

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE FOUR MAJOR BANKS

#### Bendigo and Adelaide Bank

**BAB17QW:** Merchant facilities and low cost routing:

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

The Bank provides EFTPOS facilities to approximately 19,000 merchant customers and eCommerce facilities to approximately 2,000 merchant customers.

As above, the Bank currently provides merchant facilities to only micro, small and medium business customers.

(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?

Our customers could save money where a multi-network debit cards is 'tapped' and routed to a lower cost network.

However, due to the complex nature of the interchange and fee regimes operated by the card schemes, savings are not guaranteed for customers, largely due to the features of our existing approach which comprises blended pricing. We strive to competitively price merchant fees for customers' by considering several factors that influence the right cost and the pricing model best suited to their needs.

The Bank proactively and regularly reviews its pricing with customers to optimise the value they are receiving. This may include encouraging/recommending the introduction of low cost routing (LCR). We note that after discussing LCR with several customers, they have elected to remain with the simplicity of blended pricing based on what has been determined to be best suited to their individual circumstances.

In relation to LCR, we have made two additional industry observations about over the past two years:

- LCR has already had the impact of increasing competition between the card scheme networks and has driven down the interchange rates on multi-network debit cards. These savings have been passed on to merchants of all sizes regardless of whether LCR is actually in use.
- In our assessment, Tyro, has the best in class LCR solution. (Branded as 'Tap & Save') We note that as per its public FAQs, even Tyro cannot guarantee savings from LCR, and also excludes 'Special Offer' pricing from Tap & Save.

The Bank is in the process of assessing the capabilities of different potential partners for the provision of merchant services. In the event the Bank progresses with a new partnership model, it is our intent to provide access to advanced LCR solutions for all existing small to medium business customers (with EFTPOS devices) and to all new business customers.

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

LCR forms part of the Bank's pricing discussions with new and existing business customers. Given the mentioned observations, we offer the option to trial LCR for one statement period in order to validate the positive impact on fees before choosing to opt in on an ongoing basis.

The Bank has also communicated information about its LCR capability to its business customers.

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

We note that LCR can deliver cost savings to SMEs, however consideration of other needs and preferences of this segment, namely ease and simplicity needs to be factored in.

An industry approach to consumer and business education may also support a full roll out of LCR. Other industry trends will need to be considered for example, international scheme debit reward programs.

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

Currently, as above, the Bank supports blended pricing. LCR is available for all customers.

(f) What is the annual revenue received from total merchant services each year over the past five years?

The Bank currently provides merchant facilities to only micro, small and medium business customers. Refer to response provided for (g).

(g) What is the annual revenue received from small and medium business merchant services over the past decade?

Calendar Year	Total Merchant Service Revenue (\$)
2010	25,825,917.43
2011	27,106,391.20
2012	29,731,753.38
2013	32,396,071.16
2014	36,326,155.87
2015	42,262,304.66
2016	48,431,189.79
2017	51,500,911.35
2018	53,305,851.37
2019	51,295,984.68

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

Again, please note, these answers are for small and medium business customers.

(i) use low cost routing?

11 customers or 0.1% of the book.

(ii) provide access to low cost routing?

Currently 4,140 customers use a device with LCR capability(22% of the book). If LCR is requested by a customer and determined to be of benefit, we will upgrade any customer to a compatible device for no charge.

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

11 customers or 0.1% of the book.

(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?

As above, if we were to progress with a new partnership, it is anticipated all customers will have access to LCR by the end of 2020 through a hardware upgrade.

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

Currently, all LCR capable devices have the appropriate software.

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

As above, if we were to progress with a new partnership, it is anticipated all customers (19,000) will have LCR by the end of 2020 through a hardware upgrade.

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

As above, any customer can have access to a LCR device upon request. No charge is payable to the customer to upgrade to the new device.

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

As above.

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

Merchant facilities are only offered to small and medium business customers.