

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

NAB

NAB40QW: Merchant services and low cost routing

Answer:

(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?

NAB has defined strategic customers as NAB's Corporate and Institutional customers. NAB has 17,081 Corporate and Institutional merchant services customers.

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

NAB has 143, 898 small and medium business customers (including HICAPS customers, NAB's electronic health claims system) that it provides with POS services.

(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?

- NAB has 31 strategic merchants using LCR or MCR and NAB routes 26 per cent of all eligible transactions (contactless scheme debit) across this segment; and
- NAB has 1,399 small and medium business customers using LCR or MCR and NAB routes 8.7 per cent of all eligible transactions (contactless scheme debit) across this segment.

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

NAB does not have a specific merchant contract for LCR or MCR. The NAB merchant agreement is common across all customers and enables LCR or MCR if the customer chooses.

(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?

Existing NAB customers at the time LCR and MCR were made available were already operating under an existing contract. Any changes to existing contracts must be approved by the customer. As a result, automatically enabling LCR or MCR was not possible. NAB communicated to over 40,000 existing customers in late 2019, encouraging them to consider LCR or MCR for their business and contact NAB to discuss further.

NAB does not automatically enable LCR or MCR for new customers, as the benefits of MCR or LCR to a customer's business depend on the business's preferences and business characteristics.

For example, some customers have a preference for certainty of costs and will therefore select a pricing plan which provides a fixed cost per month based on a predefined business turnover. These customers will not benefit from LCR or MCR, as they are already on a fixed monthly cost.

Other customers may prefer individual transaction pricing. These customers will make their own determination on the value of LCR or MCR based on a number of business factors, including the average transaction size, their decision to surcharge for transactions, customer (cardholder) preferences, the mix of cards used by their customers and other strategic and commercial arrangements that form part of their business model.

(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 RBA reached an understanding with Visa, Mastercard and eftpos to allow merchants to process contactless debit card transactions through the network of their choice in 2013. At that time, the eftpos network did not have the capability to support LCR or MCR. Eftpos commenced upgrading its capability from 2015. Once this capability was available, NAB could then commence work on enabling its own solution.

It took until late 2017 for issuers and acquirers to bring this capability to market, due to the time taken to make changes to:

- the cards which had already been issued to customers;
- the terminals which are needed to process LCR and MCR transaction; and
- the core processing systems needed to support LCR and MCR.

NAB implemented its first MCR solution for a customer in April 2018 after a two-month implementation program.

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

Further to the response above in (c) (i) above, NAB supports choice for all customers. A customer's preferences and its business characteristics will determine whether LCR or MCR is advantageous in each business's individual

circumstances. For example, and as outlined in (c)(i) above, some customers prefer certainty of costs and therefore may prefer a pricing plan which provides a fixed cost per month for a predefined business turnover. These customers will not benefit from low cost routing.

Other customers may prefer individual transaction pricing based on the transaction characteristics of their business. Some transactions may be cheaper via the Visa or Mastercard networks.

(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?

LCR and MCR are not currently available on NAB's existing Verifone VX terminals. These terminals will be replaced with new terminals capable of LCR and MCR services from early 2021.

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

25 per cent of NAB's terminal fleet (primarily its HICAPS customer base).

(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?

Replacement of the 40,000 HICAPS terminals across Australia requires individual site visits for each replacement. This activity will commence in early 2021, once the terminals are certified and a pilot has been completed. The terminal replacement program will be complete within 24 months. Any HICAPS customer that seeks MCR or LCR services in the meantime will be prioritised to receive a new, compatible terminal as soon as possible.

(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?

NAB offers a range of fixed pricing plans. These package plans cover a predetermined amount of business turnover per month for a fixed fee and do not offer LCR or MCR services, as pricing is not based on individual transactions. Customers on the package pricing plan can use MCR or LCR services by asking for an alternative pricing plan.

Also, LCR and MCR services will be available to HICAPS customers when NAB's new terminal solution is deployed.

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

15 per cent of NAB's customers are on a package pricing plan. These customers can use MCR or LCR services by asking for an alternative pricing plan.

A further 25 per cent are HICAPS customers. LCR and MCR services will be available to HICAPS customers when NAB's new terminal solution is deployed.

(iii) Why?

Customers are offered a range of pricing options, including package rates and other options. Customers which choose package plans prefer to have certainty in their pricing.

Also, LCR and MCR services will be available to NAB's HICAPS customers when NAB's new terminal solution is deployed in early 2021.

(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:

Given the large number of variables involved in determining whether MCR or LCR will benefit a customer, we are unable to undertake this calculation. Since first enabling LCR and MCR for customers in April 2018, NAB has continued to have conversations with customers regarding the services and their benefits. During these conversations, a customer's needs and business strategy are discussed, including LCR and MCR enablement. Automatically enabling LCR and MCR may not be aligned to the needs of all our customers.

(i) Your strategic merchant customers?

Refer above at question (f).

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

Refer above at question (f).

(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:

A majority of NAB merchants are on "interchange plus pricing" (i.e. where the interchange rate is added to a combined scheme and margin). There are technical challenges to implementing dynamic routing for merchants who are on interchange plus pricing, as the cost of interchange is unknown to the terminal at the time of processing the transaction.

Discussions to enter a strategic agreement with eftpos to use the eftpos interchange wholesale repricing are in progress and not finalised. NAB has communicated its feedback to eftpos that the high volume threshold conditions attached to these lower rates could make them challenging to pass on to merchants. The conditions would require the ongoing tracking of volumes, which could lead to price increases if the conditions are not met by a merchant.

(i) Your strategic merchant customers?

Refer above at question (g).

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

Refer above at question (g).

(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?

No.

(i) If so, why?

Not applicable.

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

Not applicable.

(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? Customers opting in to LCR and MCR are not repriced based on their decision to use LCR or MCR services.