MERCHANT PRICING HUB NEWS
July 2018

Revolutionising how Merchants select their Payments Service Provider

The last few months has been an exciting period for Payments Consulting Network with the launch of our new Merchant Pricing Hub (MPH) website and now our e-newsletter. MPH has been designed from the ground up to fill a gap in the market for comprehensive independent information on merchant services, in-store and online payments.We believe it will be a valuable resource not just for merchants, but the industry as a whole.

We have started with our annual membership plan providing merchants with full access to the MPH website including over 40 bank and payments service provider (PSP) profiles, pricing calculator and benchmarking tool. We have been running merchant focus groups and meeting retailer associations, banks and PSPs to get input into how we further develop the service that we offer.

Our enterprise membership module is the first such enhancement and will provide banks and PSPs that subscribe access to our detailed service provider profiles and pricing calculator. We believe this will be a useful tool that will enhance competition and encourage innovation.

Check out the website – www.merchantpricing.com – on a regular basis over the coming months as we continue to develop the service to:

- add new education guides to help businesses understand this complex segment of the payments industry;
- continue to identify partners that offer complementary services that will be of value to our member base;
- work with service providers to negotiate special offers for our members;
- streamline processes so that businesses can more easily obtain quotes from their preferred service providers;
- create tools to make recommendations on service providers based on different merchant requirements and types of business; and
- provide different models for merchants to access our consulting expertise.

As always, we welcome your feedback and suggestions for new product enhancements, research and news articles.

We hope you enjoy this first edition of the newsletter.

Mangala Martinus
Managing Director
Payments Consulting Network

INDUSTRY NEWS

6 Reasons to use Multiple Payment Service Providers

PayDock's founder and CEO, Rob Lincolne talks about why you should consider using multiple payment service providers in his interview with Merchant Pricing Hub.

Read full article on P.2

'Tap & Save' Merchants Achieve Up to 20 Percent Savings

Tyro has achieved over 10 percent conversion of existing merchants and solid increase in new merchant sign ups since its launch of least cost routing in March 2018.

Read full article on P.3

NAB Merchants STIPed

Stand In Processing, also known as STIP, saved a number of NAB merchants from lost business during the four hour outage on 26 May 2018.

Read full article on P.4

How can merchants boost sales... securely?

Merchant Pricing Hub spoke to IntegraPay's CTO Tony Braden about the ways merchants can protect themselves while maximising online sales.

Read full article on P.5

Community Program Pilot

We ran a pilot community program in June 2018. Under the pilot we promoted information about a not-for-profit organisation to businesses within its local community and made a "connected offer", i.e. for each business that signed up to an annual membership we made a specified donation to the not-for-profit organisation. We are currently in discussions with multiple organisations and hope to rollout out similar programs and trial new concepts with other not-for-profit organisations in the coming months.

We had Bear Cottage at Manly as our first beneficiary from this program.

More about this campaign on P.5

Our Top 6 News Posts on Social Media in June 2018

1. Tyro 'Tap & Save' merchants achieve up to 20 percent savings
2. 6 reasons to use multiple payment service providers
3. Alipay reaches 10,000 merchants in Australia and NZ
4. The ease of digital payments is helping lift donations to charities
5. 2018 retail technology trends
6. 5 surprising findings about how people actually buy clothes & shoes

6 REASONS TO USE MULTIPLE PAYMENT SERVICE PROVIDERS

Written by:
Robert Roylance
Associate, Payments Consulting Network

Many merchants choose a single payment service provider (PSP) and then find themselves at a disadvantage against their competitors if they can't dynamically change to keep up with changing customer preferences, e.g. supporting new alternate payment methods.

Merchants of all shapes and sizes have a common requirement; they all need to be able to accept payment for their products and services 24 x 7, and to accept all the payment methods their customers prefer to use. Ideally, the cost of doing this should be as low as possible.

On the face of it, this may appear simple to achieve, but is it really?

Most small and start-up e-commerce merchants begin their commercial life without a Merchant Account at a bank, usually because they don't have the scale or the history to qualify for one. They select a PSP that does not require a Merchant Account such as PayPal, BUT they often pay higher per-transaction fees as a result.

Later the merchant grows and signs up with an Acquirer to get access to lower Merchant Service Fees that help to boost the bottom line – but the merchant does not want to lose all its existing PayPal customers so now has to deal with both PayPal and the Acquirer from both the technology and the administrative aspects.

Now the merchant decides to launch its online presence into the UK market. It now needs to accept payments in UK Pounds and the range of popular UK payment methods. It establishes a relationship with a UK Acquirer and now has 3 payment technology and administration platforms to support.

You can see where this story is heading; over time as new payment methods enter the market and the merchant expands into the USA (think Discover) and China (think Alipay, UnionPay), the time and cost of supporting a plethora of back-end payment platforms begins to increase and can become a factor that actually places limits upon the growth rate and profitability of the business.

Merchants need to focus their time and energy on improving the customer offer, fine-tuning logistics and delivery, updating the website, social media feeds, store layouts, working with key suppliers and resolving any product cost and quality issues. Not spend hours dealing with "payments stuff".

What if there was a way to integrate the merchant's operations with a single service provider who delivers access to a large number of payment service providers from which the merchant can pick and choose?

Australian start-up PayDock has committed itself to elegantly solving this problem by effectively becoming an integration layer between the merchant (with a single integration) and multiple PSPs. Rob Lincolne is the Founder and CEO of PayDock and offers some insights from his experience working in this space:

Rob Lincolne has made the observation that some of the most popular PSPs used by e-commerce merchants today include:

- Stripe, no merchant account required and developer friendly
- PayPal, no merchant account required and a large user base
- eWay, local payment gateway
- AfterPay, for "buy now, pay later" offers and increased revenue to the merchant
- Braintree
- Pin Payments, no merchant account required, Australian company, very flexible

6 Reasons to use Multiple PSPs

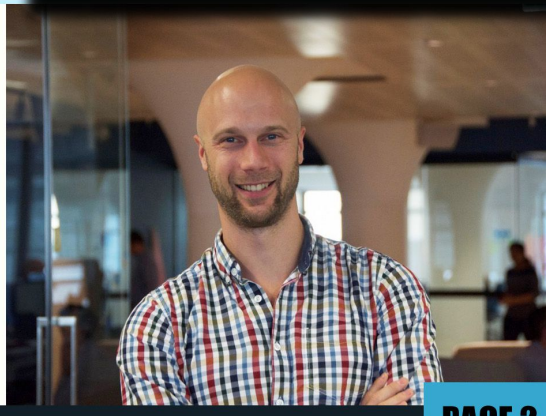
International Sales
- Take payments from different countries.
- Accept different currencies.
- Comply with overseas payments and tax regulations.
- Accept locally popular payment methods.

Cost Reduction
- Different providers charge a range of prices for specific payment methods and transaction types.
- With 2 or 3 providers the merchant can choose the lowest cost provider for each customer payment – known as 'Least Cost Routing'.
- This can add a lot of money to the bottom line.

Independence
- If the merchant has only 1 PSP then there is a risk of becoming 'locked in' with a potentially high cost to change providers (or add another) later.
- In this situation there is a possibility that the incumbent provider may gradually increase transaction fees over time until the merchant feels some real pain on their margins.
- Having at least 2 PSPs mitigates this risk and is likely to keep fees lower over time.

Continued on page 3...

> "Usually when I ask a CTO 'how do you like working with payment gateways,' the next three words are 'I hate it'.
>
> We've discovered that one of the largest headaches for merchants is keeping the bottom line maximised while working with multiple payment services – this is especially true as while so many payment services offer the same product 'on the box', the execution is often highly varied and may not suit actual merchant needs. Merchants need to be able to 'hold on' to their customers without getting locked into singular solutions."
>
> **Rob Lincolne**
> **PayDock Founder & CEO**



...continuation of 6 Reasons to use Multiple PSPs

Contingency

- What happens when a PSP has an event and goes down for a period of time or loses an upstream link to one of the schemes?
- A merchant may not be able to process some or all customer payments without having the option to switch to a second gateway.
- Disaster planning is an important element of securing the revenue stream of the business.

Customer Preference

- A merchant may lose sales if it does not accept the preferred payment method of the customer.
- This is one of the reasons for the problem of Cart Abandonment.
- It may be necessary to work with multiple PSPs to be able to accept all the payment types customers wish to use.

Omni channel

- A consistent customer offer across both online and 'bricks & mortar' stores can be difficult to achieve in practice.
- For example, placing an item on Layby online, and paying off the balance in-store should be possible using the same payment method.
- Alternatively, buying an item online and returning to a store for a refund, should also be possible using the same payment method.
- It may be necessary to use more than 1 PSP in order to consistently accept a set of payment methods both online and in-store.

Finding a PSP just got easier

Finding a PSP that can meet your requirements is often difficult. With the recent launch of the Merchant Pricing Hub, it is now MUCH easier to compare the features, functionality and pricing of different PSPs. In the past, this has been a time-consuming task, having to search through many online sites to get a reasonable basis for comparison. Now, it is all available at one location.

> "Many merchants choose a single Payment Service Provider and then find themselves at a disadvantage if they can't dynamically keep up with changing customer preferences. This is one of the many compelling reasons to work with more than one PSP."
>
> **Rob Lincolne**
> **PayDock Founder & CEO**

Tyro 'Tap & Save' Merchants Achieve Up to 20 Percent Savings

Written by:
Catherine Batch
Research Director, Payments Consulting Network

Tyro has achieved over 10 percent conversion of existing merchants and solid increase in new merchant sign ups since its launch of least cost routing in March 2018.

Payment Consulting Network's Catherine Batch spoke to Tyro's Bronwyn Yam about its recent disruption activity.

According to Yam the Australian market has responded well to Tyro's least cost routing product 'Tap & Save' which was launched two months ago.

For the uninitiated, least cost routing is where a merchant chooses to route a debit contactless payment transaction over the network that offers the lower cost for that transaction.

"Our success has gone beyond our initial estimate and we have seen over 10 percent conversion of our existing merchant base to use least cost routing, and a solid increase in merchant acquisitions since the launch. We have achieved our aim of putting pressure on the bigger players."

The micro and small business market have been quick to embrace least cost routing.

"With merchants achieving up to a 20 percent saving in fees there is certainly a lot to be gained," Yam said.

"At all times, it is about the merchant's choice and what is right for their business."

"There are times where a merchant may have programs in place that offer benefits such as purchase protection, product warranty or rewards with the international schemes which would make least cost routing less beneficial," Yam concluded.

Surcharging and the Cost of Acceptance

The Reserve Bank of Australia (RBA) has established changes to card payments regulations banning excessive payment surcharges and providing new powers for the Australian Competition and Consumer Commission (ACCC).

This standard affects the amount that merchants can surcharge for card transactions. The standard applies to all business/merchants that impose payment surcharges on payment transactions regardless of their size.

If a business chooses to impose a surcharge on its customers for making a payment using a credit, debit or prepaid card, the level of the surcharge must not be excessive.

A payment surcharge is considered excessive if it exceeds the cost of acceptance.

You do not have to impose payment surcharges on accepted payment methods. If you do not impose any payment surcharges on your customers, the ban will have no impact on you.

Refer to the Resources/Guides section of the Merchant Pricing Hub website for full details of the requirements.

NAB Merchants STIPed

Written by:
Rod Tasker
Associate, Payments Consulting Network

Stand In Processing, also known as STIP, saved a number of NAB merchants from lost business during the four hour outage on 26 May 2018.

At about 8am AEST on Saturday 26 May 2018, NAB's card accepting devices – merchant terminals and ATMs – went offline. NAB's electronic banking was also unavailable. This meant that a significant percentage of all merchant card reading terminals in Australia couldn't process credit or debit card payments from paying customers. Bank of New Zealand, BNZ, is a wholly owned subsidiary of NAB, and its merchant terminals in New Zealand were also affected.

Credit and debit card acquirers in Australia are usually banks. In a credit or debit card scheme, like MasterCard or Visa, the acquirer is the organisation that has deployed the card reading terminal on the merchant's counter at the point of sale. When you go shopping and tap or insert your card into a device to pay for your purchases, and maybe enter your PIN, you might notice that the card reading terminal has a bank brand on it, like ANZ, CBA, NAB or Westpac. That is the acquiring bank. There might be another brand, like Ingenico or Verifone – that is the terminal manufacturer.

The money goes from your bank's account – the card issuer – to the merchant's bank account via the acquiring bank.

A feature of the Australian acquiring market is that the big four banks have the lion's share of the market. Most of the card reading devices in the Australian market are deployed by one of the big four banks.

There are many smaller acquirers, like Tyro, Bendigo and Adelaide Bank and Bank of Queensland, but each has a tiny share of the overall acquiring market. Square is also taking market share, but mainly with smaller merchants so far.

Five years ago, most Australian shoppers would have had some cash in their wallets or purses. Some might have had a cheque book, although that would have attracted sideways glances. Today, it is common not to have any cash at all. Tap and Go (contactless) card transactions have caused a decline in cash payments. They are so convenient that people are visiting ATMs and bank branches less frequently to withdraw cash and using their cards to make even small payments for coffee and snacks. Based on Reserve Bank of Australia statistics, such changes in consumer behaviour have resulted in the number of ATM withdrawals falling by 25% between 2012-2017.

Therefore, if you were a NAB merchant, and your terminal wasn't working on 26 May, your customers couldn't pay for their purchases and either went somewhere else to a merchant whose terminal was working, or went without. This resulted in lost sales and the potential to lose repeat business if the customer liked the other café's coffee. Note that NAB credit and debit cards still worked in other banks' terminals, but no cards worked in a NAB terminal.

NAB apologised, and announced quickly that it would compensate merchants for losses.But the fact is that it happened, and it was very disruptive for NAB merchants and their customers. Many merchants were angry enough to consider changing banks.

Something very different happened at some NAB (BNZ) merchants in New Zealand. The normal case is that a merchant who uses NAB as their card acquirer gets their terminal from NAB. In some cases, they get their terminal from a third party who connects to NAB. One such third party is Payment Express, a card payment specialist originating from NZ that is also active in Australia. I've been helping Payment Express on their road to full acquiring capability in Australia and North America.

Usually when a customer taps or inserts a card into a NAB terminal, the transaction is sent to NAB's "switch" – the computer system that controls the terminal – which then decides where the transaction should be sent to obtain approval for processing. The card could be an ANZ debit card or a Westpac Mastercard or a foreign AMEX. Based on the card type and origin, NAB's switch will send a transaction through one network or another, to obtain authorization from the card issuer – ANZ, Westpac or whomever – including PIN validation, checking that the card isn't lost or stolen, and then to generate accounting entries, because NAB has to be paid so that NAB can pay the merchant.

This sounds complicated, and it is. Lots of things happen in the short amount of time you're standing at the checkout waiting to say "No thanks" when the attendant asks if you want a receipt. The card payments landscape is steeped in history, tradition, acronyms and layers of complexity that represent 30+ years of evolution.

Payment Express devices connect first to Payment Express's switch, then to NAB's. Payment Express has connections to banks to support their acquiring capability, and also has direct connections to the card scheme networks – AMEX, MasterCard, Visa and others.

Payment Express supports "Stand In Processing" (STIP). If/when an acquiring network is unavailable, e.g. because maintenance is scheduled once a month, or, as happened on 26 May, the system was simply "down" due to error, Payment Express processes the transactions on the acquirer's behalf, i.e. transactions are processed even though the NAB switch is unavailable. This happens seamlessly and in real time, so that neither the merchant nor the cardholder knows that anything unusual has happened.

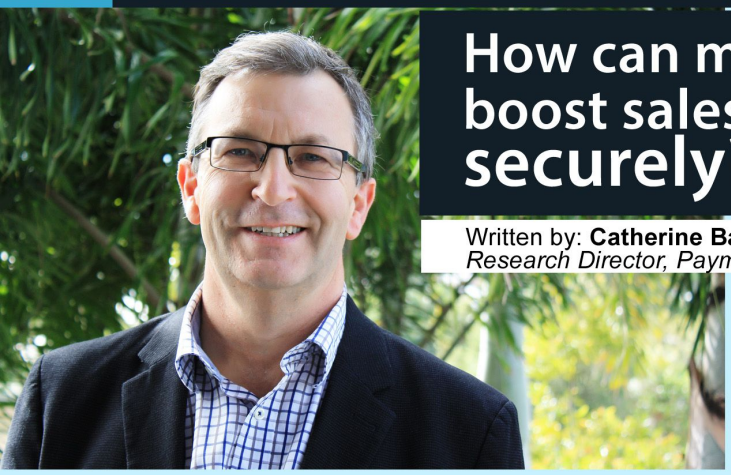
Imagine if all NAB merchants had STIP processing. Then the events of 26 May would have gone by completely unnoticed except by some back-office technicians.

A related capability is "direct to scheme" switching. Why should the transaction go through NAB's switch only to then be routed through to AMEX, MasterCard or Visa? Payment Express can also direct the transaction to the scheme network on an acquirer's behalf, potentially reducing the transaction cost for the merchant while improving reliability and response times.

As the use of cash for payments in Australia and New Zealand continues to decline each year, this is more important for merchants than ever before. If you're a merchant, while price, functionality and reliability are all important factors when selecting a service provider, you may also want to consider what back up options you have in place if something goes wrong.

Recent Product Updates

- **eBay Australia (2 July 2018)** - launches best pricing guarantee, eBay Plus membership program and members-only sales events.
- **Stripe (14 June 2018) –** announced it will release new features to help marketplaces and platforms on Stripe Connect. With these improvements, you can send funds to your sellers or service providers ("connected accounts"), see detailed breakdowns of an account's recent activity, and quickly update account information directly in the Connect portion of the Dashboard.
- **Afterpay Touch (15 May 2018) –** commences market launch in the U.S. market with signed contracts or term sheets with over 50 retailers at varying stages of integration.
- **BPAY and MYOB (15 May 2018) –** collaborate to enable MYOB's small business customers to accept payment via BPAY, in addition to the existing credit card options.
- **Tyro (14 May 2018) –** Tyro announces a deal that will deliver an API platform designed to remove the complexities and expense of integrating multiple POS systems by providing a single integration solution. Foundation partners are Bepoz, Fedelta, Idealpos, OrderMate, Redcat and SwiftPOS.
- **Stripe (7 May 2018) –** now supports Microsoft Pay using the Payment Request button.



How can merchants boost sales… securely?

Written by: **Catherine Batch,**
Research Director, Payments Consulting Network

Airlines to accountants the world over are all looking to boost sales and have turned to IntegraPay to help them process more transactions more securely.

Merchant Pricing Hub spoke to IntegraPay's CTO Tony Braden about the ways merchants can protect themselves while maximising online sales.

IntegraPay an ecommerce and subscription payment processor has developed onto a system which allows processing transaction decisions 'on the fly'. Utilising artificial intelligence it is discovering ways to process online payments, while significantly reducing the merchant risk.

"Our fraud monitoring allows clients to take only calculated risk. Our goal is to ensure legitimate purchasers have a good checkout experience."

"We are able to work with our clients to build rules which draw from our powerful database that is designed to enable sales when it is safe," he said.

IntegraPay uses Kount's proprietary technology which reviews billions of data points globally and provides maximum protection for merchants like Bestjet.com.

3D Secure is employed for the riskier transactions as it provides extra protection for merchants and customers for online payments as it authenticates the cardholder during payment processing, similar to entering a PIN for an ATM or EFTPOS transaction. If a merchant follows the 3D Secure process successfully then it is at no risk to them, with the banks holding the liability.

"We are able to narrow down the transactions that need to be reviewed via 3DSecure for additional cardholder verification. If a cardholder can provide the necessary detail, then it will process."

"With the nature of instant purchases like travel, we had to ensure Bestjet.com was protected from fraudulent purchases while making sure the booking experience was fast and efficient."

"Our fraud mitigation control system now allows transactions to be graded as part of the payment process, and only higher risk transactions are submitted for 3DSecure. As we are able to build rules around both the payment transaction and the service or product being purchased for each merchant, we can provide very targeted control and can manipulate the risk versus return balance each merchant requires," Braden concluded.

IntegraPay's innovative approach when it comes to preventing fraud has made it easier to identify risky transactions without the inconvenience of excessive false positives or abandonment.

proudly supporting bear cottage kids
an initiative of the children's hospital at Westmead

Community Program

Merchant Pricing Hub proudly supported Bear Cottage at Manly by donating $60 for every signup this June.

Bear Cottage

www.bearcottage.org.au

$6,240
Total donations to Bear Cottage

Bear Cottage is the only children's hospice in NSW - a very special place that's dedicated to caring for children with life-limiting conditions.

Families who care for a child with a life-limiting condition often do so around the clock for many years.

They provide respite and end-of-life care for children with terminal illnesses and their families in a medically supported 'home away from home'. For children in their care, there is no happy ending or miracle cure so they give them as much love, care, laughter, fun, and support, as they need.

To donate to Bear Cottage, please go to **support.bandagedbear.org.au/donation-bear-cottage**, or visit **www.superheroweek.com** to find out how you can support their major fundraising campaign which occurs from **29 July to 4 August 2018.**