20 July 2026

By email: paymentsteam@comcom.govt.nz

Consultation Paper Response: *Draft Decision on commercial credit card interchange fee regulation for Mastercard and Visa networks*

Kia ora,

I am writing on behalf of TSB Bank Limited ('TSB') in response to the Commerce Commission's ('Commission') Draft Decision and Reasons Paper, *'Commercial credit card interchange fee regulation for Mastercard and Visa networks.'*

TSB is a New Zealand-owned bank that has served customers for more than 175 years. We are owned by Toi Foundation, a philanthropic trust that reinvests our dividends into the Taranaki community. We believe smaller domestic banks play a vital role in maintaining a competitive New Zealand banking market for both consumers and businesses by offering a viable alternative to larger overseas-owned banks.

Appendix 1 outlines TSB's key concerns and recommends a proportionate issuer framework for commercial interchange regulation. While TSB welcomes the Commission's recognition that commercial credit cards warrant separate treatment from personal cards, we remain concerned that the proposed cap settings do not adequately reflect the commercial realities of issuing commercial card products in New Zealand, particularly for smaller domestic issuers. TSB considers that a proportionate issuer framework would better achieve the Commission's statutory objective of promoting competition while supporting its objective of improving efficiency and reducing merchant payment costs.

TSB would particularly like to highlight the following:

- Commercial card products require materially greater investment than consumer products, including more complex credit assessment, ongoing relationship management, fraud monitoring, customer servicing and technology. These costs are disproportionately significant for smaller domestic issuers, which lack the scale and diversified revenue streams of larger international competitors.
- The proposed settings create an uneven competitive environment. Domestic Mastercard and Visa issuers face increasingly restrictive regulation while competing directly against unregulated providers such as American Express. This risks reducing competition, customer choice and long-term investment by New Zealand-owned issuers.

In TSB's view, the proposed calibration risks reducing effective competition by weakening the commercial viability of commercial payment products for smaller domestic issuers while leaving key competitors outside the regulatory framework.

For TSB, this is not simply a reduction in profitability. At the proposed cap settings, our commercial card proposition is likely to become economically unsustainable. Rather than reducing margins, the proposal risks reducing market participation, as smaller domestic issuers may be forced to withdraw commercial card products altogether.

The Draft Decision clearly establishes why commercial cards warrant a premium, but it does not explain why the proposed premium is appropriate.

TSB respectfully encourages the Commission to adopt a proportionate issuer framework for commercial interchange regulation. Specifically, we recommend a two-tier framework that reflects the same principle of proportionate regulation adopted elsewhere in New Zealand's regulatory system. The Reserve Bank's

Proportionality Framework under the Deposit Takers Act 2023 demonstrates that proportionate regulation can be an appropriate response where institutions differ materially in scale and complexity. Adopting a similar approach for commercial interchange regulation would provide an objective and administratively straightforward means of preserving issuer diversity while better achieving the Commission's statutory objective of promoting competition.

Please contact us at regulatory@tsb.co.nz should you wish to discuss our response further.

Ngā mihi,

Helen Barrowcliffe

Head of Retail Banking Products, TSB

Appendix 1 – TSB's key concerns with the proposed calibration

1. The Commission has moved in the right direction

- TSB welcomes the Commission's recognition that commercial credit cards warrant separate treatment from personal cards and acknowledges that commercial products involve higher issuer costs and distinct merchant benefits.
- TSB's concern is not necessarily that commercial credit cards are being regulated. It is that the proposed calibration may unintentionally weaken the very competition the Commission is required to promote.

2. The proposed premium is not supported by the evidence

- The Commission accepts that commercial products involve higher fraud costs, higher administrative costs, higher servicing costs, and distinct merchant benefits. However, the Draft Decision does not demonstrate why those factors justify only a 20-basis point premium. The existence of additional costs is accepted; the calibration of those costs remains insufficiently explained.
- Without a clearer explanation of how the proposed premium has been derived, it is difficult for stakeholders to assess whether the resulting settings are proportionate.

3. Commercial products provide distinct value but are materially more expensive to provide

- Commercial cards are purpose-built products that support predominantly small and medium-sized businesses through working capital and cash flow management, employee spending controls, enhanced reporting, fraud management, dispute resolution and productivity tools. These capabilities require significantly greater investment than consumer card products, including more complex credit assessment, ongoing relationship management, technology investment and tailored customer functionality.
- Commercial products also require more intensive fraud monitoring and investigation, reflecting the greater complexity of business relationships and transactions.
- The Commission suggests these additional capabilities should be funded through fees or interest rather than interchange. However, this overlooks the competitive dynamics of the market. Providers excluded from the proposed caps, such as American Express, will continue to fund these capabilities under their existing business model, while larger international banks can often cross-subsidise commercial card products from broader revenue streams.
- Smaller domestic issuers do not have these advantages. They rely more heavily on revenue generated by their commercial card portfolios and operate at lower scale. Consequently, reductions in interchange revenue have a materially greater impact on their ability to invest, compete and maintain commercially viable products, reducing competition and customer choice over time.

4. Competition should remain the primary objective

- The purpose of the Retail Payment System Act is to promote competition and efficiency for the long-term benefit of merchants and consumers. TSB is concerned that, despite pursuing that objective, the proposed settings may inadvertently weaken competition amongst issuers.
- Competition is shaped by marginal decisions. The effect of interchange regulation is unlikely to be uniform across market participants. For larger issuers, lower interchange may reduce returns, but commercial card products are likely to remain viable within broader product portfolios. For smaller issuers, however, lower interchange may determine whether those products remain economically viable at all. The relevant question for the Commission is therefore not simply whether the market continues to function, but whether the proposed settings reduce the willingness of smaller domestic issuers to invest, compete and remain active participants over time. Once a commercial card proposition is withdrawn, the investment required to re-enter the market is substantial.
- Finally, competition should not be assessed solely by reference to lower merchant prices. Effective competition is reflected in the number of active market participants, the diversity of products available, and the incentives for issuers to continue investing and competing for customers. A payment system with fewer

commercial products and fewer active issuers is not necessarily a more competitive system simply because interchange is lower.

5. International comparisons should be applied with caution

- The Commission relies heavily on Australia as its principal comparator yet departs materially from Australia's regulatory settings in key respects. Australia has retained higher commercial interchange settings than those proposed for New Zealand while simultaneously considering broader reforms across the payments ecosystem, including the treatment of American Express and merchant surcharging. By comparison, the New Zealand proposal regulates only Mastercard and Visa commercial interchange, leaving other competitive dynamics unchanged. This creates a risk that regulation will simply distort competition between payment providers rather than improve competition within the payments system.
- Furthermore, Australia benefits from materially greater market scale and issuer volumes, allowing fixed investment in commercial card products to be spread across a significantly larger customer base. Smaller New Zealand issuers do not enjoy those economies of scale. Consequently, adopting settings informed by Australia without fully accounting for these structural differences is likely to have a disproportionate impact on smaller domestic issuers and may reduce, rather than enhance, effective competition.

6. The regulatory framework remains uneven

- American Express and other unregulated providers continue to compete in the same commercial payments market without equivalent interchange restrictions. Notably, TSB would be captured by the proposed framework despite having a smaller market presence than American Express.
- This creates a structural competitive imbalance by allowing a larger offshore competitor greater flexibility to invest in rewards, product functionality and customer acquisition, while imposing interchange regulation on a smaller domestic issuer. Competition should occur on a level regulatory playing field. This reinforces why issuer size and competitive impact should form part of the regulatory calibration to better promote competition.

7. The wider payments ecosystem should be considered

- Interchange is only one component of payment acceptance costs. While the proposal seeks to reduce one cost element, other significant drivers, including scheme fees, merchant service fees, terminal costs and surcharging practices, remain unchanged. Continued focus on interchange in isolation therefore risks addressing only part of the overall payments ecosystem.

8. A proportionate issuer framework would better promote competition

- TSB considers that a proportionate approach for issuers of materially different scale would better promote the statutory objective of competition than a single uniform interchange cap.
- While the Commission has recognised that commercial card products involve higher costs than consumer products, the impact of regulation is not uniform across issuers. A reduction in interchange revenue that may be manageable for a large incumbent bank can materially affect the commercial viability of a smaller issuer's commercial card portfolio.
- New Zealand's regulatory framework already recognises that proportionate regulation can be appropriate where institutions differ materially in scale and complexity. For example, the Reserve Bank's Proportionality Framework under the Deposit Takers Act 2023 applies differentiated prudential requirements according to the size, complexity and systemic importance of regulated institutions.
- TSB submits that the Commission should adopt a similar principle for commercial interchange regulation by introducing a two-tier issuer framework. The Commission could determine the most appropriate eligibility criteria, drawing on existing regulatory approaches where appropriate.
- Given that the majority of commercial card transaction volume is concentrated among the largest issuers, a proportionate issuer framework would have only a limited impact on overall merchant costs while helping preserve issuer diversity, investment and customer choice.

- **Recommendation:** The Commission should adopt a two-tier commercial interchange framework that provides proportionately different treatment for smaller issuers using objective eligibility criteria appropriate to the New Zealand payments market, such as issuer size, market share or another objective measure as determined by the Commission. This would better achieve the Commission's statutory objective of promoting competition and efficiency while preserving issuer diversity and customer choice.

9. International experience supports proportionate regulation

- International experience demonstrates that regulators recognise issuer scale as a relevant consideration when assessing the competitive impacts of interchange regulation.
- In the United States, debit interchange regulation exempts issuers below a defined asset threshold, recognising that smaller institutions face materially different economic conditions from larger banks. The objective is to preserve competition while still delivering the broader benefits of interchange regulation.
- Similarly, the Reserve Bank of Australia's recent review of interchange regulation considered evidence that lower interchange caps would disproportionately affect smaller issuers because of their higher operating costs, lower transaction volumes and greater reliance on interchange revenue. The review demonstrates that issuer scale is a recognised consideration in assessing the competitive impacts of interchange regulation.
- Together, these examples demonstrate that the competitive effects of interchange regulation are not uniform across issuers and that issuer scale is a legitimate consideration in regulatory design. While New Zealand need not replicate any overseas framework, the underlying principle is directly applicable.
- A proportionate issuer framework would therefore be consistent with both international regulatory practice and New Zealand's broader approach to proportionate regulation.