

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

CBA

CBA24QW: Merchant facilities and low cost routing:

- (a) Do you provide merchant facilities, and if so, to how many 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?
- (c) If so, how do you encourage small and medium business customers to switch to low cost routing?
- (d) Do you think all small and medium business customers should be on low cost routing?
- (e) What are the fee structures for different merchant services available, including low cost routing options?
- (f) What is the annual revenue received from total merchant services each year over the past five years?
- (g) What is the annual revenue received from small and medium business merchant services over the past decade?
- (h) What number and share (percentage of total) of merchant services for all customers:
 - (i) use low cost routing?
 - (ii) provide access to low cost routing?
 - (iii) of those that provide it, default to low cost routing?
 - (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?
 - (v) require a user requested software upgrade to access low cost routing, and what has been the uptake?
 - (vi) require a hardware upgrade to access low cost routing, and how many remain?
 - (vii) do not provide access to low cost routing?

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

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

(i) use low cost routing?

(ii) provide access to low cost routing?

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

(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?

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

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

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

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

Answer:

(a) We provide merchant facilities to approximately 180,000 customers

(b) We note there has already been a meaningful impact from the RBA's initiatives in this area, with the differential between the fees charged by the domestic eftpos network and the global schemes (Mastercard and Visa) having narrowed dramatically. The global schemes reduced interchange by up to two thirds on contactless transactions. Small and medium businesses have benefited from this fee reduction which, coupled with the availability of LCR to further reduce the remaining differential, has already resulted in a saving to those businesses.

At CBA we have enabled LCR in a service called Merchant Choice Routing (MCR) – which, when enabled, allows merchant customers to choose whether contactless payments made with multi-network debit cards (Mastercard debit and Visa debit card transactions) are processed through either the domestic eftpos network or the multi-network debit card schemes (“scheme debit”).

We understand most other banks' LCR offerings only enable merchant customers to choose to route all such transactions through either eftpos or scheme debit. CBA's offering goes further, with a third option where a merchant customer can process lower value transactions through one network (Mastercard/Visa or eftpos) and higher value transactions through the other

network - potentially taking advantage of any cost differences between these networks. The merchant has the discretion as to where the threshold for switching networks is set, and would make this decision based on their cost of accepting payments via these networks.

As we have notified small business customers via the Commbank website, enabling MCR may help some merchant customers save on fees – however, this depends on what fee structure they are currently on with CBA, and their typical business transaction volumes and card mix.

Around 19 percent of CBA merchant customers are on a plan with a fixed monthly fee – regardless of network used or card type; MCR is not enabled for these customers, as it would have no impact on these fees.

(c) We provide information about CBA’s LCR service on our website, and will promote the availability of this further through proactive customer communications about how they can ‘switch on’ LCR. We are trialling a back-office calculator that enables our front line staff to speak with merchant customers and help them consider which MCR setting may be optimal for them, given their typical business transaction volumes and card mix.

(d) As noted above, whether merchants save on fees by enabling MCR depends on the pricing plan they are on, their typical business transaction volumes and card mix; and what MCR setting they select (all scheme debit, all eftpos, or set a transaction threshold for switching between the two networks – and where that threshold is set).

(e) We have four fee structures: Bundled, Interchange Plus, Semi-Bundled and Simple Merchant Plan.

- **Simple Merchant Plan:** The Simple Merchant Plan allows businesses to pay a fixed monthly amount for their payment acceptance needs including monthly card turnover (Visa, Mastercard, eftpos, Amex), EFTPOS terminal and business transaction account. The plans range from \$30 to \$150 per month, depending on merchant needs.
- **Bundled:** Bundled pricing is a fixed per transaction pricing approach that averages the cost of interchange, scheme fees, Bank cost and Bank margin. Merchants who take this approach have certainty on their cost of acceptance at a transactional level.
- **Semi-Bundled:** Semi-Bundled is a derivative of the bundled approach outlined above except that it splits out pricing into seven effective rates. These rates represent the card type (i.e. standard, premium, international) and include interchange, scheme fees, bank cost and bank margin.
- **Interchange Plus:** Interchange Plus pricing explicitly separates interchange, scheme and bank margin for each transaction. The applicable interchange rate reflects the wholesale interchange cost of

processing that particular credit card. Interchange Plus offers clients total transparency with respect to the fees that they pay.

(f) Provided on a confidential basis

(g) Revenue data for these services is not collected on this basis.

(h)

(i) To date, 234 merchant customers are using CBA's version of LCR.

(ii) 100% of customers can request CBA to have LCR enabled – in some cases this first requires a software upgrade, in other cases a free replacement device. The merchant would then contact CBA to request LCR be enabled and choose their preferred LCR settings.

(iii) There is no option to 'default' to low cost routing – when LCR is enabled, the merchant must choose (and advise CBA) which of three LCR routing options they want to use.

(iv) All new customers using our core terminal device have MCR available. For existing customers, we are commencing automated software upgrades for one of our terminal types in March this year and this will be completed over a number of months (this represents around 65-70% of all merchants). Once they have the software upgrade, these merchants can then opt in to LCR and select their preferred LCR settings by contacting CBA.

For merchants who use CBA's smart terminal (Albert), there is no planned automated software upgrade to facilitate LCR, so merchants would first request a free replacement alternative terminal, then opt-in to LCR.

(v) See (h) (iv), above.

(vi) See (h) (iv), above.

(vii) See (h) (iv), above.

(viii) See (h) (iv), above.

(i)

(i) CBA services approximately 130,000 small and medium business customers, representing ~70% of our total merchant customer portfolio. All the 234 merchant customers using CBA's LCR option are small and medium business customers.

(ii) See answers to **(h) (ii)-(viii)**, respectively.

(iii) See answers to **(h) (ii)-(viii)**, respectively.

(iv) See answers to **(h) (ii)-(viii)**, respectively.

(v) See answers to **(h) (ii)-(viii)**, respectively.

(vi) See answers to **(h) (ii)-(viii)**, respectively.

(vii) See answers to **(h) (ii)-(viii)**, respectively.

(viii) See answers to **(h) (ii)-(viii)**, respectively.