

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

Westpac Banking Corporation

WBC48QW: Merchant services and low cost routing:

(a) In terms of your Point of Sale (POS) strategic merchant services:

(i) What is the total number of your POS strategic merchant services customers?

(ii) What is the number of small and medium business customers?

(b) What number and share (percentage of total) of your total strategic merchant services customers and number and share of small and medium business merchant services customers:

(i) Use the Least Cost Routing (LCR) or Merchant Choice Routing (MRC) option for multi-network debit transactions?

(ii) Have a contract for the lowest cost routing option, when including all fees associated with the transaction including interchange and scheme fees?

(c) Is LCR or MCR on multi-network debit transactions offered to all customers as an opt-out option to ensure all get access to savings? If not:

(i) Why?

(ii) Considering that the Reserve Bank of Australia has advocated LCR since 2013, why have you not found a way provide this service and the associated cost savings to all of your merchant services customers?

(iii) Do you believe you are acting in your merchants' best interests by not passing on possible savings?

(d) Are LCR or MCR services offered on all terminal types for multi-network debit transactions? If not:

(i) Which terminal types do not have LCR or MCR?

(ii) What percentage of your terminal fleet does this represent?

(iii) When do you plan to upgrade those terminal types that do not have LCR or MCR to enable those merchants with those terminal types to access LCR or MCR?

(e) Are LCR or MCR services offered on all pricing plans for multi-network debit transactions? If not:

(i) Which pricing plans do not have LCR or MCR as an option?

(ii) What percentage of your small and medium business merchant customers are on these plans?

(iii) Why?

(f) If you provided all your strategic and small and medium business POS merchant services customers access to the lowest cost scheme on all multi-network debit transactions, what would the savings be for:

(i) Your strategic merchants customers?

(ii) Your remainder of medium and small business merchant customers?

(g) If you passed on at POS the lowest cost per transaction via dynamic routing to your merchants, based upon current and eftpos 1 July 2020 pricing, what would the savings be for:

(i) Your strategic merchants customers?

(ii) Your remainder of medium and small business merchant customers?

(h) Are any additional fees or charges, such as terminal rental, added or increased for small and medium business merchant customers who elect to implement LCR or MCR?

(i) If so, why?

(ii) Do you increase the average eftpos transaction fee for customers who choose to use LCR or MCR compared to other plans? Why?

(iii) Does a customer's choice to use LCR or MCR for debit transactions impact the fees you charge for credit transactions for any of your merchant customers? Why?

Answer:

(a)

(i) 13 merchants

(ii) As at May 2020, Westpac Banking Group (Westpac) has 149,521 Merchant Numbers in the Australian market.

Westpac reports Merchant Numbers not Customer Numbers. This includes 28,575 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 120,946 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.

Approximately 77,838 Merchant Numbers are small and medium business customers with card present facilities.

(b)

- (i) As at May 2020, the total number of Merchant Numbers on MCR is 1,197 and this represents ~1% of total Merchant Numbers. There are 976 (0.8%) Merchant Numbers on Strategic Merchant arrangements – some of the Merchant Numbers included in this are classified as small and medium customers. There are 70 (0.1%) small and medium Business Customers and the remaining 151 (0.1%) are commercial customers.
- (ii) Our general merchant terms and conditions had been amended to allow for the activation of Merchant Choice Routing when we first introduced this feature in April 2019. As a result, generally no further contractual changes are required unless bespoke arrangements are in place, typically only associated with institutional customers, not our small and medium business customers.

(c)

- (i) Small and medium business customers can potentially benefit from MCR, but this depends on their mix of card transactions and current products and pricing arrangements. As MCR is not always beneficial for every merchant, we do not enable it by default. Rather, we provide it as an opt-in feature so that the Merchant can elect to use it or not.

We communicated the introduction of MCR to all merchants in April 2019 when we updated our merchant terms and conditions and have trained our sales and service teams for ongoing engagements.

(ii) See (c) (i)

(iii) See (c) (i)

(d)

- (i) All payment terminals provided by Westpac have MCR capability available. Some merchant-owned devices connected to the Westpac Group network do not have MCR capability.
- (ii) Overall 81% of Payment Terminals connected to the Westpac Group network offer the Merchant Choice Routing feature.
- (iii) The 19% of terminals connected to the Westpac Group network that do not yet have MCR functionality available to them are merchant owned devices. These merchant owned 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.

(e)

- (i) 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 (MCR) 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.

- (ii) 8%. These customers are on fee structure option 4, Simple Pricing Plans.
 - (iii) MCR is not available on option 4 because these plans involve a fixed monthly charge which includes transaction processing up to a certain transaction value and terminal rental in a single fixed monthly fee. Transactions processed in excess of the included amount are charged based on transaction value, regardless of card scheme. MCR would not provide a benefit on this pricing plan.
- (f) Due to the modelling complexities and the ongoing changes in the market, we cannot provide an estimate on potential savings.
- (g) Due to the modelling complexities and the ongoing changes in the market, we cannot provide an estimate on potential savings
- (h)
- (i) No additional fees or changes (including terminal fees) are differentiated based upon the merchant's request to enable MCR.
 - (ii) Pricing to merchants is provided based on their card mix. With the activation of MCR the card mix changes and thus, pricing is reviewed.
 - (iii) See (h) (ii)