Submission on the Commerce Commission's Draft Decision and Reasons Paper

Retail Payment System: Commercial Credit Card Interchange Fee Regulation for Mastercard and Visa Networks (4 June 2026)

[redacted]

Executive summary

[redacted] **We urge the Commission not to proceed.** The case for intervention is not made on the evidence, the international comparison the Commission relies on cuts the other way, and the proposal hands a structural competitive advantage to a foreign three-party network (American Express) at the direct expense of every New Zealand-domiciled card issuer. The projected merchant and consumer savings are likely to be undermined by the predictable shift of commercial spend to Amex to retain rewards (we illustrate this with a worked example in Section 3).

Four positions support that conclusion.

1. **Commercial interchange exists for legitimate, well-documented economic reasons.** It funds an issuer-side cost structure that differs in kind from personal credit and recognises merchant-side benefits that also differ in kind. The Commission's draft compresses these dynamics into a four-cap structure (0.50%, 0.90%, 0.70%, 1.50%) representing reductions of roughly 25% to 65% against current weighted-average rates, with only a 0.10% cost-attributed premium on the domestic side and zero premium on the foreign-issued side. Neither treatment is supported by the evidence the Commission has assembled.
2. **No comparable jurisdiction regulates commercial interchange this aggressively.** Australia is the only jurisdiction that regulates commercial interchange. It set its cap at 0.80% explicitly to mitigate American Express substitution. The UK, EU, US, Canada, Singapore, Japan, and Hong Kong leave commercial interchange unregulated. New Zealand would, on adoption, become only the second jurisdiction globally to regulate commercial interchange, at a level tighter than the only existing comparator.
3. **The exclusion of American Express is the single most concerning feature of the draft decision.** It hands a competitive advantage to a foreign three-party network and locks in a regulatory architecture that has already been shown to fail in Australia, where Amex's combined credit card share has reached a 20-year high and Amex is now the largest issuer of commercial cards. Australia has now announced they will do a review of additional payment services including American Express.
4. **The consumer pass-through assumption is unevidenced, and the first round of interchange regulation already failed this test.** The November 2022 caps relied on the same pass-through theory. The surcharging restrictions intended to make pass-through enforceable, scheduled for May 2026, did not take effect. Surcharges remain at pre-regulation levels, frequently above the underlying merchant service fee. Without that lever, the proposed $40

million transfer reaches merchants, not consumers, **and not the merchant mix this proposal is aiming to benefit.**

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1. Commercial interchange exists for legitimate reasons that the draft underweights

Interchange in a four-party network is not a tax. It balances the costs borne by card issuers against the benefits delivered to card-accepting merchants. The economic theory has been settled for two decades and the Commission's own commissioned literature (Bolt 2023, Fletcher 2023) accepts this framing.

Here is what the draft actually proposes:

Category	Current rate range	Current weighted average	Proposed cap	Implied reduction
Domestic commercial credit, in-person	0.20–2.20%	~1.40%	0.50%	~64%
Domestic commercial credit, online	0.20–2.20%	~1.40%	0.90%	~36%
Foreign-issued commercial credit, in-person	1.85–2.05%	~2.00%	0.70%	~65%
Foreign-issued commercial credit, online	1.85–2.05%	~2.00%	1.50%	~25%

These are reductions of between roughly a quarter and two-thirds across four transaction categories. The Commission's stated cost-and-benefit basis is thinner than the cap structure suggests. On the domestic side, only **0.10%** of the 0.20% premium above personal credit is attributed to issuer costs and merchant benefits (paragraph 3.7.1); the other 0.10% is openly a benchmarking choice against the Australian rate (paragraph 3.7.2). On the foreign-issued side, no premium at all is recognised. The Commission aligns foreign commercial caps with foreign personal caps on the basis that "no additional benefits accrue to merchants from foreign-issued commercial credit cards" (paragraph X10).

Commercial credit cards differ from personal credit cards in ways the 0.10% domestic premium and the zero foreign premium cannot capture.

- **Issuer cost structure.** Underwriting against businesses rather than individuals, KYB rather than KYC, ongoing AML monitoring of business activity, expense data capture, ERP and accounting-system integrations, audit trails for GST and tax purposes, and multi-cardholder account management. These costs do not scale linearly with transaction value and are not "minor" as the Commission concludes at paragraph 3.28.

- **Fraud and risk profile.** Commercial card fraud presents different and often more sophisticated patterns than consumer fraud (business email compromise, employee misuse, supplier fraud, T&E fraud). The Commission notes commercial credit cards have "slightly higher fraud prevalence and higher fraud loss rates" (3.28); only a fraction of the premium is allocated to recognise it.
- **Merchant benefits the Commission has not properly quantified.** Guaranteed funds at point of acceptance, automated reconciliation, dispute and chargeback rails, reduced trade-credit administrative load (3.7.1, compressed into the same 0.10%), faster effective settlement than 30/60/90-day invoice terms, and elimination of business-customer credit risk that merchants would otherwise carry themselves.
- **Higher average transaction values.** The Commission's own monitoring data characterises commercial credit as "a small share of transactions, but disproportionate share of interchange fees paid by New Zealand merchants" (2.8), and quantifies the disproportion: commercial credit represents 8% of total transaction value but approximately 19% of total interchange fees paid (rising to 20% on a domestic basis per footnote 82). A "small share of transactions" producing 8% of value is in itself confirmation that average transaction value on commercial credit is significantly higher than the network average. The 0.10% premium does not reflect this.
- **Rewards programmes drive higher merchant revenue.** An established academic and central-bank literature documents that rewards card programmes are associated with higher transaction volumes and per-transaction spend by cardholders (Han, Federal Reserve, 2023; Hayashi, Federal Reserve Bank of Kansas City, 2009; Hayashi and Ching, Journal of Banking & Finance, 2010). Merchants benefit twice: through larger basket sizes and through the loyalty effects of accepting rewards-bearing cards. The Commission has not attempted to quantify the merchant-side revenue offset that interchange compression removes.
- **Internal inconsistency on foreign-issued cards.** At paragraph X10 the Commission concludes no additional merchant benefits accrue from foreign-issued commercial credit. At paragraph 3.26 it acknowledges that corporate travel (the dominant foreign-issued commercial credit use case in New Zealand) generates additional costs and benefits worth recognising. Both cannot be true. Given New Zealand's tourism-intensive payment mix, this inconsistency significantly understates the appropriate foreign-issued caps.

2. No comparable jurisdiction regulates commercial interchange this aggressively, and the Commission's choice of comparator is itself a flaw

The Commission relies almost entirely on Australia as its benchmark. We agree Australia is a relevant comparator. It is not the only one, and the selectivity in the methodology is itself a problem.

Why Australia, and only Australia? Australia is geographically close, but in the dimensions that matter (banking market concentration, the structure of the challenger and fintech layer, regulatory posture toward three-party networks), the United Kingdom and Canada are at least as analogous to New Zealand. Both have a small number of dominant banks alongside a more developed challenger and neobank layer. Both have considered commercial interchange intervention in detail and declined. The Commission has not engaged the UK or Canadian regulatory reasoning in its draft. In practice, it has selected the one international comparator whose existing cap level supports the cap level it is proposing, while passing over the comparators whose regulatory inaction would point the other way. That is not benchmarking. It is reverse-engineering the methodology to a pre-determined answer.

Even Australia does not support what the Commission is proposing. The RBA's March 2026 Conclusions Paper retained the existing cap of 0.80% "to mitigate the risk of indirectly advantaging non-regulated American Express, despite interchange fees on commercial credit card transactions being above efficient levels" (cited at paragraph 3.12). The RBA does not consider 0.80% the efficient cap. It considers it the competitively viable cap given the existence of an unregulated three-party network. New Zealand is proposing a lower implied weighted average (0.78% on the Commission's own calculation) in a market where Amex already operates and is growing share. The Commission is borrowing Australia's number without adopting Australia's reasoning.

The UK and EU do not regulate commercial credit interchange. The European Commission and UK PSR have repeatedly considered the question and repeatedly declined to extend regulation. Their inaction in markets with mature commercial card systems is itself evidence.

The United States, Canada, Singapore, Japan, and Hong Kong have no commercial interchange regulation. New Zealand would, on adoption, become only the second jurisdiction in the world to regulate commercial interchange, at a level at the most restrictive end of the global spectrum.

The published evidence base for the draft rests largely on two commissioned expert reports from late 2023 (Bolt 2023, Fletcher 2023). Both pre-date the present commercial card market in New Zealand, the RBA's March 2026 Conclusions Paper, and the Commission's own Personal Banking Services Market Study (August 2024) that the Government has since accepted in full. The published record does not reflect direct engagement with current operational practitioners in card issuance economics, commercial card product design, or domestic challenger fintech business models. A regulatory decision of this scale, with the consequences falling most heavily on issuers and challenger entrants, warrants engagement with the industry perspectives that are not visible in the present record before finalisation.

A 5-million-person economy with a concentrated banking sector and an emerging fintech competitive layer should not lead the world on this. It should follow comparators with evidence and time on their side, and engage current industry practice in shaping its conclusions.

3. The exclusion of American Express is the single most concerning feature of the draft decision

The draft regulates Mastercard and Visa interchange and leaves American Express outside scope. Amex operates a three-party network with no separately identifiable "interchange" fee, but the economic function is identical: revenue that flows to the card issuer, recovered through merchant service fees.

The Commission's own draft acknowledges every step of this.

- "Materially advantage three-party payment networks, such as American Express" (3.7.2).
- The RBA "decision to retain the cap of 0.80% was due in part to concerns American Express which already has a large and established position in Australia, would likely grow its share" (3.23).
- "American Express is gaining share in terms of commercial credit card transaction value" (3.25).
- "We will continue to monitor American Express fees, and share of transactions and acceptance and can propose designation under the Act if necessary" (3.25).

The Commission's response to its own findings is, in substance, "we don't think it will happen here, and if it does we will regulate later." That is not a defensible posture.

It hands a structural competitive advantage to a single foreign three-party network at the direct expense of every Mastercard and Visa issuer in New Zealand, including every domestic bank and every domestic fintech. [redacted]

[redacted]. The draft asymmetrically compresses our economics while leaving Amex's economics untouched. That is the textbook anti-competitive outcome section 18 of the Retail Payment System Act requires the Commission to consider.

Australia is the demonstration case, and the data is striking.

- American Express and Diners Club's combined share of Australian credit card transactions has grown from approximately 6.7% in 2000 to approximately 21.8% by 2023, a 20-year high (RBA market share data as reported by Mozo Australia). The trajectory accelerated through the regulated-interchange era, from approximately 14.8% in 2020 to 21.8% within three years.
- As of July 2024, Amex accounted for approximately 9.5% of Australian credit and charge card purchases by transaction count but approximately 22.4% by transaction value (Finder Australia), reflecting concentration in higher-value commercial use.
- Average annual spend per Amex card in Australia is reported at approximately A$50,000, against approximately A$17,000 across Mastercard and Visa combined.
- American Express is now the largest issuer of commercial cards in Australia.
- The RBA's March 2026 Conclusions Paper states that retention of a separate commercial cap "supports a more even playing field between Mastercard, Visa and American Express." The 0.80% Australian cap is a competitively engineered number, not a cost-derived efficient cap.

Australia did not avoid the Amex substitution dynamic by setting its cap at 0.80%; it slowed it. The Commission is proposing to step into the same trap with foreknowledge that it is a trap, in a smaller market, with a tighter implied weighted-average cap. The "monitor and designate later" posture concedes the harm in advance and offers no mechanism to prevent it: by the time Amex's share triggers designation, the four-party economics will have been compressed for years, and the contestable domestic issuance layer will have been damaged.

The Commission has not, on the public record, explained why American Express is excluded from the scope of this regulation. The draft acknowledges Amex's competitive position (3.7.2, 3.23, 3.25), the Australian precedent that Amex substitution is the central regulatory risk, and the practical impossibility of the four-party networks competing on price while Amex remains unregulated. None of those acknowledgements is followed by a stated rationale for the exclusion. The closest the draft comes is a procedural footnote that designation under the Act remains available "if necessary." That is not a rationale. Is the exclusion based on Amex's current market share in New Zealand? On the absence of a separately identifiable "interchange" fee in a three-party model? On a view that Amex's pricing dynamics are out of regulatory scope? On the same competitive-engineering judgement the RBA applied in Australia? The Commission should explicitly state which of these (or which combination) drives the exclusion, with the evidence supporting it, before the final decision. A regulatory decision that creates a structural asymmetry of this magnitude cannot be made without a published reason for the asymmetry.

What this means in practice: a worked example

Consider a New Zealand business with $500,000 in annual commercial card spend on a Mastercard or Visa commercial credit card. The card earns Airpoints at approximately 1% of spend (a typical NZ commercial credit card rewards rate) and carries an annual cardholder fee of $200. The pre-regulation net rewards benefit to the business is approximately $4,800 per year.

Under the proposed caps, the issuer's commercial interchange revenue on that spend is compressed by approximately 36% to 64%, depending on the in-person and online mix. The economics of the rewards programme no longer hold. The issuer scales the rewards rate back to a sustainable level (realistically 0% to 0.25% on commercial spend), and the net cardholder benefit on the Mastercard or Visa commercial card collapses to somewhere between negative $200 and approximately $1,050.

American Express, sitting outside the scope of the regulation, continues to offer approximately 1% Airpoints on commercial spend. The rational response by the business is the obvious one: it moves its $500,000 of annual commercial spend to an Amex commercial card to retain the reward value.

Three consequences follow.

1. **The interchange savings the Commission has projected on this volume do not materialise.** The $500,000 has moved off the regulated networks. There is no Mastercard or Visa interchange to compress because the transactions no longer go through those rails.
2. **The merchant accepting those transactions is worse off, not better off.** Amex merchant service fees are generally higher than the (now-capped) Mastercard or Visa commercial credit MSF would have been. The acceptance cost the Commission is trying to reduce has gone up at the merchant, not down.
3. **The New Zealand-domiciled card issuer loses the customer entirely.** A revenue stream that funded compliance, fraud monitoring, and product investment is gone, transferred to a foreign three-party network with no New Zealand banking licence and no New Zealand-issued cards.

Multiply this dynamic across the segment of the commercial card book where cardholders are reward-sensitive (which is most of it, for commercial credit), and the Commission's $50 million projected reduction in interchange does not simply land on merchants instead of consumers. A meaningful share of it does not materialise at all, because the underlying transactions migrate to the unregulated foreign network. The merchant, the consumer, and the New Zealand-domiciled issuance layer are all worse off. The only winner is American Express.

4. New Zealand-specific factors the draft underweights

- **Banking market concentration.** Four banks issue the overwhelming majority of New Zealand commercial credit. Emerging local issuers face the highest relative impact of any reduction in interchange revenue. The Commission notes this at 3.14 but does not reflect it in the cap level.
- **Higher exposure to foreign-issued cards.** New Zealand's tourism-driven payment mix means foreign-issued card transactions are a larger share of merchant volume than in Australia. The foreign-issued caps significantly compress merchant economics in inbound tourism with no corresponding reduction in foreign issuer costs. Foreign issuers will earn less or withdraw acceptance.
- **Emerging domestic competition.** New Zealand's fintech sector is at an earlier stage than Australia's. Compression of commercial credit interchange removes a revenue lane that emerging domestic issuers are building product and economics around, at the moment competitive entry should be encouraged.
- **Direct cross-purpose with the Commission's own Personal Banking Services Market Study.** In August 2024 the Commission concluded that the Big Four banks "do not face strong competition" and that the sector lacks "disruptive forces to drive change." The Government accepted all 14 recommendations. The Reserve Bank's 4 June 2026 decision extending "bank" status to all licensed deposit takers is part of the same direction of travel. Twelve months on, the present draft would compress the unit economics of card issuance for exactly the kind of domestic challengers the Personal Banking Market Study asked for. Two arms of the Commission's published work are pulling in opposite directions.

- **Surcharging dynamics.** New Zealand already has active merchant surcharging on commercial cards. The "must-take" framing at 2.11.3 is more characteristic of consumer credit than commercial credit, where merchants in B2B contexts routinely negotiate, surcharge, or steer.

5. The pass-through assumption is unevidenced, and the first round of regulation already failed this test

The Commission's case rests on the claim that lower interchange will flow through to merchant service fees and from there to lower consumer prices or surcharges. At paragraph X14 the Commission estimates that of $50 million in reduced interchange, $40 million will reduce MSF, and consumers will benefit through "reduced upward pressure on retail prices and/or surcharge rates." That flow-through is the load-bearing premise of the whole competition and efficiency case.

It is unevidenced.

The November 2022 interchange caps were designed on the same theory. Step (iii), consumer pass-through, has not occurred. New Zealand merchants continue to surcharge at rates that frequently exceed the merchant service fee being recovered. The Government's surcharging restrictions, scheduled for May 2026, did not arrive on the announced timeline. Without that lever, the policy chain breaks at the consumer.

The Commission has not published an analysis of whether the 2022 round achieved consumer-level pass-through. Without that analysis, the assumption that a second round will deliver pass-through is unsupported.

The actual merchant mix on commercial credit also undercuts the consumer-benefit narrative. Commercial credit transactions concentrate at larger merchants (corporate procurement, travel and accommodation, fleet and logistics, B2B suppliers, larger retail chains), not the independent retailers and small merchants that dominate the public framing. Larger merchants have negotiated or interchange-plus pricing arrangements, retain a substantial share of any interchange reduction within their own margin, and do not adjust shelf prices in response to small per-transaction MSF movements. The "merchant" who benefits from the proposed caps is not, in the main, the small independent business the consumer-benefit narrative implies; and the "consumer" whose prices are expected to fall is further removed still from the actual transaction surface.

Until the previous round has been shown to have produced consumer welfare, and until the surcharging regime is actually in force, proceeding with a second, more restrictive round on the same load-bearing assumption is regulatory action without an evidence base.

6. Recommendations

1. **Do not proceed with the proposed caps.** The case for intervention is not made. The international benchmarking is selective. The asymmetric exclusion of American Express is structurally anti-competitive. The consumer pass-through premise is unevidenced. None of these defects are addressed by adjusting the cap level; they are reasons the draft should be withdrawn.
2. **If, despite the above, the Commission proceeds with any form of commercial credit interchange regulation, it must capture American Express on equivalent terms.** A regime that leaves the largest unregulated three-party network outside its scope is not a competition-promoting regime; it is a regime that picks winners. This is the one conditional position we take. It is not a fallback we endorse, it is the minimum condition for the regulation to be defensible at all.

3. **Publish, in the final decision, the explicit rationale for excluding American Express from scope.** The draft acknowledges Amex's competitive position and the Australian precedent that Amex substitution is the central regulatory risk, but it does not state, on the public record, why Amex is being left outside the regulation. The Commission should be explicit. Is the exclusion based on current New Zealand market share, on the three-party network model, on a regulatory-scope view, or on the same competitive-engineering judgement the RBA applied at 0.80%? A regulatory decision that creates a structural asymmetry of this magnitude cannot defensibly be issued without a published, evidenced reason for the asymmetry.

Closing

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We reject the Commission's premise that current commercial credit interchange fees are above efficient levels. Commercial interchange exists for real, well-established economic reasons. It funds the issuer-side cost structure (underwriting, fraud, administration, expense management) that differs in kind from personal credit, and it recognises merchant-side benefits that also differ in kind: guaranteed funds, dispute and chargeback rails, faster settlement, elimination of business-customer credit risk, higher average transaction values, and the documented spend-uplift effect of rewards programmes. The Commission's draft does not adequately quantify any of these. The 0.10% domestic cost premium and the zero foreign-issued premium are inconsistent with the underlying evidence.

The draft also fails on its own terms. It produces consumer pass-through the previous round has not been shown to have produced. It places New Zealand at the most restrictive end of the global spectrum in a market a fraction of the size of any comparator. It asymmetrically compresses four-party interchange while leaving the largest unregulated three-party network at structural advantage. And it cuts directly against the Government's accepted direction on domestic banking competition.

That outcome is not pro-competitive. It is pro-American-Express.

We ask the Commission to withdraw the draft.

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