and other new forms of payments.