



**American Express International
(NZ), Inc.**

Jarden House
Level 5, 21 Queen Street
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New Zealand

2 September 2024

Matthew Lewer (he/him)
Head of Payments
Commerce Commission | Te Komihana Tauhokohoko
Via email: [REDACTED]

**Consultation Response: Costs to businesses and consumers of card payments in
Aotearoa New Zealand**

Dear Matthew

American Express New Zealand (Amex) welcomes the opportunity to engage on this consultation with the Commerce Commission (the Commission).

As the Commission is aware, Amex has a substantially different business model to other providers. Our closed-loop network means that most Amex branded cards worldwide, and the transactions on these cards, are issued and acquired by Amex itself. This contrasts with the Visa and Mastercard network who don't issue or acquire transactions, with these processes undertaken by their member financial institutions. We do not issue debit cards in New Zealand. When considering our share of total card transactions (credit and debit) in New Zealand, [REDACTED]

In New Zealand, our fees to merchants are simple, transparent and do not vary depending on the type of Amex card or how the merchant accepts. Our fees are the same whether a card is used online, contactless or swiped, domestic or international. Amex negotiates its fees bilaterally with each merchant. Amex does not have interchange fees nor scheme fees that set a floor for merchant fees. Given our fee structure and unique business model, we do not raise concerns that have prompted this consultation.

We do, however, strongly believe that additional regulation should only be imposed where there are clear market failures and should not impact competition, innovation and consumer choice. There is no conclusive evidence internationally to support an argument that lowering interchange has resulted in increased competition or market innovation.



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We consider it too early to be able to properly assess and understand true impacts of the most recent reduction to interchange in 2022. More time and consideration should be afforded to these changes prior to any further reductions being made which can have significant impacts on the ecosystem. In comparison, the Reserve Bank of Australia (RBA) has only made two material changes to interchange regulation since interchange caps were first introduced in 2003.

Further, the RBA's 2021 Retail Payment System Review noted existing interchange settings were working well, however, also citing changes had only been in effect for 4 years, with regards to being able to make any informed empirical assessment. At the same time, a broader reform agenda is on foot in New Zealand, for example, the introduction of the Consumer Data Right and recommendation from the Commission to designate the inter-bank network. These initiatives have the potential to impact price, competition and choice in payments. We consider it prudent to observe the impacts of those taking effect before considering further steps in relation to interchange fee caps.

We encourage the Commission to focus on ways to assist merchants to better understand their competitive choices and pricing options with transparency measures being a focus over blunt pricing regulation. Amex supports measures to increase transparency to merchants, so they can better understand their costs and can make an informed choice. This may involve looking at transparency of scheme fees and criteria for strategic merchant rates for example.

Lastly, card payments play an important role in supporting overall economic growth. They do this by lifting productivity – directly through checkout efficiency and sales and payments reconciliation, but also more broadly by facilitating online commerce and supporting financial markets. Proportionate, value-led regulation of card payments is critical to maximize economic growth. International examples show nations who prioritize value-over-cost, yield better results for the economy, and for consumers.



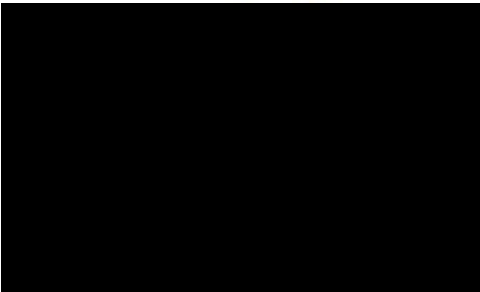
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In addition to our consultation responses below, please see the attached key findings from a study on the value of payments, published by [REDACTED]. Whilst specific to the Australian market, we consider many of the findings are applicable also to the New Zealand market. This research by [REDACTED] is the first of its kind, providing a robust empirical base on the importance value-over-cost in policy design to drive optimal economic returns for merchants and the broader economy.

We welcome any opportunity to discuss our responses or the attached research at your convenience. Should you have any questions in the interim, please do not hesitate to contact either myself or our Director of Government Affairs, [REDACTED].

Ngā mihi nui,





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Q3. Is token portability an issue in New Zealand? If yes, what is stopping the implementation of the Reserve Bank of Australia's expectations here? (all stakeholders)

Industry consultation continues on the Reserve Bank of Australia's expectations. The focus is on dual-network debit cards. Amex does not issue dual-network debit cards. More broadly, any token rules considered should be interoperable with global standards to minimise regulatory burden, mitigate market fragmentation and ensure outbound and inbound tokenized payments can be made seamlessly.

Q4. We welcome further evidence of any other issues within the New Zealand retail payment system (all stakeholders)

As evidenced by research in the EU, there has been no conclusive evidence to support an argument that lowering interchange has resulted in any increased competition or market innovation. On the contrary, the two incumbent networks, Visa and Mastercard, were able to retain their strong position, benefiting, among others from the discontinuation of Amex's licensing business in the EU.

We encourage the Commission to properly consider any unintended impacts to market competition and innovation, in particular in light of the strong position of Visa and Mastercard.

Q5. What do you consider an appropriate methodology for determining interchange fee caps in New Zealand? Why do you think this best meets the purpose of the Retail Payment System Act, and how would it be practically implemented? (schemes, issuers and acquirers)

We consider it is too early to be able to properly assess and understand true impacts of the most recent reduction to interchange in 2022.

More time and consideration should be afforded to these changes prior to any further reductions being made. Instead, we would encourage the Commission to focus on ways to assist merchants to better understand their competitive choices and pricing options with transparency measures being a next step rather than blunt pricing regulation.



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Q7. What evidence is there to support higher interchange fee rates for credit versus debit card payments? (MC/Visa/issuers)

Caps for credit and debit card interchange fees differ because credit transactions inherently involve greater complexity, risk, and cost compared to debit transactions. Credit cards offer consumers benefits such as interest-free periods and fraud protection, all of which incur additional costs for issuers. Debit transactions, on the other hand, are typically simpler and less costly to process because they involve direct transfers from a consumer's bank account and no credit extension.

This is consistent with how debit and credit caps are derived in many other jurisdictions, including the EU and UK.

Q11. Who is liable for the fraud costs associated with transactions made using a foreign-issued card? (MC/Visa/issuers/acquirers)

Liability for fraud costs associated with transactions made on a foreign-issued card depends on the transaction's nature.

Being a global card issuer, Amex invests considerably in industry-leading fraud monitoring and protection capabilities, such as the SafeKey (our 3D Secure) platform, which when deployed, shifts the liability for fraud to Amex. In addition, if customers are subject to online fraud, and have taken reasonable actions, such as protecting account details, and can provide the necessary information to our Fraud Department, customers won't be held responsible for any fraudulent charges.

Q12. We are seeking quantitative evidence of differences between levels of fraud for domestic and foreign-issued cards. (MC/Visa/issuers/acquirers)

Amex's closed loop network offers enhanced protection against fraud by allowing the company to oversee and manage every transaction from end-to-end. This integrated approach ensures that data is closely monitored and analyzed at each stage, enabling rapid identification and prevention of fraudulent transactions.



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In Australia, for example, Amex's fraud rate is 3.9 times less than that for all domestic issued cards.

Q13. We welcome evidence and rationale for why merchants are treated differently for interchange fee application. (MC/Visa/acquirers)

Amex does not have interchange fees nor scheme fees that set a floor for merchant fees, which are negotiated bilaterally with each merchant.

In New Zealand, our fees to merchants are simple, transparent and do not vary depending on the type of Amex Card or how the merchant accepts the card. Our fees are the same whether a card is used online, contactless or swiped, domestic or international.

Q15. Please provide evidence of any other aspects of the implementation of any changes to interchange fee caps that impacts compliance or other business costs. (MC/Visa/issuers/acquirers)

We consider it is too early to be able to properly assess and understand the true impacts of the most recent reduction to interchange in 2022. More time and consideration should be afforded to these changes prior to any further reductions being made.

We encourage the Commission to focus on ways to assist merchants to better understand their competitive choices and pricing options with transparency measures being a next step rather than blunt pricing regulation. We support measures to increase transparency to merchants so they can better understand their costs and can make an informed choice.

Q16. How would you reduce merchant service fee rates for your customers on fixed or blended pricing? (acquirers)

Not relevant given we only price for Amex transactions.



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Q19. Please provide any evidence of other impacts a material reduction in interchange fees for Mastercard and Visa could have on the New Zealand retail payment system. (All stakeholders)

Studies of international precedents, such as the EU approach to interchange fee regulation show mixed results. While lower interchange has lowered interchange fees, the reduction in overall payment costs for merchants has been less clear, as other fees may have offset these savings. Lower interchange was expected to boost competition, but larger players still dominate the market, with limited (or negative in the case of Amex's licensing business in the EU) impact on smaller or new entrants.