

EXPERT REPORT

**ON THE REGULATION OF COMMERCIAL CREDIT CARDS IN NEW ZEALAND:
SOME THEORETICAL AND PRACTICAL CONSIDERATIONS**

BY WILKO BOLT¹

**SCHOOL OF BUSINESS AND ECONOMICS
VRIJE UNIVERSITEIT AMSTERDAM**

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¹ Professor of Payment Systems, Department of Finance, School of Business and Economics, Vrije Universiteit Amsterdam, The Netherlands. Email address: w.bolt@vu.nl

1. ECONOMIC FRAMEWORK AND GENERAL OBSERVATIONS

- **Payment systems are essential for the smooth operation of the economy.** They facilitate the exchange of goods and services for money.
- **Payment efficiency concerns the optimal allocation of scarce resources over time.** In theory, total economic surplus should be maximized in the short and long run, taking all players in the “payment chain” into account.
- **From an economic viewpoint, efficiency has a “static” (cost and allocative efficiency) and a “dynamic” dimension (dynamic efficiency):²**
 - cost efficiency: producing goods and services at lowest cost;
 - allocative efficiency: setting output prices equal to marginal cost;
 - dynamic efficiency: improving allocative and cost efficiency over time by developing new or better products, applying new technologies and innovations and finding better ways of producing goods and services.
- **Despite increased cost efficiency over time (increasing scale, shift from paper-based to electronic payments, digital technologies), card payments have remained expensive for merchants.** This points to potential market frictions.
- **If markets fail, effective regulation must ensure that “undeserved” market power does not translate to excessive prices and/or low quality.** A lot of the regulatory complexity in retail payment systems derives from its “two-sidedness”.
- **Credit card markets are two-sided.** Consumers do not use credit cards if merchants do not accept them, and merchants will not accept credit cards when consumers do not see value in using them. As a result, consumers and merchants face a classic “chicken-and-egg” problem.
- **More formally, two-sided markets are defined as markets where one or several platforms enable interactions (or transactions) between end-users and try to get the two (or multiple) sides “on board” by appropriately pricing each side.³** The (appropriate) price structure in card networks has triggered a lot of antitrust scrutiny in many jurisdictions around the globe.

² Note that in a market with (positive) network effects – such as a two-sided market – (total) transaction price may be set below total marginal cost to obtain a social optimum (e.g. Hermalin and Katz, RAND 2004, Bolt and Tieman, IJIO. 2008).

³ See Rochet and Tirole (RAND, 2006).

- **Two-sided markets raise the question: who needs whom, why and how much?** This leads generally to “skewed pricing” patterns tilting the pricing structure against the merchant side in card payments. However, note that even a “social planner” would skew prices to a certain extent to maximize socially valuable usage and participation effects.
- **Profit-maximizing card networks exploit the negative externality that high merchant fees are passed through onto all consumers (not only cardholders) through higher goods prices.** “Must-take cards” and “weak merchant resistance” may amplify these upward pricing pressures.
- **Theoretically, a “Pigouvian recipe” helps to correct this negative externality by inducing the cardholder to internalize the merchant’s welfare.** The so-called “Tourist test” (or merchant indifference test) for capping interchange fees is based on this Pigouvian precept.⁴
- **In my view, these general two-sided markets principles also apply broadly to commercial credit cards.** From a competition policy perspective, the key question is whether commercial credit cards differ sufficiently from personal credit cards to justify differential regulatory treatment, and if so, to what extent.
- **More specifically, commercial credit cards are largely part of the business-to-business (B2B) payments ecosystem.** In this case, the main end-users are the “buyer businesses” (i.e. cardholders) on one side that use commercial cards to make payments and the “supplier businesses” (i.e. merchants) on the other side that accept commercial cards as a means of payment.

2. USEFUL REGULATORY BENCHMARK FOR COMMERCIAL CREDIT CARDS

- **As a useful regulatory benchmark, excessive payment prices may be regulated based on “avoided cost”** (which maybe seen as the empirical counterpart of the above-mentioned theoretical “Pigouvian recipe”). This ensures that consumers do not exert a negative effect on merchants when they choose their method of payment.

In other words, the merchant fee should not exceed the merchant’s transaction (or convenience) benefit of a card payment.

- **The “Tourist Test” (or merchant indifference test) which is based on avoided cost is appealing because, in theory, it maximizes total user surplus (but not social welfare).** As a

⁴ See e.g. Rochet and Tirole (RAND, 2011) and Bourguignon, Gomes and Tirole (IJIO, 2019).

result, it refers to a “second-best” outcome.⁵

Consequently, the Tourist Test interchange fee is generally **lower** than the socially optimal interchange fee.

- **The broader question is which costs merchants can avoid by accepting commercial credit cards instead of the “best” alternative payment method.** In principle, this type of cost analysis could justify setting a different interchange fee cap for commercial credit cards than for personal credit cards – much as different caps are applied to debit and credit card transactions.
- **Several cost factors may be relevant in this context, including the cost of providing credit, the costs of payment delays (and sending reminders), and other administrative costs.** The extent to which commercial credit cards generate (net) cost savings for “supplier businesses” that accept them is ultimately an empirical question.⁶
- **Commercial credit cards also provide (additional) benefits to “buyer businesses” that use them.** These cards provide a source of credit for buyer businesses, working capital benefits and tools for tracking and controlling costs as well as monitoring employee spending.

Card networks recognize that these additional cardholder benefits can be captured through higher interchange fees on commercial credit cards, which in turn lead to higher merchant fees and, ultimately, higher retail prices. These upward pricing pressures may be further intensified by aggressive competition among card networks to attract cardholders, driving merchant fees above the socially optimal level.

At that point, merchant funding of cardholder benefits becomes unfair and inefficient. An interchange fee cap based on the Tourist Test helps prevent this inefficient card pricing.

- **Given an interchange fee cap, any additional cardholder benefits could instead be extracted through higher fixed fees charged on the cardholder side.** Theoretically, a fixed fee should be used to extract a fixed, or “stand-alone”, benefits whereas transaction fees should be used to extract transaction benefits. It is therefore useful to classify and distinguish between fixed and transaction costs and benefits when assessing an appropriate price structure.

⁵ See Rochet and Tirole (RAND, 2011).

⁶ In a report by Oxera (2019) prepared for Mastercard it is estimated that the “end to end” administration cost associated with relying on invoicing rather than commercial card payments amounts to 4.3% of the average transaction value across six European countries.

- **In practice, the Tourist Test compares the total variable cost of the “best” alternative payment method with the total variable cost of accepting a commercial credit card by the merchant.** A commercial credit card transaction passes the Tourist Test if its total variable cost is lower than that of the “best” alternative payment method, measured for an “average merchant” at an “average transaction value”. The merchant fee that leaves a merchant indifferent between accepting and not accepting the card is known as the Tourist Test merchant fee. The corresponding Tourist Test interchange fee can then be derived by “subtracting” acquiring costs and acquiring margin from that merchant fee.
- **For example, the European Commission (EC) adopted the Tourist Test as its benchmark for regulating interchange fees charged by four-party card networks.** Drawing on payment cost studies conducted across EU member states, the EC set interchange fee caps of 20 basis points for personal debit card transactions and 30 basis points for personal credit card transactions. These limits apply to domestic card transactions within the European Union and are established under the EU Interchange Fee Regulation (IFR) in 2015.⁷
- **Although commercial credit cards are currently not regulated in the EU, there is no guarantee that this will remain the case.** Recently, European merchants have called on EU institutions to cap commercial cards interchange fees as well.⁸
- **In the European Union, four-party card network transactions are subject to the no-surcharge rule, whereas three-party card network transactions are generally exempt from this regulation.** Three-party card networks generally charge higher merchant fees. That is why merchants in the EU are, in principle, permitted to surcharge transactions made through three-party networks.

This approach helps mitigate potential competitive distortions between four-party and three-party card schemes.

- **There are obvious limitations to using the Tourist Test and avoided-costs to regulate payment prices.** The appealing theoretical properties of the Tourist Test are derived from a static model of two-sided markets that assumes homogeneous merchant benefits, constant issuer margins, and no role for fixed costs. While the framework can be extended to accommodate heterogeneous merchant benefits and variable issuer margins, several issues remain:

⁷ See *Regulation (EU) 2015/751 of the European Parliament and of the Council on interchange fees for card-based payment transactions*, ([Regulation - 2015/751 - EN - EUR-Lex](#)).

⁸ European merchants payments coalition, May 2026.

- **Dynamic efficiency:** The Tourist Test is inherently a static concept and does not readily account for economies of scale over time nor the efficiency gains associated with investment and innovation in payment card markets;⁹
- **Network effects:** Because the Tourist Test focuses exclusively on transaction fees at the point of sale, it may “underestimate” the value of network expansion. Network effects tend to be weaker when pricing is based on per-transaction fees, as part of the benefit of transacting with an additional consumer or merchant on the other side of the market is generally offset by the extra fee incurred;¹⁰
- **Fixed fees versus transaction fees:** The Tourist Test abstracts from fixed fees, even though they may also be important for the cost recovery of payment card systems. While fixed fees do not drive payment choice at the point of sale ex post, they do affect the ex ante decision to adopt a payment instrument. Ultimately, cardholder usage and merchant acceptance can only occur if both sides of the market choose to adopt the (commercial) payment card in the first place. This links fixed fees to overall efficiency and network effects.

The extent to which investment (and its funding) and fixed fees play a role in providing commercial credit card services in New Zealand is also an empirical question.

3. MERCHANT COST AND BENEFIT CONSIDERATIONS

- **In a two-sided market, not only the “total price” is important but also the “price structure”.** Relative transaction benefits drive the demand for card services on both sides of the market and its heterogeneity (i.e. differences how consumers and merchants value these transactions) determines the price elasticity of demand.
- **In theory, all else being equal, greater heterogeneity among merchants enables card networks to extract more merchant surplus and charge higher merchant fees to maximize profit.** When merchants differ more widely in the benefits they derive from card acceptance, card networks can generally raise merchant fees while causing only a limited reduction in card acceptance. As a result, the margin earned per transaction may increase even if overall demand remains largely unchanged, as higher cardholder usage can offset the decline in merchant acceptance. Consequently, card network profits increase.

⁹ See Bourreau and Verdier (RIO, 2019) on the role of interchange fees and innovation in card payment networks.

¹⁰ See e.g. Armstrong (RAND, 2006) or Rochet and Tirole (RAND, 2006) for a discussion of fixed fees versus transaction fees. See Bedre-Defolie and Calvano (AEJ: Micro, 2013) for a theoretical analysis of membership (fixed fee) and usage (transaction fee) decisions in the pricing of payment cards.

- **In addition, “merchant resistance” may be weaker in the case of commercial credit cards, especially when large corporates use commercial credit cards** (so-called “marquee buyers”). This is closely related to the “must-take” argument. Merchants accept the card because refusing it would be too costly in terms of “missed sales” and/or reduced “merchant attractiveness”, not because accepting is cheap. Effectively, the merchant benefit of accepting a commercial credit card transaction may be lower than the merchant fee; yet the merchant still chooses to accept the card.

Theoretically, weak merchant resistance is fully exploited by credit card networks by charging merchant fees that may exceed the socially optimal level.

- **In practice, merchant heterogeneity can arise along several dimensions, including differences in industry sector, firm size, scale of operations, profitability, and business model.** For commercial credit cards, industry sector appears to be a particularly important source of heterogeneity. Sectors such as accommodation, hospitality, travel, and tourism are especially likely to report greater commercial credit card acceptance, with such cards often functioning as “must-take” cards for businesses operating in these sectors. These businesses cannot “resist” and will “swallow” high merchant fees.
- **A potential “neutrality result” may come to the fore when SMEs that use commercial credit cards (“buyer businesses”) are also merchants that accept them (“supplier businesses”).** In such cases, the higher merchant fees associated with card acceptance may be offset, at least in part, by the cardholder benefits these businesses receive.
- **In theory, if the costs of accepting commercial credit cards were fully compensated by the benefits received on the cardholder side, the two-sided nature of the market would effectively disappear.** Under this strict condition, merchants accepting commercial credit cards would have no incentive to pass acceptance costs onto consumers through higher retail prices. Consequently, the rationale for regulatory intervention would largely disappear.

This theoretical “limit” result is somewhat reminiscent of the Gans and King (2003) neutrality result which states (under restrictive assumptions) that the level of the interchange fee will be irrelevant for the decisions of cardholders and merchants when merchants can set a surcharge for consumers who pay by card.¹¹ Naturally, assuming here that the cardholder and the merchant are the same business, surcharges are not needed to obtain an analogous result.

- **There are, however, clear caveats around this neutrality argument.** It seems unlikely that the total cardholder benefits received from commercial credit cards, such as rewards, loyalty

¹¹ See Gans and King (Topics in Econ. Analysis & Pol., 2003).

points, or discounts, would be equal in value to the total cost of card acceptance, which is determined by merchant fees multiplied by total sales. More plausibly, cardholder benefits would offset only part of these acceptance costs.

As a result, at least a part of the acceptance costs is likely to be passed onto consumers through higher retail prices making non-cardholders worse off. In this sense, the neutrality effect should be viewed as a mitigating factor rather than a complete offset, potentially providing a justification for a somewhat higher interchange fee cap than would otherwise be warranted.

- **Whether this neutrality effect is significant in the New Zealand context is ultimately an empirical question.** Determining its relevance requires empirical evidence on the extent to which businesses that accept commercial credit cards also use them, and whether the cardholder benefits they receive are sufficient to offset the costs of merchant acceptance.

In this context, a recent survey carried out by NZCC showed that a large majority of businesses would prefer lower commercial credit card acceptance fees over fewer cardholder benefits.¹²

4. SMALL ISSUERS, ISSUING COST AND COMPETITION CONSIDERATIONS

- **In theory, under broad assumptions, issuer costs do not directly affect the optimal level of interchange fee regulation.** From a social welfare perspective, the key requirement is that total benefits exceed total resource costs. The “first-best” socially optimal interchange fee is designed to ensure that this condition is met, but its level does not depend directly on issuer costs. This would hold for the “second-best” Tourist Test interchange fee as well.¹³
- **The underlying idea is that “buyer businesses” (i.e. cardholders) with relatively low – or “too low” – transaction benefits should not be encouraged to use commercial credit cards through rewards, loyalty programs, or similar incentives.** This would only “destroy” economic surplus due to an inefficient allocation of resources.

Again, this theoretical framework forms the basis of the current interchange fee regulation (IFR) in the European Union.

¹² NZCC, Merchant Survey Results, 23 July 2026.

¹³ See Rochet and Tirole (RAND, 2011).

- **Interchange fees are an important source of revenue for card issuers.** Lower interchange margins may place greater pressure on smaller issuers, which often have fewer opportunities to cross-subsidize or cross-sell other products and services than larger issuers.

This could provide a rationale for some degree of interchange fee differentiation, or even a regulatory exemption, based on issuer size or transaction volume. However, such differentiation or exemptions may also create unintended consequences in terms of “by-pass” (i.e. acting strategically to remain below the relevant threshold which is difficult to monitor for regulatory authorities).

- **At the same time, in my view, smaller size alone is not a sufficient reason to justify higher interchange fees.** Such a policy may trigger some degree of moral hazard when small issuers come to rely on higher interchange fees as a (main) source of revenue. Indeed, lower interchange fees – as a “disciplining device” – may encourage small issuers to operate more efficiently and reduce costs, enabling them to maintain sustainable profit margins even with lower fee income. This way it could weed out less efficient, or inefficient, (small) issuers which may then be forced either to improve their performance or to exit the market.
- **Another possible approach is to apply a weighting scheme, for example based on transaction value or transaction volume, to provide an uplift for smaller issuers.** However, if larger market participants account for most transaction volume and therefore receive substantially greater weight in the calculation, the resulting uplift for smaller issuers is likely to be (very) limited.
- **“Fintechs” may enter the market as (small) issuers and may be able to credibly contest the market** (through reducing switching costs and introducing product innovations). Additionally, Fintechs may also specialize in payment services other than credit card issuance, such as providing payment initiation or account information services. Even when their market share remains modest, they can constrain incumbents' pricing and improve service quality because consumers have credible alternatives. To support these business dynamics, it is essential to promote access to payment infrastructure, data portability, and interoperability across market participants.
- **Incumbent banks have argued that new digital technologies and the entry of third-party providers into the payments market reduce their ability to cross-sell other products and services.** This could, in turn, have a negative impact on overall banking profitability.

However, recent research in the Netherlands found no evidence of a broad structural decline in traditional banks' cross-selling opportunities. The primary current account continues to serve as the main anchor of the customer relationship, helping banks maintain

opportunities to offer additional products and services. It seems that digitalization has a “dual effect”: it is both associated with bank cross-selling of financial services and consumer multi-banking rather than simply weakening incumbent banks.¹⁴

- **Competition in two-sided markets is inherently complex.** In card payment markets, competing card networks may have incentives to increase merchant fees to offer more attractive benefits to cardholders, thereby encouraging consumers to use their cards more frequently. This phenomenon, where consumer often use a (single) preferred payment card, is usually referred to as a “competitive bottleneck” and is likely to result in a price structure that is biased against merchants.¹⁵ Interchange fee regulation in four-party card schemes helps mitigate this “bottleneck-effect” by limiting the extent to which networks compete through higher merchant charges.
- **However, three-party schemes that are not subject to interchange fee regulation may gain a competitive advantage by charging higher merchant service fees to stimulate card usage.** This competitive dynamic may be particularly relevant in New Zealand, where four-party payment networks, such as Visa and Mastercard, compete directly with American Express, a three-party network, in the provision of commercial credit card services.
- **In my view, there is no straightforward solution to this competitive challenge.** Several policy options could help restore a more “competitive level playing field”, but none is likely to attain a “first-best”, or even a “second-best”, outcome. As a result, competition authorities are required to make a careful assessment of the trade-offs involved.
 - A **first option** is to allow an “uplift” in the interchange fee cap for commercial credit cards in order to prevent “over-usage” of three-party card networks, such as American Express. Such substitution would likely raise merchants' payment acceptance costs. However, in my view, determining the appropriate magnitude of any uplift, as well as the principles on which it should be based, is difficult and complex.
 - A **second option** – that is the route that the EC has taken – is to permit merchants to apply surcharges to transactions made with commercial credit cards issued through three-party schemes. This could help to offset the pricing imbalance and promote a more competitive level playing field. A key challenge, however, is that merchants may “overshoot” the surcharge thereby increasing their own profit margins.¹⁶ Regulatory authorities must therefore ensure sure that these surcharges are not “abused”, meaning they do not exceed

¹⁴ See Bolt and Jonker (mimeo, 2026).

¹⁵ See e.g. Wright (RAND, 2012) and Wang (Northwestern University, job market paper, 2023).

¹⁶ Bolt, Jonker and Van Renselaar (JBF, 2010) reported that debit card surcharges were on average four times higher than the debit card merchant fee in the Netherlands.

the difference between the merchant fee and his/her transaction benefit. In practice, assessing and monitoring these surcharges in relation to merchant net benefits could be informationally demanding.

- **Overall, careful interchange fee regulation of commercial credit cards triggers a trade-off between short-run (cost and allocative) and long-run (dynamic) efficiency.** The biggest concern is not that regulation may reduce card activity, but rather that competition authorities must distinguish between revenues needed to sustain network investment and innovation and revenues that primarily reflect market power and the extraction of economic rents.

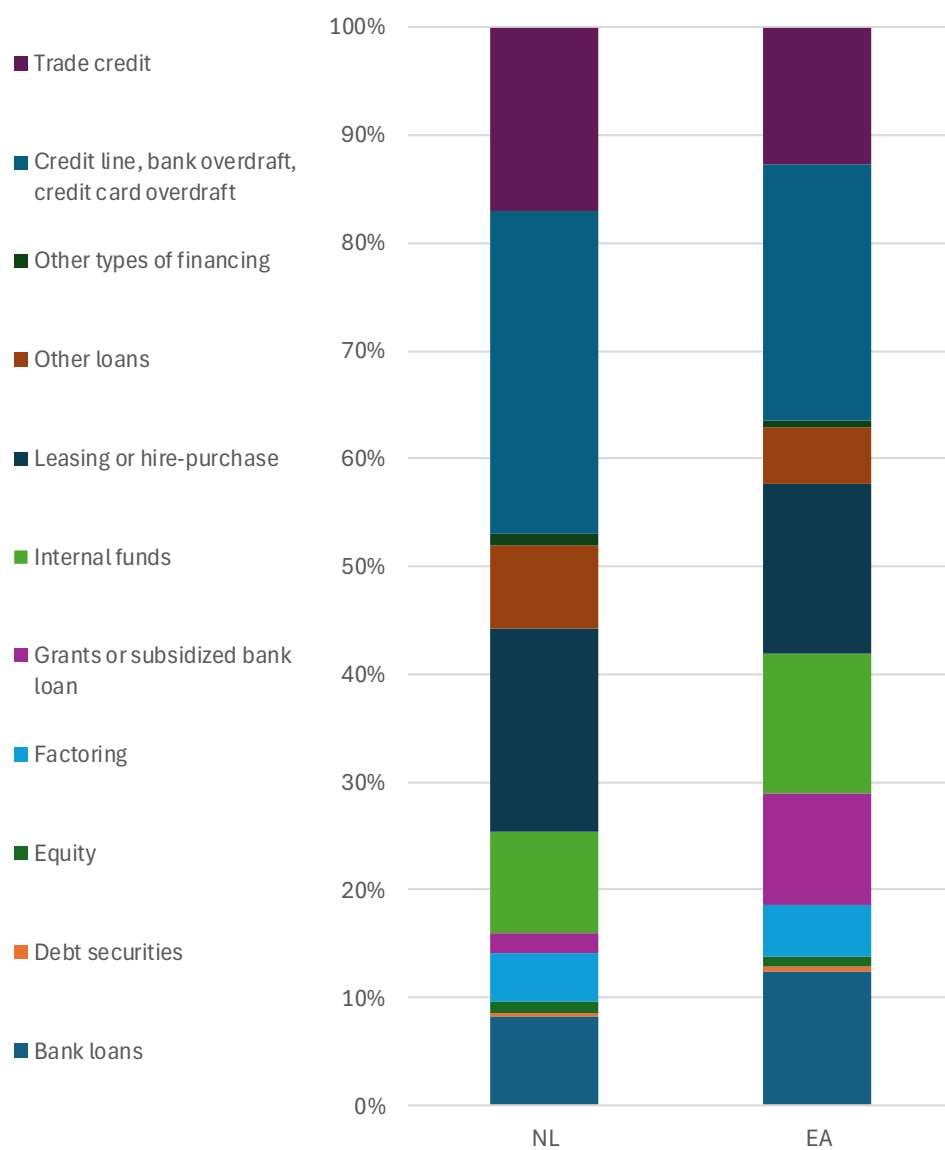
5. SME FINANCING IN THE NETHERLANDS/EURO AREA AND THE ROLE OF CREDIT

- **Dutch SMEs have historically been relatively dependent on bank finance and trade credit.** More than 50% of all SMEs uses one of these two financing sources (see Figure 1, left bar). Bank finance includes bank loans as well as credit lines, bank overdrafts and credit card overdrafts. Leasing (or hire-purchase) is also a widely used source of business financing (ca. 20%).

Dutch policymakers have sought to broaden access to alternative sources of finance through guarantee schemes, microfinance, venture capital programs, and fintech initiatives.

- **A considerable number of Dutch SMEs (ca. 10%) also relies on retained earnings within the business and capital contributed by the owner or founders.** This is particularly common among smaller firms and family-owned businesses.
- **These results for the Netherlands are broadly in line with the euro area (EA) average.** Compared with the EA, Dutch SMEs rely less on bank loans and retained earnings (internal funds) and somewhat more on trade credit. Grants (or subsidized bank loans) play a larger role in the EA. Overall, however, these differences are relatively small (see Figure 1, left and right bar).
- **The use of (commercial) credit card overdrafts as a source of business financing appears to be limited.** However, the available data are not sufficiently granular to assess their role in detail. Nevertheless, it seems fair to say that this financing instrument is not much used in the Netherlands.

Figure 1: Relative importance of financing sources by SMEs in the Netherlands (NL) and euro area (EA)



Note: Average over 2020-2025. The legend follows the exact order of the color shades in the stacked bars, from top to bottom. The sequence starts with “trade credit” (in purple) at the top of the bar and ends with “bank loan” (in turquoise-blue) at the bottom of the bar. Source: ECB Statistical Data Warehouse, SAFE survey data.