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COMMERCE COMMISSION NEW ZEALAND
Te Komihana Tauhokohoko

Retail payment system

Interchange Fee Regulation for Mastercard and Visa Networks – Final Decision and Reasons Paper

17 July 2025

Associated documents

Publication date	ISBN	Title
17 July 2025	978-1-99-133271-4	Retail Payment System Mastercard and Visa Interchange Fee Network Standard 2025
17 July 2025		Cross-submissions on interchange fee regulation for Mastercard and Visa networks
21 May 2025		Interchange fee process update - timing of our final decision and early notification of the final implementation period
17 April 2025		Summary of consumer and business feedback received via online survey - Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper
17 April 2025		Submissions on Interchange fee regulation for Mastercard and Visa networks
18 December 2024	978-1-99-133214-1	Retail Payment System Interchange fee regulation for Mastercard and Visa networks Draft Decision and Reasons Paper
18 December 2024	978-1-99-133215-8	Retail Payment System Draft Mastercard and Visa Interchange Fee Network Standard 2025
22 November 2024		Expert Support on the NZ Commerce Commission Consultation Paper "Retail Payment System - Costs to Businesses and Consumers of Card Payments in Aotearoa NZ" (Expert Report by Dr Wilko Bolt)
23 July 2024		Retail Payment System – Costs to businesses and consumers of card payments in Aotearoa New Zealand: Consultation Paper
December 2023		The Retail Payment System in New Zealand: Efficiency, Pricing and Competition (Expert Report by Dr Wilko Bolt)
November 2023		Literature Review on Competition, Efficiency and Surcharging in the Retail Payment System (Expert Report by Dr Amelia Fletcher)

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Executive summary

Driving more reasonable fees for New Zealand businesses and consumers

X1 This paper sets out our final decision to introduce a new pricing standard that further regulates interchange fees on the Mastercard and Visa credit and debit networks.

X2 Our role under the Retail Payment System Act 2022 is to promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand. We monitor and regulate interchange fees charged on the Mastercard and Visa networks, which make up approximately 60% of the fees businesses pay to accept Mastercard and Visa payments.

X3 The new pricing standard will promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand and help ensure that merchants and consumers pay no more than reasonable fees for the supply of payment services.

Businesses are still paying too much - $600 million a year in interchange

X4 New Zealand businesses pay approximately $1 billion each year to accept Mastercard and Visa payments - $600 million of which is interchange fees.[1] In 2022 the Government introduced the initial pricing standard as an initial cap on interchange fees. But these fees remain high, alternatives like open banking are not widely used yet and Eftpos has not kept up with new developments in payments.

X5 The current retail payment system lacks strong competitive pressure and most merchants are price takers for interchange fees. Despite current regulatory caps, interchange fees on the Mastercard and Visa networks in New Zealand remain significantly higher than in comparable jurisdictions. For example, interchange fee caps for personal domestic credit card transactions in New Zealand are more than double the caps in Europe.

[1] Based on our analysis of information provided by acquirers as part of our ongoing monitoring.

We expect our final decision will save a further $100 million in interchange a year

X6 $160 million in interchange fees has been saved in 2023 following the implementation of the initial pricing standard in November 2022. We are expecting to reduce interchange fees by a further $100 million per annum by lowering some caps and introducing new caps for foreign-issued cards.[2] We expect this will lead to an estimated total annual saving of $260 million in interchange fees. These lower costs should ease upwards pressure on retail prices and reduce the level of surcharges. Interchange fees will now better reflect actual benefits to merchants and promote more efficient outcomes across the Mastercard and Visa networks. This will promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers.

More efficient and reasonable pricing that reflects the benefit merchants receive

X7 The new caps will rebalance funding sources for the Mastercard and Visa payments networks from acquiring to issuing, thereby reducing the cross-subsidies that occur when low-cost cardholders pay higher retail prices and/or surcharges are averaged to support benefits to higher cost cardholders. Our decisions reflect that merchants receive benefits from the availability and features of the Mastercard and Visa networks, but not to the extent of current interchange fee levels.[3]

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2 The estimated savings from the initial pricing standard are based on transaction and interchange fee data submitted by Mastercard and Visa. To estimate the value of interchange fees in 2023 without interchange fee regulation, we applied the September 2022 quarter (prior to the implementation of the initial pricing standard) weighted average interchange fee levels to regulated transactions in 2023. Further savings from the final decision are estimated by applying the new caps to the 2023 transaction values. Exact savings per year will depend on, among others, the value and mix of transactions in that year. We will continue to monitor and evaluate reductions in the value of interchange fees paid in New Zealand.

3 We consider current interchange fees exceed the value of merchant benefits for some transaction types. We consider the provision of extensive interest-free periods and cardholder rewards by issuers demonstrates that interchange fees for some payment products are too high, and this cost is ultimately borne by merchants.

Determining appropriate caps is a balancing exercise

X8 Determining the appropriate caps on interchange fees is a balancing exercise, which requires us to apply our judgement and weigh up a number of factors to ensure we are promoting competition and efficiency for the long-term benefit of New Zealand merchants and consumers. We struck this balance by adopting a multi-factorial analysis, informed by benchmarking against comparator jurisdictions, the New Zealand context, and relevant issuer costs and merchant benefits.

New interchange fee caps

X9 **Table X1** provides our new interchange fee caps, compared with current rates and the caps proposed in our draft decision.

Table X1 New interchange fee caps[4]

	Payment method	Current caps/ rates	Draft decision	New caps (Final decision)
Domestic cards				
Debit (personal and commercial)	In-person - contacted	0.00%	0.00%	**0.00%**
	In-person - contactless	0.20%	0.20%	**0.20%**
	Online	0.60%	0.40%	**0.60%**
Personal credit	In-person	0.80%	0.20%	**0.30%**
	Online	0.80%	0.40%	**0.70%**
Commercial credit	In-person	0.45-2.20%*	0.20%	**Uncapped**
	Online	0.45-2.20%*	0.40%	**Uncapped**
Prepaid	All	0.20-2.00%*	Uncapped	**Uncapped**
Foreign-issued cards				
Debit (personal, commercial and prepaid)	In-person	0.60-2.40%*	0.60%	**0.60%**
	Online	0.90-2.40%*	1.15%	**1.40%**
Personal credit	In-person	1.10%-2.40%*	0.60%	**0.70%**
	Online	1.10%-2.40%*	1.15%	**1.50%**
Commercial credit	In-person	1.85%-2.35%*	0.60%	**Uncapped**
	Online	1.85%-2.35%*	1.15%	**Uncapped**

[4] The asterisk in the table refers to rates which are not currently regulated. Footnotes on Table 3.1 outline further detail on the current caps and rates.

We will consider regulating commercial credit cards in the future

X10 We have chosen not to regulate interchange fees for commercial credit cards at this stage. While we consider these fees are too high, further analysis is required to determine the appropriate cap level. We intend to seek information to undertake this analysis and will consider consulting further on fee caps for commercial credit in a subsequent process, unless we see fees come down significantly.

A staggered implementation will support a smooth transition

X11 We have listened to concerns about implementation timeframes and have decided to provide for a staggered implementation to support a smooth transition. The revised domestic caps will take effect from **1 December 2025**. The new caps for foreign-issued cards will follow on **1 May 2026**.

We will monitor the results to check savings are being passed on to merchants and consumers

X12 We will monitor and report on the results of this regulation to check that savings are being passed on to merchants and consumers. These measures are designed to ensure the full benefits of regulation are realised across the designated payment networks. We will be monitoring and/or undertaking targeted reviews of:

X12.1 **Merchant service fees** - to ensure that interchange savings are being passed through to merchants. We expect these savings to be passed on to consumers through less upward pressure on the price of goods and services and reduced surcharging rates. We expect that regulation will be needed to ensure that any surcharges are no more than cost.

X12.2 **Issuer scheme fees and rebates** - in line with our new approach to anti-avoidance which introduces a ceiling on issuer compensation. Monitoring scheme fees and rebates will help us assess compliance.

X12.3 **Acquirer scheme fees** - we expect Mastercard and Visa will not increase acquirer scheme fees to fund issuer compensation and circumvent the intended benefits of interchange regulation. We will be monitoring any changes in these fees to make sure they do not increase, as they have in some other jurisdictions.

Consultation has informed our decision

X13 Thank you to the 29 organisations who made submissions and 16 organisations who made cross-submissions on our December draft decision.[5] And thank you to the 1,042 consumers and merchants who answered surveys. Your feedback shaped our final decision.

[5] Submissions and cross submissions are available at: https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab.

Chapter 1 Introduction

1.1 This paper explains how interchange fee caps are changing and why. This chapter describes our role to promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers and to ensure Mastercard and Visa interchange fees are reasonable. We also summarise our consultation process.

Promoting competition and efficiency and making fees reasonable for merchants and consumers

Our role in regulating interchange fees

1.2 Merchants pay approximately $1 billion in merchant service fees each year to accept Mastercard and Visa card payments. Interchange fees make up approximately $600 million of merchant service fees.[6]

1.3 The Retail Payment System Act 2022 (the Act) requires the Commerce Commission to administer regulation of the Mastercard and Visa networks to promote competition and efficiency for the long-term benefit of merchants and consumers in New Zealand.

1.4 In making this assessment, the Act stipulates that, where we consider they are relevant, we must take into account the principles that merchants and consumers should pay no more than reasonable fees for the supply of payment services and the retail payment system must provide a reasonable degree of transparency. We have an ongoing role to ensure these fees are reasonable and transparent.

What are interchange fees?

1.5 Interchange fees are paid by the merchant's acquirer (that is, the bank or other payment service provider that enables the merchant to accept credit and debit card payments) to the customer's card issuer for each transaction on the Mastercard and Visa networks. Interchange fees make up about 60% of the merchant service fee that merchants pay to their acquirer and flow through to consumers directly through surcharges or indirectly through higher prices for goods and services. Other fees, including fees paid to Mastercard and Visa (scheme fees), switch or processing fees, and acquirer charges make up the other 40% of the merchant service fee.

[6] This is based on 2023 ongoing monitoring data following the introduction of the initial pricing standard.

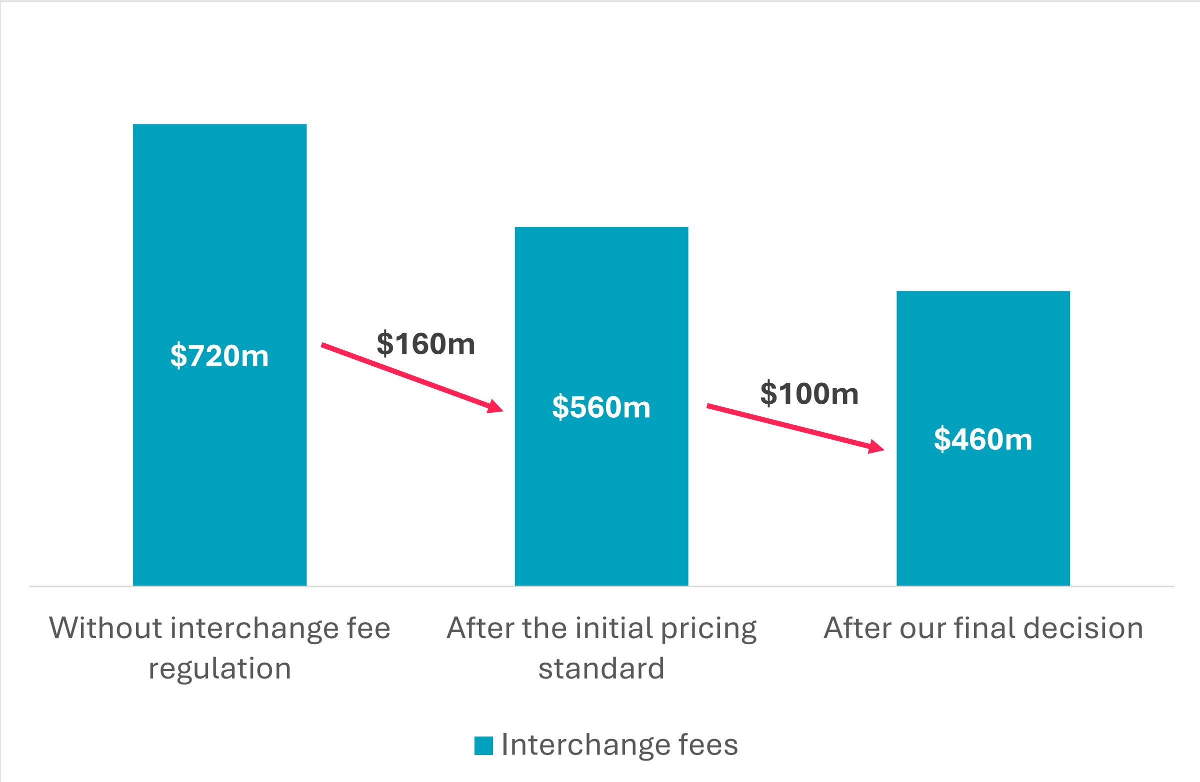
1.6 Interchange exists, in theory, to balance the benefits and costs in the Mastercard and Visa networks between the card issuing side and the card acquiring side of the payment network. It provides a revenue stream incentive for issuers to enter and supply cards to consumers. Interchange can help fund issuing credentials and physical cards, anti-fraud measures, fraud losses, scheme fees, rewards and digital wallet fees. We have been conscious of these potential benefits in determining the appropriate interchange fee caps.

Impact of interchange fee regulation

1.7 The initial pricing standard capping interchange fees for some domestic transactions on the Mastercard and Visa credit and debit networks came into force on 13 November 2022. This standard, which was intended to be an initial measure, has led to an estimated $160 million annual reduction in interchange fees. The new pricing standard is expected to reduce interchange fees by an additional $100 million per year. We expect this will lead to an estimated total reduction of $260 million per year.[7] **Figure 1.1** outlines this impact on total interchange fees paid.

[7] In our observations paper we estimated $130 million based on nine months of data following the implementation of the initial pricing standard. Since then, we have obtained the full 12 months of data directly from Mastercard and Visa as part of our ongoing monitoring work. To estimate the value of interchange fees in 2023 without interchange fee regulation, we applied the September 2022 quarter (prior to the implementation of the initial pricing standard) weighted average interchange fee levels to regulated transactions in 2023. Further savings from the final decision are estimated by applying the new caps to the 2023 transaction values. Exact savings per year will depend on, among others, the value and mix of transactions in that year. See "Observations on the impact of interchange fee regulation" p6 (9 August 2023) available at https://comcom.govt.nz/regulated-industries/retail-payment-system.

Figure 1.1 Estimated annual impact on interchange fees



Terminology used through the paper

1.8 The Mastercard and Visa Interchange Fee Network Standard 2025 is referred to as the "pricing standard" throughout this paper.[8] In the pricing standard, we define card-present (in-person) transactions as payments where both the consumer and their card are present at the merchant's physical point of sale device, whether this is attended or unattended at the time the payment is initiated. In these cases, the consumer's card is electronically read by the merchant's physical point of sale device (typically a terminal).[9]

1.9 Card-not-present transactions refer to card payments made online or by any other payment method and we refer to these as "online" transactions throughout this paper. Throughout the paper we use the term "foreign-issued card transactions". These are defined as "inbound cross-border transactions" in the pricing standard. This is where a retail payment is made at a merchant outlet located in New Zealand using a card issued by an issuer based outside of New Zealand.

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[8] A 'pricing standard' is a network standard issued under s 17 of the Act which deals with or otherwise relates to pricing for payment services in accordance with s 20(1)(b).

[9] Mastercard and Visa Interchange Fee Network Standard 2025, clause 6.1.5.

Consultation has informed our final decision

1.10 We have considered all views expressed as part of our consultation during 2024 and 2025 in reaching our final decision and issuing a new pricing standard under Section 17 of the Act. We thank the many survey respondents, submitters and cross-submitters for providing their views, sharing quantitative information, making suggestions on how to further strengthen our approach and engaging in this process.

1.11 We acknowledge concerns raised by some submitters that the consultation period was too compressed. We are, however, satisfied that stakeholders had a sufficient opportunity to share their views. We first consulted on an issues paper and then invited submissions and cross-submissions on our draft decision. We allowed for longer submission periods than is the Commission's standard practice - we provided three months for submissions (which accounted for the Christmas / New Year period) and three weeks for cross-submissions on the draft decision.

Draft decision and pricing standard released in December 2024

1.12 In December 2024 we released our draft decision and draft pricing standard. The caps we proposed are summarised in **Table 3.1** in chapter three.

29 submissions received in March 2025

1.13 We received 29 submissions in March 2025.[10] Submitters generally supported the Commission's intentions for regulating interchange fees and the decision not to regulate prepaid cards. However, some submitters were concerned that there was an insufficient evidential basis for further regulating interchange fees. Some submitters stated that setting interchange fees too low could reduce innovation, stifle competition in the retail payment system and hamper the emergence of open banking in New Zealand. Some submitters observed that both the number of merchants surcharging and the surcharge fees have increased since the initial pricing standard was implemented.

1.14 Many submitters called for changes to, or the removal of, the proposed caps on domestic credit, commercial credit and foreign-issued cards. Their concerns included the higher fraud costs typically associated with these card types, as well as the potential negative impact on business investment, competition and international tourism spending.

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[10] Submissions and cross submissions are available at: https://comcom.govt.nz/regulated-industries/retail-payment-system#projecttab.

16 cross-submissions received in May 2025

1.15 We received 16 cross-submissions in May 2025. Cross-submissions generally echoed the key themes raised in the initial submissions. Specifically, some cross-submitters:

1.15.1 urged the Commission to delay interchange fee changes until a comprehensive cost study is completed, citing a lack of supporting evidence;

1.15.2 proposed a phased approach to reducing interchange fees;

1.15.3 reiterated concerns that setting caps too low could harm competition and innovation - particularly for challengers, fintechs (financial technology companies), smaller banks and open banking (although one submitter questioned the link between interchange and innovation);

1.15.4 called for a ban or reduction in consumer surcharging, arguing interchange alone won't deliver this; and

1.15.5 expressed concern about the potential negative impacts on tourism spending from regulating foreign-issued cards.

1,042 survey responses received in March 2025

1.16 We received 1,042 consumer and merchant survey responses.[11] Of these, just five were from merchants. A summary of the responses is included with associated documents.[12]

Merchants generally supported the draft decision

1.17 Four out of five merchant survey respondents considered our proposal would positively impact their business or customers. Businesses supported a simple and transparent system. They noted shopping around or negotiating better deals is often not possible. Four out of five merchants opposed fees for contactless debit transactions.

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[11] In a media release on 6 March 2025, Consumer NZ urged consumers to complete the survey, noting the complaints it had received about surcharging and the benefits of a ban. Consumer NZ "We want to end the surcharge swindle" available at https://www.consumer.org.nz/articles/we-want-an-end-to-the-surcharge-swindle (accessed 28 April 2025).

[12] Commerce Commission "Summary of consumer and business feedback received via online survey - Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (March 2025) available at https://comcom.govt.nz/__data/assets/pdf_file/0032/365945/Summary-of-consumer-and-business-feedback-received-via-online-survey-Interchange-fee-regulation-for-Mastercard-and-Visa-networks-Draft-Decision-and-Reasons-Paper-March-2025.pdf.

Consumers were supportive but are sceptical that savings will be passed on

1.18 Consumers generally supported our proposal but are sceptical that merchants will pass savings on to consumers without regulation. They said that surcharges are difficult for consumers to avoid, are driving inflation and are inconsistently applied. Consumers argued that banks, Mastercard and Visa are making excessive profits while consumers struggle to make ends meet.

Other issues raised that sit outside of this decision

Other issues that impact merchant service fees

1.19 Submissions raised other issues that impact merchant service fees, which are not being dealt with as part of this process.[13] These include, but are not limited to, merchants' understanding of their fees, merchant contract length and rollover provisions, token portability, mobile wallet fees and penalty rates for the use of non-bundled providers. We will be looking to address these wider issues in future work.

Addressing surcharging

1.20 Many submitters and survey respondents raised concerns about surcharging. Surcharges reflecting underlying payment costs can incentivise more efficient payment choices. However, they also create friction for consumers by:

1.20.1 adding another step into the payment process;

1.20.2 making purchase prices less clear;

1.20.3 creating confusion about when surcharges apply or how to avoid them; and

1.20.4 lacking consistency on what an appropriate level of surcharge is, with different merchants applying different levels.

1.21 Some submitters argued that surcharging should be the immediate focus of regulation and encouraged banning surcharges, ahead of further reductions in interchange fees.

[13] For example, in its cross-submission, BNZ suggests we publish aggregated merchant service fee data. See BNZ "Bank of New Zealand's cross-submission re Interchange Fee Regulation for Mastercard and Visa Networks - Draft Decision and Reasons Paper" (13 May 2025), paragraph 8.2.3.

1.22 We acknowledge these concerns. We also agree that some merchants are surcharging more than their costs, which is where we can most obviously intervene. Our powers under the Act to regulate surcharging are aimed at ensuring surcharges are no more than merchants' costs, and we expect that regulation will be needed to ensure this.[14]

1.23 However, surcharge rates are driven by high (or perceived high) merchant service fees which are driven in part by inefficiently high interchange fees. The issue of excessive surcharging is limited to a sub-set of merchants - some merchants do not surcharge and others surcharge at cost. In contrast, elevated merchant service fees affect all merchants, not just those that surcharge, and ultimately contribute to higher prices and/or higher surcharge rates faced by consumers.

1.24 Therefore, we are tackling the issue of cost first - by addressing inefficiently high interchange fees we reduce the costs to merchants of accepting payments to more efficient levels. This will lead to lower surcharges and eliminate some merchants' incentive to surcharge. We will then consider how best to deal with any merchants that continue to excessively surcharge.

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[14] Section 29 of the Act provides that the Commission must exercise its powers to regulate surcharging for the purpose of ensuring that payment surcharges for payment services are no more than the cost to the merchant of the payment services used for accepting retail payments.

Chapter 2 Our approach in reaching the final decision to further regulate interchange fees

2.1 This chapter sets out our approach in reaching the final decision to further regulate interchange fees. Determining appropriate interchange fee caps is a balancing exercise, which requires us to apply our judgement and weigh up several factors with the ultimate object of promoting competition and efficiency for the long-term benefit of merchants and consumers in New Zealand. We undertook a multi-factorial analysis, informed by benchmarking against comparator jurisdictions, the unique features of the New Zealand context, and relevant issuer costs and merchant benefits.

2.2 Our decision will move interchange fees, which we have concluded are still too high despite initial regulation, towards more efficient levels that promote competition for the long-term benefit of merchants and consumers.

We took into account the mandatory considerations to issue a pricing standard

2.3 We are required to take several factors into account in deciding whether, and on what terms, to issue a pricing standard under the Act (we refer to these as the 'mandatory considerations'). The mandatory considerations set out in the Act include whether issuing the pricing standard will achieve the purpose of the Act, the Section 4 principles and the Section 18 criteria.

2.4 The purpose of the Act is to promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand.[15] We must carry out our functions and exercise our powers under the Act for this purpose.[16]

2.5 We must take into account, to the extent we consider them relevant, the following principles: merchants and consumers should pay no more than reasonable fees for the supply of payment services; and the retail payment system provides a reasonable degree of transparency.[17]

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15 Retail Payment System Act 2022, s 3.
16 Retail Payment System Act 2022, s 4(1).
17 Retail Payment System Act 2022, s 4(2).

2.6 As 'transparency' is a very broad concept, we have focused on those aspects most relevant to our decision such as the transparency of interchange fees and those fees which it impacts (eg, merchant service fees). We also consider the 'reasonable fees' principle to be more relevant given the nature of our decision and its focus on fee levels, and we have therefore placed greater weight on this principle than the 'transparency' principle in coming to our final decision.

2.7 We must also take into account whether there are any features of the retail payment network, or any conduct of participants in the network, that reduces, or are likely to reduce, competition or efficiency.[18]

2.8 Further detail on these mandatory considerations is included in **Attachment A**.

The problem - high interchange and other network features are reducing competition and efficiency

2.9 Some submitters argued that we have not met the threshold for regulatory intervention, citing insufficient evidence of market failure - particularly whether current interchange fee caps reflect relative cost and value.[19] While we acknowledge these concerns, this is not the test for regulatory intervention, the mandatory considerations are.

2.10 In light of these mandatory considerations, we have considered whether further regulation of interchange fees is warranted and, if so, what appropriate caps would be for each category of interchange fee.

2.11 After taking these into account, we consider further interchange fee regulation is warranted. Certain features of the Mastercard and Visa networks, along with the conduct of the participants within them, are contributing to interchange fees being set at inefficiently high levels - ultimately to the detriment of merchants and consumers.

Interchange fees are inefficiently high

2.12 Mastercard and Visa are the largest card payment companies globally and compete for card issuers partly through offering rewards and benefits to cardholders. These are funded by interchange fees which are ultimately paid by merchants. In this way, unregulated competition between card schemes tends to increase interchange fees.

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18 Retail Payment System Act 2022, s 18(a).

19 Mastercard "Submission - Commerce Commission Draft Decision on interchange fee regulation for Mastercard and Visa networks" (18 March 2025), p13.

2.13 Worldwide, concerns have been raised about interchange fees increasing to inefficiently high levels. Despite current regulatory caps, interchange fees on the Mastercard and Visa networks in New Zealand remain significantly higher than in comparable jurisdictions. For example, domestic personal credit card interchange fee caps in New Zealand are more than double the equivalent caps in Europe.[20]

2.14 Interchange fees are the largest cost driver contributing to elevated merchant service fees. Consumers are attracted to rewards and benefits offered on their cards and funded by these fees, yet the cost is ultimately borne by all consumers through retail prices (or averaged surcharges where surcharging is imperfect).[21]

2.15 The current system of averaging merchant services fees and card surcharges distorts consumer decision-making and creates economic inefficiencies. If merchant service fees, and ultimately surcharges, were fully cost-reflective, merchants and consumers could better assess the true value of different payment methods. However, because these fees are averaged, low-cost card users (like domestic debit users) end up subsidising high-cost users (like commercial or foreign-issued credit cardholders), who often receive significant benefits.

2.16 The lack of transparency of the relevant fees leads to merchant and consumer misunderstanding of those fees and further exacerbates the issue.[22] For example, lack of transparency of:

2.16.1 merchant service fees (eg, merchants unsure of their average fees paid);[23]

2.16.2 cardholder benefits in interchange fees; and

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20 See the initial pricing standard, subpart 3 of the Act for current interchange fee caps. EU EEA caps sourced from https://eur-lex.europa.eu/eli/reg/2015/751/oj/eng (accessed 16 June 2025).

21 Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), pp5-7. Dr W. Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023), pp36-40.

22 Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), pp43-44.

23 Kantar "Merchant Research Report" November 2022 p63 and Commerce Commission "Merchant Research Observations" Figure 3.3. Both available at https://comcom.govt.nz/regulated-industries/retail-payment-system/monitoring?target=documents&root=315098. We will be considering how to provide more transparency in our future work. We acknowledge suggestions from submitters on enhancing transparency. For example, Mastercard suggested considering small merchant interchange fee caps for consistency (and lower costs), providing guidelines on the layout of merchant statements, and conducting a review of the acquiring market. Mastercard "Submission - Commerce Commission Draft Decision on interchange fee regulation for Mastercard and Visa networks" (18 March 2025), pp18-19.

2.16.3 the cost of acceptance for consumers (eg, hidden in retail prices or inconsistent surcharging across merchants).[24]

2.17 We welcome Mastercard's proposal to simplify its interchange fee tables and encourage it to proceed with this change.[25] However, this change by itself does not sufficiently address the issue of current interchange fees being inefficiently high.

2.18 We agree with submitters who noted that interchange fees still have a role in this mature market, including to promote innovation on these and competing networks. For example, in fostering issuer incentives to roll out developments on scheme networks and open banking payment providers' incentives and ability to compete (for further discussion, see paragraphs 2.32 to 2.43).[26] However, this perspective is not inconsistent with our view that the efficient level of interchange fees is lower than current levels overall.

Features of the network and conduct of participants are reducing or likely to reduce competition and efficiency

2.19 Section 18 of the Act directs us to take into account whether there are any features of the retail payment network or conduct of participants in the network that reduces, or are likely to reduce, competition or efficiency.

2.20 We have observed features of the Mastercard and Visa networks that reduce or are likely to reduce competition and efficiency. These network features lead to Mastercard and Visa setting interchange fees too high and merchants and consumers paying more than reasonable fees for the supply of payment services.[27] These include:

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24 Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), p5.

25 Mastercard "Cross-Submission in response to submissions to the Commerce Commission's proposed interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (12 May 2025), p3.

26 For example, Mastercard "Mastercard Submission – Commerce Commission (the Commission) Draft Decision on interchange fee regulation for Mastercard and Visa networks" (18 March 2025), p9; Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p16.

27 Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), pp5-7. Dr W. Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023) pp20, 30. Our approach to determining appropriate interchange fee levels is discussed further in our methodology section.

2.20.1 **Interchange fees in mature scheme networks.** High interchange fees can play a role in the early stages of a retail payment network to "get the network going" by transferring revenue between the issuer and the acquirer to foster supply and demand.[28] However, the need for high interchange fees may diminish as the payment network becomes widely accepted and scheme cards are considered by both consumers and merchants as "must take".

2.20.2 **The schemes do not have incentives to set interchange fees at efficient levels**. Competition and network effects in the multi-sided market drive Mastercard and Visa to set interchange fees above efficient levels to win market share by enabling issuers to offer lower cardholder fees or offer other benefits.[29] Where these costs are passed on in retail prices or included in a surcharge that is the same for all transaction types, then the benefits to one group of consumers are being funded by a broader group of consumers.

2.20.3 **Excessive interchange fees may reduce incentives to innovate.** As a result of schemes setting interchange fees above efficient levels, card issuers face reduced incentives to innovate into, and facilitate, new competing products such as those using open banking. Issuers may prefer to take part in the existing schemes, rather than to innovate. This is likely to limit dynamic efficiency and competition across the wider retail payment system. Conversely, we recognise concerns that very low interchange fees could stifle sustainable business models for new entrants and innovation.[30]

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28 Dr W. Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023), p26, section 4.2.

29 Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), pp5-7. Dr W. Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023), pp36-40.

30 For further discussion, see paragraphs2.32 2.40-2.43.

2.20.4 **The 'must-take' nature of established card networks allows higher interchange fees to be set with minimal merchant resistance**. The ‘must-take’ nature of established card networks arises from the fear of missed sales if merchants do not accept Mastercard and Visa cards. This implies that Mastercard and Visa can set interchange fees higher than efficient levels with minimal merchant resistance.[31] Interchange fees are not sufficiently constrained as most merchants are effectively price takers, making the level of interchange a must-accept cost for acquirers.[32]

2.20.5 **Imperfect surcharging mutes consumer price signals**. The absence of dynamic or perfectly cost-reflective surcharging mutes price signals for consumers, limiting allocative efficiency.[33] If all merchants surcharged each transaction at its cost, consumers would be steered towards using cost-efficient payment instruments.[34]

2.21 In addition to the features above, we have also considered participant conduct. For example, Mastercard and Visa also have a long-standing practice of providing discounted interchange fees to a select group of strategic merchants. While these lower rates benefit this limited group of large merchants and ultimately their consumers, wholesale volume discounts can limit competition between retailers of different sizes. These strategic rates demonstrate that interchange fees can be set at levels lower than those currently charged to non-strategic merchants. This practice may also limit the expansion of competing payment networks which may be unable to match the strategic pricing approach.

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31 Dr W. Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023), section 4.3. Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), section 3.4.

32 Dr W. Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023), section 5.2. Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), section 4.3.

33 Even if surcharging was perfect, there are wider issues such as a lack of transparency that would persist. See paragraph 2.16 for more information.

34 See discussion on the "neutrality result" - Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), pp5-7.

How this decision promotes competition and efficiency for the long-term benefit of merchants and consumers

2.22 Our final decision promotes competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand. This is achieved by reducing merchant service fees towards more efficient levels. Our decision rebalances how cardholder costs and benefits are paid for, while retaining efficient incentives to invest in innovative and secure payment methods, both within and between the networks. We have been conservative in our new cap levels to maintain the competitiveness of open banking, while it's in its early stages in New Zealand.

Merchant service fees are expected to reduce by a further $90 million annually

2.23 We expect the new interchange fee caps will reduce merchant service fees by $90 million annually, over and above the reduction under the initial pricing standard. This is based on a 90% pass-through by acquirers to merchants of the expected interchange fee reductions of $100 million annually.[35] We expect a higher rate of automatic pass-through of the new caps compared to when the initial pricing standard was implemented, given we have observed an increasing trend in the value of transactions on unblended pricing plans since then.

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[35] As noted in our draft decision, acquirers passed on approximately 90% of the interchange fee savings following the implementation of the initial pricing standard to merchants. This is based on our observations of merchant service fee data provided by acquirers. The estimated annual reduction in merchant service fees from our final decision are based on transaction and interchange fee data for 2023 submitted by Mastercard and Visa, scheme and other fees data for 2023 submitted by the nine largest acquirers, and applying the 90% pass-through rate. Actual savings per year will depend on, among others, the value and mix of transactions in that year.

2.24 Some submissions and cross-submissions raised concerns that merchant service fees will not reduce as a result of further interchange fee regulation. For example, Revolut challenged the 90% acquirer to merchant pass-through rate, citing a United Kingdom (UK) Payment Systems Regulator review which found that acquirers generally did not pass through the savings from interchange fee regulation to merchants.[36] The review highlighted that pass-through rates differed significantly depending on a merchant's pricing plan (which depends largely on merchant size).

2.25 Our estimated pass-through of these interchange fee savings to merchants is based on actual reductions in merchant service fees following the implementation of the initial pricing standard.[37]

2.26 Submissions and cross-submissions also raised concerns merchants will not pass through savings to consumers through lower prices and surcharge rates.[38] We acknowledge that merchant to consumer pass-through will vary across retail sectors, depending on the nature of market competition that merchants face.

2.27 We want to see excessive surcharging stop. To the extent that merchants surcharge, we expect any reductions to merchant service fees to be passed through to consumers. Given current surcharging practices, we expect regulation will be needed to achieve this.

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36 Revolut "Submission on Retail Payment System – Interchange fee regulation for Mastercard and Visa networks – Draft Decision and Reasons Paper" (18 March 2025), pp3-4; Payment Systems Regulator (PSR) "Market review into card-acquiring services - Final Report" (November 2021), p72, available at https://www.psr.org.uk/media/p1tlg0iw/psr-card-acquiring-market-review-final-report-november-2021.pdf.

37 We obtained this through our ongoing monitoring and intend to assess this impact again following the implementation of this pricing standard.

38 For example, Revolut's submission referenced the findings from the Copenhagen Economics study commissioned by the European Commission "Study on the application of the Interchange Fee Regulation" (2020) available at https://copenhageneconomics.com/wp-content/uploads/2021/12/copenhagen-economics_march_ifr-report.pdf which assesses EU levels to be 66-72%. See Revolut "Submission on Retail Payment System – Interchange fee regulation for Mastercard and Visa networks – Draft Decision and Reasons Paper" (18 March 2025), p3. See also, for example, ASB "Cross-submission on the Commerce Commission's Draft Decision on Interchange Fee Regulation" (13 May 2025), p3.

Rebalancing to better reflect merchant benefits and improve price transparency

2.28 Our final decision moves interchange fees towards more efficient levels and represents a rebalancing of how cardholder costs and benefits are paid for. This rebalancing will benefit merchants directly, who should face lower merchant service fees, and consumers indirectly who will enjoy less upwards pressure on the price of goods and services and/or lower surcharges. Our decision promotes efficiency in various ways, including:

2.28.1 through encouraging better price transparency of cardholder benefits, such as travel insurance, which may move towards a more user-pays model rather than interchange, which promotes allocative efficiency;[39]

2.28.2 through interchange fee revenue that is more proportionate to the benefits received by merchants for each payment type, also promoting allocative efficiency;

2.28.3 by reducing the costs of providing these payment products and services on the acquiring/merchant side of the market which increases productive efficiency for these transactions; and

2.28.4 by reducing disincentives on card issuers to provide alternative payment methods due to foregone interchange revenues, and enhancing incentives on cardholders to use those payment methods, which should promote dynamic efficiency.

2.29 Some submissions raised concerns that our decision will not result in long-term benefits for consumers. For example, a number of submitters suggested that consumers will be worse off in the long run due to, among other things, reduced cardholder benefits and less innovative products. We acknowledge these concerns and agree that reductions in interchange fees are likely to lead to some reductions in cardholder benefits, including rewards, for some consumers (specifically high-cost cardholders). However, our judgement is that these impacts are outweighed by the overall impact of improvements in competition and efficiency.

39 Changes to personal credit card fees in response to interchange fee reduction must comply with Section 41 of the CCCFA, which stipulates personal credit card fees must not be unreasonable. We acknowledge concerns raised in submissions that the CCCFA may, to some extent, restrict how issuers seek to recover their costs. We discuss this in paragraphs 2.75 and 2.76.

2.30 On a related point, some submitters argued that further reducing interchange fee caps in fact has the effect of shifting costs onto those least able to afford them.[40] However, consumers currently bear others' costs indirectly in multiple card categories. Our final decision moves closer to ensuring cardholders bear their own costs.

2.31 These caps and their consequential effects on funding of cardholder benefits will rebalance the Mastercard and Visa networks to more efficient levels. For example:

2.31.1 We expect efficiency to be promoted through a potential shift to lower cardholder benefits so that cardholders would bear the truer cost of their credit card usage, leading to more efficient decision-making and less cross-subsidisation. Reductions in issuer interchange fee revenue may, for instance, see reduced rewards to cardholders, as observed following the initial pricing standard.[41] The current provision of "interest-free credit" to credit cardholders is not truly free but is likely partially paid through interchange fees. These costs feed through to a wider group of consumers than just those using credit cards, via higher retail prices and/or averaged surcharges. Therefore, the rebalancing should move towards more efficient choices, with consumers choosing the most cost-efficient payment option that better internalises costs and benefits.[42]

2.31.2 We expect to see the benefits of more efficient cardholder choices. Other products and services are rolled into credit cards such as travel insurance. As this rebalancing leads to more transparent pricing of these products and services, for example through cardholder fees. This should lead to more efficient outcomes, including potential competition with standalone offerings of these services.[43]

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40 For example, ASB "Cross-submission on the Commerce Commission's Draft Decision on Interchange Fee Regulation" (13 May 2025), p3; Mastercard "Cross-Submission in response to submissions to the Commerce Commission's proposed interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (12 May 2025), p2, paragraph 1b.

41 Commerce Commission "Observations on the impact of interchange fee regulation" (9 August 2023), paragraph 2.32, available at https://comcom.govt.nz/__data/assets/pdf_file/0019/324541/Retail-Payment-System-Observations-on-the-impact-of-interchange-fee-regulation-8-August-2023.pdf.

42 We note the recent example of Kiwibank describing this type of cross-subsidisation (27 May 2025), available here https://www.stuff.co.nz/travel/360703756/air-new-zealand-and-kiwibank-part-ways-ending-airpoints-credit-card (accessed 1 July 2025).

43 Changes to personal credit card fees in response to interchange fee reduction must comply with Section 41 of the CCCFA, which stipulates personal credit card fees must not be unreasonable. We acknowledge concerns raised in submissions that the CCCFA may, to some extent, restrict how issuers seek to recover their costs.

2.31.3 We expect a reduction in cross-subsidisation from consumers using lower cost payment methods bearing part of the burden of higher cost payment methods and thereby reducing excessive use of high reward payment types.

2.31.4 We note that international experience suggests a rebalancing in cardholder fees following interchange fee regulation in European Union (EU) countries. Increases were observed primarily in interest charges, late-payment and overdraft fees, and international transaction fees. However, average annual cardholder fees for both credit and debit fell during the same period.[44]

Improving incentives to invest in innovative and secure payment methods

2.32 We received multiple submissions and cross-submissions concerned that interchange fee caps set too low could reduce innovation and stifle competition in the retail payments sector and hamper the emergence of open banking in New Zealand.[45]

2.33 In rebalancing how the Mastercard and Visa networks are paid for, we have considered the potential impacts on incentives to invest in, and deliver, innovative and secure payment methods across the whole retail payment system. Our final decision balances across these impacts, alongside other factors.

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44 Morris, J., T. J. Zywicki and G. Manne (2022). "The Effects of Price Controls on Payment-Card Interchange Fees: A Review and Update." ICLE White Paper 2022-03-04, George Mason Law & Economics Research Paper No. 22-07, pp18-19. See paragraph 2.57 for more discussion on mixed empirical results on the impact of interchange regulation.

45 For example, Westpac "Submission - Interchange Fee Regulation" (18 March 2025), paragraphs 2.3(e), 3.12-3.14; Archa "Re: Draft Decision on Interchange Fee Regulation for Mastercard and Visa Networks" (18 March 2025), p2; Worldline "Submission: Retail Payment System – Interchange fee regulation for Mastercard and Visa networks" (18 March 2025), paragraphs 3a-b;ASB "Cross-submission on the Commerce Commission's Draft Decision on Interchange Fee Regulation" (13 May 2025), pp2-3. Mastercard "Cross-Submission in response to submissions to the Commerce Commission's proposed interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (12 May 2025), p2.

2.34 We are comfortable that our final decision will sustain the ability of smaller card issuers (including smaller banks) or open banking providers to compete.[46] While we expect new payment methods, banks and fintechs to compete on their own merits, we recognise there is uncertainty about the 'right' level of interchange fees. We therefore erred towards caution overall by placing more weight on promoting competition from these smaller card and open banking payment issuers. We did not reduce caps as much as we proposed in our draft decision.

2.35 Again, this is a balancing of factors, because as we noted earlier, higher interchange fees may impact on the larger banks' incentives to promote (or hinder) alternatives to the Mastercard and Visa payment methods.

2.36 In reconsidering our views in response to submissions we have particularly considered the potential impacts on:

2.36.1 **incumbent card issuers** of Mastercard and Visa products and their incentive and ability to provide secure and innovative scheme payments, and their incentive to invest in innovative payment methods outside of traditional scheme networks such as open banking;

2.36.2 **providers developing innovative payment methods**, including third party open banking fintechs, and their incentive and ability to compete with larger established networks; and

2.36.3 **challenger or smaller card issuers** and their ability and incentive to compete with incumbent card issuers of Mastercard and Visa products.

Considering potential impacts on incumbent card issuers' incentives

2.37 Our interchange fee caps are higher on average than in comparator jurisdictions such as the EU.[47] This is an outcome of applying our three-step methodology, and ensures issuer incentives to continue to invest in scheme networks are sustained and that New Zealand will be a follower of international-driven innovations in scheme payment systems, for example in the adoption of ApplePay.

46 We have considered similar sized markets. See discussion at paragraph 2.56.

47 Where we discuss EU interchange fee caps, we are referring to countries within the European Economic Area (EEA) where the interchange fee caps set by the European Commission apply.

2.38 These caps also reflect the higher fraud risks associated with online, foreign-issued and to a lesser extent, credit transactions. This helps ensure scheme card issuers continue to have the ability and incentives to participate and invest in secure payments on the Mastercard and Visa networks and to adopt new technologies such as tokenisation.[48]

2.39 Our final decision also reduces the financial incentives for card issuers that are also open banking application programming interface (API) providers to delay investing in or supporting innovative payment methods outside of traditional scheme networks. Such alternatives to the Mastercard and Visa payment methods would reduce interchange revenue for current issuers and without appropriate caps, issuing for Mastercard and Visa is disproportionately attractive. Changing this balance will promote competition through the potential development and growth of alternatives to the Mastercard and Visa schemes and thereby promote dynamic efficiency.

Considering potential impacts on developing innovative payment methods

2.40 Several submissions expressed concern that lowering interchange fee caps could hinder the growth of open banking. We have considered the potential impacts to developing payment methods, such as open banking or account-to-account providers who will be competing with larger established networks. We have assessed competition across payment networks by comparing publicly available merchant costs for accepting payments.

2.41 **Figure 2.1** compares current merchant service fees for online Mastercard and Visa payments (of which interchange fees are only a component) with those of alternative open banking payment products, many of which offer lower transaction fees.[49]

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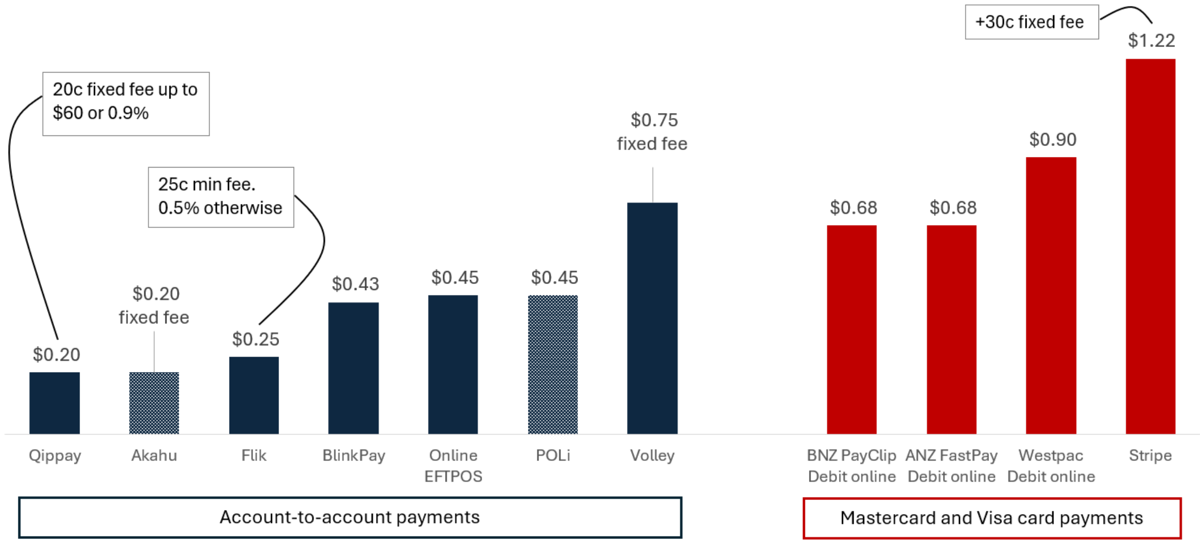
48 See further discussion at paragraph 2.882.88.

49 The online transaction value of $45 that we chose reflects the average value of debit card payments in 2023 based on our monitoring data. This builds on similar graphs provided in both the Mastercard submission and the BNZ cross-submission. See Mastercard "Submission - Commerce Commission Draft Decision on interchange fee regulation for Mastercard and Visa networks" (18 March 2025), p13; BNZ "Bank of New Zealand's cross-submission re Interchange Fee Regulation for Mastercard and Visa Networks - Draft Decision and Reasons Paper" (13 May 2025), p2.

Figure 2.1 Comparing merchant cost on a $45 online transaction[50 51]



2.42 For now, we have maintained the domestic debit caps to ensure a sufficient margin for alternative providers (particularly account-to-account payment providers) to offer merchants more competitive pricing than Mastercard and Visa payments. There remains scope for these alternatives to compete on price, while also maintaining incentives to innovate and reduce costs further.

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50 Prices are as at 1 July 2025. All rates are publicly available on payment provider websites. Qippay sourced from: https://www.qippay.com/payby, Akahu sourced from: https://www.akahu.nz/pricing, Flik sourced from: https://flik.co.nz/pricing/, BlinkPay sourced from: https://www.blinkpay.co.nz/for-business, Online EFTPOS sourced from: https://worldline.com/en-nz/home/main-navigation/solutions/online-eftpos, POLi sourced from: https://www.polipay.co.nz/pricing/, Volley sourced from: https://volley.nz/for-business, BNZ PayClip Debit online sourced from: https://www.bnz.co.nz/business-banking/payments/payclip, ANZ FastPay Debit online sourced from: https://www.anz.co.nz/business/accept-payments/fastpay/, Westpac Debit online sourced from: https://www.westpac.co.nz/business/products-services/accepting-payments/merchant-service-fees/, Stripe sourced from: https://stripe.com/nz/pricing (All accessed 1 July 2025).

51 Akahu and POLi are coloured differently as they are not entirely open banking products. Akahu and POLi both have API access agreements with multiple banks and use sub-optimal access for customers who bank with the others.

Considering potential impacts on challenger or smaller card issuers

2.43 In coming to our final decision, we have also considered submissions emphasising that new card issuers are not simply relying on prepaid cards to enter the banking (or payments) sector but also debit and credit card offerings.[52] This has informed our decision on domestic debit caps. We acknowledge that credit cards are products new entrants may aim to offer as part of their market entry strategies. However, unlike debit products, credit card offerings face more substantial requirements for entry.[53] This makes them slower to bring to market and less immediately impactful on competition. Therefore, this was not a primary consideration in setting the domestic credit caps.

Our methodology for determining appropriate caps

2.44 We used a three-step methodology to determine the new interchange fee caps. Determining an appropriate cap is a balancing exercise, which requires us to apply our judgement and weigh up a number of factors to ensure that we are promoting competition and efficiency for the long-term benefit of merchants and consumers in New Zealand.

2.45 We struck this balance by considering the current levels of interchange in New Zealand and evaluating whether these levels are appropriate using a multi-factorial analysis. We started by looking at interchange fee caps in comparator jurisdictions. Then we tested the appropriateness of applying these caps to New Zealand, given the contextual differences that exist between our selected benchmarks and New Zealand. Finally, we considered the relevant costs and benefits of different transaction types, and how this should impact interchange levels.

2.46 The outcome of this balancing exercise was that we adjusted some interchange fee caps from the levels in our draft report, and left others unchanged. We also decided not to cap interchange for commercial credit transactions at the present time, which we had initially proposed capping in our draft report.

Figure 2.2 Our three-step methodology

[52] For example, see Change Financial "Re: Interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (18 March 2025), Q9 p3.

[53] For example, additional regulatory requirements such as those under the CCCFA.

Step one: Starting with the benchmarks

2.47 As our first step we started with benchmarks. We looked at interchange fee rates in comparator jurisdictions as a reference point and analysed the impacts these rates have had in their respective payments markets.

2.48 Some submitters argued that the benchmarking methodology proposed in the draft report is unreasonable, that we have applied it inconsistently, and that the deviations we have applied are not appropriate. We have considered this in our final decision. In each case the interchange fee caps are at, or above EU caps and we have applied a consistent approach in determining whether, and to what extent, any premium (ie, a deviation from EU levels) is justified. Considering benchmarks allows for the impacts of interchange fee caps, already implemented in different jurisdictions, to be analysed. In particular, the impacts on competition and efficiency provide a counterfactual example which is useful for our cap setting when it is applied within the New Zealand context.

2.49 Some submitters suggested that instead of looking at EU benchmarks, we should apply the merchant indifference test (MIT) to determine cap levels in New Zealand. A key consideration in conducting a MIT is identifying the payment methods that merchants would be indifferent to accepting. The EU considered cash as the comparator for domestic and intra-regional interchange fee rates. Eftpos would be the appropriate comparator for merchants in New Zealand, but given it has no cost per transaction for merchants, an MIT would likely yield interchange fees that are close to zero. However, New Zealand merchants gain benefits from accepting cards, especially scheme cards, so we do not consider the outcome of close to zero interchange would promote the statutory test.[54]

[54] Commerce Commission "Costs to business and consumers of card payments in Aotearoa New Zealand: Consultation Paper" (23 July 2024), p27.

2.50 Some submitters preferred a cost-benefit analysis over benchmarking. For example, ANZ suggested further consideration of the full range of costs and benefits within the payment system was required,[55] and ASB recommended a holistic cost study to inform any further regulation.[56] While we have further considered relevant costs and benefits,[57] a lack of quantitative evidence,[58] and a lack of support for a cost-based approach in the economic literature means that a cost-based analysis cannot be used to set the interchange fee caps.

2.51 As our first step, we have started with the caps that already exist in New Zealand. We compared these to the caps set in the EU and sense checked them against Australia. While we consider Australian caps to be a less suitable benchmark than those in the EU, they provide useful examples of how interchange fee caps at certain levels have impacted another payment market.

Considering the base rate that already exists in New Zealand

2.52 We consider 0.20% to be an appropriate interchange fee base rate for domestic debit in-person contactless transactions.[59] New Zealand has had a rate of 0.20% for domestic in-person contactless debit since August 2020, before the introduction of the initial pricing standard.[60] Many submissions we have received did not suggest a change to this rate was necessary.[61]

2.53 This is a market selected rate in New Zealand and is consistent with a range of international benchmarks, including the comparator jurisdictions we have considered - the EU and Australia. Therefore, we have started with the common base rate of 0.20% when considering benchmarks.

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55 ANZ "Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), p10.

56 ASB "Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (12 March 2025), p2; "ASB Cross-submission on the Commerce Commission's Draft Decision on Interchange Fee Regulation" (13 May 2025), p1.

57 As discussed in step three.

58 While we received quantitative evidence from some submitters, we did not receive sufficient quantitative evidence on costs and benefits that was categorised and apportioned in a way that allowed us to conduct a comprehensive cost-benefit analysis.

59 Retail Payment System Act 2022, Subpart 3 (7)(3)(b)(ii) of Schedule 1.

60 Visa's submission provides background on its debit contactless rate. Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons paper" (18 March 2025), p29.

61 For example,Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), pp29-30; Westpac "Westpac New Zealand Limited - Submission to Commerce Commission New Zealand on Interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (18 March 2025), p6.

Summary of benchmarks in comparator jurisdictions

2.54 **Table 2.1** summarises the benchmarks we have considered in the EU and Australia and compares them to the current caps in New Zealand, and the new caps we have decided on.

Table 2.1 Benchmarks in comparator jurisdictions[62]

	Payment method	Current caps	New caps (final decision)	EU current caps (personal cards only)	Australia current caps
Domestic					
Debit (personal and commercial)	In-person - contacted	0%	0%	0.20%	8c, max 10c/0.20%
	In-person - contactless	0.20%	0.20%	0.20%	
	Online	0.60%	0.60%	0.20%	
Personal credit	In-person	0.80%	0.30%	0.30%	0.50%, max 0.80%
	Online	0.80%	0.70%	0.30%	
Commercial credit	All	Uncapped	Uncapped	Uncapped	
Prepaid	All	Uncapped	Uncapped	Same as debit	Same as debit
Foreign-issued					
Debit (personal, commercial and prepaid)	In-person	Uncapped	0.60%	0.20%	Uncapped
	Online		1.40%	1.15%	
Personal credit	In-person		0.70%	0.30%	
	Online		1.50%	1.50%	
Commercial credit	All		Uncapped	Uncapped	

Considering the caps set in the European Union

2.55 We consider the EU rates are an appropriate reference point because they:

2.55.1 considered the cost of alternative payment methods and, for some caps, were negotiated directly with Mastercard and Visa; and

62 EU interchange fee regulation only applies to personal cards for both EEA and non-EEA issued cards, ie, commercial debit, prepaid and credit cards are not subject to interchange fee regulation. Australian caps are weighted average caps with maximum levels as specified. Australian debit and prepaid card caps sourced from https://www.rba.gov.au/payments-and-infrastructure/debit-cards/regulatory-framework.html (accessed 16 June 2025); Australian credit card caps sourced from https://www.rba.gov.au/payments-and-infrastructure/credit-cards/regulatory-framework.html (accessed 16 June 2025); EU EEA caps sourced from https://eur-lex.europa.eu/eli/reg/2015/751/oj/eng (accessed 16 June 2025); EU inter-regional caps sourced from https://ec.europa.eu/commission/presscorner/detail/en/ip_19_2311 (accessed 16 June 2025).

2.55.2 have been in place since 2015, so we have the benefit of experience as to how these caps have impacted competition and efficiency in the European context.

2.56 We reevaluated the appropriateness of the EU as a comparator given submitter concerns that New Zealand is too different in size.[63] However, the EU is made up of many individual national payment networks, some of which are a comparable size to New Zealand. We analysed payment markets that are subject to EU interchange fee caps and are similar in size to New Zealand.[64] Smaller issuers are continuing to successfully operate under the lower EU rates. This supports our decision to benchmark against them.[65]

2.57 There is also no compelling evidence of EU payment networks suffering as a result of interchange regulation. While we received submissions that claimed interchange fee regulation had resulted in detrimental impacts on payment networks in the EU, our wider review of literature and studies showed more ambiguous results, with some evidence suggesting particular harms raised by submitters have not occurred.[66] We also note the example of Spain's intervention in the 2000s, where progressive interchange fee reductions resulted in benefits such as increased card acceptance and increased transaction volumes, to the extent that issuer revenue for impacted products also increased.[67]

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63 Due to the influence of economies of scale and other differences between the markets.

64 Payment markets in Denmark, Finland, Ireland and Norway were compared to New Zealand's payment market. These countries, which have similar population sizes to New Zealand, typically have a similar mix of large and small issuers. The number of issuers in New Zealand, with four large issuers and eight small issuers, falls within the ranges of the compared payment markets in the EU.

65 We note that large economies of scale in card issuing and processing can lead to natural consolidation. See Dr W. Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023), pp17-18.

66 Advice and analysis from Dr W. Bolt suggests that interchange regulation in the EU has had no clear detrimental impact to cross-border transactions. The impact on fraud prevalence has been largely inconclusive; however, the total value of card fraud has gradually declined since interchange regulation. See Dr W. Bolt "Expert Support on the NZ Commerce Commission Consultation Paper "Retail Payment System - Costs to Businesses and Consumers of Card Payments in Aotearoa NZ" (22 November 2024), pp5-6, 7-9.

67 Carbó-Valverde, S., S. Chakravorti and F. R Fernández (2016). "The Role of Interchange Fees in Two Sided Markets: An Empirical Investigation on Payment Cards." The Review of Economics and Statistics, 98(2), 367-381. pp3-4, 21-26.

2.58 We also consider the average EU rates for credit payment products demonstrate that certain consumer benefits are likely to continue to be provided in New Zealand under the new caps. The average EU credit rates are lower than the average rates we have set, when online and foreign-issued premiums are considered against in-person and domestic caps. This provides further confidence that the most valued consumer benefits, some of which also benefit merchants, will remain.

2.59 Despite the EU having these lower rates for credit transactions, benefits such as fraud protections, chargebacks and interest-free periods have continued to be provided to consumers by issuers. While we acknowledge that there may be adjustments to some consumer benefits, such as cardholder rewards, we expect issuers to adjust offerings in ways that are sensitive to consumer preferences.

2.60 We acknowledge some differences persist between the EU and New Zealand that may justify higher interchange fee caps for some categories of fees here. Therefore, we have deviated away from the EU interchange fee caps where justified by relevant differences in costs, benefits and market characteristics. These deviations in our final decisions, such as the application of a premium on online transactions over in-person transactions, have resulted in higher average interchange fee caps for New Zealand than those in the EU.[68]

Considering the caps set in Australia – a sense check

2.61 We considered Australian caps as a sense check, but we have attached lower weight to these caps as they are under review.[69] The Reserve Bank of Australia published a consultation paper on 15 July 2025 which seeks feedback on draft revisions.[70] In their cross-submission, ASB recommended aligning rates with those in Australia as an interim position, which suggests using Australian interchange levels as a sense check is appropriate and has some support from industry.[71]

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68 The interchange fees we have set for New Zealand are higher than those in the EU on average, as no individual rate is below that of the EU. While some rates are the same as those in the EU, some rates are higher due to premiums we have applied for online and foreign-issued card transactions over in-person and domestic transactions, resulting in a fee cap structure which will produce higher interchange fees on average across the payment system.

69 Reserve Bank of Australia "Merchant Card Payment Costs and Surcharging – Issues Paper" (October 2024), p1 available at https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2024/pdf/merchant-card-payment-costs-and-surcharging-oct-2024.pdf.

70 Reserve Bank of Australia "Review of Merchant Card Payment Costs and Surcharging" (July 2025) available at https://www.rba.gov.au/coming-up/.

71 ASB "ASB Cross-submission on the Commerce Commission's Draft Decision on Interchange Fee Regulation" (13 May 2025), p1.

2.62 Australia currently uses a weighted average in setting caps which adds complexity to interchange fees and ultimately merchant service fees.[72] Australia has set a 0.20% maximum cap for all domestic debit transactions including prepaid cards.[73]

2.63 Last year the Reserve Bank of Australia noted that its weighted average cap was based on eligible scheme costs for issuers from 2006 and is likely out of date, particularly as the fixed costs of providing card issuing services are now spread over a much larger volume of transactions than in 2006.[74]

Step two: Considering the New Zealand context

2.64 As our second step we tested the appropriateness of applying benchmarked interchange fee caps in New Zealand, given the contextual differences that exist between our selected comparator jurisdictions and New Zealand.

2.65 Benchmarking requires us to assess comparability. We considered the New Zealand context as summarised in the seven points below. We analysed the contextual differences between New Zealand, the EU and Australia, and the reasons why some submitters argued they were not appropriate comparators. We recognise there are some differences between the jurisdictions - both costs and benefits - and some further factors to be considered. We decided that a premium above the reference point of EU levels for some categories of interchange fee are justified when considering the additional costs, benefits, and broader factors which apply in the New Zealand market.

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72 See Reserve Bank of Australia "Merchant Card Payment Costs and Surcharging – Issues Paper" (October 2024), p13 available at https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2024/pdf/merchant-card-payment-costs-and-surcharging-oct-2024.pdf.

73 Reserve Bank of Australia "Backgrounder on Interchange and Scheme Fees - What rules apply to interchange fees in Australia" (sourced 18 May 2025) at https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2024/backgrounders/backgrounder-on-interchange-and-scheme-fees.html.

74 Reserve Bank of Australia "Merchant Card Payment Costs and Surcharging – Issues Paper" (October 2024), p13 available at https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2024/pdf/merchant-card-payment-costs-and-surcharging-oct-2024.pdf.

2.66 Many of these factors relate to the smaller size of New Zealand compared to benchmarked jurisdictions and whether higher interchange fee caps are required to support issuers within the designated payment networks. In response, we assessed the comparability of individual member states within the EU whose payments markets are similar in size to New Zealand. While submitters argued that some characteristics of the New Zealand payments market suggest a need for higher interchange fees than in the EU, such as the high prevalence of Eftpos, we consider that others are likely to mitigate it, such as relatively low cash usage. In light of these considerations, we exercised some caution and our new caps are, in aggregate, higher than the EU.

1. Fewer transactions due to lower population size

2.67 We acknowledge concerns raised in submissions on the potentially lower economies of scale in New Zealand. There are fewer transactions in New Zealand than the comparator jurisdictions of the EU and Australia we considered due to the lower population size.[75]

2.68 We have taken this into account when setting caps by analysing markets within the EU that are similar in population and payment market size.

2. Fewer interchange earning transactions

2.69 The existence of Eftpos - a domestic, non-scheme payment network that is widely accepted and used - means that Mastercard and Visa transactions make up a lower proportion of total transactions, relative to some comparator jurisdictions. Although similar domestic schemes exist in some comparator jurisdictions, the high prevalence of Eftpos in New Zealand means fewer transactions attract interchange and fixed issuer costs must be spread over a lower proportion of total transactions. We have taken this into account by considering relevant costs when setting interchange fee caps.

2.70 The Eftpos network is also relevant for another reason. As some submitters have pointed out, the absence of interchange fees for Eftpos transactions has resulted in under-investment and limited innovation in the Eftpos network. The Eftpos network has failed to evolve to meet the needs of consumers who now prefer to pay using contactless or online methods. Many submitters referred to the lack of financial incentives leading to under-investment.

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75 Advice from Dr W. Bolt suggests that the impact of lower transaction volumes and different economies of scale on the costs in payment networks is ambiguous. See Dr W. Bolt "Expert Support on the NZ Commerce Commission Consultation Paper "Retail Payment System - Costs to Businesses and Consumers of Card Payments in Aotearoa NZ" (22 November 2024), pp1-4.

2.71 This serves as a clear example of how setting rates too low can stifle both innovation and investment. We considered the role of interchange as an incentive for issuers to innovate and invest in payment products and ensured interchange levels are sufficient to preserve these incentives when making our decisions.

3. High volume of foreign-issued card transactions

2.72 In its submission, Visa estimates foreign-issued card transactions account for [redacted][76] Visa argues this relatively small proportion of total transactions limits the potential impact of regulation, suggesting no regulatory intervention is necessary for foreign-issued card interchange fees.[77]

2.73 However, we consider this share to be significant. Australia's 2021 decision not to regulate foreign-issued card interchange fees was based on these transactions making up just 3% of the total.[78] The proportion in New Zealand is higher and a material proportion of total transactions.

2.74 Foreign-issued card interchange fees are also high relative to domestic interchange fees. This results in foreign-issued card transactions accounting for a disproportionately large share of total interchange in New Zealand. Because these costs are spread across all merchants and, to some extent, all consumers, we consider it appropriate to regulate interchange for foreign-issued card transactions. We explain our decision on the appropriate cap further below.

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76 Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p53.

77 Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p53.

78 Reserve Bank of Australia "Review of Retail Payments Regulation - Conclusions Paper" (October 2021), p41 available at https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/conclusions-paper-202110/pdf/review-of-retail-payments-regulation-conclusions-paper-202110.pdf. Notably, the Reserve Bank of Australia is currently re-evaluating this position, as indicated in Reserve Bank of Australia “Merchant Card Payment Costs and Surcharging – Issues Paper” (October 2024), p12 available at https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2024/pdf/merchant-card-payment-costs-and-surcharging-oct-2024.pdf.

4. The CCCFA limits the ability to recoup lost revenue

2.75 The Credit Contracts and Consumer Finance Act 2003 (CCCFA) limits issuers' ability to recoup lost interchange fee revenue through credit fees charged to personal cardholders. Changes to personal credit card fees in response to interchange fee reductions must comply with Section 41 of the CCCFA, which stipulates that personal credit card fees must not be unreasonable.

2.76 We acknowledge concerns raised in submissions that the CCCFA may, to some extent, restrict how issuers can recover their costs for consumer credit products. We considered these restrictions when deciding to apply a premium for consumer credit transactions over debit transactions, which reflects the higher costs associated with providing credit products that may not be recoverable through other fees due to the CCCFA.

5. More card-based transactions

2.77 New Zealand merchants pay merchant service fees on a significant portion of retail payments. While our card usage is similar to Australia, European countries have a higher proportion of cash payments, so merchant service fees are paid on a lower proportion of transactions.[79]

2.78 Lower cash usage in New Zealand, relative to the EU, mitigates the economies of scale arguments for comparable jurisdictions, to some extent. Therefore, we have taken the lower prevalence of cash transactions into account when deciding on interchange fee caps.

[79] Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), p3. Payments NZ "Two sides of the coin: cash usage in New Zealand" (20 May 2016), available at https://www.paymentsnz.co.nz/resources/articles/two-sides-of-the-coin-cash-usage-in-new-zealand/. De Nederlandsche Bank "Cash remains a key payment method in Europe, but its share continues to decline" (21 January 2025), Figure 1, available at https://www.dnb.nl/en/general-news/news-2025/cash-remains-a-key-payment-method-in-europe-but-its-share-continues-to-decline/.

6. More credit transactions

2.79 Credit is more prevalent in New Zealand than in countries of a similar size to New Zealand in the EU.[80] This means a potential difference in economies of scale between New Zealand and the EU would be less for credit products than other payment products. We considered this in assessing the appropriateness of the credit premium over debit. We also considered the impact interchange fees would have on merchants and consumers if unreasonably high.

7. Still waiting on a viable alternative payment method

2.80 We do not yet have other payment methods that can compete with Mastercard and Visa in ease of use and high uptake. While Eftpos is widely accepted, it is a slower payment method than some scheme products and is limited to in-person transactions. Some nascent open banking payment products have developed simpler methods, challenging scheme products on ease of use and price. However, low acceptance of these products limits their adoption at this time. We have considered potential detrimental impacts of lower interchange levels on the adoption of account-to-account alternatives by applying a conservative approach, so as not to limit adoption and competitiveness of such nascent alternative payment methods.[81] This includes our decisions not to regulate prepaid products, and to maintain current rates for debit.

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80 Based on Commission analysis of card spend data for various EEA countries. For example, in Denmark, credit card transactions accounted for approximately 8% of total card transactions in 2023. Sourced from https://nationalbanken.statbank.dk/913 (accessed 27 June 2025). In Norway, credit card transactions accounted for 18% of total card transactions in 2023. Sourced from https://www.norges-bank.no/en/news-events/publications/Norges-Bank-Papers/2024/memo-1-24-payment-services/web-report-papers-1-24-payment-services/ (accessed 27 June 2025). As obtained from our monitoring data, credit card transactions accounted for approximately 35% of totalcard transactions across the prevalent card networks in New Zealand in 2023.

81 Our conservative approach has included considering the potential risks of setting caps too low and, in some cases, such as foreign-issued cards, setting caps at the higher end of a range we have judged to be reasonable based on our three-step methodology. We have not, however, raised caps without justification to abate potential risks. We acknowledge ANZ's cross-submission point that we should not respond to submitter concerns by simply raising caps as a compromise. See ANZ. "Interchange Fee Regulation Draft Decision – Cross Submission" (13 May 2025), p1.

2.81 We also have considered arguments made by some submitters that the interchange fee caps implemented in the EU specifically have resulted in greater reliance on Mastercard and Visa payment networks. For example, BNZ submitted that adopting interchange regulation similar to that in the EU would likely lead to greater usage of existing networks, potentially at the expense of domestic alternatives.[82] We agree that some EU rates may be too low to support the development of some alternative payment products in New Zealand and, therefore, have considered this when evaluating the appropriateness of different benchmarked rates.

Step three: Considering relevant costs and benefits

2.82 As our third step, we considered the relevant (and relative) costs and benefits of different transaction types, and how this should impact interchange levels.

2.83 As we explain further in Chapter 3, this has meant that in some cases we have recognised the need for a higher rate for some categories of interchange fee in comparison to other categories - for example, a higher rate for online debit transactions compared to in-person contactless debit transactions. We describe this higher rate as a premium above the 0.20% base rate. In the case of online debit transactions, the premium applied to the base rate is 0.40%, setting a total interchange fee of 0.60%.

Considering relevant costs

2.84 A couple of submitters emphasised the value of issuer input to understand costs and potential under-compensation from lower interchange revenue. Several submitters also said we should undertake a cost study before further regulating interchange fees.[83]

2.85 We recognise the relevance of some issuer costs - it is generally accepted that workably competitive markets have a tendency towards certain outcomes, including the existence of prices that reflect normal rates of return after covering the firm's efficient costs.[84] The consideration of these costs is therefore a factor we have weighed up in our analysis.

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[82] BNZ "Bank of New Zealand's response to the Commerce Commission's interchange fee regulation for Mastercard and Visa networks - draft decision and reasons paper" (18 March 2025), p2.

[83] We have taken into account the reasonable cost consideration in the Retail Payment System Act 2022, s 4(2)(a) as part of our overall analysis.

[84] See, for example, *Wellington International Airport Ltd & Ors v Commerce Commission* [2013] NZHC 3289, at [18].

2.86 However, the relevance of this consideration should not be overstated in the particular context. Some issuer costs cannot be precisely tied to specific transaction types and, therefore, setting interchange involves significant judgement, as costs do not directly determine pricing. We also note that economic literature on multi-sided markets does not generally support a wholly cost-based approach.[85] We have nevertheless considered information provided by submitters on issuer costs when setting interchange fee levels where we consider this is consistent with the statutory purpose. While some issuer costs are relevant and have been taken into account, some issuer costs do not necessarily reflect merchant and consumer benefits.

2.87 In light of the limitations of a cost-based approach noted above, a cost study would still require us to apply a high degree of judgement in setting rates which promote the statutory purpose. Given the significance of the efficiency concerns affecting merchants and consumers and our statutory directive to promote their long-term interests, we determined that the time and resource required to undertake a full cost study was not justified given the limited benefit it would provide.

2.88 We have, however, taken into account costs in our assessment where we consider these are relevant and have considered quantitative data where it has been provided by submitters. Considerations that have determined the relevance of issuer costs include:

2.88.1 If issuers cannot recover their costs, this also reduces the ability of fintechs and small issuers to enter and compete against other card issuers on the Mastercard and Visa platforms. While interchange fee revenue is not the only way issuers can recover relevant costs, it is an important part of an issuer's revenue and their ability to recover costs, particularly for new or smaller issuers and potential market entrants.[86] Therefore, we have taken into account circumstances where costs may not be recoverable, or may be difficult to recover, by issuers through other revenue sources.

85 Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), p8.

86 The importance of interchange as part of an issuer's overall revenue is especially acute for smaller issuers, as raised by submitters. Eg, Sharesies "Sharesies submission on Interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (18 March 2025), p2.

2.88.2 We have considered relevant card issuer costs where there is clear merchant benefit for accepting a card payment over other alternative means of accepting payment, such as contactless enabled payments over Eftpos. This involves balancing issuer costs with merchants' costs of card acceptance.

2.88.3 Some issuer costs, such as those associated with fraud prevention, include investments in systems that benefit issuers, merchants and consumers. We have therefore considered the role interchange plays in incentivising these investments and providing issuers with the incentive to continue to invest in these systems. We have also considered the incentives interchange provides for issuers to innovate and develop their payment products.

2.89 We, however, recognise that due to the multi-sided nature of the scheme networks, costs are only one factor in determining an efficient level for interchange fees.[87]

Four main categories of relevant costs

2.90 We considered four main categories of costs: fraud prevalence and costs, decline rates, costs of international transfers, and other relevant costs.

1. Fraud prevalence and costs

2.91 Submissions noted the higher prevalence of fraud for particular transaction types compared to others. For example, online transactions have a substantially higher rate of fraud compared to in-person transactions. Because fraud protection benefits merchants and consumers, we consider the associated costs are relevant when deciding on appropriate caps. These associated costs include investment by issuers in fraud prevention measures, services provided to deal with fraudulent activity, and fraud losses borne by the issuer. As we explain below, we have taken into account the higher fraud costs associated with online, credit and foreign-issued card transactions in setting caps.

[87] Dr A. Fletcher "Literature Review on Competition, Efficiency and surcharging in the Retail Payment System" (November 2023), pp8, 21.

2. Decline rates

2.92 Submitters identified the risk of increased decline rates for foreign-issued cards with lower interchange.[88] Decline rates constitute a cost to merchants and cardholders through lost transactions. Lost transactions also mean lost interchange revenue for issuers. While we acknowledge the higher costs associated with foreign-issued transactions, we do not consider our new rates will have a material impact on decline rates. This is because we have seen little evidence of such increases in decline rates overseas, and no New Zealand issuers have suggested their decline rates vary between jurisdictions based on different interchange fee caps.[89]

2.93 As discussed in Chapter 3, we have also taken a conservative approach to setting rates for foreign-issued cards, setting them at the higher end of a reasonable range, and higher, in aggregate, than our comparator jurisdictions. This measured approach gives us further confidence that no material impact on decline rates will occur due to the new interchange fee caps, while enabling us to monitor for any impacts of reduced interchange.

88 In their submission, Mastercard estimated our proposed draft decision would increase decline rates, resulting in $600 million in lost foreign-issued card transactions annually. This estimate is based on observations of EEA/UK merchants' inter-regional decline rates following the implementation of inter-regional interchange fee caps by the European Commission. See Mastercard "Submission - Commerce Commission Draft Decision on interchange fee regulation for Mastercard and Visa networks" (18 March 2025), p25.

89 Dr W. Bolt "Expert Support on the NZ Commerce Commission Consultation Paper "Retail Payment System - Costs to Businesses and Consumers of Card Payments in Aotearoa NZ" (22 November 2024), pp5-6.

3. Costs of international transfers

2.94 It currently costs more in New Zealand to receive bank transfers between countries than it does for euro-denominated transactions in the Single Euro Payment Area (SEPA).[90] This has been accounted for in our decision to apply a greater premium on online transactions over in-person transactions for foreign-issued cards than domestic cards. We also have applied a premium to in-person transactions for foreign-issued cards over domestically-issued cards. These premiums, in general, bring the caps for foreign-issued cards materially above the equivalent caps in the EU.[91] We consider this to be necessary as the alternative of bank transfers is currently more expensive for New Zealand than it is for the SEPA.[92]

4. Other relevant costs

2.95 We also considered other general costs that are necessary for the provision of different payment products and the operation of the payment network. For example, the additional issuer costs associated with issuing a credit card compared to a debit card.

2.96 We have taken these differences in relative costs into account when determining the caps for different types of cards and transactions, as described in the Chapter 3.

Considering merchant and consumer benefits

2.97 We also considered merchant and consumer benefits more broadly than the underlying costs of the relevant products alone. This includes, for example, considering the availability of viable alternatives to particular payment products, and the technological advantages of some scheme payment products, such as contactless payments which reduce transaction friction.[93]

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90 EU regulations require cross-border bank transfers within the SEPA to apply the same charges as domestic transfers. Regulation (EU) 2021/1230, article 3, sourced from https://eur-lex.europa.eu/eli/reg/2021/1230/oj (accessed 10 July 2025). Costs of receiving bank transfers from outside SEPA are unregulated, and based on our observations, are similar to equivalent international transfer costs in New Zealand.

91 That is, for cards issued outside the EEA in SEPA countries.

92 Bank transfers are considered a suitable alternative payment method to international credit transactions. Additionally, in a market review report, the Payment Systems Regulator (PSR) took bank transfers as the best alternative (comparator) to credit cards for international card-not-present (online) credit transactions. See PSR " Market review of UK-EEA consumer cross-border interchange fees - Final report" (December 2024), p22, available at https://www.psr.org.uk/publications/market-reviews/mr2227-market-review-of-uk-eea-consumer-cross-border-interchange-fees-final-report/.

93 Charles River Associates, on behalf of Visa, [redacted] See Visa/CRA "Costs and benefits of regulating interchange fees - An economic assessment of the New Zealand Commerce Commission's Draft Decision" (18 March 2025), pp19-20.

2.98 We have considered benefits to merchants and benefits to consumers that are indirectly enjoyed by merchants. For example, the provision of credit allows consumers to smooth their consumption and make purchases with greater flexibility, but also induces demand for a merchant's goods and/or services, to some extent. Merchants also benefit from issuers providing credit products to consumers, as they do not need to provide credit to their customers themselves to gain the same benefits. Similarly, fraud protections and chargebacks provided by issuers to consumers also provide benefits to merchants through greater consumer confidence, which encourages transactions.

2.99 While we have considered merchant and consumer benefits, we do not consider that all need to be fully covered by interchange fees. This is partially due to the ability for some benefits to be accounted for through other revenue streams, such as card fees, and therefore do not need to be funded by interchange.

2.100 We think that other benefits that are exclusively or disproportionately enjoyed by consumers over merchants do not need to be fully funded via interchange. Because interchange is a cost to the acquiring side and merchants, we do not consider benefits that are exclusive to consumers should be fully funded via merchants. For example, interest-free periods initially provide benefits to consumers through low-cost credit, and, to some extent, merchants through further induced consumer demand. However, it is unlikely that these benefits are similar in magnitude for consumers and merchants, especially for longer interest-free periods as the induced consumer demand effect is likely to diminish over time, with consumer benefits remaining.

2.101 We also consider the extensive periods of interest-free card balance transfers offered by issuers is an indication that current rates are, on average, too high. Charles River Associates, on behalf of Visa, states [redacted][94] We consider the willingness of issuers to incur these significant interest costs to be an indication that interchange fees are too high. The offering of rewards schemes by issuers to credit cardholders also supports this consideration. The provision of these generous cardholder benefits, which act as incentives for the adoption of credit products, demonstrates that such customers are likely highly profitable for issuers. Therefore, we have given less weight to considering some issuer costs than others when setting interchange fee caps, such as providing extensive interest-free periods or cardholder rewards.

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94 Visa/CRA "Costs and benefits of regulating interchange fees - An economic assessment of the New Zealand Commerce Commission's Draft Decision" (18 March 2025), pp23-24.

2.102 Although some benefits are more difficult to quantify than costs, these benefits also informed our judgement on premiums for different transaction types over others to strike the appropriate balance for where the funding for such benefits should come from.

2.103 After our final interchange fee decisions are in force, there will be a remaining transfer of approximately $460 million from acquirers to issuers through interchange.[95] We also expect this figure to continue to grow as Eftpos and cash use declines and transaction volumes substitute towards scheme networks, and the economy grows.

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95 This is the estimated remaining interchange fees following the implementation of this pricing standard. This is based on 2023 transaction data from Mastercard and Visa obtained in our ongoing monitoring. Actual interchange fees are dependent on payment method and card type.

Chapter 3 Our rationale for new interchange fee caps

3.1 This chapter sets out the interchange fee cap decisions and our rationale for them. We have used the methodology outlined in the previous chapter to determine the new interchange fee caps. We have highlighted changes from the draft decision based on feedback from submitters and further analysis. We also confirm when participants must implement the new fee caps.

New interchange fee caps

3.2 The new interchange fee caps are provided in **Table 3.1.** See the accompanying pricing standard for further detail.

Table 3.1 New interchange fee caps[96] [97]

	Payment method	Current caps/ rates[98]	Draft decision[99]	New caps (final decision)
Domestic cards				
Debit (personal and commercial)	In-person - contacted	0.00%	0.00%	**0.00%**
	In-person - contactless	0.20%	0.20%	**0.20%**
	Online	0.60%	0.40%	**0.60%**
Personal credit	In-person	0.80%	0.20%	**0.30%**
	Online	0.80%	0.40%	**0.70%**
Commercial credit	In-person	0.45-2.20%*	0.20%	**Uncapped**
	Online	0.45-2.20%*	0.40%	**Uncapped**
Prepaid	All	0.20-2.00%*	Uncapped	**Uncapped**
Foreign-issued cards				
Debit (personal, commercial and prepaid)	In-person	0.60-2.40%*	0.60%	**0.60%**
	Online	0.90-2.40%*	1.15%	**1.40%**
Personal credit	In-person	1.10%-2.40%*	0.60%	**0.70%**
	Online	1.10%-2.40%*	1.15%	**1.50%**
Commercial credit	In-person	1.85%-2.35%*	0.60%	**Uncapped**
	Online	1.85%-2.35%*	1.15%	**Uncapped**

96 The asterisk in the table refers to rates which are not currently regulated. The current interchange fee regulation sets each cap at the lower of (a) the interchange fee as at 1 April 2021; and (b) the specified maxima in the standard (eg, 0.80% for credit). Generally, our caps are lower than the 1 April 2021 rates and we have therefore removed this cap for simplicity. It remains open to Mastercard and Visa to set interchange fees that are lower than the new caps. The unregulated rates exclude charity, rewards and large ticket item rates. We note the rates for foreign-issued cards by card type and payment methods are not published at the same level of detail as domestic cards. We have assumed the same range of rates apply for foreign-issued debit and credit cards for Visa products. We have interpreted Mastercard's PIN debit rate as debit card rates for foreign-issued cards.

97 Mastercard domestic rates sourced from https://www.mastercard.co.nz/en-nz/business/overview/support/interchange.html (accessed 13 June 2025). Visa domestic rates sourced from https://www.visa.co.nz/about-visa/interchange.html (accessed 13 June 2025). Mastercard inter/intra-regional rates sourced from https://www.mastercard.com.au/en-au/business/overview/support/interchange.html (accessed 13 June 2025). Visa inter-regional rates sourced from https://www.visa.com.au/about-visa/inter-regional-interchange.html (accessed 13 June 2025). Visa intra-regional rates sourced from https://www.visa.com.au/about-visa/ap-intra-regional-interchange.html (accessed 13 June 2025).

98 See the initial pricing standard, subpart 3 of the Act.

99 See Commerce Commission "Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (13 December 2024), Table 1.1 available at https://comcom.govt.nz/regulated-industries/retail-payment-system.

1. Personal domestic debit

Our final decision is to make no change to the current interchange fee caps for domestic debit transactions.

Overview of our final decision on domestic debit cards

3.3 We have made no change to the domestic debit caps from the initial pricing standard. The only transactions excluded from the domestic debit caps are those using prepaid cards. Any transactions using commercial debit cards are captured by the debit fee caps, as is the case under the current standard.

3.4 We have maintained the current domestic debit caps to provide reasonably sufficient margins for alternative payment providers and small issuer banks to compete.

What we heard from submitters

3.5 Several submissions expressed concerns about the contacted debit interchange fee cap leading to underinvestment in the Eftpos network. Some submitters considered that interchange fee caps could be lower for debit and aggressively capped at a fixed fee. Other submitters were concerned that the draft caps could hinder the growth of small card issuers and open banking.

Domestic in-person contacted debit

Our final decision is to retain the interchange cap of 0.00% for domestic in-person contacted debit transactions.

Final decision

3.6 We have retained a contacted debit interchange fee cap of 0.00%. This cap only applies to contacted debit transactions processed on the Mastercard and Visa networks. There is no change from the initial pricing standard or our draft decision. As highlighted in Visa's submission, the initial pricing standard formalised a longstanding practice pre-dating the Act where dual-network debit card transactions are routed through Eftpos with a 0.00% interchange fee.[100]

3.7 Transaction volumes of this type on the Mastercard and Visa networks are low, as most in-person contacted debit transactions are processed on the Eftpos network.

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[100] Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p6.

What we heard from submitters

3.8 We acknowledge points raised in submissions on the efficiency of the Eftpos network and the lack of incentive to innovate. However, the Eftpos network is not designated under the Act and we do not have powers to regulate pricing on this network.

Domestic in-person contactless debit

Our final decision is to retain the interchange cap of 0.20% for domestic in-person contactless debit transactions.

Final decision

3.9 We have retained a contactless debit interchange fee cap of 0.20%. There is no change from the initial pricing standard or our draft decision.

What we heard from submitters

3.10 No submissions proposed changing the contactless debit cap. Visa submitted that with contactless debit interchange at 20bps:

> […] we have struck the right balance of incentives for both sides of the digital payments ecosystem, as evidenced by the widespread adoption and acceptance of contactless debit across New Zealand.[101]

Domestic online debit

Our final decision is to retain the interchange cap of 0.60% for domestic online debit transactions.

3.11 We have retained a domestic online debit interchange fee cap of 0.60%, in line with the initial pricing standard. This represents an increase of 0.20% from the proposed cap of 0.40% in our draft decision. Our rationale for the premium on online transactions, over the cap for in-person transactions, is outlined in section three below.

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[101] Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p30.

2. Personal domestic credit

In-person credit

Our final decision is to reduce the existing interchange fee cap to 0.30% for domestic in-person credit transactions (excluding commercial credit).

Final decision

3.12 We have set an interchange fee cap of 0.30% for in-person domestic personal credit transactions, which reflects a 0.10% premium to the debit rate and is a reduction from the current rate of 0.80%. This cap reflects appropriate international benchmarks, differences in underlying issuer costs and profitability compared to debit products, and benefits to merchants and credit cardholders.[102]

Draft decision

3.13 Our draft decision proposed aligning domestic credit and debit interchange fee caps to 0.20% for in-person transactions and reducing the current initial pricing standard rate of 0.80% to 0.40% for online transactions. These caps were intended to reduce costs for merchants through a lower merchant service fee, and align credit and debit interchange fee caps for increased simplicity, uniformity and efficiency within the designated networks, while recognising the different considerations for online transactions that justified a higher cap.

3.14 We considered that, as no direct link between interchange revenue and issuer investment in fraud prevention had been found, fraud prevention costs could partially be either absorbed or funded through different card fees. This would increase efficiency by reducing cross-subsidisation. The incentive on issuers to prevent fraud would exist independent of interchange fee rates.

[102] Consideration of publicly available information and expert reports on credit product profitability. See Dr W. Bolt "The Retail Payment System in New Zealand – Efficiency, pricing and competition" (December 2023), p15. Issuer profitability data was not provided in submissions.

3.15 We also noted that credit cards allow consumers to defer payments and smooth their consumption. And that credit cards mean merchants do not need to provide credit to consumers themselves. We also considered that the ad valorem fee structure captures the larger average credit transaction size. Finally, we noted arguments in favour of undertaking a cost-benefit analysis, but we were hindered by a lack of detailed quantitative evidence and a lack of support for such an approach in the economic literature.[103]

What we heard from submitters

3.16 Submitters generally opposed both the proposed reduction of credit interchange fee caps and the alignment of credit and debit rates.

3.17 Some submissions argued that the proposed rates fell below comparator jurisdiction benchmarks and didn't account for the different nature of the comparator payment systems and lower economies of scale in New Zealand.

3.18 Many submitters pointed out that credit products have higher underlying costs due to interest-free periods, higher fraud rates and more complex administration and operation of credit than debit accounts.

3.19 Some submitters considered that the credit caps in our draft decision were insufficient to cover higher fraud risk, incidence and losses for credit cards. For example, Visa [redacted][104] ANZ also stated in their submission that credit cards are susceptible to "much higher" rates of fraud.[105]

3.20 Some submissions stated that we should consider consumer and merchant benefits more comprehensively. They argued there is insufficient consideration of merchant and consumer benefits and, despite referencing the MIT, we have not applied it.

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103 Despite specific calls for substantive quantitative information for individual transaction types, we did not receive cost data appropriately apportioned to credit payment products to allow for a comprehensive cost study to be undertaken. We chose not to pursue gathering quantitative information further due to the limitations of a cost study approach, as discussed in the 'Our methodology for determining appropriate caps' section of Chapter 2.

104 Visa " Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p35.

105 ANZ "ANZ Bank New Zealand Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), p19.

Applying our methodology in response to submissions

Step one: Starting with benchmarks

3.21 By applying a 0.10% premium over the contactless debit rate, we align our rates with the EU. We have further analysed our selected comparator jurisdictions (given the small number of jurisdictions that currently regulate interchange fees) and the impacts of their respective personal domestic credit interchange fee caps.

Step two: Considering the New Zealand context

3.22 We have considered and addressed differences between credit payment markets in comparator jurisdictions and New Zealand. Despite the much larger size of the EU credit payment market, we consider similar sized markets such as Denmark, Finland, Ireland and Norway, within the EU, support the implementation of similar rates in New Zealand.

3.23 We also considered further factors, such as the higher credit prevalence in New Zealand than in similar sized countries in the EU, and the existence and prevalence of Eftpos in New Zealand. We consider the higher credit prevalence further mitigates concerns of differences in economies of scale between New Zealand and comparator jurisdictions. We consider the high prevalence of Eftpos in New Zealand may make differences in economies of scale more pronounced due to fewer card transactions earning interchange. However, some comparator jurisdictions also have domestic card payment schemes, limiting this potential impact.

3.24 Another consideration was the potential restrictions the CCCFA imposes on issuers' ability to recover a reduction in interchange revenue through other credit card fees. Therefore, we have ensured the interchange fee levels we have set are sufficient to cover necessary costs for issuers, as discussed below.

Step three: Considering relevant costs and benefits

3.25 While a material difference in fraud costs exists between credit and debit, there is a substantially greater difference between in-person and online transactions and between domestic and foreign-issued card transactions. Our final decision of a 0.10% premium for credit cards above the rate for contactless debit sufficiently reflects the difference in fraud rates compared to debit cards. We consider the cost differences are substantial enough to justify not aligning credit rates with debit rates and moving away from our draft decision, despite the complexity this adds.

3.26 We also reviewed expert reports and literature that demonstrates consumers and merchants are likely to enjoy greater net benefits for credit rather than debit products.[106] We considered how credit payment products allow consumers to smooth their consumption and make purchases with greater flexibility, which also induces demand for a merchant's goods and/or services, to some extent. We also considered that, because issuers provide credit to their cardholders, merchants are not required to provide credit to their customers in order to enjoy the benefits that credit provides them.

3.27 We consider our new cap accounts for these greater benefits. Our new cap is lower than the current rate as we consider there is an inefficient cross-subsidisation of some benefits for credit consumers. For example, we consider the extensive interest-free periods offered by issuers is an indication that current rates are, on average, too high and that the use of such benefits by issuers to incentivise credit adoption indicates that credit customers are likely to be highly profitable. These benefits, such as longer interest-free periods and cardholder rewards schemes, are partially funded by interchange, but do not necessarily benefit merchants to the same extent as consumers. Therefore, we have applied our judgement and consider a reduction in credit interchange fees from current levels is justified.

3. Online

Our final decision for domestic online transactions is to retain the interchange fee cap of 0.60% for debit and reduce the cap to 0.70% for credit transactions.

Our final decision for online foreign-issued transactions is to introduce an interchange fee cap of 1.40% for debit transactions and 1.50% for credit transactions.

Final decision

3.28 We have decided on a premium of 0.40% for domestic interchange fees for online transactions relative to domestic in-person transactions. This results in a cap of 0.60% for debit and 0.70% for credit (reflecting the 0.10% premium on credit transactions over contactless debit transactions). This results in no change to the status quo for online debit transactions, and a reduction of 0.10% on the current cap for online credit transactions.

[106] Expert reports by Dr A. Fletcher and Dr W. Bolt available at https://comcom.govt.nz/regulated-industries/retail-payment-system?target=documents&root=355984.

3.29 For foreign-issued online transactions, we have decided on a 0.80% premium, relative to foreign-issued in-person transactions. This results in caps of 1.40% for debit and 1.50% for credit, due to the application of the foreign-issued premium over domestic caps for in-person transactions and premium for credit transactions.

3.30 These caps reflect differences in underlying issuer costs, benefits to merchants and cardholders from online payments and appropriate international benchmarks. We also recognise there will always be some uncertainty in the efficient level of a cap and we have been conservative to reflect the competition considerations discussed in paragraphs 2.32-2.36 and 2.80-2.81.

Draft decision

3.31 Our draft decision proposed reducing the domestic interchange fee for online transactions from 0.60% to 0.40% for debit transactions and 0.80% to 0.40% for credit transactions. We also proposed introducing an interchange fee cap of 1.15% for online foreign-issued card transactions.

What we heard from submitters

3.32 Submitters generally supported a premium for online transactions, but some were opposed to the level of the reduction proposed, arguing that it was an insufficient premium given the higher underlying costs for online transactions.

3.33 Some submitters provided evidence on the difference in fraud costs and prevalence between online and in-person transactions, which we took into account when evaluating differences in underlying costs.

Applying our methodology in response to submissions

Step one: Starting with benchmarks

3.34 Comparator jurisdictions generally do not distinguish between in-person and online transaction types. This has limited our ability to directly benchmark, but we have looked at the difference in the weighted average interchange fee rates between in-person and online transactions and considered available evidence on differences in the costs and benefits to set our rates.[107]

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[107] The weighted average of card-present and card-not-present interchange fees calculated from 2023 monitoring data of New Zealand interchange fee levels submitted by Mastercard and Visa.

Step two: Considering the New Zealand context

3.35 The EU does not distinguish between in-person and online domestic interchange fee caps. Unlike the EU, we distinguish these caps by applying a premium to online transactions. As a result, the average interchange fee caps that we have set for domestic transactions are higher than those in the EU. While we consider the argument that economies of scale effects make EU caps too low for implementation in New Zealand has limited credibility, for the avoidance of doubt, we have addressed this point by allowing for higher average interchange fee caps.

3.36 We have distinguished between caps for in-person and online transactions, across both domestic and foreign-issued cards, because we consider that the difference in costs and benefits between the two products are substantial enough to justify different interchange fee caps, as discussed below. We consider this sufficiently accounts for the New Zealand context.

Step three: Considering relevant costs and benefits

3.37 We also considered the benefits to merchants and consumers that are unique to online transactions. The benefits to consumers include the convenience of being able to transact on digital platforms and having greater access to both domestic and international merchants and retailers, which has some spill-over benefits for merchants. For merchants, we also considered the benefits that online transactions provide, such as having both domestic and international consumer markets made more accessible to them. While more difficult to quantify, we consider these benefits greater than the functionality of in-person transactions.

3.38 Online transactions are associated with [redacted] fraud rates according to Visa,[108] and approximately nine times more prevalent according to ANZ.[109] ANZ also submitted that online transactions make up approximately 92% of the total value of fraudulent transactions.[110] In Mastercard's submission, it stated that [redacted],[111] and Visa also referred to issuer-reported data which showed online fraud losses were [redacted] than in-person fraud losses.[112] However, we did not receive substantial quantitative evidence from submitters which would have allowed us to quantify the fraud costs for each transaction type. Therefore, we have applied our judgement and used the difference in fraud prevalence as described by submitters above, to appropriately account for different fraud costs in our caps.

3.39 We are also aware that of those fraudulent online transactions, credit and foreign-issued card transactions are likely to be overrepresented due to the higher fraud rates associated with those transaction types. We also considered the higher fraud rates of credit and foreign-issued card transactions, compared to debit and domestic transactions respectively when setting the caps for these transaction types.[113]

3.40 We recognise that setting an appropriate cap is a balancing exercise that requires us to exercise our judgement in weighing up different factors. Compared to our benchmarks, setting higher caps for online transactions appears generous to issuers. However, we have placed weight on the promotion of competition through the impact on smaller and new issuers and consider these caps are appropriately at the higher end of plausible caps. Interchange is an important part of issuers' revenue and their ability to recover costs, particularly for new or smaller issuers and potential market entrants. Online transactions are also especially relevant for these competition considerations as many smaller and new issuers operate in the online payment space, more heavily than large issuers.

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108 Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p44.

109 ANZ "ANZ Bank New Zealand Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), p19.

110 ANZ "ANZ Bank New Zealand Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), p19.

111 Mastercard "Mastercard response to the Commerce Commission’s draft decision/draft network standard on Interchange Fee Regulation for Mastercard and Visa networks." (18 March 2025), p29.

112 Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p44.

113 When setting the online cap we have ensured that fraud costs are not 'triple counted' and that issuers are not over-compensated for fraud costs in our caps where they overlap.

4. Foreign-issued cards

Our final decision is to introduce a cap of 0.60% for in-person debit (including prepaid) and 0.70% for in-person personal credit transactions on foreign-issued cards.

Our final decision is to introduce a cap of 1.40% for online debit (including prepaid) and 1.50% for online personal credit transactions on foreign-issued cards.

Final decision

3.41 We have decided to introduce caps on interchange fees for:

3.41.1 in-person foreign-issued card transactions at 0.60% for debit (including prepaid) and 0.70% for personal credit; and

3.41.2 online foreign-issued card transactions at 1.40% for debit (including prepaid) and 1.50% for personal credit.

3.42 Our final decision remains to regulate interchange for foreign-issued card transactions, but we have revised our proposed caps based on submissions. Consistent with our approach to domestic card caps, we have added differentiated caps for debit and credit cards and excluded commercial credit cards. Foreign-issued prepaid cards are capped at the same level as foreign-issued debit cards.

3.43 Our final decision on foreign-issued in-person transactions applies a premium of 0.40% over domestic in-person transactions, and a premium of 0.80% over domestic online transactions. These caps are, in general, higher than the regulated levels in our comparators. Accordingly, we consider these caps are well-placed to support foreign-issued card spending in New Zealand. We have no conclusive evidence that these caps will lead to higher decline rates of foreign-issued card transactions. We consider these caps are moving towards more efficient levels that better reflect relevant issuer costs and merchant benefits of processing and accepting foreign-issued card transactions in the New Zealand context.

Draft decision

3.44 Interchange fees for foreign-issued card transactions are not currently regulated. In our draft decision we proposed a cap of 0.60% for in-person foreign-issued card transactions and 1.15% for online foreign-issued card transactions. Our proposed rates were based on the higher fraud incidence for foreign-issued cards, benefits for merchants in expanding their customer reach, few viable alternative payment options for international customers and international benchmarks.

What we heard from submitters

3.45 Some submitters supported an interchange fee cap for foreign-issued cards, while others were against regulating foreign-issued cards. Some preferred a more simplified structure that aligns domestic and foreign-issued card caps. Some submitters disagreed with the proposed caps. Several submitters argued that caps for foreign-issued card transactions could increase decline rates and therefore impact New Zealand businesses, particularly those in tourism and international trade. A cross-submission from Tourism Industry Aotearoa urged us to mitigate the negative impact of regulation on these key industries.[114]

3.46 For example, Mastercard estimated that NZ$600 million in sales could be lost due to international issuers declining transactions. This was based on the 27% increase in decline rates on interregional transactions following the European Commission's introduction of interchange fee caps on cross-border transactions in 2019. Mastercard stated that increases in decline rates reflected changes in issuer behaviour in response to interchange fee regulation.[115]

Applying our methodology in response to submissions

Step one: Starting with benchmarks

3.47 Currently, the EU regulates foreign-issued consumer card transactions. Interchange fees for card-present foreign-issued consumer card transactions are capped at the same rates as domestically issued cards at 0.20% for debit and 0.30% for credit cards. Interchange fees for card-not-present foreign-issued consumer card transactions are capped at 1.15% for debit and 1.50% for credit cards.[116] Compared to EU's regulated rates, New Zealand merchants are paying unreasonably high interchange fees ranging from 0.60% and 2.40%.[117]

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114 Tourism Industry Aotearoa - Cross-submission - Interchange fee regulation for Mastercard and Visa networks (14 May 2025).

115 Mastercard "Submission - Commerce Commission Draft Decision on interchange fee regulation for Mastercard and Visa networks" (18 March 2025), pp11, 25.

116 EU foreign-issued card caps sourced from https://ec.europa.eu/commission/presscorner/detail/en/ip_19_2311 (accessed 16 June 2025).

117 Mastercard international rates sourced from https://www.mastercard.com.au/en-au/business/overview/support/interchange.html (accessed (13 June 2025). Visa inter-regional interchange fee rates sourced from https://www.visa.com.au/about-visa/inter-regional-interchange.html (accessed 13 June 2025). Visa intra-regional interchange fee rates sourced from https://www.visa.com.au/about-visa/ap-intra-regional-interchange.html (accessed 13 June 2025).

3.48 Australia currently does not cap interchange fees on foreign-issued cards.[118] Mastercard and Visa apply the same interchange fee rates on foreign-issued card transactions to merchants in both New Zealand and Australia.

Step two: Considering the New Zealand context

3.49 We have considered the risk of changes in foreign issuer incentives and increased decline rates on foreign-issued card transactions as a result of the new caps.[119] We do not consider that our final decision on interchange fee caps on foreign-issued cards will negatively impact the tourism industry or economic growth in New Zealand. The EU introduced regulatory requirements mandating strong customer authentication in September 2019, one month ahead of new interchange fee regulation.[120] It is therefore unclear whether the decline rates referred to by Mastercard and Visa are due to interchange fee adjustments or the new authentication requirements.

3.50 Visa submitted data [redacted].[121] However, given the data also show decline rates on international transactions (which are currently unregulated) increased by similar magnitudes, it is not obvious that domestic interchange fee regulation is the cause of higher decline rates, both for domestic and cross-border transactions.

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118 Although the Reserve Bank of Australia is considering regulating these transactions as part of its review of retail payments regulation. See Merchant Card Payment Costs and Surcharging – Issues Paper – October 2024, p12 available at https://www.rba.gov.au/payments-and-infrastructure/review-of-retail-payments-regulation/2024/pdf/merchant-card-payment-costs-and-surcharging-oct-2024.pdf (accessed 19 June 2025).

119 Expert advice from Dr W. Bolt noted it was unlikely that merchant acceptance rates in the EU on foreign-issued cards declined, given the total number of card payments within the EU increased sharply since the interchange fee regulation was implemented. Dr W. Bolt - The Retail Payment System in New Zealand - Efficiency, pricing and competition (December 2023) sections 3.2-3.3 available at https://comcom.govt.nz/regulated-industries/retail-payment-system. Charles River Associates, on behalf of Visa, [redacted]. Visa/CRA "Costs and benefits of regulating interchange fees - An economic assessment of the New Zealand Commerce Commission's Draft Decision" (18 March 2025), p58.

120 Sourced from https://finance.ec.europa.eu/publications/strong-customer-authentication-requirement-psd2-comes-force_en (accessed 17 June 2025).

121 Visa/CRA "Costs and benefits of regulating interchange fees - An economic assessment of the New Zealand Commerce Commission's Draft Decision" (18 March 2025), pp66-67.

3.51 We identified the countries where most inbound tourists to New Zealand reside. Issuers in Australia, USA, China, UK and India will be most affected.[122] Tourists can choose to visit New Zealand or many other countries in the world. Given the smaller New Zealand market size and the smaller magnitude of interchange fee reduction we have decided on, compared to the EU's 2019 reductions, the revenue reduction per foreign issuer across these countries is unlikely to be significant enough for foreign issuers to make a material change to their decline rates or behaviour. It would also be a reputational risk to introduce an exception to global acceptance of Mastercard and Visa cards.

3.52 We understand from our meetings with large New Zealand issuers that they did not adjust their authorisation rates following the EU regulation, despite the larger reduction in interchange fee caps there relative to what we have decided. We consider we have set the caps at an appropriate level that is unlikely to have any material impact on decline rates.

3.53 Visa argued there was no valid rationale for setting caps below the regulated rates in the EU and unregulated rates in the United Kingdom and Australia when New Zealand is a smaller market. They argued that due to the small size of New Zealand, foreign issuers would be more likely to choose to increase cardholder fees or stop offering cross-border transactions if caps were to be introduced.[123] Our final caps for in-person debit and credit, and online debit foreign-issued card transactions materially exceed the EU caps. Foreign-issued online credit is aligned with the EU cap. Combined with issuer income from transaction fees on currency conversions, we consider there will remain strong commercial incentives for foreign issuers to support their consumers transacting in New Zealand.

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[122] During the 12-month period ending March 2025, the highest number of international visitors were from Australia, USA, China, UK and India. Sourced from Stats NZ https://infoshare.stats.govt.nz/ (accessed 14 May 2025).

[123] Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p49.

3.54 Visa further argued that benchmarking the EU levels for online foreign-issued card transactions was irrelevant as they were set based on bank transfer costs in the specific context of receiving payments from outside the SEPA.[124] We acknowledge the cost of receiving overseas bank transfers for New Zealand merchants differs from the cost of receiving payments from outside the SEPA for merchants in the EU. We have considered this and set caps that take into account the relative cost and benefit of accepting foreign-issued cards for online transactions compared to domestically issued cards for New Zealand merchants.[125]

Step three: Considering relevant costs and benefits

3.55 Our final decision reflects greater compensation for higher fraud risk in foreign-issued card transactions, particularly online transactions, where the risk is highest compared to domestic transactions, as raised by multiple submitters.

3.56 These higher caps also reflect the greater relative merchant benefits of accepting Mastercard and Visa cards for cross-border transactions. Alternatives such as Eftpos for in-person transactions and account-to-account solutions for online transactions are not viable options for merchants. We consider merchants' greater convenience benefits of accepting Mastercard and Visa for foreign-issued card transactions warrant higher caps compared to domestic caps.

Inclusion of foreign-issued prepaid cards

3.57 All foreign-issued prepaid card transactions will be capped at the same rate as foreign-issued debit cards. We have left domestic prepaid unregulated to support competition and efficiency in the domestic card issuing market.[126] In contrast, the impact of our decision on competition and efficiency in foreign card issuing markets is not a factor we can consider in our decision, provided interchange is at a level which ensures foreign issuers continue to allow the use of their cards in New Zealand, and merchants in New Zealand continue to benefit from expanding their reach to international consumers for both in-person and online sales.

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124 Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p52.

125 We note SEPA includes EU countries with currencies other than the Euro, such as Denmark and Norway, which have a similar population size compared to New Zealand. The New Zealand Dollar is more commonly traded than the Danish or Norwegian Krone. Therefore, we consider the experience in these countries where foreign-issued card transactions continue to be processed at the regulated levels supports our rationale for introducing interchange fees caps for foreign-issued cards in New Zealand.

126 Further information on this decision can be found in paragraphs 3.66 to 3.70.

Exclusion of foreign-issued commercial credit cards

3.58 Foreign-issued commercial credit card transactions remain uncapped, consistent with our approach to domestic commercial credit cards, discussed below.

5. Commercial credit

Our final decision is to leave commercial credit card transactions uncapped at this time.

Final decision

3.59 We have decided not to cap interchange fees for domestic or foreign-issued commercial credit card transactions at this time. This represents a change from our draft decision, following significant submission and cross-submission feedback.

3.60 Based on the information that we currently have, we consider interchange fees on commercial credit cards to be excessive. However, we do not yet have sufficient information to determine an appropriate cap and would need to seek information to undertake this analysis. This is because these card types are not consistently regulated in other jurisdictions and information that we currently hold about relevant costs and benefits is insufficient. We will consider consulting further on interchange fee caps for commercial credit transactions, unless we see these fees come down significantly.

Draft decision

3.61 We proposed introducing a cap for domestic commercial debit and credit cards in our draft decision, capped at the rate of 0.20% for in-person and 0.40% for online.

What we heard from submitters

3.62 Submissions suggested that commercial credit cards provide an important line of credit and working capital that supports growth in New Zealand, particularly by small to medium enterprises.[127] Commercial credit cards also provide data management and reporting. Submitters argued that these cards should be funded via interchange as there is no, or relatively low, interest charged on these cards and balances are generally designed to be paid in full each month.

[127] For example, Mastercard "Cross-Submission in response to submissions to the Commerce Commission's proposed interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (12 May 2025), paragraph 1b, p2.

3.63 Some submitters stated that capping commercial credit cards would be inconsistent with international benchmarks.[128] Commercial credit cards are not regulated in many markets and where they are, international benchmarks are generally higher than the levels proposed in the draft decision. Businesses may also migrate to more expensive alternatives, like American Express. Cross-submissions suggested a reduction in interchange could increase costs to businesses through tighter credit conditions, higher fees and fewer value-added features.

3.64 In our view, many of these submissions illustrate that merchants are paying a material premium for benefits they are unlikely to be willing to pay for separately. For example, merchants may be willing to contribute via interchange to support availability of commercial credit, effectively replacing the need for merchant-provided credit. However, merchants have little incentive to do so when it comes to financial reporting and data management services which are provided at no cost to the commercial credit cardholder's business and offer no direct benefit to the merchant. A Retail New Zealand poll also indicated that lower interchange was more important than rewards and other benefits to most of its members.[129]

3.65 We are concerned that generous commercial credit card benefits are being cross-subsidised by others in the system through high and growing interchange fees. The total value of interchange for domestic commercial credit has grown faster than the total transaction value of domestic commercial credit between 2019 and 2023.[130]

6. Domestic prepaid

Our final decision is to leave domestic prepaid card transactions uncapped at this time.

Final decision

3.66 We have decided to exclude all domestic prepaid card transactions from interchange fee regulation at this time. This represents no change from our draft decision.

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[128] We note some submitters supported capping domestic commercial cards in principle, and that BNZ opposed submissions calling for a commercial cap exemption. See BNZ "Cross-submission re Interchange Fee Regulation for Mastercard and Visa Networks - Draft Decision and Reasons Paper" (13 May 2025), paragraphs 6.1-6.2.

[129] Retail NZ " Draft Decision on interchange fee regulation for Mastercard and Visa networks" (18 March 2025), p4.

[130] This is across Mastercard and Visa and obtained through our ongoing monitoring.

Draft decision

3.67 Our draft decision proposed not regulating domestic prepaid cards for two reasons. First, to support competition and innovation in the card issuing market as prepaid cards are often gateway products for fintechs, new entrant banks and the underbanked. Secondly, we consider the very low volume and value of prepaid card transactions does not yet warrant regulation.[131] We consider the possible detrimental impact on competition and innovation outweighs the benefits of more efficient interchange fees for these products.

What we heard from submitters

3.68 Submitters generally agreed that prepaid products are a gateway product that enables smaller card issuers, particularly fintechs, to compete. However, some commented that excluding prepaid is insufficient on its own to provide new entrants incentives to compete and innovate. We acknowledge these concerns, and this is also factored into our decision on domestic debit caps. Some submitters were opposed to leaving prepaid interchange unregulated, particularly to carving out one product type, and preferred a consistent cap that would also apply if prepaid experienced growth.

3.69 In cross-submissions, some stakeholders supported excluding prepaid cards from regulation to support competition between banks. BNZ reiterated its view that prepaid cards should be regulated for consistency.[132]

3.70 By leaving prepaid card interchange uncapped, we acknowledge that issuers may increasingly move to domestic prepaid products. We will monitor trends in prepaid products.

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131 This is based on the total number of transactions processed on the Mastercard and Visa networks in 2023 from our ongoing monitoring. For example, in 2023 the domestic prepaid share of total transaction value was [redacted].

132 BNZ "Cross-submission re Interchange Fee Regulation for Mastercard and Visa Networks - Draft Decision and Reasons Paper" (13 May 2025), p4.

Alternative approaches considered

We decided against an exemption for small issuers

3.71 We acknowledge submissions proposing a fintech or challenger specific exemption from regulation. However, introducing differentiated interchange fee caps based on issuer size would increase the complexity of the fee structure and make it more difficult to determine applicable caps. We consider the potential efficiency gains would be small relative to these additional costs, especially considering the existing differentials already in place for industry and strategic merchants.

We decided against fixed flat fee caps

3.72 Current interchange fee caps are a mix of percentage-based rates and fixed flat fees - whichever is lower. Independent Payments Forum submitted that debit interchange fees should be capped at a fixed flat fee.[133] Our view is that percentage rate caps on interchange fees are easier to standardise and decrease complexity. This approach makes sense given that interchange fees exist, to some extent, to cover relevant issuer costs, some of which are related to the size of the transaction.

3.73 We note that an interchange fee may be charged as a flat fee, so long as that fee complies with the applicable cap when expressed as a percentage of the transaction value.[134]

Implementation

3.74 In our draft decision we proposed that the final interchange fee caps should be implemented by 1 November 2025.

3.75 After considering submissions and further information provided in response to our 21 May process update, we have decided on a staggered implementation period. Participants must implement the:

3.75.1 revised interchange fee caps by **1 December 2025** for products which are currently regulated - **personal credit cards**;[135]

3.75.2 new **anti-avoidance** methodology from **1 December 2025**; and

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[133] Independent Payments Forum "Draft Decision on interchange fee regulation for Mastercard and Visa networks" (7 February 2025), p1.

[134] As set out in clause 7.3 of the Mastercard and Visa Interchange Fee Network Standard 2025.

[135] The interchange fee caps for domestic debit cards remain unchanged from the current regulation.

3.75.3 new interchange fee caps by **1 May 2026** for products which are not currently regulated - **foreign-issued cards**.[136]

3.76 Stakeholders are free to implement these changes prior to the deadlines.

3.77 We consider this staggered approach, together with the advance notice provided in the 21 May 2025 process update, strikes an appropriate balance.[137] It ensures the benefits to merchants and consumers from interchange fee reductions are promptly realised, while recognising the numerous steps involved in accurately implementing interchange fee changes which require a coordinated response across the industry. As highlighted in submissions, these steps include repricing merchants, impact analysis, technology and system changes, testing, contractual amendments, customer communication and education.

3.78 Allowing nine months to implement changes for foreign-issued cards recognises that, as raised in submissions, implementing these changes may be more complex and take longer, including because they require more coordination with overseas parties. This recognises the complexity of implementing foreign-issued card caps including challenges like global change release windows and pre-existing minimum notice periods, and also allows for any unforeseen 'teething issues'.

3.79 We expect the changes to currently regulated domestic products to be more efficient due to existing systems and processes for implementing such changes and the benefit of experience. The changes required to be implemented by 1 December 2025 are also limited - as the maximum caps for domestic debit remain unchanged from the current regulation, participants are only required to implement changes for domestic credit interchange fees by this date.[138]

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136 In our 21 May process update we notified stakeholders that we had decided that the new caps must be implemented by 1 April 2026. After considering further correspondence from Mastercard and Visa in response to that update, we have decided to allow until 1 May 2026 to implement these caps. See Commerce Commission "Interchange fee process update – timing of our final decision and early notification of the final implementation period" (21 May 2025). Available at https://comcom.govt.nz/__data/assets/pdf_file/0030/366348/Retail-Payment-System-Interchange-fee-regulation-process-update-Final-decision-timing-and-implementation-period-21-May-2025.pdf.

137 See Commerce Commission "Interchange fee process update – timing of our final decision and early notification of the final implementation period" (21 May 2025).

138 The initial pricing standard also stated that interchange fees must not exceed the lower of the stated rates or the interchange fees per transaction as at 1 April 2021. The reference to April rates is not part of the new pricing standard.

Expectations

3.80 We expect merchant service fees and surcharges to reduce because of the new pricing standard. An impact study on merchant service fees will follow implementation, and we will report our findings.[139] We will be seeking further information from card issuers on commercial credit transactions to support future potential regulation.

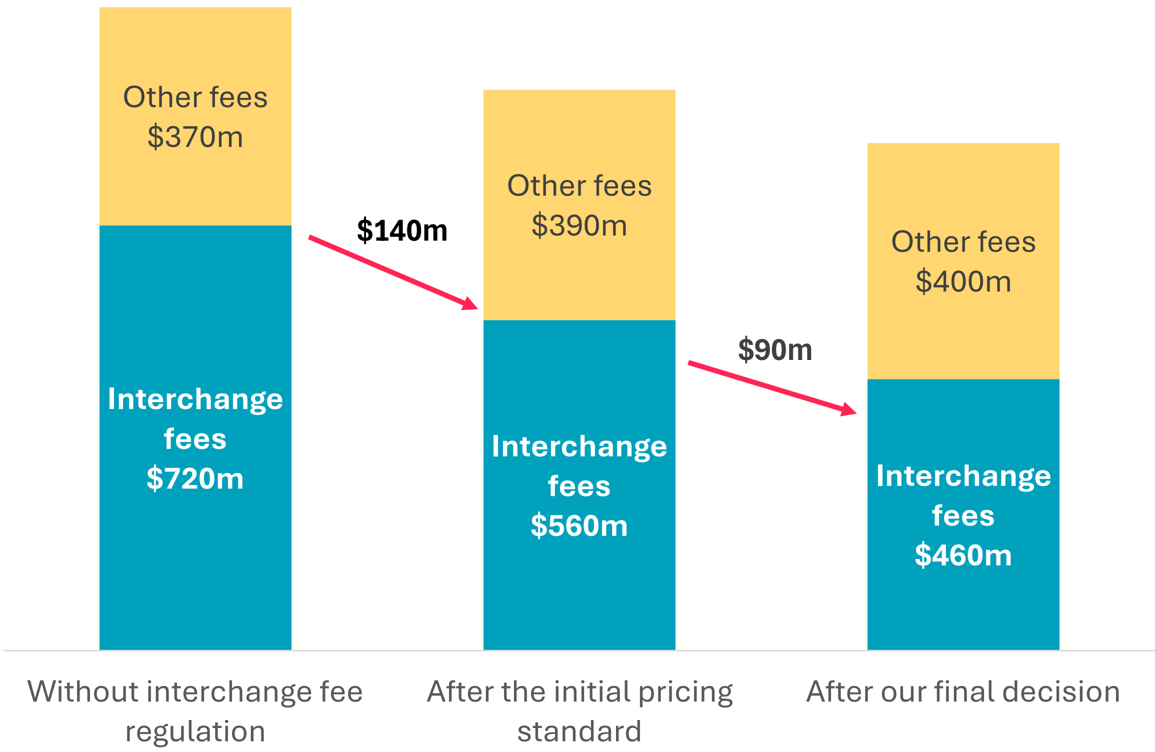
3.81 We will be monitoring the non-interchange components of the merchant service fee, specifically acquirer scheme fees, and may look to take action if these are increasing to offset interchange fee regulation. We will also track transaction volumes on higher cost networks such as American Express and Buy Now Pay Later networks, as these transactions drive up total merchant service fees paid by New Zealand merchants.

[139] Similar to what we did following the introduction of the initial pricing standard.

Chapter 4 Expected benefit of further regulation

4.1 We expect this interchange regulation will further reduce merchant costs by $90 million each year and benefit consumers through lower retail prices and/or surcharge rates.[140] **Figure 4.1** shows the estimated impact of interchange fee regulation on merchant service fees. We will undertake a review to check this post implementation. We are also putting new anti-avoidance measures in place and will monitor compliance following implementation.

Figure 4.1 Expected annual reduction in merchant service fees



140 In our observations paper we estimated $105 million pass-through based on nine months of data following the implementation of the initial pricing standard. Since then we have obtained the full 12 months of data directly from Mastercard, Visa and acquirers as part of our ongoing monitoring work. The estimated annual reduction in merchant service fees from our final decision are based on transaction and interchange fee data for 2023 submitted by Mastercard and Visa, scheme and other fee data for 2023 submitted by the nine largest acquirers, and applying the 90% pass-through rate of the savings from the initial pricing standard that we observed from the data submitted by the acquirers. We have excluded transactions with unidentified card types from our calculations. Actual savings per year will depend on, among others, the value and mix of transactions in that year. See "Observations on the impact of interchange fee regulation", p6 (9 August 2023) available at https://comcom.govt.nz/regulated-industries/retail-payment-system.

We expect our interchange regulation to reduce merchant costs

4.2 We expect acquirers and payment service providers to pass on the benefits of interchange fee reductions to merchants through lower merchant service fees. We also expect Mastercard and Visa will not increase acquirer scheme fees to fund issuer compensation and circumvent the intended benefits of interchange fee regulation. We will be monitoring the changes in acquirer scheme fees. Other jurisdictions have seen increases in these fees following interchange fee regulation.[141]

Review of pass-through following implementation

4.3 We intend to conduct a review of pass-through post implementation and report on our findings. We will monitor changes to uptake, transaction volumes and merchant costs on both the regulated and unregulated portions of the Mastercard and Visa networks and on other higher cost payment options, including Buy Now Pay Later and American Express.

We expect interchange regulation to benefit consumers

4.4 We expect merchants to pass on the benefits of lower merchant service fees resulting from interchange fee regulation to consumers through lower retail prices and/or surcharge rates.

4.5 We want to see excessive surcharging stop and any surcharges to better reflect actual costs. We expect any surcharges to reflect actual merchant service fees and any reductions passed through to consumers. Given current surcharging practices, we expect regulation will be needed to achieve this.[142]

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141 A PSR market review noted scheme fees almost doubled following interchange fee regulation, offsetting the savings for merchants and prompting a review into scheme fees. See PSR "Market review into card scheme and processing fees" (April 2025) available at https://www.psr.org.uk/our-work/market-reviews/market-review-into-card-scheme-and-processing-fees/.

142 As noted in paragraphs 1.20 1.20to 1.24.

We are putting new anti-avoidance measures in place

The current provision and its challenges

4.6 We are moving away from the current anti-avoidance mechanism which applies a 'purpose test'. This mechanism places a limit on payments or other benefits being provided to an issuer for the purpose of compensating it for the effect of interchange fee regulation. This was designed to ensure that the schemes did not seek to compensate issuers for any reduction in interchange fees at the expense of acquirers, with those costs ultimately being passed through to merchants. This flow of value from acquirers (for example, through increased scheme fees) to issuers (for example, through reduced net scheme fees) acts as an interchange fee in effect, reducing the benefit of interchange fee regulation for merchants and consumers.

4.7 We understand that the ambiguity of the 'purpose test' in the current mechanism may deter Mastercard and Visa from reducing net scheme fees and limit competition between the schemes in negotiating arrangements with issuers. We do not want to unduly restrict Mastercard and Visa from improving the compensation of card issuers, so long as it is not at the expense of acquirers, merchants and ultimately consumers. We have therefore adopted a new approach to anti-avoidance that is designed to be simpler, more efficient and less likely to produce unintended consequences than the current approach.

Our new approach to anti-avoidance is a mathematical ceiling on issuer compensation

4.8 Our new anti-avoidance mechanism is a mathematical approach, introducing a 'ceiling' to the compensation that can be received by an issuer. The approach requires that, for each reporting period, Mastercard and Visa may not provide 'net compensation' to any direct issuer. That is, Mastercard and Visa may not permit or arrange for an issuer to receive more in benefits and other incentives than the issuer pays in scheme and other fees to Mastercard or Visa.

4.9 In further reducing interchange fees, Mastercard and Visa may wish to lower net issuer scheme fees to maintain incentives. The new anti-avoidance provisions may enable Mastercard and Visa to compete more aggressively for issuing business without having to be concerned about falling foul of the net compensation provision.

4.10 Our new approach also provides greater certainty for regulated parties as the assessment of compliance is a clearer mathematical exercise. This should limit any unintended impacts of the current anti-avoidance mechanism which may be unduly stifling competition between schemes for issuer business.

4.11 While the mathematical approach will go a long way in addressing the challenges with the current provision, we are conscious of the risk that the schemes may seek to increase acquirer fees to fund greater issuer compensation. We intend to monitor these fees and are considering the need for information disclosure requirements.

4.12 Our new approach is largely based on the approach taken in Australia. More closely aligning our approaches will make it simpler for those participants who are already familiar with the Australian obligations.

4.13 Please refer to clause 8 of the accompanying pricing standard for further details about the anti-avoidance mechanism.[143]

Submitters generally supported our proposed anti-avoidance approach

4.14 Submitters generally supported our proposed anti-avoidance approach set out in the draft standard and draft decision paper.

4.15 Some submitters asked for clarification on the scope of net compensation and where obligations sit. The standard clarifies that the calculation of net compensation is limited to domestic transactions. We have also introduced definitions to clarify that net compensation obligations apply to 'direct issuers' but that compensation and payments relating to any 'indirect issuer' that the direct issuer sponsors are included in the assessment of whether net compensation has been provided.

[143] Mastercard and Visa Interchange Fee Network Standard 2025 clause 8, pp 10-12.

4.16 Mastercard and Westpac sought further clarification on whether issuers have obligations to monitor and ensure compliance with net compensation requirements.[144] We consider it appropriate that the primary obligation to ensure compliance sits with the schemes given their role in setting compensatory arrangements. However, issuers still have obligations to monitor and ensure compliance, noting a participant may be liable for a pecuniary penalty if they have been involved in a contravention of a pricing standard (see s 39(1)(b) of the Act).[145]

4.17 **Attachment B** provides a more in-depth summary of and our responses to submissions on the anti-avoidance mechanism and other pricing standard changes.

Clarification on duplicate definitions and amending the Act

4.18 Some submitters asked why certain terms (like acquirer and issuer) are defined both in Schedule 1 of the Act and in the new pricing standard. The terms defined in Schedule 1 were originally included for the initial pricing standard and will no longer apply once the new standard comes into effect.[146] Therefore, while those terms will continue to exist in Schedule 1 until such time as the Act is amended, they will cease to have any effect from the commencement of the new standard.

4.19 The pricing standard regulates interchange fees for any ‘domestic transaction’ and any ‘inbound cross-border transaction’ – see clause 6 of the pricing standard for the applicable definitions. Any transaction that does not qualify as either of these transaction types is not subject to an interchange fee cap under the pricing standard.

144 Mastercard "Mastercard Submission - Commerce Commission Draft Decision on interchange fee regulation for Mastercard and Visa networks" (18 March 2025), p34; Westpac "Westpac New Zealand Limited - Submission to Commerce Commission New Zealand on Interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (18 March 2025), p11.

145 Our views on who is responsible and may be liable for ensuring compliance with the current standard is set out in the following guidance, and these views remain applicable to the new standard: Commerce Commission "Retail Payment System Act 2022: Guidance on the initial pricing standard" (15 December 2022). Available athttps://comcom.govt.nz/__data/assets/pdf_file/0015/301821/Retail-Payment-System-Guidance-on-the-initial-pricing-standard-15-December-2022.pdf.

146 Retail Payment System Act 2022, clause 9(3) of Schedule 1.

Compliance monitoring following implementation

4.20 Monitoring compliance with the initial pricing standard will continue up until 1 December 2025 (the date the amended domestic caps and new anti-avoidance provision come into effect). We will liaise with stakeholders on our timing and approach to this monitoring, including how best to seek information for the part period from 1 July 2025 to 30 November 2025.

4.21 We are currently considering our approach to monitoring compliance with the new standard from 1 December 2025 to 30 June 2026 (the end of the first 'reporting period' for the anti-avoidance mechanism) and beyond. We will communicate this decision to relevant participants in due course.

Attachment A Our legal framework

Purpose

A1 This attachment sets out the framework under the Retail Payment System Act 2022 (the Act) that the Commission has applied in considering whether, and on what terms, to further regulate interchange fees by issuing a new pricing standard.

Overview of the Act

A2 The purpose of the Act is to promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand.[147] The Act gives the Commission a range of functions and powers which must be carried out for the statutory purpose, including:

A2.1 recommending a network is designated;

A2.2 regulating designated networks and their participants through issuing network standards and/or giving directions relating to network rules;

A2.3 issuing merchant surcharging standards;

A2.4 market monitoring and disseminating information; and

A2.5 investigating, compliance monitoring and enforcement.

Meaning of key terms

Retail payment system, networks and participants

A3 The retail payment system is the system comprising all retail payment networks. A retail payment network (**network**) means all participants, arrangements, contracts, and rules that facilitate a class of retail payment.[148]

[147] Retail Payment System Act 2022, s 3.
[148] Retail Payment System Act 2022, s 7.

A4 A participant of a **network** means either a person that:

A4.1 **Network operator** – is wholly or partly responsible to the participants (or any of them) for the network rules and/or operates or manages the network or the core infrastructure of the network;[149] or

A4.2 **Service provider** – provides or facilitates the provision of payment services in the network (for example, a payment or an infrastructure service provider), but does not include a merchant.

Merchants and consumers

A5 A consumer is defined as a person (including any individual or business) that acquires goods and services from a merchant.[150] A merchant means a supplier (within the meaning of the Fair Trading Act 1986) of goods or services.[151] In this decision, we use the terms "businesses" and "merchants" interchangeably and these terms include entities such as the Crown, individuals, and sole traders.

A6 Under these definitions a business is a 'consumer' when it acquires goods and services from a merchant (ie, in a business-to-business transaction).

Competition and efficiency

A7 We have interpreted 'competition' to refer to "workable or effective competition" (as defined in the Commerce Act 1986) rather than the theoretical concept of perfect competition.

A8 While the High Court acknowledges that there is no consensus on the precise conditions that define workable competition, it provided the following practical formulation:[152]

> [14] A workably competitive market is one that provides outcomes that are reasonably close to those found in strongly competitive markets. Such outcomes are summarised in economic terminology by the term "economic efficiency" with its familiar components: technical efficiency, allocative efficiency and dynamic efficiency. Closely associated with the idea of efficiency is the condition that prices reflect efficient costs (including the cost of capital, and thus a reasonable level of profit).

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149 In the context of the initial designated networks, the subject of this final decision: (a) Mastercard International Incorporated has been designated as the network operator of the Mastercard credit and debit networks; and (b) Visa Worldwide Pte. Limited has been designated as the network operator of the Visa credit and debit networks.

150 Retail Payment System Act 2022, s 7.

151 Retail Payment System Act 2022, s 7. The Fair Trading Act 1986 defines a supplier as a person who (a) supplies goods by way of gift, sale, exchange, lease, hire or hire purchase; or (b) provides, grants or confers a service.

152 Wellington International Airport Ltd & Ors v Commerce Commission [2013] NZHC 3289, at [14]-[18] and [22]-[23].

> [15] [T]he practical context is the existence of sufficient rivalry between firms (sellers) to push prices close to efficient costs. The degree of rivalry is critical. In a workably competitive market no firm has significant market power and consequently prices are not too much or for too long significantly above costs.
>
> [16] These terms are admittedly not precise. No two markets are the same and no single market stays the same. Whether workably competitive conditions exist is a judgement to be made in the light of all the information available, rather than something that can be ascertained by testing whether certain precise conditions are satisfied.
>
> […]
>
> [18] In our view, what matters is that workably competitive markets have a tendency towards generating certain outcomes. These outcomes include the earning by firms of normal rates of return, and the existence of prices that reflect such normal rates of return, after covering the firms' efficient costs.
>
> […]
>
> [22] In short, the tendencies in workably competitive markets will be towards the outcomes produced in strongly competitive markets. The process of rivalry is what creates incentives for efficient investment, for innovation, and for improved efficiency. The process of rivalry prevents the keeping of all the gains of improved efficiency from consumers, and similarly limits the ability to extract excessive profits.
>
> [23] Indeed, the term "workably competitive markets" means markets in which these tendencies are seen. The more those tendencies are seen in a market, the more the market can be regarded as workably competitive. And of course, the more competitive the market, the more those tendencies will be seen.

A9 We have interpreted 'efficiency' as a reference to 'economic efficiency' – which is, as set out in the judgment above, considered to be an outcome of workable competition. Economic efficiency encompasses three components:

A9.1 **Productive efficiency** is present when producers use inputs in such a manner as to minimise costs, subject to technological constraints;

A9.2 **Allocative efficiency** occurs when resources are allocated within the economy to the uses in which they have the highest value; and

A9.3 **Dynamic efficiency** refers to decisions made over time and includes decisions relating to investment and/or innovation that can improve productivity as well as the range and quality of services.

Commission's powers to issue network standards

A10 The Commission may issue network standards imposing requirements on designated networks and participants in those networks.[153] The Mastercard and Visa credit and debit networks are initially designated, which means that the Commission may exercise its powers to issue network standards applying to these networks and any participants in those networks.

A11 A network standard may deal with or otherwise relate to one or more of the matters listed in s 20(1) which broadly relate to information disclosure, pricing and access to network infrastructure and services. Most relevantly to this decision, a pricing standard may address pricing for payment services, including pricing principles, limits on fees and pricing method requirements.[154]

Powers to revoke and replace the initial pricing standard

A12 Schedule 1 of the Act sets an initial pricing standard which regulates interchange fees on the Mastercard and Visa credit and debit networks. The Commission may issue a pricing standard to replace the initial pricing standard in respect of all or any of the initial designated networks, with effect no earlier than 13 November 2022.[155]

Mandatory considerations for issuing a pricing standard

A13 The Commission is required to take account of several factors (referred to as '**mandatory considerations**') in deciding whether, and on what terms, to issue a pricing standard. The mandatory considerations are:

A13.1 whether issuing the pricing standard will achieve the purpose of the Act;

A13.2 the statutory principles; and

A13.3 the Section 18 criteria.

How we meet the purpose of the Act

A14 The purpose of the Act is to promote competition and efficiency in the retail payment system for the long-term benefit of merchants and consumers in New Zealand. We consider that "to promote" in the context of the purpose statement refers to advancing or furthering the objectives of workable competition and economic efficiency.

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153 Retail Payment System Act 2022, Section 17(1)-(2).

154 Retail Payment System Act 2022, Section 20(1)(b). Under Section 20(2), a pricing standard may relate to both fees and to payments having an equivalent object or effect to fees.

155 Retail Payment System Act 2022, clause 9(1) of Schedule 1.

A15 However, competition and efficiency are not objectives in themselves. Rather they are promoted for and to the extent that this is for the long-term benefit of merchants and consumers.

A16 We must therefore consider how our decisions to promote competition and efficiency in the retail payment system would be likely to impact the long-term interests of merchants and consumers.

A17 While the process of competition is assumed to promote efficient outcomes (such as cost minimisation, efficient allocation of scarce resources, and greater innovation) there may be circumstances where workable competition alone may not deliver efficient outcomes which benefit merchants and consumers in the long-term. In these circumstances we may choose to directly promote efficiency which may in turn impact competition.

A18 For example, the multi-sided nature of the Mastercard and Visa networks means that an increase in competition alone could drive up interchange fees to an inefficient level to the ultimate detriment of merchants and consumers that end up bearing the cost of these fees. In these circumstances we may choose to directly promote efficiency by prescribing a price that is more reflective of efficient costs even where this may result in a lower level of competition.

A19 The long-term benefit to merchants and consumers may therefore be achieved through a decision which promotes efficiency to a greater extent and competition to a lesser extent (or vice versa). When making our decision we are guided by our judgement as to what would better promote the long-term benefit of merchants and consumers.

A whole of system approach

A20 The Commission is required to take a whole of system approach to promoting competition and efficiency, considering whether the decision has the net result of promoting competition and efficiency across the retail payment system (which is defined to mean "the system compromising all retail payment networks") and whether and to what extent this is expected to benefit merchants and consumers in the long-term.

A21 This means we must turn our mind to competition and efficiency within the network(s) that are the subject of the decision and other networks that comprise the system, as well as how a decision impacts competition between networks.

Balancing the interests of merchants and consumers

A22 The Act seeks to promote the long-term benefit of both merchants and consumers. In assessing these long-term benefits, we will primarily be guided by the benefits to merchants and consumers as end-users of payment services. However, it may also be appropriate to consider the net benefits to society, where doing so would not detract from the purpose of promoting the long-term benefit of merchants and consumers.

A23 While 'merchants' is broadly defined, the legislative history suggests that the Act is particularly concerned with the interests of small businesses.[156] In assessing merchant benefit we will consider merchants as a whole but may give particular regard to the impacts to small businesses.

A24 We are conscious that some decisions may promote the interests of consumers to a greater extent than merchants (or vice versa). In these cases, the Commission is required to apply its judgement and undertake a balancing exercise, taking into account the respective benefits to merchants and consumers.

Principles of the Act

A25 To the extent the Commission considers them relevant, it must also take into account the following principles when exercising its functions and powers:[157]

A25.1 merchants and consumers should pay no more than reasonable fees for the supply of payment services;[158] and

A25.2 the retail payment system provides a reasonable degree of transparency.

Reasonable fees

A26 What is considered 'reasonable' fees will depend on the particular facts and circumstances, although the Commission will generally take into account factors such as:

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156 A key driver for the Act was high merchant service fees, which disproportionally affect small businesses. See, for example Retail Payment System Bill (80 – 2) (Economic Development, Science and Innovation Committee report), at 3. Note also that in the first reading of the Bill, Dr David Clark also made opening remarks that the regime is intended to ensure that the retail payment system "delivers long-term benefits to consumers and to small businesses or merchants" and made a number of remarks as to the specific issues facing small businesses.

157 Retail Payment System Act 2022, Section 4(2).

158 "Payment services" is broadly defined as services that facilitate retail payments. An example of a fee paid by a merchant for the supply of payment service is the payment of a merchant service fee to an acquirer for the acceptance and processing of card payments.

A26.1 the reasonable costs of providing the payment service to the merchant or consumer;

A26.2 a reasonable rate of return in providing the service; and

A26.3 the benefits to the merchant or consumer of the payment service.

Transparency

A27 The concept of 'transparency' is also not defined under the Act. At a principled level, we consider this refers to a state where information within the system is readily available, accessible, and easily understandable. The availability of information is subject to certain reasonable limits, however, including legal requirements relating to privacy and confidentiality.

Taking these principles into account in practice

A28 The Commission is required to take account of these principles where it considers them relevant but may only do so to the extent that doing so would be consistent with the statutory purpose.

A29 As their relevance and weight will generally depend on the extent to which they promote the statutory purpose in the context of the specific decision being made, we will exercise our judgement on a case-by-case basis.

A30 In practice, we will first consider the relevance of the principle to the statutory purpose in light of the function being carried out, weigh this up against other relevant factors and give the principle the weight that is appropriate in the circumstances.

Section 18 criteria for issuing a pricing standard

A31 In deciding whether to issue a pricing standard and on what terms, the Commission must take into account whether there are any features of the retail payment network, or any conduct of participants in the network, that reduces, or are likely to reduce, competition or efficiency. This requires the Commission to consider whether:

A31.1 there is a competition or efficiency issue in a retail payment network, or a real potential for one to arise, that is caused by the features of the network and/or the conduct of participants of that network; and

A31.2 the extent to which regulation of that network through a pricing standard, including the specific terms of that standard, is likely to deal with (in whole or in part) the features or conduct at issue.

Attachment B Submissions on anti-avoidance

Submitter	Summary of submission	Change from draft standard	Response
ANZ	Recommends 'net compensation' be limited to domestic transactions and therefore clause 8.2.1 should be amended to read: "...from a Scheme if, in respect of Domestic Transactions in a Reporting Period, the Issuer's....".[159]	Change	We agree that net compensation should be limited to domestic transactions. We have amended this definition to reflect this and avoid unintentionally capturing entirely offshore transactions outside the scope of the Retail Payment System Act 2022 (Act).
ANZ	The standard replaces subpart 3 of Schedule 1 of the Act and includes definitions that are different or in conflict with the definitions contained in subpart 1 of Schedule 1 to the Act, eg, 'acquirer', 'card', 'credit network', 'debit network'. Recommends retaining the existing definitions from clause 1 of Schedule 1 and, instead of including a separate definitions section in the standard, amending the existing definition section in clause 1 of Schedule 1 to include all relevant definitions.[160]	No change	Clause 9(3) of Schedule 1 of the Act sets out that for the purposes of revoking and replacing the initial pricing standard (IPS), the IPS includes any term defined in subpart 1 of Schedule 1 for the purpose of the IPS. We also reiterate this in clause 3.2 of the draft standard. In respect of the terms noted by ANZ defined in subpart 1 of Schedule 1, these are only defined for the purposes of the IPS and therefore those terms form part of the IPS which is being revoked.
ANZ	Recommends the definitions of 'acquirer' and 'issuer' revert to those in clause 1 of Schedule 1 of the Act, ie, the definition specified by the relevant designated network. In particular, the proposed 'acquirer' definition might capture companies who enter payment facilitation agreements with acquirers.[161]	No change	The IPS defines 'acquirer' and 'issuer' by reference to Mastercard and Visa's network rules. The key issue with this approach is that it lacks regulatory certainty as the schemes can amend these rules at any time. Our 'acquirer' and 'issuer' definitions have been informed by the definitions used in Mastercard and Visa's network rules, other jurisdictions' secondary legislation, and our statutory notices. We consider these definitions are fit for purpose and are not inconsistent with the definitions used by Mastercard and Visa. It is not clear to us (and ANZ has not explained) why it would be an issue if these companies are captured as 'acquirers'. However, we note that 'acquirer' is only used in the 'interchange fee' definition so it is only those persons that pay interchange fees that will be captured as acquirers.
ANZ	Suggests 'fair value' should refer to an 'ordinary transaction' rather than an 'orderly transaction'. Recommends the 'fair value' definition include an additional subparagraph (c): "(c) In determining the amount specified in subparagraphs (a) and (b) participants may have reference to the appropriately determined market price of the good or service in New Zealand at the relevant time".[162]	No change	The definition of 'fair value' is meant to refer to an 'orderly transaction' as this is the terminology used under Generally Accepted Accounting Principles (GAAP). We acknowledge that having reference to the appropriately determined market price of the good or service in New Zealand at the relevant time is one way of determining 'fair value' and this is in line with GAAP. However, this is only one way of determining 'fair value' and we have not sought to exhaustively set out all acceptable valuation methods under GAAP.
ANZ	Suggests 'initial reporting period' be deleted and amalgamated with the 'reporting period' definition as set out below. Reporting period means: "(a) for any new or switching issuer the date of the first issuer receipt or issuer payment (whichever is earlier) is made or received from the new scheme until the expiry of the relevant 12 month period specified in (b) below. (b) for any other issuer the 12 month period following the commencement date and then each subsequent 12 month period."[163]	No change	The 'initial reporting period' for existing issuers is the part period from the commencement date (now decided to be 1 December 2025) until 30 June 2026. However, under ANZ's definition this period would run for 12 months from the commencement date until 30 November 2026. We proposed the reporting period end on 30 June to align with the financial year for many businesses and the approach in Australia. We consider that the current drafting is sufficiently clear and gives effect to the intended policy.

[159] ANZ "ANZ Bank New Zealand Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), p24.
[160] ANZ "ANZ Bank New Zealand Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), p23.
[161] ANZ "ANZ Bank New Zealand Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), pp23-24.
[162] ANZ "ANZ Bank New Zealand Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), p24.
[163] ANZ "ANZ Bank New Zealand Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), p24.

ANZ	Recommends the 'incentive test' be amended to read: "if it is given for the purpose of, or has, or will likely have the direct effect of, one or more of the following". The word 'direct' is needed as any benefit, howsoever directed could have the effect, at least partially, of incentivising an issuer to enter into a contract or otherwise agree to issue cards from the card scheme.[164]	No change	Our policy intent is to define 'benefits' provided by a scheme to an issuer broadly for the purposes of assessing net compensation. This approach is consistent with Australia. It is also not clear what benefits may be included in the current definition that ANZ considers should be out of scope.
Westpac	Suggests 'interchange fee' should be defined in the standard and, given the importance of this term, recommends using the definition from the IPS.[165]	Change	We agree that 'interchange fee' should be defined in the standard and we have now included a definition. Our 'interchange fee' definition has been informed by the definitions used in comparator jurisdictions and the definition we have used for statutory notices. We do not agree that we should use the definition under the IPS as this is defined by reference to Mastercard and Visa's respective network rules which are subject to change by these parties. This approach also creates unnecessary complexity by having different definitions across the regulated networks.
Westpac	Notes the equivalent net compensation standard in Australia distinguishes between direct and indirect issuers, an indirect issuer being an issuer whose scheme membership is sponsored by another principal member. Recommends clarifying in the standard whether payments a direct issuer receives in respect of an indirect issuer's transactions should be taken into account in calculating net compensation for the direct issuer (and similarly with respect to any payments made to a scheme by a direct issuer in respect of an indirect issuer).[166]	Change	We have altered the definition of 'net compensation' as we consider it appropriate for the net compensation obligations to apply to direct issuers, as is the approach in Australia. We further consider that any benefits provided to, or payments made by, the direct issuer in respect of transactions of any indirect issuer that the direct issuer sponsors should be included in calculating the direct issuer's net compensation position. This ensures that all issuer-scheme arrangements are capped in some way.
Westpac	Suggests aligning the reporting period to an issuer's financial year for ease of compliance.[167]	No change	Our proposed reporting period is consistent with Australia, and we understand it has worked there. It is also most practicable to have one reporting period for all parties, particularly as the primary compliance obligation rests on the scheme and having bespoke reporting periods may make it more complex for them to monitor and report on compliance.
Mastercard	Notes the draft standard does not distinguish between new and existing arrangements and queries whether the new requirements will apply retrospectively.[168]	No change	The standard will not apply retrospectively to payments/compensation made or received prior to the commencement of the new standard, these will be subject to the current anti-avoidance provision under the IPS. The standard will, however, apply to payments/compensation made or received under existing and new arrangements on and from the commencement date. The schemes and issuers may use the implementation window to make any changes to their existing arrangements to ensure compliance.
Visa	Suggests all incentive types concerning regulated transactions that can be linked to the underlying transaction be included for consideration, regardless of whether or not they seek to compensate for the effects of the standard. Specifically recommends that: - the compensation must be able to be linked to enabling the transaction or derived as a result of the transaction taking place; and - fees related to chargebacks, and fees associated with penalties in place to support the health and growth of the ecosystem, should be excluded from consideration.[169]	Change	We consider that the 'incentive test' which determines the scope of benefits to be taken into account in the calculation of net compensation is sufficiently broad – it would capture the compensation referred to by Visa as well as other compensation which incentivises an issuer to enter into a contract or otherwise agree to issue cards from a card scheme. We agree that penalties should be excluded from the calculation of 'issuer payments' and have amended this definition to reflect this. If included, these penalties could artificially raise the 'ceiling' of compensation a scheme can provide an issuer. However, it is not clear to us (and Visa has not explained) why chargebacks should be excluded from the calculation of 'issuer payments'. Therefore, we have not excluded chargebacks.
Visa	Seeks clarification on how long the initial reporting period would be for switching issuers.[170]	No change	The initial reporting period for new and switching issuers is already defined in the pricing standard.

164 ANZ "ANZ Bank New Zealand Submission - Draft Decision and Reasons Paper on Interchange Fee Regulation for Mastercard and Visa Networks" (6 March 2025), p24.
165 Westpac "Westpac New Zealand Limited - Submission to Commerce Commission New Zealand on Interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (18 March 2025), p11.
166 Westpac "Westpac New Zealand Limited - Submission to Commerce Commission New Zealand on Interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (18 March 2025), p11.
167 Westpac "Westpac New Zealand Limited - Submission to Commerce Commission New Zealand on Interchange fee regulation for Mastercard and Visa networks – Draft decision and reasons paper" (18 March 2025), p11.
168 Mastercard "Mastercard Submission - Commerce Commission Draft Decision on interchange fee regulation for Mastercard and Visa networks" (18 March 2025), p34.
169 Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p55.
170 Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p55.

Visa	Recommends the Commission require annual information rather than quarterly or monthly reports.[171]	No change	We will take this into account when we consider our approach to monitoring compliance with these new obligations.
Visa	Recommends the Commission define 'card-not present' payment methods and engage with Visa on this definition.[172]	No change	We do not consider a card-not-present definition is necessary and we do not use this term in the standard. If a transaction is not card-present, it falls into the 'online and other payment method' bucket and is subject to that cap.

171 Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p55.
172 Visa "Response to the Commerce Commission on Interchange fee regulation for Mastercard and Visa networks - Draft Decision and Reasons Paper" (18 March 2025), p59.