

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS
REVIEW OF THE FOUR MAJOR BANKS**

Westpac Banking Corporation

WBC30QW: 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) Westpac Banking Group has 160,019 Merchant Numbers in the Australian market.

Westpac reports Merchant Numbers not Customer Numbers. A customer may have a number of merchant facilities (merchant numbers) attached to a single customer number, for example where a customer has multiple payment sites or business locations. Our merchant numbers include 33,304 Card Not Present (i.e. merchants that are only able to accept transactions when the cardholder cannot physically present the card for inspection – such as online orders and mail orders) and 126,715 Card Present Merchant Numbers (who are able to accept transactions where the cardholder can present the card). Card Not Present Merchant Numbers are out of scope for Merchant Choice Routing because they cannot accept contactless transactions. We have excluded them from all parts of the response excluding questions "f" and "g".

Westpac provides a feature called "Merchant Choice Routing" (MCR). Our MCR feature applies to domestic-issued contactless debit card transactions. It allows merchants to decide whether these transactions are routed via the eftpos scheme or via the Visa/Mastercard schemes. The schemes charge Westpac different fees (i.e. eftpos, Mastercard and Visa all charge Westpac different scheme fees and interchange fees). Accordingly, we charge merchants different fees depending on which scheme is used, unless they are under a simple pricing plan, see (e)4. In most cases the feature will be available on the merchant's current terminal and set out in the Pricing Plan. Merchant Choice Routing is a feature enabled on the Payment Terminal (i.e. the specific payment device and not in the bank's switching systems). Statistics in this questionnaire include Merchants using both Westpac owned payment terminals and Merchant owned payment terminals.

- (b) Some small and medium business customers would potentially benefit from Merchant Choice Routing. This will depend on their mix of card transactions and current products and pricing arrangements. As

Merchant Choice Routing is not always beneficial for merchants, we do not enable it by default, rather provide it as an opt-in feature so that the Merchant can determine whether to elect to use it.

- (c) We communicated to all merchants the introduction of Merchant Choice Routing in April 2019 and have trained our sales and service teams for ongoing engagements.
- (d) This is a decision for customers. It is not always beneficial for merchants to be on Merchant Choice Routing.
- (e) We offer a number of fee structures for merchant services:
 1. Bundled Merchant Service Fee - a single Merchant Service Fee applied.
 2. Interchange Plus Merchant Service Fee - a Merchant Service Fee applied and Interchange fees are passed through separately.
 3. Direct Merchant Fee - Merchant Service Fee applied and Card Scheme fees and Interchange Fees are passed through separately.
 4. Simple Pricing Plans - a flat fee is applied monthly covering all transactions. (An excess fee is charged should the customer exceed the monthly included allowance).

Merchant Choice Routing is available on options 1, 2 and 3.

Further details on our pricing is included in our fees and charges brochure:

https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/bb/360571/MS_Fees_Charges_Brochure.pdf.

- (f) Westpac provides this data to the Committee on a confidential basis.
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- (h)
 - (i) 1,140 (1.0%)
 - (ii) 103,128 (81%)
 - (iii) 0%
 - (iv) 81% of Payment Terminals connected to the Westpac Group network offer the Merchant Choice Routing feature. This includes:

all flagship payment terminals provided by the Westpac Group; and payment terminals owned by the customer, where the customer has completed development.

- (v) 0%
- (vi) The 19% of our merchants who do not yet have MCR functionality available to them are on their own merchant owned devices. These merchant owner devices may either require a hardware upgrade or, require a software upgrade by the manufacturer of the device with whom the merchant has a direct relationship.
- (vii) The 19% of our merchants who do not yet have MCR functionality available to them are on their own merchant owned devices. These merchant owner devices may either require a hardware upgrade or, require a software upgrade by the manufacturer of the device with whom the merchant has a direct relationship.
- (viii) A very limited number of large customers who own their devices are currently going through testing to implement Merchant Choice Routing. There are no other planned Merchant Choice Routing developments scheduled, with our major fleet of payment terminals already capable.

(i)

- (i) 307 (0.4%)
- (ii) 67,667 (91%)
- (iii) 0%
- (iv) 0%. Merchant Choice Routing capable software has been rolled out to all in scope products.
- (v) 0%
- (vi) The 9% of our merchants who do not yet have MCR functionality available to them are on their own merchant owned devices. These merchant owner devices may either require a hardware upgrade or, require a software upgrade by the manufacturer of the device with whom the merchant has a direct relationship.
- (vii) The 9% of our merchant who do not yet have MCR functionality available to them are on their own merchant owned devices. These merchant owner devices may either require a hardware upgrade or, require a software upgrade by the manufacturer of the device with whom the merchant has a direct relationship.

- (viii) There are no other planned Merchant Choice Routing developments scheduled, with our major fleet of payment terminals already capable.