

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE FOUR MAJOR BANKS

#### CBA

**CBA43QW:** Acquiring merchant facilities:

(a) Please provide details for debit transactions through your Acquiring merchant facilities for calendar year 2019 and calendar year 2020 (to date) including:

(i) The total number?

(ii) In dollar terms?

(iii) Total fees received by the bank?

(b) Please provide details for debit transactions through your Acquiring merchant facilities for financial year 2018/2019 and financial year 2019/2020 (to date):

(i) The total number?

(ii) In dollar terms?

(iii) Total fees received by the bank?

(c) Please outline the schemes that provide debit card payments services currently contracted by the bank, including:

(i) The name of the card payments service provider.

(ii) The length of their current contract.

(iii) How far through the contract the bank currently is.

(iv) How much of the contract remains.

(v) Whether the contract involves the provision of card payments with debit, credit or other products.

(vi) Whether the contract applies incentive payment arrangements based on volume of processed transactions or other performance criteria per payment type or as an aggregate volume.

(vii) Details of the 'profit' or 'premium' charged to the business between the cost of the transaction fees charged to the acquiring bank by various schemes, and the transaction fees charged to small and medium business customers by the acquiring bank, including interchange, scheme fees, acquirer margin and terminal rental.

**Answer:** (a)

(i) We have attached a copy of the transaction data from the Reserve Bank of Australia, which shows both number and dollar figures for debit transactions – aggregated across the market and reflecting CBA's market share. We request this data remain confidential.

(ii) See response to (a)(i) above.

(iii) Total fees received by the bank is not a figure we have previously disclosed to the market, as it is commercially sensitive.

(b)

(i) See response to (a) above.

(ii) See response to (a) above.

(iii) See response to (a) above.

(c)

(i) CBA, via our Acquiring business, supports payment acceptance across a majority of card schemes including eftpos, Visa and Mastercard.

(ii) The issuing and acceptance licences CBA has with each of these schemes do not have a fixed term. CBA also has a range of business agreements with these schemes with varying expiry terms, which are confidential and not disclosed to the market.

(iii) Please refer to (ii) above.

(iv) Please refer to (ii) above.

(v) The licence agreements do not differentiate between card types when it comes to Acquirer arrangements, noting changes to the scheme "Honour All Cards Rule" introduced by the RBA in 2005 which relate exclusively to merchant acceptance options. The business

agreements referenced above do have specific arrangements for debit and credit, however such terms are typically restricted to the issuing business. The Bank has business agreements with eftpos, Mastercard and Visa, the terms of which are confidential and not disclosed to the market.

(vi) The CBA Acquiring business does not receive any incentives based on volumes or transactions processed across any scheme.

CBA does however receive contributions from all schemes for investment in the delivery of new product capability for acquiring and issuing. CBA and the schemes jointly agree on how these contributions are reinvested in the business.

(vii) Margins vary depending on a range factors, such as industry sector, merchant volume, transaction size, merchant turnover, and card types. Similarly, the cost base is influenced by risk and operational factors that vary across these same dimensions. Given the competitive sensitivity of these pricing arrangements, we have not previously disclosed this detail to the market, but RBA data which aggregates whole of market is helpful to understand what is happening to debit card merchant acquiring margins.

Average debit card merchant fees for Mastercard and Visa transactions have reduced by 0.13% (a 21% decline) over the past three years and 0.06% over the past two years, while the input costs, mainly made up of the weighted average interchange fee, have remained relatively stable. For the same period, merchant fees for eftpos transactions have remained relatively stable, while input costs, mainly driven by scheme fees, have increased marginally. It is clear that increasing competition in the merchant acquiring industry in recent years, with the entry of a number of global acquiring monolines, has contributed to a significant reduction in merchant acquiring margins.