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American Express Continues to Lead the Industry with Distinction as the Most Expensive Payment Card to Accept

While VISA, MasterCard and their card issuing bank partners have been the focus of litigation and government regulation over the years, American Express has been able to avoid the same level of scrutiny from trade organizations and the government. How can this be? There is no single answer to this baffling question, but the reasons are multiple. Perhaps it is because they are not part of an anti-competitive system, like Visa, MasterCard and the card issuing banks. In that system, you have supposed independent parties – the card networks – setting the interchange rates that the card issuing banks actually earn.

Another reason could be the fact that American Express is not a dominant market force like VISA and the thousands of banks that issue their cards. Or could it be that American Express sets its own discount rates for card acceptance, without any third party financial interest? From our perspective, the answer as to how and why American Express is able to charge excessively high rates for payment card acceptance and stay above the radar is simple: They have been able to do it without any repercussions!

Many years ago, American Express card acceptance was primarily limited to higher end businesses with high average sale amounts. Thus, the justification for higher rates: their customer spends more than others, so the higher cost is not that important. As American Express came to gain nearly universal acceptance at merchants and organizations over the years, they sold this “message” to companies: Our customers spend more and if you do not accept our card you will lose business.

Well, that argument can no longer be made. The average spent on an American Express card at any merchant no longer varies from what a VISA or MasterCard holder spends. And, nearly everyone who has an American Express card also has a VISA or MasterCard credit or debit card.

American Express has also shifted their focus to the prepaid market which has only further deteriorated their cardholder’s average spend. Some in the industry argue that American Express’ focus on Prepaid and Small Business has only served to water down the brand. Subsequent to the recent Visa and MasterCard Payment Card settlement, American Express chose to settle two of their own outstanding class action suits. The terms of their settlement closely mirrored those of Visa and MasterCard as related to merchant surcharging and checkout fees. American Express has revised their rules to now liberally allow merchants to surcharge all

of their products including prepaid cards. This would indicate that the organization realizes at some level that their messaging and arguments relative to perceived value no longer hold true.

Despite this, American Express continues to treat merchants with a total disregard for the increasing costs they absorb to accept their card. Their attitude remains resolute, based on old messaging and business practices that may have worked 20 years ago, but surely do not now. How else can one explain that an American Express card generally will cost a merchant 100 basis points – a full percentage point – more than any other card on a given transaction? And often, the differential can be two full percentage points.

What can an organization do, and will American Express work with merchants to mitigate and reduce the costs of accepting their card? The answer is “maybe.” An organization needs to have a deep understanding of how American Express conducts business and the best approach to utilize with them. Most importantly, it must have the metrics, data and industry facts when dealing with them. With a professional and expert advisor at their side, a company can secure customized and reduced discount rates from American Express.

In the end, American Express can no longer separate itself from the discussion of the escalating cost to accept their card. Those days are over.