



Australian merchants more empowered than ever

(4 October 2007 – Australia) A unique mix of competition and regulation in the merchant acquiring markets is providing Australian merchants with unprecedented amount of market power, according to East & Partners Merchant Acquiring and Cards Markets Report for June 2007.

Underpinned by a strong economy, healthy consumer sentiment and growth in the volume of card transactions, Australian merchant acquiring and cards markets are among the most competitive in business banking.

According to the latest Merchant Acquiring and Cards Markets report merchants of all sizes, from Top 500 companies to SMEs and Micro Businesses, saw the volume of card transactions rise by more than 30 percent during the past two years. The report also finds debit card payments are becoming a more important source of receivables but credit cards remain a vital source of receivables for all Australian merchants.

At a time when the Reserve Bank of Australia is reviewing its regulation of the payment system landscape, there is evidence these reforms have given considerable bargaining power to merchants. This is evident in the rise in credit card surcharging, as well as in the falling merchant service fees, namely the transaction charges merchants pay to their merchant facilities providers.

The actual rate of surcharging across the market is relatively low with only 8.3 percent of merchants currently applying surcharges. But this varies significantly according to merchant size. As many as 16.7 of Top 500 merchants currently apply surcharges compared to just 5.3 percent of Micro Businesses. The number of merchants applying surcharges is on the rise and there are typically two merchants planning to apply surcharges for every one merchant already surcharging.

The vast majority of merchants saw their merchant service fees go down due to the reforms and many merchants are again reporting improvements in the overall cost of their merchant facilities. With a continued squeeze on costs in the wake of the reforms, merchants now expect pricing competitiveness from their providers and value for money is consistently one of the most important service deliverables to merchants of all sizes.

But merchants are also vigilant on product functionality and customer support. The efficiency of payment settlements to merchant's account is regarded as the most important service deliverable. High importance is also assigned to relationship management, loyalty to the relationship and resolving transaction processing errors.

The Big Four domestic banks remain the biggest providers in the merchant acquiring market and split about 80 percent of the overall market amongst themselves. The remaining 20 percent of the market is mainly serviced by American Express, St George, Diners and Citibank.

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Across all market segments, Commonwealth Bank remains the leading provider of merchant facilities with a market share of 28.9 percent in June 2007. National Australia Bank is next with a market share of 20.9 percent. ANZ and Westpac follow, at some distance from CBA, with market shares of 17.8 and 12.9 percent respectively.

For the most part market share growth is proving elusive for these market leaders. Of the Big Four banks only NAB experienced market share growth in the six months to June 2007 while ANZ market share remained steady. CBA and Westpac both experienced market share losses.

“Australian merchants have significantly more bargaining power now compared to a few years back,” said East & Partners financial markets analyst Zoran Knezevic.

“Falls in merchant service fees, lifting of restrictions on surcharging and strong growth in the volume of card payments have all worked in merchants’ favour and given rise to further competition amongst providers of merchant facilities,” he added.

“Winning over merchants now requires not only great pricing but continued commitment to the relationship with the merchant and focus on product functionality. This is why even the largest providers are struggling to realise market share gains,” Knezevic said.

About East & Partners’ Merchant Acquiring and Cards Market Report

East & Partners’ Australian Merchant Acquiring and Cards Markets Report is an ongoing six-monthly research service designed to deliver accurate market intelligence on Australia’s merchant acquiring and cards markets. The report provides a range of relevant analytics including clear measures of competitive market share, customer satisfaction performance and merchant churn and is based on a structured sample of the merchants in each segment, reflecting the actual distribution of merchants by industry and geographic location.

The segments covered in this research program, based on merchant turnover, are:

- Corporate & Institutional (Top 500)A\$340 million plus
- Commercial.....A\$20–340 million
- SME.....A\$5–20 million
- Micro Business.....A\$1–5 million

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