Westpac New Zealand Limited

Submission to Commerce Commission on *Commercial Credit Card Interchange Fee Regulation for Mastercard and Visa Networks – Draft Decision and Reasons Paper*

21 July 2026

1. INTRODUCTION

1.1 This submission to the Commerce Commission (**Commission**) is made on behalf of Westpac New Zealand Limited (**Westpac**) in respect of the Commercial Credit Card Interchange Fee Regulation for Mastercard and Visa Networks – Draft Decision and Reasons Paper (**Draft Decision**). Thank you for the opportunity to provide feedback on the Draft Decision.

1.2 Westpac's contact for this submission is provided separately.

2. SUMMARY

2.1 Westpac supports payments regulation that promotes innovation, effective competition and a level playing field across New Zealand's payments ecosystem, while delivering sustainable, long-term benefits for New Zealanders. These outcomes require regulatory settings that reflect the way the payments system operates as a whole. Payment methods are economically connected, so reducing revenue in one part of the system can affect competition, innovation, investment and sustainability elsewhere.

2.2 The benefits case for the Draft Decision should also be evidence-based. The key question is whether the proposed settings will deliver net long-term benefits for both consumers and merchants, not simply whether they reduce one input cost. The Commission has not adequately established that the most recent interchange reductions have flowed through to merchants and consumers, and there is uncertainty as to whether further changes will achieve these results. It is important that there is clear evidence that the purported benefits outweigh the offsetting costs and risks created elsewhere in the system.

2.3 Whilst overseas regulatory settings are useful reference points, they are not a substitute for New Zealand-specific analysis. New Zealand's smaller scale, lower transaction volumes and higher relative cost-to-serve mean those settings should be carefully calibrated for New Zealand's unique context to avoid market distortions and poorer outcomes for consumers and merchants.

2.4 Against that framework, Westpac is concerned the Draft Decision does not:

(a) provide sufficient evidence that the full benefits will be passed on to merchants and consumers;

(b) sufficiently reflect the competitive distortion that may arise from American Express remaining outside the proposed regulation;

(c) adequately adjust the premium for New Zealand's smaller scale and higher relative cost-to-serve;

(d) give sufficient weight to the broader system effects of further interchange reductions, including impacts on innovation, smaller issuers, free EFTPOS and the working-capital benefits that SMEs receive from commercial cards; and

(e) provide sufficient implementation time to avoid unnecessary operational risk and customer disruption.

3. KEY SUBMISSIONS

Evidence of pass through of full costs savings to New Zealand businesses and consumers has not been sufficiently established

3.1 The Commission acknowledges at paragraph 4.5 of the Draft Decision that there is uncertainty about the extent to which the full benefits of interchange reductions are passed through to merchants due to the complexity of the cards eco-system and proposes to assess pass-through only after implementation. While Westpac will pass on these reductions to merchants, the extent of pass-through across the system has not been adequately articulated by the Commission.

3.2 This is particularly relevant given increasingly complex merchant acquiring and payments offerings. Bundled pricing for integrated software, terminals, gateways, data and other value-added services can make it difficult to isolate the effect of any interchange reduction, and therefore the extent to which those reductions are passed through to merchants or ultimately to consumers. This matters because the Commission's cost-benefit analysis, which relies on an expected annual reduction of approximately $40 million, depends on an unsubstantiated assumption that this reduction will be passed on fully to merchants. In the absence of clearer evidence that the full claimed savings will reach merchants, the Draft Decision rests on an uncertain benefits case.

3.3 Westpac also notes that since early interchange reductions acquirer scheme fees and costs have continued to rise, which offsets the benefits expected from interchange reductions. It is important that this be taken into account when assessing whether reductions will deliver net benefits for merchants and consumers and underscores the need to assess impacts across the payments system rather than through a single regulatory lever.

3.4 Similarly, the Commission has not fully assessed the impact of interchange reductions on consumers, acknowledging that *"current surcharging practices are often imperfect and may not accurately reflect underlying acceptance costs"*. There remains limited evidence that reductions in interchange have translated into lower surcharging and lower prices for consumers across the system. The Commerce Commission estimates that that New Zealand consumers continue to pay ~$150 million per annum in surcharges, with $45–65 million estimated to be excessive and above underlying merchant costs.[1] This persists despite material reductions in merchant costs following earlier reforms, demonstrating a weak transmission mechanism to consumers. Further interchange reductions alone are therefore unlikely to deliver the intended benefits without a more direct regulatory focus on surcharging behaviour and transparency.

3.5 Accordingly, Westpac is concerned that the cost-benefit analysis supporting the Draft Decision is not sufficiently established, particularly given the limited evidence that interchange reductions will translate into lower costs for merchants and consumers.

An uneven playing field may distort competition and increase costs to merchants and consumers

3.6 The current framework risks distorting competition by regulating only part of the commercial card market. Interchange caps would apply to Visa and Mastercard commercial credit transactions, while American Express remains outside scope as a three-party scheme. This creates an asymmetric

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[1] Retail Payment System (Ban on Merchant Surcharges) Amendment Bill | New Zealand Legislation

regulatory outcome and an uneven playing field: two schemes would be required to reduce the interchange economics available to issuers and cardholders, while an uncapped competitor could continue to fund stronger cardholder propositions, rewards and commercial customer benefits.

3.7 Over time, this is likely to encourage commercial cardholders to favour products with richer benefits. If Visa and Mastercard issuers are constrained in their ability to support comparable value propositions, spend may shift toward American Express. A migration of spend to a higher-cost, unregulated three-party scheme would be likely to increase merchant acceptance costs and, where those costs are passed through or recovered in prices, increased costs for consumers.

3.8 This risk is higher in New Zealand than Australia because scheme competition operates across a materially smaller transaction base than in Australia. The Australian commercial card market is significantly larger than the New Zealand market (AUD119 billion annual spend versus NZD8.2 billion spend)[2] and therefore is not an appropriate comparator in terms of determining the premium applied by the Commission. In a smaller market, even modest shifts in commercial card volumes can have a disproportionate impact on the market.

3.9 The Commission's approach relies on an Australian-based premium, but Australia's larger scale means that the ecosystem can absorb such changes without significantly altering the competitive balance between four-party and three-party schemes.

3.10 A higher commercial card premium is therefore warranted to reflect the New Zealand context and to reduce the risk of distorting scheme competition and to ensure that merchants and consumers do not bear increased costs.

New Zealand's smaller scale warrants a higher cost premium

3.11 The Draft Decision does not adequately reflect New Zealand's smaller scale and the resulting higher relative cost-to-serve. Despite New Zealand's materially smaller transaction base than Australia (see above), payments infrastructure and commercial card issuing involve significant fixed and semi-fixed costs, including scheme compliance, fraud prevention, dispute management, technology platforms, data capability, customer servicing and distribution. Those costs do not reduce proportionately with market size. As a result, issuers in New Zealand have fewer transactions over which to recover broadly similar participation costs.

3.12 These differences mean Australia is not a direct comparator and a scale differential must be adjusted for. A higher premium over commercial card interchange is therefore warranted to reflect New Zealand's smaller scale and higher relative cost-to-serve.

3.13 This is particularly important for smaller issuers. Commercial card interchange forms part of the revenue base that enables issuers to absorb participation costs, invest in product capability and compete for business customers. If interchange is reduced too far, smaller issuers are likely to be affected disproportionately because they have fewer transactions over which to recover fixed costs and less ability to offset reductions through scale, portfolio breadth or adjacent revenue streams. That could reduce product viability, constrain investment and make it harder for challengers to compete

[2] Source: MWE Consulting January and February 2027 reports respectively.

with larger incumbents. These issues have been raised previously by smaller issuers in response to previous interchange consultations.[3]

3.14 Lastly, in contrast to the RBA's approach, which has been informed by issuer cost analysis, the Commission has not published substantive evidence or analysis to support its assertions regarding issuer costs in the New Zealand market.

Continued cross-subsidisation of free EFTPOS will become unsustainable

3.15 New Zealand's payments system is interconnected, and the Commission should assess the Draft Decision through a whole-of-system lens rather than by looking at commercial card interchange in isolation. As Westpac has noted in previous submissions, interchange revenue contributes to the broader economics that support payments infrastructure, including EFTPOS. EFTPOS continues to support around 20 percent of in-store card payments and is currently available to merchants and consumers without direct transaction fees.

3.16 The Draft Decision risks weakening that cross-subsidy. EFTPOS infrastructure carries ongoing costs, including processing, switching, compliance, fraud prevention, security, reliability and operational support. Upcoming technology changes such as the end of support for mag-stripe cards will also require further investment in EFTPOS for it to remain a viable alternative to scheme cards. If interchange revenue is reduced further, the economics supporting this infrastructure will become more difficult to sustain. Merchants and consumers who currently benefit from free EFTPOS transactions may face higher overall payment costs.

Commercial card benefits should be assessed through a whole-of-system lens

3.17 The Draft Decision appears to assess commercial card interchange primarily by reference to expected reductions in merchant acceptance costs, ignoring all card holder benefits. In Westpac's view, that approach is too narrow and ignores the whole-of-system impact which we think is critical in ensuring that regulatory settings deliver the intended benefits. Interchange is one component of a broader payments ecosystem, and its regulation should be assessed by reference to whether it delivers net long-term benefits across the system as a whole, rather than whether it reduces an isolated cost for one group of participants.

3.18 Commercial cards are a distinct two-sided B2B payment product. They provide merchants with guaranteed payment and reduced trade-credit administration, while providing business cardholders with working capital flexibility, consolidated billing, spend controls, reporting capability and fraud protection. These cardholder benefits are not incidental; for many businesses, particularly SMEs, they are central to the product's cashflow-management function.

3.19 If interchange is set below a level that supports sustainable product economics, issuers may need to recover costs through higher cardholder fees, shorter interest-free periods, reduced product features and benefits and lower investment in capability. Those outcomes would impose real costs on businesses, including higher financing costs, reduced liquidity and greater administrative burden. This is particularly important at a time where cost pressures have heightened working capital needs for New Zealand businesses.

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[3] Westpac-Cross-submission-Payments-Interchange-fee-regulation-for-Mastercard-and-Visa-networks-13-May-2025.pdf (para 2.3)

3.20 The Commission should therefore assess whether expected merchant savings are likely to exceed the cost of losing these benefits, particularly given the uncertainty about whether interchange reductions are passed through to merchants or consumers. This risks simply transferring value away from business cardholders without delivering proven long term net benefits to merchants and consumers across the system.

End of year implementation period increases operational risk

3.21 December implementation carries operational risks that may negatively affect customers. Interchange changes require pricing, billing, systems, scheme and customer communication changes, all of which need adequate time for implementation, testing and transition. Westpac considers that a minimum six-month implementation period, with changes taking effect from 1 March 2027 at the earliest, would better support orderly delivery, reduce customer disruption and maintain the stability of critical payments infrastructure.

3.22 Implementation over the December to February period would introduce additional operational complexity. This period typically coincides with heightened transaction volumes, including holiday spending and tourism activity, as well as industry technology change freezes and reduced resource availability. As a result, the capacity to safely implement, monitor and remediate material pricing, billing and systems changes is more constrained than at other times of the year.

3.23 Additionally, any interchange changes should align with a first-of-month effective date. Merchant service fees are generally billed on a monthly cycle, and mid-month changes would create additional complexity where transactions within the same billing period are subject to different pricing. Aligning implementation to the start of a month would support clearer billing, simpler reconciliation and a more effective customer transition.