



18 May 2021

Sophie Mitchell
Senior Analyst, Merger Investigations Branch
Australian Competition & Consumer Commission
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Dear Ms Mitchell,

Proposed amalgamation of BPAY, eftpos and NPPA

The Australian Banking Association (**ABA**) advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

The ABA has made a prior submission¹ to the Australian Competition and Consumer Commission (**ACCC**) which is currently assessing an application for authorisation from Industry Committee Administration Pty Ltd (ICA) on behalf of its members who are seeking to amalgamate ownership of BPAY Group Pty Ltd and BPAY Pty Ltd (BPAY), eftpos Payments Australia Limited (eftpos) and NPP Australia Limited (NPPA) under a new entity (NewCo).

The ABA notes the ACCC has also received a number of submissions from retailer groups which included a particular concern that the proposed amalgamation would be detrimental to the ongoing rollout of least cost routing/merchant choice routing (**LCR/MCR**). The ABA would like to provide the ACCC some data and observations on that particular concern.

In a December 2020 speech², the Reserve Bank of Australia (**RBA**) Governor noted (emphasis added):

*“The major banks now also all offer least-cost routing, with some making it the default offering for small and medium-sized businesses. **So there has been significant progress.***

The Board is not convinced that a better outcome would have been achieved through regulation.”

*The RBA Governor also noted: “in the online or ‘device-not-present’ environment, it is not yet clear how least-cost routing should operate and what expectations on its provision might be appropriate [...]. So **the idea of how least-cost routing might apply in the online world will be explored by the Bank’s staff over coming months.**”*

The RBA Review of Retail Payments Regulation is set to report publicly in the coming weeks and the RBA will outline their thinking and next steps on LCR/MCR, interchange fees and Dual Network Cards. The ABA views the RBA Review of Retail Payments Regulation as the appropriate mechanism to consider whether there are any aspects of the current LCR/MCR rollout that should be addressed. It is a key area of policy focus for the RBA.

¹ ABA submission to ACCC Re: Proposed amalgamation of BPAY, eftpos and NPPA, <https://www.accc.gov.au/system/files/public-registers/documents/Submission%20by%20Australian%20Banking%20Association%20%28ABA%29%20-%2016.04.21%20-%20PR%20-%20MA1000020.pdf>

² Reserve Bank of Australia, Innovation and Regulation in the Australian Payments System, Address to the Australian Payments Network, 7 December 2020, <https://www.rba.gov.au/speeches/2020/sp-gov-2020-12-07.html>



Further, the original ABA [submission](#) to the ACCC details our reasoning why the proposed amalgamation is not likely to alter ICA and its members' incentives to provide continued, open and non-discriminatory access to payment services such as LCR/MCR. The ABA believes an important public benefit of the proposed amalgamation is better enabling a domestic payments entity to compete with well capitalised international card schemes and big tech.

Rollout of LCR/MCR in the Australian market

The ABA has engaged with its members on a number of occasions about the progress on the current roll-out of LCR/MCR to customers. Through information gathered as part of that process, the ABA is confident that as of May 2021, LCR/MCR has been made available or offered to over 95 per cent of eligible small business merchants of the four major banks. Further, the individual education and customer outreach and hardware/software upgrade programmes of the four major banks still continues in 2021.

It is important to note that the decision to remain/switch to LCR/MCR is always in the control of the merchant – data, customer preferences and the business characteristics determine whether LCR/MCR is advantageous for that particular business. For example, many small merchants seek simplicity and certainty of costs and prefer fixed pricing plans (flat-fee plans) which provide a fixed cost per month for a predefined business turnover.

Other customers may prefer individual transaction / merchant-specific pricing. Using data and the call centre support offered by LCR/MCR providers, combined with online LCR/MCR tools and calculators, customers can make their own decision based on their particular transaction characteristics (card mix, transaction size, turnover etc).

Through 2019, 2020 and into 2021 each of the four majors have undertaken customer outreach and education initiatives to ensure merchants are able to make this informed choice – comprehensive details of the 2019 and 2020 initiatives and their future plans are documented in individual responses to 2019 and 2020 Questions on Notice³ from the House of Representatives Standing Committee on Economics - *Review Australia's Four Major Banks and other Financial Institutions*.

Merchant awareness and understanding of LCR/MCR

Separate to the ABA and our members, independent research house RFI Group⁴ <https://www.rfigroup.com/> conducts a survey of merchants every six months (Oct & April). The survey includes a range of LCR questions:

- Understanding of LCR/MCR.
- Intention to contact Merchant services provider regarding LCR/MCR.
- Merchant action on LCR/MCR.

Approximately 1,000 card-accepting, physical merchants with annual turnover of at least \$100,000 are surveyed twice yearly. Key findings on MCR/LCR from the October 2020 RFI Merchant Survey:

- Awareness of LCR/MCR among the surveyed merchants increased significantly between October 2019 and October 2020 from 27 per cent to 61 per cent.
- Merchants surveyed were much more likely to say they understood the potential impact of LCR/MCR on their business. Merchants who rated their understanding as “good” increased from 37 per cent to 50 per cent between October 2019 and October 2020.

The April 2021 survey data is currently being processed by RFI Group, the ABA can provide these findings to the ACCC when available, or the ACCC can procure the data/time series independently of the ABA by going direct to the RFI Group.

³ Questions on notice and questions in writing (& responses), Standing Committee on Economics to Review Australia's Four Major Banks and other Financial Institutions,

https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/FourMajorBanks/Documents

⁴ <https://www.rfigroup.com/>



Improved RBA data collection

The ACCC has received a number of submissions citing a potential cost saving with LCR/MCR, the ABA would like to make the ACCC aware of some limitations in the current RBA data.

The RBA merchant fees data report (*RBA Table C3: Average Merchant Fees for Debit, Credit and Charge Cards*) reports eftpos as generally being the least expensive option. As an example, in the December 2019 quarter the RBA said eftpos costs merchants an average of 0.3 per cent of the transaction value, compared with an average merchant fee of 0.5 per cent for Visa and Mastercard debit card transactions. However, the current merchant fee data the RBA receives and uses in this report from banks is not comparing 'apples with apples'. This is because the current RBA data collection compares fees charged for routing face-to-face domestic debit transactions via the domestic eftpos network with international networks fees, which are reported as a combination of domestic debit transactions, international card holders' domestic debit transactions and e-commerce transactions.

To address this data quality problem, in 2020, the RBA, ABA and AusPayNet facilitated industry agreement on a revised and improved data collection for *RBA Table C3: Average Merchant Fees for Debit, Credit and Charge Cards*. The first collection to be published by the RBA later in 2021.

New data to be collected:

Merchant Service Fee data to be reported commencing July 2021 (capturing new data for April, May, and June 2021); and

Card Acquiring data to be reported commencing May 2021 (capturing new data for April 2021).

New (retrospective) data to be collected:

Merchant Service Fee data to be reported July 2021 (capturing data April 2020 – March 2021); and

Card Acquiring data to be reported May 2021 (capturing data for April 2020 – March 2021).

This new RBA data collection will provide more accurate data to inform the RBA and other stakeholders on the acceptance costs of different payment schemes. Therefore, cost savings currently being cited by submissions should be treated cautiously, unless the data under-pinning the savings cited are made available to the ACCC for analysis and verification.

Based on the views of the RBA, data from ABA members and independent market research, LCR/MCR is already currently widely available and merchant's knowledge and understanding of the LCR/MCR product continues to rise. LCR/MCR remains a policy focus of the Reserve Bank of Australia. Given this, the availability and continued rollout by ABA members should not be impacted in any way by the proposed amalgamation.

If you have any queries in relation to this matter, please do contact me at:

[Redacted contact information]

Yours sincerely,

[Redacted signature]

Aidan O'Shaughnessy
Executive Director, Policy