

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

ANZ

ANZ25QW:

Merchant facilities and low cost routing:

(a) Do you provide merchant facilities, and if so, to how many customers?

Answer: Yes, ANZ provides merchant facilities.

As at December 2019, we had 68,777 merchant services customers using terminals. (Note: unless otherwise noted we use the term 'customers' here to refer to 'card present' merchant facility customers, excluding 'card not present' / Internet-based merchant facilities).

(b) Would your small and medium business customers save money if they moved to low cost routing, and if so, do you actively encourage customers to switch?

Answer:

Background

Merchant Choice Routing (**MCR**) is available to around 96% customers referred to above (that is 65,948 eligible to use MCR). MCR is an optional technology feature which, when activated, means that all contactless transactions made when cardholders present Australian-issued Multi-Network Debit Cards (eg a Visa Debit Card or MasterCard Debit Card) are processed through the domestic eftpos network rather than the credit scheme (eg Visa or MasterCard).

MCR applies to all transactions that are processed using a physical Multi-Network Debit Card using contactless technology (ie when a cardholder taps their physical Visa Debit card at a terminal).

MCR does not apply to transactions made using any other card types (eg Visa Credit card with a linked bank account); when a cardholder physically inserts their Multi-Network Debit Card and selects the account; or when the cardholder pays using a mobile wallet (eg ApplePay).

ANZ does not offer MCR for specialist facilities such as Multi Merchant facilities (multiple businesses using a single facility where not all users may wish to activate MCR), facilities with ANZ Extra Services or ANZ HealthPay functionality. In addition, approximately 300 older terminals do not provide MCR capabilities and are being progressively withdrawn from service. These exclusions account for the 4% of customers for whom access to MCR is not available.

Benefits to a SMB customer

Whether or not a small and medium business (**SMB**) customer will save money by activating MCR depends on the circumstances of the business. Important factors include the fees associated with the business's merchant facility and the size of transactions.

ANZ encourages customers to consider whether MCR will benefit their business and makes information available to assist them to make a decision based on the circumstances of their business:

- We publish an ANZ MCR website, on which we provide the following two simple examples to illustrate potential benefits (Please refer to <https://www.anz.com.au/business/help-support/merchant/merchant-choice-routing/>):
 - "A handmade accessories business has an average transaction size of \$80. Their Merchant Service Fee (MSF) to process a Visa Debit Card is 1.0% and their eftpos Debit card fee is \$0.25. This would mean that when a customer presented this merchant with a contactless Visa Debit Card and the accessories business did not have Merchant Choice Routing activated, the transaction would be processed through Visa and it would cost this merchant \$0.80 (\$80 at 1.0%) to process the transaction. If this merchant did have Merchant Choice Routing activated, the transaction would be processed through eftpos and it would cost them \$0.25 to process the transaction. In this example, it could be beneficial for this merchant to activate Merchant Choice Routing."
 - "A coffee truck business has an average transaction size of \$5. Their Merchant Service Fee (MSF) to process a Visa Debit Card is 1.0% and their eftpos Debit card fee is \$0.25. This would mean that when a customer presented this merchant with a Visa Debit Card for a contactless transaction and the coffee truck business did not have merchant choice routing activated, the transaction would be processed through Visa and it would cost this merchant \$0.05 (\$5 at 1.0%) to process the transaction. If this merchant did have merchant choice routing activated, the transaction would be processed through eftpos and it would cost them \$0.25 to process the transaction. In this example, it may not be beneficial for this merchant to activate Merchant Choice Routing."
- The website notes that customers can track and monitor merchant fees using their monthly ANZ merchant statement. It also provides information about activating MCR and suggestions to merchants on how to inform their customers about use of MCR and steps to follow when a customer of the merchant wishes to override MCR.

Note: A customer of the merchant may wish to override MCR or change their shopping patterns because of their preference for a particular payment system or any fees or limits associated with use of eftpos. ANZ does not charge fees for eftpos transactions for its retail transaction products: ANZ Access Advantage, Pensioner Advantage and Access Basic. There is a combined daily limit of \$1,000 for ATM withdrawals and POS transactions processed through eftpos. The customer can request ANZ to increase this daily limit to \$2,500.

- For potential new customers, ANZ provides information on MCR in sales collateral and may provide analysis based on the history of customer transactions to assist the customer to decide if MCR would be beneficial.
- For existing customers, ANZ has updated internal information and provided training on MCR and its benefits to relevant staff (eg the Commercial Call centre dealing with customers and Commercial customer bankers) to enable them to provide information on MCR to customers.

Following the rollout of MCR capability in 2019, we are currently considering other possible options to provide further information to existing customers during 2020.

The term "Merchant Choice Routing" is used as the benefit to the merchant depends on a range of factors and the circumstances of the merchant. These factors may be dynamic; for example, the fees for merchant facilities, the particular business's activities (eg target customers, sales and marketing), and variability in customer demand and use of different types of payments.

Payment schemes (such as Visa or eftpos) also adjust interchange rates to compete to win or retain business and to meet regulatory interchange requirements. ANZ's offers to customers also change based on numerous factors including payment scheme costs, payment technology developments and the overall attractiveness of the particular customer or segment.

ANZ commenced offering MCR in April 2019. Around 5% of customers have enabled it as at December 2019 (refer also to response to Question (h)(i)). ANZ considers this is a reasonably rapid rate of adoption in nine months (noting that activating MCR may not benefit all merchants as noted above).

(c) If so, how do you encourage small and medium business customers to switch to low cost routing?

Answer: ANZ encourages customers to consider MCR by making information available to assist them to make a decision based on the circumstances of their business. Please refer to answer (b) above.

(d) Do you think all small and medium business customers should be on low cost routing?

Answer: Merchant customers should be able to choose when MCR or other payment technologies will benefit them taking into account the circumstances of their business, customer demand and offers from providers of merchant services. As noted earlier, these factors are dynamic and, in ANZ's view, merchant customers should monitor them to optimise their costs.

(e) What are the fee structures for different merchant services available, including low cost routing options?

ANZ's fee structure for different merchant services is set out on the merchant services website (<https://www.anz.com.au/business/help-support/merchant/pricing-structure/>). We offer the following options to merchant customers based on the situation of the business and taking into account a range of factors (such as our costs, market and competitive conditions):

- Single Rate Pricing: a single rate for all Visa or MasterCard transactions; a single rate for all UnionPay transactions; and a single agreed rate for all eftpos debit card transactions.
- Differential Rate Pricing: rates based on six card types (Visa and MasterCard Credit Standard, Visa and MasterCard Credit Premium, Visa and MasterCard Credit Premium Plus, Visa and MasterCard Debit Standard, Visa and MasterCard Debit Premium, UnionPay International); and a single agreed rate for all eftpos debit card transactions.
- Interchange Plus: Visa and MasterCard credit and debit rates fees based on the type of cards and transactions that are processed through your merchant facility

and according to interchange categories and rates published by Visa and MasterCard (Eg Visa rates are published at <https://www.visa.com.au/about-visa/interchange.html>); UnionPay fees according to interchange categories specified by Union Pay International; and a single agreed rate for all eftpos debit card transactions.

(h) What number and share (percentage of total) of merchant services for all customers:

(i) use low cost routing?

Answer: ANZ has enabled MCR for 3,589 customers (around 5% of customers for whom MCR is available) as at December 2019.

(ii) provide access to low cost routing?

Answer: MCR is available on request to 65,948 customers as at December 2019 (including the 3,589 noted above). Please refer also to comments in answer (b).

(iii) of those that provide it, default to low cost routing?

Answer: Merchants choose to activate MCR and ANZ does not default any merchant facilities to MCR.

(iv) require automated software upgrades to access low cost routing, have they been provided, and what is the rollout schedule and deadline where it has not been provided?

Answer: ANZ has made MCR generally available, noting the exclusions outlined above in answer (b).

(v) require a user requested software upgrade to access low cost routing, and what has been the uptake?

Answer: To enable MCR, a customer instructs ANZ; for example, by calling ANZ on the merchant service support telephone line (available 24/7). Generally enabling MCR is straightforward and it can be made available overnight.

(vi) require a hardware upgrade to access low cost routing, and how many remain?

Answer: Generally speaking, no hardware update is required. However, as noted in answer (b), a small number of terminals are not MCR capable.

(vii) do not provide access to low cost routing?

Answer: Refer to answer (h)(ii) and (b) above.

(viii) and what is the rollout schedule for low cost routing and the deadline where low cost routing has not been provided?

Answer: ANZ has made MCR generally available (please note exclusions described in answer (b) above).

(i) What number and share (percentage of total) of merchant services for small and medium business customers:

(i) use low cost routing?

Answer: ANZ has enabled MCR for 3,553 SMB customers (around 5% of SMB customers for whom MCR is available) as at December 2019.

SMB refers to customers in the following ANZ segments: Small Business Banking, Business Bank, Emerging Corporate and Private Banking. It excludes Financial Institutions, Institutional Banking and Corporate Banking.

(ii) provide access to low cost routing?

Answer: MCR is available on request to 65,243 SMB customers as at December 2019 (including the 3,553 noted above). Please refer also to comments in answer (b).

(iii) of those that provide it, default to low cost routing?

Answer: Please refer to answer (h) (iii).

(iv) require automated software upgrades to access low cost routing, have they been provided, and what is the rollout schedule and deadline where it has not been provided?

Answer: Please refer to answer (h) (iv).

(v) require a user requested software upgrade to access low cost routing, and what has been the uptake?

Answer: Please refer to answer (h) (v).

(vi) require a hardware upgrade to access low cost routing, and how many remain?

Answer: Please refer to answer (h) (vi).

(vii) do not provide access to low cost routing?

Answer: Please refer to answer (h) (vii).

(viii) and what is the rollout schedule for low cost routing and the deadline where low cost routing has not been provided?

Answer: Please refer to answer (h) (viii).