



**WEX Australia**

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**Inquiry: Competition in the Australian Financial System  
Submission by WEX Australia Pty Ltd**

I refer to the above referenced Inquiry into Competition in the Australian Financial System and the draft report dated 7 February 2018.

WEX Australia Pty Ltd ('WEX Australia') is pleased to make the following submission in relation to Chapter 10, The Payments System, and specifically Draft Recommendation 10.3 'Ban Card Interchange Fees'.

**Background to WEX**

WEX Australia is a wholly owned subsidiary of WEX Inc.<sup>1</sup>, a publically listed company on the New York Stock Exchange, and is a leading provider of corporate payment solutions in Australia. WEX's Australian business comprises the following:

- Fuel charge card services under its Motorpass and Motorcharge brands, under co-branded programs with fuel retailers and under third party brands as a white label service offering;
- Highly innovative corporate payment services through the issuance of MasterCard virtual credit cards by WEX Bank, an industrial chartered bank in Utah in the United States of America, and also a wholly owned subsidiary of WEX Inc.; and
- Gift card program services to retailers.

In March 2015, WEX, via WEX Bank subsidiary WEX Finance became a licensed Australian MasterCard issuer. This came about because of the Reserve Bank of Australia's changes to the Access Regime to MasterCard and Visa scheme participation. These changes, which took effect on 1 January 2015, were designed to improve access to the market and bolster payments innovation and competition.

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<sup>1</sup> WEX Inc. (NYSE: WEX): From its roots in fleet card payments beginning in 1983, WEX has expanded the scope of its business into a multi-channel provider of corporate payment solutions representing more than 7.7 million cardholders and offering exceptional payment security and control across a wide spectrum of business sectors. The Company's operations include WEX Bank, WEX Australia, WEX New Zealand, WEX Asia, WEX Brazil and WEX Europe. WEX and its subsidiaries employ more than 2,700 associates. For more information about WEX, please visit [www.wexinc.com](http://www.wexinc.com) and [www.wexaustralia.com](http://www.wexaustralia.com).

## **WEX's virtual card payment solution**

Used by SMEs and large multinational corporations, the WEX virtual card solution, which operates using the MasterCard scheme, allows our commercial customers to make payments to suppliers using a unique single use virtual card number for each supplier. The single use virtual card number allows for the reconciliation process between the purchase order, the invoice information and the corresponding payment transaction to take place automatically with the virtual card number acting as the unique identifier for each transaction. This drives efficiencies in the accounts payable process for our end-users and the accounts receivable processes for the merchants, freeing both capital and corporate capacity to other innovative commercial programs.

The WEX virtual card solution reduces the risks in transactions between buyers and merchants, including significantly reducing fraud risk, and merchant bankruptcy for the buyers (which is particularly important in the travel industry, one of WEX's major verticals, when the product is delivered after an elapsed period following payment). It provides a range of functionalities to manage cross border transactions including currency solutions, which facilitate cross border commerce with low cost currency management services. It allows our customers to drive efficiencies in the cost of processing, payment and reconciliation in accounts payment and facilitates real time transactions, further expanding economic capacity and reducing potential for fraud and inaccurate reporting. It also allows our customers to set payment authorisation controls (transaction and user level) to help protect against fraudulent use with respect to each payment transaction thereby facilitating the ability to process payments and invoice data electronically. This restricts the use of the cards to a specific merchant or group of merchants.

In the current economy, it may be difficult for our customers to obtain credit and business loans. Therefore, access to flexible payment solutions, such as our virtual credit product, is an efficient cash flow management tool for SMEs. On the other side of the transaction, we believe that where an SME uses a virtual card for payment this can also benefit the merchants' cash flow, accounts collection and credit risk as the merchant receives payment within 2 to 5 days and switches the credit risk and collection process to the card issuer.

## **Issues raised by the Productivity Commission**

WEX refers to Chapter 10 of the above referenced Inquiry and draft report. WEX intends to focus its attention on the Productivity Commissions ('PC's) concerns in relation to interchange fees and the encouragement of competition.

It is important to note that WEX only issues its virtual cards to corporate customers for Business to Business ('B2B') payments. It does not engage in consumer or retail issuance. WEX notes that the PC's comments in Chapter 10 of the draft report are concerned only with consumer and retail cards, and their usage. B2B payment methods or commercial card transactions are not investigated or reviewed.

WEX considers that commercial cards are, by their nature and usage, distinguishable from consumer cards. WEX does not support any application of the PC Recommendations made in relation to consumer cards or consumer scheme based payment methods, to commercial cards. WEX would argue that before the PC could make any recommendations in relation to commercial cards and their usage, it must first undertake a full and thorough investigation of the commercial payments market.

That said, WEX wishes to make the following points in relation to interchange as it applies to commercial cards, and competition in the Australian commercial payments market more broadly:

- WEX entered the Australian market as a credit issuer with a highly innovative payment solution as a direct result of the move in January 2015 by the Reserve Bank of Australia

(‘RBA’) to modify the scheme access regimes. The RBA modified the access regimes in order to encourage and stimulate new entrants to and competition in the payments market. WEX has been a beneficiary of these changes.

- The ability of WEX to charge an interchange rate (the current commercial interchange rates, while low, do permit WEX to continue to operate in the Australian market), enables WEX and indeed our competitors, to continue to offer a highly innovative and commercially focused payment product to our Australian business customers. The WEX virtual card solution allows businesses to streamline their back end payment processing functions and free up crucial resource to focus on ongoing business growth. Merchants also benefit from WEX’s virtual card solution in that it provides them with secure and timely payments, which are virtually fraud free. WEX would argue that the current interchange rate for commercial cards continues to allow companies like WEX to enter and operate in the Australian market with new, innovative and commercially attractive products and in doing so increases competition in the payments market, while not increasing risk to an unsatisfactory degree.
- A removal of interchange for commercial cards, which is out of step with the rest of the world, will result in the Australian market being less commercially viable for WEX, and will cause WEX to re-evaluate its ability to offer the single use virtual card product in Australia. It is WEX’s view that many other innovative payment solution providers in the B2B payments market may also be forced to this position. The unintended effect would be that Australia would miss out on the value of innovation in payments introduced by companies such as WEX. This is counter-productive to any policy that seeks to encourage payments innovation, and access to innovative payment solutions.

Thank you for the opportunity to contribute as part of the PC’s consultation process. If you would like to meet to discuss WEX’s Submission, please contact me.

Yours sincerely

Kim Ford  
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WEX Australia Pty Ltd