

1 August 2018

Ministry of Business, Innovation and Employment
Competition and Consumer Policy
PO Box 1473
WELLINGTON 6140

Review of Consumer Credit Regulation - American Express submission

Dear Sir/Madam,

American Express welcomes the opportunity to provide comment on the Ministry of Business, Innovation and Employment Review of Consumer Credit Regulation.

As one of the world's largest electronic payment providers and one of the largest unsecured lenders in New Zealand, American Express believes any recommendations to the New Zealand Government should address the needs of consumers, while also reflecting where regulatory oversight and enforcement gaps exist within the market.

As a global payments network and unsecured lender operating in more than 120 markets internationally, American Express is uniquely placed to provide advice and support to the New Zealand Government as it investigates and consults on policy measures to ensure the protection of vulnerable consumers.

Should you require further information or advice on this matter, please contact Lisa Nguyen, Associate Counsel, on lisa.nguyen@aexp.com. American Express looks forward to working with MBIE on these issues into the future.

Yours sincerely,

Jon Stewart

Vice President, Corporate Affairs and Communications
Australia and New Zealand
American Express

Ministry of Business, Innovation and Employment Review of Consumer Credit Regulation

American Express submission

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Introduction

American Express welcomes the opportunity to provide comment as part of the Review of Consumer Credit Regulation Discussion Paper (the Paper).

American Express is a global payments network with direct relationships connecting consumers, businesses and merchants. It provides innovative payment, travel and expense management solutions for individuals and businesses of all sizes. With a 168 year history built on service, trust and security and with one of the most recognised brands globally, American Express aspires to provide the world's best customer experience every day. Deeply committed to the supporting growth and economic prosperity, we employ more than 110 New Zealanders across the country, and support countless other organisations prosper right around the nation.

As a global payments network, American Express processes more than US\$1.4 trillion in transactions globally per year across 130 markets. In addition, with over 112 million American Express cards in circulation, accepted by 18 million merchants world-wide, American Express is the world's largest card issuer by purchase volume.

American Express operates a closed loop, proprietary payments network, in which it acts as both issuer¹ for cardholders, and acquirer² for merchants. In particular, the vast majority of American Express-branded cards worldwide, and the vast majority of transactions on these cards, are issued and acquired by American Express itself. This is in contrast to the four party models used by the Visa and Mastercard networks, which neither issue cards nor acquire transactions - these processes are instead completed by their member financial institutions, with Visa and Mastercard operating simply as the payment networks.

General Comments on the Paper

American Express supports responsible and prudent lending practices by credit providers. As a responsible lender and from commercial necessity, we employ strict controls and restrictions on our lending practices. To do otherwise is not good business, impacts poorly on our customers and would cause significant damage to our brand and reputation.

American Express agrees with the Paper that vulnerable consumers of credit products in New Zealand should not be exposed to irresponsible and harmful lending, particularly by loan sharks and mobile traders. Therefore, the regulators focus should be on high-cost lenders which cause consumer harm. Credit providers who do lend responsibly on mainstream products like credit cards, such as American Express, should be excluded from the proposed changes.

Costs of Borrowing

Credit and charge cards with standard market interest rates should be excluded from the definition of a 'high-cost' lender when compared to loan sharks and mobile traders. Unlike other types of lending products in New Zealand, American Express operates primarily in the premium space and only offers a credit or charge product once a debt capacity assessment has been performed. Further, the interest rates on American Express credit card products range from 12.69% to 19.95% per annum, which are significantly below the high-cost lender rates range of 100-400% p.a. as noted in paragraph 20 in the Paper.

¹ A card issuer is a bank, credit union or other financial institution that provides card services (prepaid, debit or credit/charge) to a cardholder. The card issuer provides credit facilities or, in the case of prepaid/debit cards, a holding account to cardholders and is responsible for sending payments to merchants for purchases made with card products.

² A merchant acquirer (also known simply as an acquirer) facilitates card payments on behalf of a merchant and provides the payment network systems and infrastructure to allow merchants to accept card payments.

American Express also offers a hardship program for Card Members who face difficulty making repayments on their account. This hardship program ensures Card Members are guided and assisted to resolve their debt, as oppose to allowing their debt to become uncontrollable or encounter uncompetitive rates from lenders of last resort.

Like other financial services providers including banks and smaller lenders, American Express charges annual fees across our credit and charge card portfolios. These annual fees range from \$0 to \$1,250, dependent on the product, and represent the value of additional benefits and services offered with the product, rather than the cost of lending itself. The annual fees charged on American Express products reflect the premium nature of the services and benefits associated with these products, including reward programs, insurance products, travel benefits including access to airport lounges worldwide and hotel loyalty benefits, global acceptance, digital wallet capabilities and many others.

Responsible Lending

American Express' lending practices is fully compliant with the Credit Contracts and Consumer Finance Act 2003 (CCCFA) obligations, particularly the responsible lending obligations and public disclosure requirements. American Express experiences a low volume of complaints with NZ Financial Services Complaints, which reflects the approach taken by American Express when engaging with our Card Members and the market more broadly.

American Express recommends the CCCFA and Responsible Lending Code should remain scalable and not overly prescriptive, and as such, no amendment to section 9C(7) CCCFA is required for credit cards.

Further, American Express believes advertising and other public disclosures on lending products should not be misleading or deceptive and should promote transparency to consumers. However, American Express recommends the prescriptive element included in the Paper should only be mandatory for high-cost lenders that warrant specific guidance and regulatory oversight.

Conclusion

American Express fully supports responsible lending to ensure vulnerable customers do not encounter negative impacts on their financial situation and wellbeing as a result of poor lending guidelines or erroneous consumer information. Any increased regulatory oversight or legislative intervention should focus on high-cost lenders, including payday lenders, loan sharks and mobile traders, given the impact of their business models on consumers. Additionally, American Express believes that credit and charge card providers are sufficiently regulated and monitored by existing legislation, acknowledging that lower-cost lenders are already fully compliant with the Code, and do not warrant further intervention, oversight or enforcement at this time.

