



Mr Tim Wilson MP,
Chair
House of Representatives Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

3 July 2020

Dear Mr Wilson,

I am writing to you regarding the Committee's Review of the Four Major Banks, with specific reference to the Committee's deliberations regarding merchant choice routing, sometimes referred to as least cost routing or LCR.

Our main concern is the way the Reserve Bank of Australia (RBA) represents data relating to merchant service fees (MSF).

Every quarter, the RBA reports data about the cost of card acceptance for businesses - MSF. For the cost of card present debit transactions, where merchant routing can occur, the data suggests the international card schemes (Mastercard and Visa), are higher priced when compared to eftpos. The information published by the RBA is then used by businesses, competitor schemes and others to advocate routing card present debit transactions to eftpos based on this perceived saving.

The current presentation of the data creates a misleading impression about the costs of accepting debit card payments and this is increasing costs for merchants and may lead to perverse regulatory outcomes.

Using the data, eftpos for example has argued merchants could collectively save over \$500 million a year and, individual merchants could save 40 per cent on merchant fees by routing transactions to them.

These often-repeated figures are simply not correct. There are several reasons for this:

- The cost data for Mastercard and Visa debit transactions includes the cost of accepting international transactions. Eftpos costs do not capture international transactions because these cards can only be used in Australia.
- The costs captured for Mastercard and Visa do not differentiate between Card Present (transactions at the point of sale) and Card Not Present (such as those done online). *'Card not present'* transactions are typically higher priced given the higher fraud mitigation costs. Data reported by the Australian Payments Network (APN) shows the overwhelming majority of card fraud now occurs online. Last financial year *'card not present'* fraud accounted for 86 per cent of total fraud on Australian issued cards.¹
- Today, eftpos can only be used in a face to face environment. So, comparing the costs of schemes that process *'card present'*, *'card not present'* and international debit transactions

¹ <https://www.auspaynet.com.au/resources/fraud-statistics/July-2018-June-2019>



with a scheme that can only process card present transactions misrepresents the true cost of like for like transactions.

- When comparing like for like ‘*card present*’ transactions, Mastercard transactions cost the same for a merchant as an eftpos transactions.

Based on the use of the currently published RBA data, some merchants may wish to route contactless ‘*card present*’ transactions to eftpos due to a false perception that international scheme costs are significantly higher than eftpos’. Merchants who use this data in their decision making may pay more. This is clearly contrary to the intent of both the RBA and the Government.

The RBA acknowledges the data does not compare like for like. Their report on ‘*The Cost of Card Payments for Merchants*’ (March 2020 Bulletin) acknowledges the challenges associated with comparing merchant service fees (MSF) across schemes. The report notes:

“Some of the differences in the average merchant fees across schemes could also be explained by compositional differences in transaction types. For example, the merchant fee data for Visa and Mastercard debit cards, unlike those for eftpos, include transactions on foreign-issued debit cards, which have significantly higher interchange fees than domestic transactions. Also, as eftpos has yet to support remote transactions, all eftpos transactions are made at the point of sale (card-present). Visa and Mastercard, on the other hand, facilitate card-not-present transactions (such as online purchases), which may attract different interchange and/or scheme fees.”

The way this data is represented creates three pressing issues:

- First, it is more difficult for merchants to make an informed decision on the comparative costs of acceptance across different schemes.
- Second, these inaccuracies blur vital detail for those merchants who pass on their acceptance costs to customers, resulting in higher than necessary surcharges on consumers when a cardholder uses a Debit Mastercard.
- Third, potential savings figures that are patently incorrect may lead to perverse regulatory outcomes that seek to solve a problem that simply does not exist.

Mastercard has raised concerns about how the RBA presents payment cost data for some time, particularly given it is used by third parties to advocate for merchant routing to one network. While we are pleased the RBA is considering how cost data can be more accurately reported, the current data continues to be used to draw incorrect conclusions about costs.

Mastercard is committed to working with the Committee and the RBA to ensure published cost data is accurate and helps merchants make the best routing decision for their business. We have asked the RBA to present the quarterly debit costs data in such a way that compares like for like. This would help merchants and other stakeholders better understand costs and make accurate and meaningful comparisons.

Australia’s SME community is currently confronting the manifest challenges presented by COVID 19. Adding costs to their business by failing to act here is an unnecessary additional burden.



Mastercard is dedicated to developing the best possible operating environment for the payments sector, incentivising investment in innovation and the growth of electronic payment options. We believe accurate data will help deliver on this.

I would be pleased to discuss this with you further.

Yours sincerely,

Rich Wormald

Division President, Australasia

cc. The Hon Dr Andrew Leigh MP, Deputy Chair
The Committee Secretariat
Office of the Treasurer
Office of the Minister for Small Business