

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

ANZ

ANZ43QW:

MERCHANT SERVICES AND LOW COST ROUTING

(a) In terms of your Point of Sale (POS) strategic merchant services:

(i) What is the total number of your POS strategic merchant services customers?

The card Schemes determine the “strategic” designation of merchants, rather than ANZ as the acquiring bank.

514 ANZ customers are on Scheme strategic rates as at 20 May 2020.

(ii) What is the number of small and medium business customers?

478 of the 514 are small and medium businesses. A small and medium business is one in our Business Banking, Small Business Banking, Private and Emerging Corporate segments. This excludes customers in our Corporate Banking, Financial Institution and Institutional Banking segments.

(b) What number and share (percentage of total) of your total strategic merchant services customers and number and share of small and medium business merchant services customers:

(i) Use the Least Cost Routing (LCR) or Merchant Choice Routing (MCR) option for multi-network debit transactions?

8% have chosen to use MCR (37 of 478 small medium business merchant services customers on Scheme strategic rates as at 27 April 2020).

7% have chosen to use MCR (4,271 of 65,018 small and medium business merchant services customers).

(ii) Have a contract for the lowest cost routing option, when including all fees associated with the transaction including interchange and scheme fees?

ANZ will enable MCR on existing agreements for small and medium business customers. A separate agreement is generally not required. Institutional contractual relationships are more detailed and a contract variation is generally involved.

(c) Is LCR or MCR on multi-network debit transactions offered to all customers as an opt-out option to ensure all get access to savings? If not:

MCR is offered on an opt-in basis.

(i) Why?

As noted in our response to ANZ25QW, whether or not a small and medium business customer will save money by activating MCR depends on the circumstances of the business (for example, size and mix of transactions, and business plans) and the arrangements they have with schemes (ie assignment of a strategic merchant rate) and acquiring bank.

The offers available to merchants change as payment schemes and acquiring banks compete for business. It is appropriate that merchants determine their preferred payment arrangements.

(ii) Considering that the Reserve Bank of Australia has advocated LCR since 2013, why have you not found a way provide this service and the associated cost savings to all of your merchant services customers?

The required capabilities to provide these services were not available for some time after 2013. For example, the contactless profile was not available for approximately two years after that, cards needed to be reissued to include the eftpos profile and terminals upgraded to support the new profile for the service. eftpos announced it had completed its major technology transformation to support new products in 2017. ANZ committed to provide a MCR service in 2017 and it was released in 2019.

(iii) Do you believe you are acting in your merchants' best interests by not passing on possible savings?

Merchant customers have a range of services available to them from schemes (that is Visa, Mastercard and eftpos), banks and other payment services providers. ANZ continuously competes to offer merchants the most attractive services we can commercially, and to assist them with information and other support.

In relation to MCR and the eftpos 1 July pricing offers, ANZ has enabled MCR capability on terminals for nearly all our merchant customers and provided information to them about its availability. We are currently working on how to pass on, and provide information about, the eftpos offers that came into effect on 1 July.

(d) Are LCR or MCR services offered on all terminal types for multi-network debit transactions? If not:

(i) Which terminal types do not have LCR or MCR?

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), merchant-owned terminal solutions, or facilities with ANZ Extra Services. In addition, ANZ's BladePay and FastPay (smartphone-based options) products are being retired and consequently have not been upgraded for MCR.

(ii) What percentage of your terminal fleet does this represent?

This represents 11% of terminals.

Around 95% of merchants have access to MCR (that is 74,243 of 78,147 terminal based merchant identification codes).

(iii) When do you plan to upgrade those terminal types that do not have LCR or MCR to enable those merchants with those terminal types to access LCR or MCR?

Standard products have an MCR option available. There are no plans to add MCR to the bespoke or merchant-owned terminal solutions (held by a small number of merchants) or to multi-merchant facilities due to the complexity of the contracts (the primary merchant may want MCR whilst a secondary does not). We are phasing out the smartphone-based FastPay and BladePay hardware and would not consider upgrading these products.

(e) Are LCR or MCR services offered on all pricing plans for multi-network debit transactions? If not:

(i) Which pricing plans do not have LCR or MCR as an option?

(ii) What percentage of your small and medium business merchant customers are on these plans?

(iii) Why?

All pricing plans have the option for MCR.

(f) If you provided all your strategic and small and medium business POS merchant services customers access to the lowest cost scheme on all multi-network debit transactions, what would the savings be for:

(i) Your strategic merchant customers?

(ii) Your remainder of medium and small business merchant customers?

Calculating the overall savings to strategic merchants from adopting the “lowest cost scheme on all multi-network transactions” would require knowledge of each merchant’s circumstances and any conditions attached to a strategic rate, as well as technology to determine whether a scheme’s volume thresholds to qualify for particular rates were met before a billing cycle was complete.

Acquirers, such as ANZ, do not set strategic rates and we do not have detailed knowledge of all merchants’ circumstances. As a result, we are not able to respond to this question.

We encourage our customers to seek advice from schemes and seek to give them access to relevant information. We discuss and provide information on pricing options and potential savings to individual customers based on what we know of their particular circumstances.

(g) If you passed on at POS the lowest cost per transaction via dynamic routing to your merchants, based upon current and eftpos 1 July 2020 pricing, what would the savings be for:

(i) Your strategic merchants' customers?

(ii) Your remainder of medium and small business merchant customers?

ANZ understands that 'dynamic routing' means a system that optimises merchant payment routing in 'real time' based on data on available payment rates. We are not aware of such payment technology being in use in a banking system. We envisage a range of operational challenges with such technology; for example, how to determine whether scheme volume thresholds to qualify for particular rates were met before a billing cycle was complete. As a result, we are not able to respond to this question.

We consider that market competition, including the 1 July eftpos changes, will in time pass on most of the benefits that could theoretically arise for 'dynamic routing'.