

Least Cost Routing – A Guide for Merchants

What is Least Cost Routing?

- Least Cost Routing (LCR), also known as Merchant Choice Routing, is a system that enables retailers and merchants to choose the payment network that delivers the lowest costs for accepting most contactless transactions from dual network debit cards, in most cases eftpos.*

Why does it matter?

- Reducing costs is an important part of business, especially given the impact of COVID-19 and other challenges.
- According to the Reserve Bank of Australia (RBA)*, you could save up to 40% on contactless debit fees upon implementing LCR.
- These savings could help you reduce prices, hire more staff, or invest more in your business.

What are the typical savings?

- Using RBA data to assess potential annual savings, it's estimated that an independent:
 - supermarket with an average basket size of \$44 could save \$26,391.
 - petrol station with an average ticket size of \$44 could save \$13,196.
 - newsagency with an average ticket size of \$36 could save \$3,167.
- eftpos is implementing significant wholesale fee relief from July 2020 in the Point of Sale (POS) environment, in an effort to help small businesses and retailers into and through the recovery phase of COVID-19, which is linked to LCR.
- These changes intend to have the potential to further amplify the cost savings for merchants and retailers, particularly for small businesses, if the pricing is passed on by the merchant's acquirer/bank.

Which retailers already use LCR?

- A growing number of companies are switching to LCR. Among them are some of the most famous names in Australian retail.
- Many other smaller businesses use LCR too – it's not just for the large operators.

How does it work?

- LCR is designed to help reduce payment costs for merchants. At its simplest level, LCR means whenever someone taps their debit card to pay, that payment is routed to the option which costs the least for the business.

What does it mean for my customers?

- Not much in actual practice. They can still wave their cards and pay you normally, and the money will come out of the same bank account linked to their card.
- Note that consumers can still dock their card and select their preferred network if they wish, so they retain the ultimate choice of how transactions are routed just as they do today.
- Some very large retailers in Australia have been using LCR for some time. In fact, the first large retailer to implement the service has reported no customer issues.
- If a customer does for some reason experience any issues, they should contact their bank.

Will least cost routing affect credit card payments?

- No, it currently only applies to dual network debit cards in Australia.

How do I get LCR?

- Talk to your bank and ask them to give you a proposal that incorporates LCR into your current arrangements.
- If you're not happy with the proposal provided, it is always within your rights to seek information from other banks.

What happens if the bank changes my pricing when I ask for LCR?

- Remember that LCR is designed to save you money, and this will be the case for many merchants. If your bank's LCR proposal looks more expensive in total, it is always within your rights to seek information from other banks.

Who do I talk to if I'm having an issue with my bank?

- You have the right to talk to your industry association in the first instance.

Which banks currently offer LCR?

- Most banks have varying LCR offerings, with several differences between them.

Does LCR work online?

- Regarding online functionality, an online trial has been underway since October 2019, and the results are good.
- In the first instance, online LCR will work best for merchants who process a lot of recurring card-on-file payments, such as food delivery services, childcare centres, gyms and sport-related activities, as well as florists and other businesses.
- To find out more about LCR online, ask your bank.

Are there any security concerns?

- eftpos has the lowest card fraud rates in the country and wants to continue its focus on security into the online environment for LCR.

Are chargebacks available?

- Yes they are. For eftpos transactions, chargeback rights cover the full range of losses required by the ePayments Code.

Will LCR experience technical difficulties?

- LCR is already operational across thousands of merchants in Australia, with no discernible difference in technical or payment outcomes. It has also been introduced in a number of other countries without known, overt technical issues.

Will consumers lose any insurances (extended warranty, purchase protection) offered on a purchase from using the card if the merchant is routing transactions?

- No they will not. While insurances on debit cards are very rare, currently available information suggests all the insurances offered are done so at an account level rather than a network level. Consumers should therefore still be eligible for insurance benefits offered on dual network cards.

Does the Reserve Bank support LCR?

- The Reserve Bank of Australia has for a number of years continued to push for LCR to be rolled out more broadly because it supports Australian businesses by boosting competition in the payments space, driving down costs.

- In fact, the RBA has provided guidance that it may regulate LCR if the banks aren't moving to roll it out in a timely manner.
- A senior RBA representative discussed LCR in a recent speech, saying: "So with many customers switching to contactless in response to COVID-19, some merchants are finding their payment costs rise as debit card payments are automatically routed through the international schemes. It is therefore important that merchants be given the option of least-cost routing."
- Read more from the RBA here: <https://www.rba.gov.au/payments-and-infrastructure/debit-cards/least-cost-routing.html>

Who else supports LCR?

- Many industry associations, banks and regulators support LCR.
- Australia's Small Business Ombudsman is a keen advocate, and you can read more about her position here: <https://www.asbfeo.gov.au/news/news-articles/least-cost-routing-help-small-businesses-road-recovery>

What is eftpos's position on LCR?

- eftpos recently launched a new advertising campaign encouraging merchants to explore LCR's potential savings for their businesses.
- eftpos also launched a new package of additional wholesale measures which aim to increase and expand the take up for LCR by changing the standard wholesale interchange rate for merchants who route from 1 July 2020.
- You can find out more from eftpos here: www.eftposaustralia.com.au

References

*<http://www.rba.gov.au/speeches/2017/sp-so-2017-12-13.html>