

# HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS REVIEW OF AUSTRALIA'S FOUR MAJOR BANKS – WESTPAC RESPONSE

## Additional Questions in Writing

### 1. Please indicate how many individual cases involving compensation or disputes from the time of the Royal Commission remain unresolved.

We do not believe there are any outstanding cases that were raised with Westpac by the Financial Services Royal Commission – these cases have been resolved with the relevant customers. AFCA established a process between July 2019 and June 2020 to consider legacy complaints from consumers and small businesses dating back to January 2008. All legacy complaints have been resolved.

For completeness, Maurice Blackburn commenced a class action against Westpac entities, ANZ, and Macquarie Leasing called the 'Flex Commission' class action. These class actions were commenced following the focus on the practice of flex commission arrangements in the Royal Commission. The class action remains on foot. Westpac no longer pays flex commissions following an industry-wide ban issued by ASIC on 1 November 2018.

### 2. For each of the past five years, how many legal cases has your bank been involved with? How many were instigated by the bank?

Westpac and its subsidiaries have been party to litigation over the five-year period both where Westpac is plaintiff and where Westpac is a defendant. This includes litigation relating to areas such as credit restructuring, insurance claims, credit recovery, customer disputes and employee disputes.

Westpac reports **major** litigation in its Financial Reports each year and of these Westpac (or its subsidiaries) was a party to 26 proceedings since September 2019.

These proceedings involved the following:

- 15 regulatory proceedings: comprising of 14 proceedings commenced by ASIC and 1 proceeding commenced by AUSTRAC.
- 9 class actions (7 in Australia and 2 in the USA).
- 2 proceedings instigated by Westpac (1 fraud recovery against a customer and 1 claim against insurers).

### 3. For each of the past five years, how many cases has the bank had at AFCA? What is the proportion of cases that were resolved in the bank's favour, and what proportion in the consumer's favour?

Calendar Year	2019	2020	2021	2022	2023	2024 (to Aug)	Total
Total AFCA Volumes Resolved	5,085	6,005	6,763	6,645	8,105	5,144	37,747
AFCA Vol Resolved at Registration & Referral Stage	1,937	2,854	5,259	4,687	6,174	3,566	24,477
AFCA Vol Progressed to Case Management & Decision	3,148	3,151	1,504	1,958	1,931	1,578	13,270
<i>In Customer Favour %</i>	51%	47%	35%	28%	32%	35%	40%
<i>In Bank's Favour %</i>	46%	47%	58%	67%	65%	61%	55%
<i>N/A* %</i>	3%	6%	7%	5%	3%	3%	5%

\* Includes resolution outcomes where the customer complaint was denied by AFCA, the complaint was withdrawn or discontinued by the customer, the customer failed to respond in the appropriate time, or it was not considered a complaint by AFCA (enquiry or feedback).

**4. How many staff are now eligible for bonus payments above 50% of the base rate? How much have total bonus payments for this cohort increased over the past three years?**

For those home lending roles covered by the Sedgwick recommendations, the maximum variable remuneration has been capped at 50% of fixed pay for the last three years.

In the subsequent weeks following the House of Representatives Standing Committee on Economics Major Bank Inquiry, Westpac took the decision to lift the 50% cap on variable remuneration to 80% for home lending roles. For Financial Year 2025, based on historical data, we estimate around 50 - 70 home lenders would perform at a level sufficient to qualify for variable remuneration greater than 50% of fixed pay.

**5. You co-own Australian Payments Plus (APP). Please describe your co-ownership arrangements in detail, including any history you can provide.**

APP is a member owned unlisted company formed in 2022 following the merger of eftpos Payments Australia Limited, BPAY Group and NPP Australia. APP has 25 shareholders, of which Westpac is one.

The Board of APP has 13 Directors, composed of four independent Directors (including the Chair), four Directors representing each of the four major banks, two Directors representing other ADI shareholders and three Directors drawn from non-ADI shareholders (such as retailers and other payment processors). Each shareholder of APP has only one vote in a general meeting of the company. It is only the independent Directors that are able to make decisions on pricing and rebates.

**6. Does your bank fund APP? If so, how.**

Westpac does not fund APP. We pay for payment transaction processing fees for services provided by APP.

APP does not seek to make a profit from its operations. APP's retained earnings are used to support investment and compliance requirements.

**7. Do you add a margin on fees charged by APP for the use of their scheme? If so, what is it? Please outline per APP product (BPAY, EFTPOS, Osko, etc).**

eftpos

Westpac adds a margin to the fees charged by APP for using their scheme. However, not all transactions are profitable for the bank, especially when the transaction size is small; some may even lead to a loss.

The eftpos merchant service fee we charge merchant customers can be either a single blended rate (1.2% or 1.4%, depending on the product) or a blended rate combining a flat fee of typically between \$0.15 to \$0.40, which varies based on the merchant category code (MCC), average transaction value, and card mix. A larger transaction size indicates a higher scheme cost. This service fee includes interchange costs, scheme costs, bank costs (vendor fees, technology and servicing overheads, gateway and switching fees, systems upkeep and maintenance costs etc), and margin.

For example, consider a customer purchasing a \$4.50 coffee with an eftpos debit transaction using a digital mobile wallet. According to APP guidelines, this standard digital transaction incurs an interchange cost of \$0.10 for the acquiring bank. On top of this fee, the bank also has to cover scheme costs and other operational expenses. With a blended rate of 1.2%, the customer would be charged about \$0.054 for this transaction, resulting in a loss for the bank.

## Osko

Osko (NPP) has been mandated by the Government to replace the direct entry system by 2030. For consumers and SMEs, Osko payments (both sent and received) have zero fees. Westpac does charge a negotiated rate for use of Osko by business customers.

## BPAY

For consumers BPAY is free. For Billers (i.e. businesses that collect bill payments via BPAY), Westpac charges a negotiated rate.

### **8. NAB have switched to opt-out Low Cost Routing (LCR) for new merchants. Will you do the same? If so when? If not, why not?**

Westpac automatically activates LCR for merchant customers on a simple plan during onboarding.

Westpac's goal is to maintain pricing and cost efficiency for our merchant customers. Since LCR through APP isn't always the most cost-effective option, we will evaluate each case individually during onboarding and enable LCR when it benefits the customer.

### **9. In a blended rate environment, does the merchant get the net benefit of LCR, or does it go to you?**

Westpac's single blended rate provides a simple pricing solution for merchant customers. Merchants simply pay a flat percentage fee for all credit and debit transactions—including Mastercard, Visa, eftpos, and UnionPay — and in some cases a monthly terminal fee. This approach helps merchants easily understand their costs and manage their monthly expenses with a single fixed price. Additionally, there are no participation fees, minimum merchant service fees, chargeback fees, extra store fees, or stationery fees; all these costs are included in the single blended rate.

The blended rate also offers a straightforward pricing structure with a flat percentage fee for Visa, Mastercard, and UnionPay International, as well as a separate flat fee for eftpos.

Depending on the size of the transaction and types of cards being used, transitioning from Visa/Mastercard to eftpos at a blended rate - which includes the eftpos scheme, interchange, and margin - can be advantageous for merchants.

Factors such as transaction volume, average ticket size, and the types of cards used may lead some merchants, particularly those with a high volume of international and premium cards, to find this simplified pricing more cost-effective compared to per-transaction fees with LCR, in which case the bank would absorb the costs. If actual experience is different to the assumed split the net cost or net benefit goes to the bank.

Westpac is required to regularly provide data to the RBA. They possess extensive information on LCR, surcharging, and the cost of acceptance across a range of payment service providers.

### **10. Why have you not enabled LCR for all merchants?**

Westpac's goal is to maintain pricing and cost efficiency for our merchant customers. Since LCR through eftpos isn't always the most cost-effective option, we will evaluate each case individually during onboarding and enable LCR when it benefits the customer.

Currently, 68% of our merchants have LCR enabled. We regularly review our existing portfolio and, where it is highly likely that a merchant would benefit, we auto-enable LCR with an option to opt out. However, 25% of merchant customers we have identified will not benefit from LCR.

The remaining 7% includes institutional clients who have been directly involved in our calculations and are able to make their own decisions. We will approach these institutional clients on an individual basis.

It should be noted though, a policy of enabling LCR for all merchants, we estimate would result in some merchants (circa 25%) paying higher merchant fees. Westpac's view is the more appropriate process is to individually assess the financial benefit (or otherwise) of LCR enablement for merchants.

Westpac is required to regularly provide data to the RBA. They possess extensive information on LCR, surcharging, and the cost of acceptance across a range of payment service providers.

**11. Do you have commercial arrangements that would financially have an impact on you, should you enable LCR for all merchants? If so, please outline them.**

Westpac has an agreement with APP. Effective July 2023, for a term of three years we will get a routed transaction rebate conditional upon the volume of dual network debit cards routed through eftpos. The specifics of the rebates are commercially sensitive.

It should be noted though, a policy of enabling LCR for all merchants, we estimate would result in some merchants (circa 25%) paying higher merchant fees. Westpac's view is the more appropriate process is to individually assess the financial benefit (or otherwise) of LCR enablement for merchants.

**12. Do you have a minimum transaction volume or dollar value agreements with the major card providers? If so, what are they?**

There are no minimum transaction volumes or dollar value within Westpac's card scheme agreements. Westpac does, however, receive incentive payments for certain spend levels. The details of this arrangement are commercially sensitive.

**13. Are you incentivised to issue more Visa/Mastercard products or put more turnover through these schemes? If so, how?**

Through Westpac's commercial agreements that were tendered and awarded to Mastercard and Visa, we receive various incentives to grow, innovate and maintain Westpac's debit card program.

While there are some incentives to issuing new cards, the details of these incentives are commercially sensitive. As a card issuer, all Mastercard/Visa debit products are issued as dual network debit cards (includes Mastercard/Visa and eftpos schemes).

With regards to turnover, Westpac has no control over how cardholder transactions are routed by the merchant customer and how the customer uses their card.

**14. Do Visa/Mastercard debit transactions count towards minimum turnover/volume arrangements?**

Refer to responses above.

**15. Would 100% LCR enabled for merchants reduce revenue to your company?**

From a card issuing perspective, this would see a reduction in incentives.

However, from a merchant acquirer perspective, a 100% LCR enabled would not see a decline in revenue. Westpac's primary goal is to implement LCR in a way that benefits our merchant customers, regardless of any revenue effects to Westpac. Whilst our cost inputs (such as scheme-based fees and interchange) are a determinant in the end price to merchant

customers, they are not the only determinant. Additionally, we make pricing decisions based on the totality of the cost inputs and margin.

**16. Would 100% LCR enabled for merchants reduce your volume with international card providers?**

Yes, it is likely to reduce volumes with the international card providers.

It should be noted though, a policy of enabling LCR for all merchants, we estimate would result in some merchants (circa 25%) paying higher merchant fees. Westpac's view is the more appropriate process is to individually assess the financial benefit (or otherwise) of LCR enablement for merchants.

**17. What would a reduction in volume with international card providers cost your organisation?**

Westpac has no control over how cardholder transactions are routed by the merchant customer and how the customer uses their card. A significant reduction in volume through the international schemes would see the equivalent increase in the volumes through the eftpos scheme network.

**18. What is your cost of use of EFTPOS debit on a \$100 transaction?**

When using Westpac's main terminal solution, the bank's cost on \$100 transaction would be \$0.125 if LCR is enabled (dual network debit card) and \$0.213 for an eftpos debit card (single network card).

**19. On that same transaction, what do you charge customers?**

On the same transaction, Westpac would charge the merchant customer on average \$0.16 for LCR enabled (dual network debit card) and \$0.25 for an eftpos debit card (single network debit card).

**20. You co-own APP. Is the cost of a \$100 EFTPOS transaction to APP, the same as the cost of a \$1000 EFTPOS transaction to APP?**

Westpac does not have visibility of the costs incurred by APP to process a transaction on eftpos.

APP publishes eftpos interchange fees on its website, which can be found [here](#).

**21. Do you have an incentive for issuing/volume for EFTPOS debit? If so, what are they?**

Westpac does receive issuing incentives for processing transactions on the eftpos network. The specifics of the incentives are commercially sensitive.

**22. Evidence was given in the Committee hearings that EFTPOS doesn't issue chargebacks. Is this accurate?**

The eftpos rules do provide mechanisms to support resolution of chargebacks and disputes for transactions.

**23. As co-owner of APP, can you please provide me with APP's latest audited annual report and financial statements?**

We have attached APP's last annual report and audited financial statements for the year ended 30 June 2023.

## Questions Taken on Notice

**24. “Mr LAXALE: I can choose MasterCard or EFTPOS on my digital wallet.**

**Mr King: MasterCard EFTPOS?**

**Mr LAXALE: Yes.**

**Mr King: Okay.**

**Mr LAXALE: You don't offer that?**

**Mr King: I'll have to check, actually.”**

Digital wallet providers (Apple Pay, Google Pay, Samsung Pay) determine whether the decision of what scheme (Visa/Mastercard or eftpos) to route a payment through is made by the customer or the merchant where the customer is paying via a digital wallet. Some digital wallet providers allow customers to select eftpos when making a transaction in person, but this functionality is determined by the digital wallet provider and not by the bank. The RBA has been explicit in stating that it expects card issuers to issue dual network debit cards, rather than single network cards. The RBA has also expressed a desire for the industry to deliver LCR functionality by end of 2024 with an expectation that merchant choice of debit network would be the default setting.<sup>1</sup>

**25. “With scams, are you seeing an increase in scam activity as it relates to self-managed super funds?”**

Westpac has not seen an increase in scams related to self-managed superfunds. The majority of scams relating to self-managed superfunds involve an individual accessing their superannuation fund holdings and transferring this over to a self-managed superfund and then making investments in cryptocurrencies.

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<sup>1</sup> [Payments System Board Update: November 2022 Meeting | Media Releases | RBA.](#)