

PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

*Mobile Payment and Digital Wallet Financial Services*

PUBLIC HEARING

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Please find below answers to questions taken on notice in relation to cost savings from Least Cost Routing from Committee Member Mr Julian Hill MP [Page 27 of Proof Committee Hansard]:

Debit cards are the preferred way to pay in Australia with tap-and-go cards and increasingly mobile wallets representing nearly 9 billion and almost 70%<sup>1</sup> of total electronic retail transactions annually.

Fees for these transactions are incurred by merchants, often small businesses, making competition in the sector an imperative to help drives down costs.

Least Cost Routing (LCR), also known as merchant choice routing, enables merchants to choose the lowest cost debit card fee payment system – usually eftpos – to minimise their costs. Introduction of LCR in Australia has been a long journey, with a raft of obstacles slowing its rollout and uptake.

Now we are finding new barriers, including an inability to apply the benefits of LCR to mobile wallets. Failure to address the enablement of LCR for mobile payments will be detrimental to small business as it becomes a common, if not dominant, form of debit card payment. For example, the CBA recently estimated that 1 in 2 of its contactless in-store payments will be made using a digital wallet by the end of 2021.<sup>2</sup>

eftpos has prepared some very conservative market analysis demonstrating the potential financial benefits of the implementation of LCR to the broader economy. We have also compiled additional industry analysis which indicates even greater economic benefits. This has been further supported by some small business case studies that have demonstrated real life and often significant savings across a variety of everyday small businesses and sectors.

Market and scenario analysis conducted by eftpos in June 2021 based on very conservative modelling across the 8.4 billion domestic debit transactions<sup>3</sup> in Australia annually, suggests:

- **Less than 10%** of debit transactions in Australia currently have the benefit of LCR.<sup>4</sup>
- Assuming that 50% per cent of debit volume are on standard rates, if default LCR was implemented today, there would be an approximate potential annual saving to merchants of close to **\$600 million per year**.<sup>5</sup> Because this figure applies to standard rates, these savings would apply to small and medium businesses who do not get fee discounts because on the volume of transactions they process.

However, other industry analysts indicate there could be greater potential savings, based on actual merchant bills, fees and charges they have seen in the market, rather than just relying on statistical averages provided in the RBA data. For example, global merchant consultancy CMSPI says:

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<sup>1</sup> Electronic' transactions include RBA retail payments statistics figures for debit cards, credit cards and NPP.

Based on [RBA Retail Payment Statistics, May 2021](#)

<sup>2</sup> <https://www.commbank.com.au/articles/newsroom/2021/05/digital-wallets-contactless-soar.html>

<sup>3</sup> RBA Payment Statistics. Debit Cards – Original Series – C2.1.xls. May 2020 to April 2021 equating to a year

<sup>4</sup> Sources: CMSPI – Review of Payments Consultation - July 2021 Report, [Response to the Review of Retail payments regulation- Consultation Paper by the Payments Consulting Network](#), [RBA Retail Payment Statistics April 2021](#) and eftpos network data.

<sup>5</sup> \$296million on interchange fees alone. Interchange rate of 2 cents per transaction under MCR, rather than an estimated average of 9 cents outside of Strategic Merchant rates from the international Card Scheme. With additional savings on scheme fees, conservatively estimated of up to \$300 million. C3 Average Merchant Fees for Debit, Credit and Charge Cards. Derived delta between eftpos merchant fees and International scheme merchant fees, 2013 and March 2021 data. Further savings may also be possible for merchants on non-standard interchange rates.

- If routing was available on all debit card transaction types in Australia, merchants could save an additional **\$1.28 billion annually** in merchant card fees. **\$0.4 billion** of this potential benefit would be driven by routing in ecommerce.<sup>6</sup>
- The competitive tension created by LCR has seen the international card **schemes reduce their total merchant service fees** from an average of 0.63 per cent (of the transaction value) in the March quarter 2017 to **0.46 per cent** in the March quarter 2021.<sup>7</sup>

Australian consultancy, Payments Consultant Network (PCN), in its submission to the RBA's Retail Payments Review<sup>8</sup>, gives a clearer picture of what this means for real small businesses and merchants. It says:

- *"PCN has supported over one hundred small, medium, and large businesses, industry associations, and not-for-profit organisations over the last 12 months reduce their payments acceptance costs. Less than 7% of these clients had enabled LCR prior to PCN being engaged. Hence, while acquirers and payment facilitators provide LCR capability and information on how to enable it, most merchants still have not taken advantage of this feature.*
- *"Requesting LCR be enabled can also lead to mixed results in some instances. During our project work over the last 12 months, we have been informed of several instances where retail and hospitality clients had requested LCR be implemented but were advised by their incumbent bank that the savings would be minimal, or that total fees may increase. Some examples of these have been outlined below:*

*"o Merchant #1 (circa \$1 million annual payments) – advised by the incumbent bank that implementing LCR would lead to an increase in total fees. PCN achieved a fee saving of over 30% by moving the client to a more cost-effective pricing plan with LCR enabled using an alternate bank.*

*"o Merchant#2(circa\$100millionannualpayments)– LCR pricing restructure proposal from the incumbent bank that would achieve a fee saving under 1%. PCN ran a competitive tender process (with LCR enabled) and accessed lower strategic merchant rates resulting in improved pricing with an alternate payment facilitator that achieved a fee saving of over 30%.*

*"o Merchant#3(circa\$100millionannualpayments)– LCR pricing restructure proposal from the incumbent bank that would achieve a 10% fee saving. PCN ran a competitive tender process (with LCR enabled) and accessed lower strategic merchant rates resulting in improved pricing with an alternate payment facilitator that achieved a fee saving of over 30%.*

*"o Merchant #4 (greater than \$500 million annual payments) – had already enabled LCR with the incumbent bank. PCN ran a competitive tender process (with LCR enabled) and negotiated lower strategic merchant rates resulting in improved pricing with an alternate payment facilitator that achieved a further fee saving of circa 20%."*

Opportunities for LCR in online and mobile are currently being considered by the Reserve Bank of Australia as part of its Review of Retail Payments Regulation. In its Review consultation report, the RBA has acknowledged many of these issues with the Governor of the RBA very recently stating that policy action may be required for it to act of emerging issues in the digital environment:

*"The payments systems regulation act needs a review."*

*"Our regulatory arrangements need to keep pace with the fast-moving landscape ... [and] I encourage the Parliament over time to adjust the regulatory arrangements here." <sup>9</sup>*

eftpos believes Least Cost Routing in mobile and online fall clearly within the RBA's current charter of promoting efficiency and competition in payments, however, the fast moving digital and mobile payments sector warrants attention and scrutiny from the Government at the policy level – particularly given the economic challenges facing small businesses in the current environment.

<sup>6</sup> CMSPI - Review of Payments Consultation - July 2021 Report

<sup>7</sup> CMSPI - Review of Payments Consultation - July 2021 Report

<sup>8</sup> PCN submission to the RBA, 9 July 2021 <https://www.rba.gov.au/payments-and-infrastructure/submissions/review-of-retail-payments-regulation-may-2021/payments-consulting-network-2021-07-11.pdf>

<sup>9</sup> <https://www.afr.com/companies/financial-services/lowe-we-have-work-to-do-on-big-tech-payments-20210806-p58gfd>