

31 October 2018

Australian Competition and Consumer Commission
Level 20
157 Pitt Street
SYDNEY NSW 2000

Inquiry into foreign currency conversion services – American Express submission

Dear Sir/Madam,

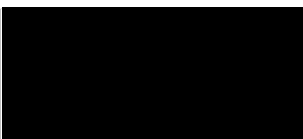
American Express welcomes the opportunity to provide comment on the Australian Competition and Consumer Commission (ACCC) issues paper into foreign currency conversion services in Australia.


As one of the world's largest electronic payments and foreign exchange service providers with a significant presence in the Australian market, American Express is happy to provide advice around the scale and nature of foreign exchange services in Australia.

As a global payments and exchange service operating in more than 130 markets internationally, American Express is uniquely placed to provide advice and support to the ACCC as it investigates and consults on policy measures to support competition in the foreign exchange services market.

Should you require further information or advice on this matter, please do not hesitate to contact me at any time. American Express looks forward to working with the ACCC on these issues into the future.

Yours sincerely,




Vice President and General Manager
International Payments – Asia Pacific
American Express

AMERICAN EXPRESS



ACCC Inquiry into foreign currency conversion services
– **American Express submission**

American Express welcomes the opportunity to provide comment as part of the Australian Competition and Consumer Commission (ACCC) review of foreign currency conversion services in Australia.

American Express is a global payments company 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. American Express has been backing Australians since 1954 and the first American Express card was issued in this market in 1974. Deeply committed to supporting the nation's growth and economic prosperity, we employ more than 1,400 Australians across the country. Additionally, American Express has been providing foreign currency conversion services to Australians for over 15 years and is uniquely placed to provide advice and support to the ACCC.

Ahead of addressing the topics raised in the Issues Paper directly, we believe it is important to make some initial observations about the foreign currency conversion market in Australia more generally.

Having provided foreign currency conversion services for over 15 years, American Express has witnessed and experienced significant market evolution in Australia. The provision of services has evolved from being initially dominated by the major Australian banks, to one in which numerous suppliers now participate and compete. Recent advancements in technology and the growth of an Australian fintech sector have facilitated the entry of several new online-based providers into the market, ultimately leading to significant competition across rates, fees and service.

Whilst American Express does not wish to comment on the practices of competitors with regard to cost transparency, American Express maintains a highly transparent pricing model ensuring customers are fully aware of the charges and costs for the services we provide. In addition to providing a detailed product disclosure statement to each customer at the commencement of any commercial relationship, we clearly communicate the fees and exchange rates that we charge on each transaction so that customers are able to make an informed decision as to whether to complete a transaction. Further to this, given the evolving nature of the market, customers can now use various online resources to compare our product fees and charges with those offered by our competitors.

Whilst we note that the Issues Paper covers a number of foreign currency service issues, our submission is focused on the transfer and remittance of money internationally by Australian businesses only. For ease of reference, we have dealt with each issue in the order in which is presented within the Issues Paper.



The pricing of foreign currency exchange services

Services provided by American Express

American Express provides the following foreign currency conversion services to Australian businesses:

- Cross border Telegraphic Transfers (being the transfer of money from one market to another);
- Forward Exchange Contracts (being the exchange of one currency for another at a specified rate, for a specified amount, for delivery at a point in the future).

It should be noted that whilst we technically offer two products, all forward exchange contracts must be delivered as a telegraphic transfer on maturation. Whilst we predominantly work with small and medium sized businesses, we also engage with larger Australian-based and multinational corporations. In addition, we provide a 'white label' telegraphic transfers solution to a number of Australian credit unions, who then on sell our services to their members.

It is worth noting that American Express has previously provided telegraphic transfer services directly to consumers in Australia, however, this service has ceased in this market. In June 2016, American Express took the decision to focus on corporate or business payments and discontinue foreign currency conversion services for consumers. In addition, American Express also discontinued wholesale foreign cash conversion services to third parties and other businesses. These services ceased in September 2017.

During the 12 month period ending 31 December 2017, American Express processed approximately 150,000 Telegraphic Transfer transactions. Of this figure, approximately one third commenced as a forward exchange contract.

Factors influencing costs and charges

As a smaller financial services provider, American Express does not have access to the wholesale rate provided to large financial institutions who engage in the wholesale trading of foreign currencies. We do, however, establish counterparty relationships with various financial institutions who sell a marked up wholesale rate to American Express for the provision of services to our clients.

In setting the retail exchange rate, American Express takes the following factors into account:

- Transaction Costs (as outlined as part of our response to issue two);
- The value of the transaction. Generally speaking, the larger the transaction that we process, the better the retail exchange rate that we can offer to customers through greater scale;
- The overall transaction volume that the customer has processed historically or the amount that they may process in the future;
- The timing of the delivery of the transaction. For example, if a customer requests we process the transaction on a real time gross settlement basis, counterparty banks will generally charge an additional mark up on the rate they are willing to sell to us. This will in turn impact the retail exchange rate that we offer the customer; and
- Competitor pricing. On occasion, our customers may request us to match other exchange rate prices that they have sourced from the market. Depending on the situation, we may reduce our price further in order to compete with same.

Whilst the fundamental metrics used to set our retail conversion rates have remained fairly consistent over time, the competitive nature of the foreign currency conversion market has led to American Express significantly reducing the retail exchange rate provided to our customers over time in order to remain competitive in a market with low barriers to entry and a steady increase in entrants.

Whilst the majority of our telegraphic transfer transactions do not incur telegraphic transfer foreign exchange conversion fees, we do charge fees in order to recover transaction costs for certain customers. In the event that we do charge a telegraphic transfer fee, it will be set at either \$5 or \$10 per transaction and will be clearly communicated to the customer before they agree to the transaction.

It should also be noted that beneficiary banks may also charge fees for certain transactions. Whilst we are able to notify customers of such fees before completion in approximately 90% of transactions in which they are charged, there are certain instances where these fees are not communicated to American Express by the beneficiary banks and therefore we are unable to notify the customer of their occurrence before completion of the transaction. To resolve this, we are currently exploring products such as SWIFT GPI and Ripple Net, which are designed to remove such fees from the transaction journey.

By way of illustration, a screenshot of a dummy transaction which clearly shows the fees and other information that are communicated to a customer before they finalise a transaction is included for reference below:

AMERICAN EXPRESS **FX INTERNATIONAL PAYMENTS** Log out

Create a Payment
 Request a Quote ✓ Enter Payment Details ✓ Complete your Payment ✓

New Payment Template Payment Existing Payment

Request a Quote

Select your Product, Payment Currency, Amount and Settlement Method to get a Quote

Product* Telegraphic Tran..	Payment Currency* U.S. Dollar	Amount* 10,000	Currency* <input checked="" type="radio"/> Foreign Currency <input type="radio"/> Local Equivalent	Settlement Method* AUD Direct Debit	Value Date* 09/10/2018
Beneficiary Bank Charges* Beneficiary to P..			123-456 123456		

Re-Quote

Current Transaction Quote

Product	Settlement Method	Account Number	Payment Currency			
Telegraphic Transfer	AUD Direct Debit	123456	U.S. Dollar			

Payment Amount	Rate	Subtotal	Beneficiary Bank Fee	Fee	Total Cost
10,000.00	0.7063	14,158.29	0.00	5.00	14,163.29

Value Date
09/10/2018

Your rate of 0.7063 expires in 48 seconds.
To finalise your payment, enter the required information below and click on the Accept button.

* Mandatory field

In the event American Express does charge a transaction fee to a customer, this will take place to recover the transaction costs that are incurred in providing the service to the customer.

The competitive nature of the market for foreign telegraphic transfers has resulted in fees being significantly reduced or eliminated completely. By way of example, the average transactions fees charged by American Express stood at \$16.50 in 2008, significantly higher than the transaction fees that we now charge to a minority of customers.

Costs to supply foreign currency conversion services

Costs

American Express incurs the following fixed costs in providing foreign currency transfers to customers (indicative, and not conclusive):

- Building Rent;
- Operating hardware (laptops, computers etc);
- Utilities;
- Insurance costs;
- Legal and audit fees;
- Salaries and Benefits (including superannuation, long service leave and car allowance costs);
- FX System/software maintenance.

The costs associated with providing foreign currency transfers has increased over time. Whilst all costs have increased, American Express has experienced particular increases in the costs associated with employee salaries, bank fees and compliance.

In addition to a range of fixed costs, American Express incurs the following variable costs in providing foreign currency transfers to customers (indicative, and not conclusive):

- Bank fees and charges;
- Counterparty Bank transaction costs (this relates to the price charged to American Express as a mark-up on the wholesale rate. These fees vary according to factors such as the volume and liquidity of currency being transacted. For example, exotic illiquid currencies such as the Zambian Kwacha or Icelandic Krona are generally more expensive to source than liquid highly traded currencies such as the US Dollar or Euro);
- Performance based Employee Incentive Payments;
- Membership Rewards costs. American Express offers customers Membership Rewards points when they process certain transactions.
- Compliance costs (AML and KYC costs are variable as they are driven by the number of customers we acquire and the number of transactions we process);
- Marketing costs (variable based on campaign timing and offer);
- Technology licencing costs; and
- Postal and freight costs.

Change in margin

The margin earned by American Express has decreased in recent years, which is due a number of factors. In particular, technological advancements have resulted in an increased number of new foreign currency conversion providers entering the market, resulting in all market participants competing on the rates being sold to customers.

In addition, customers have become more sophisticated in the way in which they source exchange rates. By using online currency exchange rate comparison sites, customers can now easily access the best rates available from a wide range of competitors. In order to compete effectively in this market, American Express has reduced the margins that we earn on these services.

Operating models used by American Express

American Express provides its foreign currency conversion services via two models. In summary, they operate as follows:

Model A

1. Customer logs into their American Express International Payments online account or calls their American Express Client Account Manager.
2. Customer requests a quote to send or receive an international payment.
3. American Express obtains a currency exchange rate from one of our counterparty banks.
4. On purchasing this rate, we apply an FX margin to the exchange rate that we have obtained.
5. Once our FX margin is incorporated into the exchange rate that we have obtained from our counterparty banks, we then offer this rate to our customers.
6. On receipt of our offer, customers can then choose whether they want to accept or reject the price. All rates, fees and charges are clearly communicated to the customer before acceptance of the offer. Customers are under no obligation to accept the FX price we offer.

Model B

1. Credit Union Member requests the Credit Union to process an international payment on their behalf.
2. Credit Union logs into their American Express International Payments online account or calls their American Express Client Account Manager.
3. Credit Union requests a quote to send or receive an international payment on behalf of their member.
4. American Express obtains a currency exchange rate from one of our counterparty banks.
5. On purchasing this rate, we apply an FX margin to the exchange rate that we have obtained.
6. Once our FX margin is incorporated into the exchange rate that we have obtained from our counterparty banks, we then offer this rate to the credit union.
7. On receipt of our offer, the Credit Union can choose whether they want to accept or reject the price. All rates, fees and charges are clearly communicated to the Credit Union before acceptance of the offer. Credit Unions are under no obligation to accept the FX price that we offer.
8. Credit Union generally adds an additional mark up to the rate that they ultimately provide to their member.

The nature and extent of competition between suppliers

Demand for foreign currency conversion

Demand for foreign currency conversion services among Australian businesses has increased significantly over recent years due to a range of factors. As Australian businesses grow and develop, they are actively seeking to export to international markets, necessitating the conversion of currency across market borders.

In addition, the higher cost of goods and services in Australia has resulted in many businesses finding the procurement of certain goods and services from foreign markets is often cheaper than sourcing the same products in Australia. With the eradication of a range of trade barriers between nations, American Express expects to see more currency arbitrage activities take place in businesses of all sizes across Australia.

Further, the Australian Dollar has experienced higher than average volatility in recent years. This has led to an increase in Australian businesses hedging currency fluctuation exposure using products such as forward exchange contracts to gain control and certainty over the rates that they may have to pay when transacting internationally in the future.

Market Share

American Express estimates that it has a market share of approximately 4-5% of the foreign currency conversion market for businesses. This is calculated by reference to the volume of transactions that we perform.

Competitors

Whilst the market for foreign currency conversion is extremely competitive, American Express recognises the following two groups as its main competition:

1. Large Australian banks: American Express estimates that 80% of Australian businesses use the four major Australian banks for the majority or entirety of their international payments. In addition to offering their business customers a full suite of cross border payment options, Australian businesses generally value the convenience of using banks for all of their banking needs and are often reluctant to move this business. Further, Australian banks have been operating in this industry for many years and have therefore built significant trust and loyalty with their customer base. Banks provide these services via both branch and online facilities, further increasing the ability to engage with a wider customer base; and
2. Non-Banks (For example, Western Union, OFX, HiFX, AFX, Cambridge, etc.): Non-bank operators generally offer more competitive retail exchange rates and fees than banks. In addition, non-banks generally operate highly developed technological solutions that can tailor a product or service to a specific market niche. This allows these organisation to package a service that is quick, responsive and easy to use. Similarly to American Express, non-banks generally provide their services via online facilities or telesales facilities only.



Competitor pricing and conditions

Whilst we cannot comment on the specific pricing practices of our competitors, American Express believes that pricing in the foreign currency conversation market is transparent and competitive. Australian businesses can easily compare the supplier prices online which in turn allows them to choose the one that suits their payment need.

In response to the increasingly competitive foreign currency conversion market and, in particular, the significant margin erosion that many organisations have experienced in this market in recent years, American Express has undertaken the following:

- Improved the quality of customer service provided to customers;
- Focused on building scale in terms of the number of customers and transactions that we conduct;
- Increased the range of additional non-foreign currency conversion products. For example, American Express also provides customers with lending, card and domestic payment solutions.
- Introduce a suite of benefits, including Membership Rewards, when processing certain telegraphic transfer transactions.

Conclusion

American Express fully supports ensuring that the market for foreign currency conversion services is both transparent and competitively priced for all market participants.

In our experience, the recent growth of the foreign currency conversion market and the influx of competition from smaller fintech operators has forced the market to reduce margin and focus on volume and improved customer service in order to remain competitive. Additionally, given the reasonably low barriers to entry into the foreign currency conversion market, we expect this trend to continue into the future.

American Express is willing to discuss any part of our submission in further detail or provide additional information to support the ACCC's understanding of the foreign currency conversion market. We look forward to working with the ACCC on these issues into the future.