

Commerce  
Commission

Interchange

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dosjr

# Dosh – Payments Innovation and Interchange

Dosh is a financial services provider that specialises in payments innovation, amongst other services. Dosh issues Visa prepaid cards in New Zealand via Novatti subsidiary Flexewallet.

## **Dosh payments innovation**

- Instant payment via mobile number (Canstar innovation award 2022)
- Request to pay
- Split bills for Visa payments
- Doshback loyalty (Canstar innovation award 2023)

## **The pricing for interchange was recently limited by Government, but surcharging of consumers did not reduce**

- Interchange prices were forced down by the Retail Payments Act 2022, effective Nov 2022.
- Indicatively, merchant saving on interchange costs were not passed to consumers in the form of lowering, or removing surcharging. Payments are now embedding as a profit line for SME, rather than a cost of doing business.
- Further reduction in interchange is likely to impact payments innovation across the sector.



# Issuing and Payments as a loss leader

**For the payment innovators, the current level of interchange makes issuing a loss leader**

1. Capital : invested to build issuing capability

## **An Issuing P&L**

2. Revenue : interchange earned per payment

3. Cost :  
Physical card, fulfilment and delivery per card  
Processing per payment  
Push provisioning per digital card  
Apple Pay charge per payment  
Operations, fraud management and chargebacks

4. Profit / Loss : **Loss**

Consumer preference shifting to Apple/Googlepay will further increase costs. Options to offset losses include fees, subscriptions or cross sell other products.

# Observations and Recommendation

## **Observations :**

The work to right size interchange in New Zealand was recently completed by the government and enacted into law. The benefits of the change were received by business, and not passed to consumers.

Enabling businesses to receive payments is a cost of doing business, not a profit line.

There is a real cost of providing issuing and payment services. Issuers such as dosh must be able to recoup these costs in order to further build out innovative, value adding services for consumers. Reduced interchange revenue will likely decrease innovation and competition in banking.

Competition in the payments space will be accelerated by Open Banking, and this will provide a market resolution to services and prices.

## **Recommendations :**

Update the Retail Payments Act 2022 to set a maximum surcharge limit the merchants reflecting average cost.

Leave interchange limits per the Retail Payments Act, allowing Open Banking to deliver the competitive forces for services and pricing.