



**MasterCard**  
Worldwide

# Illustrating the Value Provided by Electronic Payment Products

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## **MasterCard's global efforts to demonstrate the benefits of electronic transactions are focused at both the macro-economic and individual end-user level**

- MasterCard is sponsoring several academic studies measuring the impact of electronic transactions on the economies of various markets, including: the U.S., Europe, Australia, Brazil, Canada, Colombia, Egypt, India, Mexico, Nigeria, Singapore and South Africa
- These macro-economic studies are illustrating that the use of electronic transactions relative to cash and checks has a positive impact on GDP -- increasing tax revenues and creating efficiencies in infrastructure maintenance, but also, as importantly, on the lives of individuals by increasing the ability of governments to more effectively deliver social assistance and other services as well as providing a means for commerce to take place
- In parallel, it has developed a methodology for quantifying components of relative value that electronic payment products provide to a Country's payment system, to segments of merchants, and to individual merchants
- These analyses have been completed or are underway in about 30 Countries

## **Analyses of internal and external information illustrates the substantial value created for Merchants globally by the acceptance of electronic transactions**

- Value is created for a Merchant by a combination of:
  - Additional revenue, margin, and profits from sales to existing and new customers;
  - Efficiencies in the delivery of existing and new products;
  - Improved customer experience and reputation through the adoption of innovative sales, marketing and processing approaches
- MasterCard electronic debit and credit payment products provide merchants with a means to realize all of these benefits



## In each of the geographies, the pattern of value creation is similar

- Debit and credit transactions are 2.5 to 4.5 times larger than cash purchases
- Merchants' total costs of acceptance for a cash, debit, and credit transaction range from 2-2.5%; 1.0 -2.0 % and 2.5-3.5% of the transaction amount, respectively
- At a 20% gross margin, the contribution from the average debit and credit transaction is five to fifteen times the additional cost of acceptance for credit and debit respectively
- Incremental sales are provided through a combination of larger transactions and the ability to accept cross-border and card not present transactions, both of which are larger than the average domestic electronic transaction
- When compared to acceptance of cash, the additional value provided to merchants by electronic payments is about two to four times the total cost of acceptance
- Premium credit products result in larger transactions whose revenues and contribution to profit more than offset any additional costs of acceptance
- Where interchange rates are established at less than full cost, Issuers provide Merchants via the Acquirer with additional value in that the full cost payment services is not included in the cost of acceptance

## The following is a sample of the data sources used in the creation of the material in this document

	Source Name	Data Sourced
1	AEI Brookings Joint Center for Regulatory Studies	Cost of Payments
2	Australia Stock Exchange (ASX)	Merchant Profit Margins
3	Bank of Canada	Cost of Payments
4	Cash Product Office, US Federal Reserve System	Distribution of Payment Types
5	Yahoo Finance	Merchant Profit Margins
6	Various Company Websites (Financial Reports)	Merchant Profit Margins
7	Central Bank Rates.com (cbrates.com)	Cost of Funds - Overnight Bank Rate
10	International Center for Law & Economics	Interchange Pricing Regulation
11	Reserve Bank of Australia	Cash Transactions
12	Europe Central Bank	Cost of Payments
13	Food Marketing Institute	Cost of Payments
14	Lafferty	Country Summary Data
18	PricewaterHouseCooper	Cost of Cash, Australia
19	Reserve Bank of Australia	Cost of Payments
20	World Bank	Gross Domestic Product
21	World Payments Report (CapGemini)	Country Summary Data

## **Credit Card Surcharges: Galaxy Research Report August 2014**

### **Overview**

MasterCard commissioned Galaxy Research to survey Australians about their experiences of credit surcharges, and their sentiment towards these charges.

The survey found that Australians are paying \$1.6 billion annually in credit card surcharges. And while Australians love the convenience of paying by credit card - with each cardholder spending an average of \$700 per month on their credit card - 86% take note of surcharges and factor this into their purchasing decisions.

### **Methodology**

This survey was conducted through an online permission-based panel between Wednesday 13 August and Monday 18 August 2014.

The report is based upon n=2,035 Australians with a credit card.

A representative sample of 2,458 Australians aged 18 years and older was drawn in proportion to age, gender and location across Australia and surveyed to determine eligibility for the study. Eighty-two percent of Australians have a credit card.

The sample of Australians with credit cards is distributed across Australia as follows:

- NSW/ACT 709
- Victoria/Tasmania 568
- Queensland 369
- South Australia 155
- Western Australia 234

Following the completion of interviewing, the data was weighted by age, gender and area based on starters (the 2,458 initial national sample prior to credit card definition) to reflect the latest ABS population estimates.



## Key Findings

Q. "Do you have a credit card?"

- **The majority of Australians (82%) have a credit card.**
- Baby Boomers (90%) and Gen X (88%) are more likely than Gen Y (71%) to have a credit card.

Have Credit Card	Total	Male	Female	Gen Y	Gen X	Baby Boomer
Yes	82%	85%	80%	71%	88%	90%

Q. "Do you take a note of the surcharge applied when purchasing an item or service via credit card? The surcharge is the amount the vendor charges you to use the credit card as payment, it might be a shop, taxi, accommodation, or an online purchase for example?"

- **The large majority of Australians (86%) take note of the surcharge applied to credit card purchases**, including more than half (55%) who say that they always take note of the surcharge.
- Those from higher income households (62%) and those who spend \$1000 or more on their credit card each month (67%) are more likely to always take note of the credit card surcharge being applied to their purchases.

Q. "Please rate how much impact the credit card surcharge has on whether you continue and buy the product/service or not by credit card/from that vendor?"

- Only 4% of credit card holders never look at the surcharge cost/don't care about it
- In rating the impact of the surcharge on whether they continue to buy the product service more than one in three (39%) say 5/5 "I take care to always look at the surcharge cost and if it's too high I won't buy".
- A further 48% say that (at the least) "I have a reasonable idea of the surcharge costs from vendors and it's a factor I consider before buying by credit card if it's a high value item".
- Those who spend \$1,000 or more per month on their credit card (47%) are more likely to say they always check the surcharge being applied and will not go ahead with the purchase if it's too high.

Q. "In your best estimation how much would you pay in surcharges per month?"

- Australians believe that on average **they pay \$11.20 per month in credit card surcharges**. This is the equivalent of \$133.6 million per month (11.2 x 11.931 million credit card holders) and approximately \$1.6 billion per year.
- Full time workers (\$12.30) and those who spend \$1,000 or more per month on credit card purchases (\$13.10) report higher estimated monthly credit card surcharge fees.

Estimated surcharges paid per month	Total	Work Full time	Work Part time	Do not work	Spend <\$200 per month on credit card	Spend \$200- <\$500 per month on credit card	Spend \$500 - <\$1,000 per month on credit card	Spend \$1,000 or more per month on credit card
	\$11.20	\$12.30	\$9.50	\$8.90	\$8.58	\$10.90	\$10.70	\$13.10

Q. "In your experience what types of credit card transactions generally attract significant surcharges?"

- Consumers believe that the credit card transactions that attract significant surcharges include purchases from airlines (60%), utilities (35%), taxis (33%), hotels (32%), restaurants/bars/cafes (32%) and small retailers (31%).
- Those who spend \$1,000 or more on credit card purchases each month are more likely to believe that purchases from airlines (71%), utilities (48%) and taxis (41%) attract significant credit card surcharges.
- Large retailers (10%) and online retailers (17%) are less perceived to attract significant surcharges.