

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

CBA

CBA42QW: 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?

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

(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 (MRC) option for multi-network debit transactions?

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

(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:

(i) Why?

(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?

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

(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?

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

(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?

(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?

(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 merchants customers?

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

(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?

(h) Are any additional fees or charges, such as terminal rental, added or increased for small and medium business merchant customers who elect to implement LCR or MCR?

(i) If so, why?

(ii) Do you increase the average eftpos transaction fee for customers who choose to use LCR or MCR compared to other plans? Why?

(iii) Does a customer's choice to use LCR or MCR for debit transactions impact the fees you charge for credit transactions for any of your merchant customers? Why?

Answer: (a)

(i) “Strategic merchant” is a term used by the card schemes. We are aware that ten merchants qualify for various strategic merchant interchange rates, from schemes such as Visa, Mastercard and Eftpos; but these arrangements – including the rates set under them – are determined by the respective scheme.

(ii) CBA provides POS services to approximately 130,000 small and medium business customers. (We note these small and medium business customers do not typically fall in the schemes’ categorisation of strategic merchants.)

(b)

(i) Depending on the customer’s pricing arrangements, MCR may not be relevant:

- Debit interchange fees for Strategic merchants are determined directly by the respective schemes. This then allows them to choose the scheme to which they route debit transactions. For these customers, MCR is not applicable. These merchants comprise approximately 25% of transaction volume.
- We provide bundled merchant fees to support our small merchants, who value simplicity and certainty of payment costs. Our bundled packages range from a fixed fee of \$30 to \$150 per month, which provides the merchant with a device and includes monthly turnover ranging from \$1,500 to \$12,000 respectively (effective rates of 2% and 1.25%). We have approximately 30,000 small business customers (approximately 20%) on these plans, for whom MCR is not relevant.
- Additionally, we also provide a new pricing plan that has a single transaction fee for all card types of 1.8% regardless of the card type. This approach is increasingly popular with small merchants and is also championed by global acquirers. For these customers MCR is not relevant.

For small and medium sized customers that are not classified by the schemes as strategic and are not on a bundled package, the pricing is negotiated based on a range of factors, including merchant turnover, industry, average transaction size, transaction mix and relationship. In these cases, different pricing is applied for debit cards across the schemes and MCR is relevant.

At present less than 1% of CBA’s medium sized business customers have chosen to enable MCR on their payment terminal.

We are conscious that the uptake of MCR has been low relative to the number of customers who could stand to benefit from accessing the option. For this reason, this month we will write to all of our relevant merchant customers to highlight the potential benefits of MCR and encourage them to contact us to discuss their circumstances and explore if they could benefit from MCR arrangements. We will also raise awareness through other channels we use to communicate with our customers.

(ii) Approximately 20% of our customers are on bundled pricing plans or single transaction fee for all card types, where the mix of schemes does not influence the cost of the plan. For these customers MCR is not applicable.

The remaining 80% of merchants can enable MCR on their terminal by contacting CBA without the need to change their contract. Some merchants may need their terminal replaced, at no cost, if they have a terminal that does not support MCR.

(c) MCR on contactless multi-network debit transactions is available to all CBA customers on an eligible pricing plan, on an opt-in basis.

Customers can request CBA to have MCR enabled. In some cases this first requires a software upgrade, in other cases a free replacement device and the merchant to choose their preferred MCR settings.

(i) There are many different factors that influence the cost of a debit transaction, including:

- Card type
- Fee structure
- Merchant industry
- Scheme fees
- Transaction size
- Merchant turnover

Some of these components are input variables into interchange rates, which are set by the schemes and revised as often as quarterly.

The schemes also differ, including in their approach to chargeback, dispute handling and insurance. This means that consumer outcomes are different, depending on the scheme that is chosen. We believe this should be a decision for the merchant or the consumer, not the bank.

Further, as not all terminals currently in the field are compatible with MCR, in some cases we would need to upgrade the terminal before the customer could access MCR. We are actively decommissioning all

of these terminals – a process that will take two to three years – but will replace for free the terminal of any merchant requesting MCR.

We are conscious that the uptake of MCR has been low relative to the number of customers who may stand to benefit. For this reason, as outlined above we are writing to all our applicable merchant customers this month to highlight the potential benefits of MCR and encourage them to contact us to discuss their circumstances and explore if they could benefit from MCR arrangements. We aim to increase the uptake of our MCR option considerably.

(ii) Once eftpos supported contactless debit card acceptance at the end of 2016, and the RBA called upon acquirers to enable LCR in late 2017, CBA began development of our MCR solution over an 18-month period, and commenced the rollout of MCR in July 2019. At the time of the launch, the Australian Retailers Association said, “The Commonwealth Bank’s solution offers amongst the richest functionality in the market, making it a big win for Australian retailers that has been a long time coming.”

As outlined in our answer to i) above, it is CBA’s view that the decision on routing the transaction is best made by the cardholder or the merchant, hence the manner in which the CBA MCR solution has been implemented.

(iii) Debit interchange rates for strategic merchants are determined directly by the schemes.

20% of our small and medium merchants prefer certainty and clarity of merchant fees, and utilise bundled pricing packages.

For the remainder of our merchant base, we recognise uptake of MCR has been low and as outlined above, we are taking steps to address this, to ensure we can assist our customers to make the choice that best suits their needs.

(d) MCR has not been enabled on terminal types that are being withdrawn from the market over the next two to three years. Any merchant with a discontinued terminal, wishing to enable MCR, is eligible for a replacement terminal at no additional charge.

(i) Customers using the Albert or 5100 terminal models cannot opt into MCR without replacing their terminal. A replacement is available for free for these merchants.

(ii) The Albert terminal represents ~30% of CBA’s merchant terminal fleet and the 5100 terminal currently represent 3-4%. Both terminal

types are being decommissioned as newer and more advanced devices are introduced into market. We expect to complete this work in two to three years.

(iii) As outlined in (ii) we are actively decommissioning legacy terminals and expect to have a fully enabled fleet over the next two to three years. Merchants with a legacy terminal requesting MCR can have their old terminal replaced at no additional cost.

(e) As outlined above debit interchange rates for strategic merchants are determined by the schemes. Additionally, we offer bundled pricing packages where MCR is not relevant. For all other customers, MCR is available.

(i) The following pricing plans do not have MCR as an option:

- Simple Merchant Plan
- Bundled
- Semi-bundled

(ii) Around 20% of our merchant customers, mainly small and medium businesses, are on one of the three plans that do not offer MCR.

(iii) These plans are for customers with a preference for certainty around total cost. As such, they provide a consistent price for all debit and credit scheme transactions irrespective of the scheme. In general, this will be in the range of 1.25% - 2% and is popular with small merchants and championed by global acquirers gaining traction in the Australian market.

(f)

(i) Debit interchange rates for strategic merchants are determined directly by the schemes.

(ii) To calculate this over a 12-month period we would need to take into account range of variables, for every payment, including:

- Card type used
- Merchant industry
- Scheme fees
- Transaction ticket size
- Individual pricing.

We would also need to exclude a range of payments, including international, chip and PIN, e-commerce and mobile wallet payments. It should be noted that the scheme interchange tables are updated as frequently as quarterly. As such we have not performed this calculation given the number of variables and complexity, as well as the need to make a number of assumptions.

(g)

(i) See response to (f)(i)

(ii) See response to (f)(ii).

(h) No.

(i) N/A

(ii) No.

(iii) No.