



30 June 2015

VIA EMAIL : submissions@australianpaymentscouncil.com.au

Australian Payment Council
Mark Birrell
Chairman
Level 6, 14 Martin Place
SYDNEY NSW 2001

Dear Mark

Submission – Shaping the Future of Australian Payments

Tyro appreciates the opportunity to respond to the Australian Payments Council's consultation and does so from the perspective of the only new entrant into the payment space competing with the incumbent banks as a technology innovator and a sole-acquirer i.e. an ADI that does not issue cards and does not take money on deposit.

In recent years there has been a wave of announcements by technology companies eager to position themselves for a future in the payment space. The change is driven by the increasing preponderance of smartphones, ever more present broadband access and by the expectation of digital savvy consumers to enjoy an intuitive and rewarding user experience.

We have seen mostly global players like Apple, Google, PayPal, VeriFone, Stripe, Visa and MasterCard announce their ambitions in the mobile and online payment space. There is also much hype around start-ups like Square and other international and local start-ups innovating around the new mobile devices.

Looking forward, internet economics favor global players. The significant further growth and proliferation in IP based electronic payments instruments and business models will put stress on the Australian back-end banking systems and on the regulatory and competitive oversight and consumer protection.

For example, Apple iTunes and Skype have become huge deposit takers of Australian consumers' funds and are beyond any reach of Australian regulatory or prudential supervision.

There will be heightened competition leading to a proliferation of payment instruments and channels. Australia being an affluent society with one of the highest penetration of mobile devices could take a leadership position in the global competition for the future of payments.

For that to happen, the reality and the perception that the Australian payment space is dominated and access to the core payment infrastructure is controlled by the four dominant retail banks has to be eliminated.

What should we do together over the next 10 years to get payment systems we need?

At Tyro we believe that the digital revolution will change the way Australian consumers and businesses will pay. But what technology, products and solutions will ultimately prevail is unclear. In payments, many grand ambitions by big

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industry players - reaching from big telcos, big retailers to global technology players - have failed over the years.

Rather than having an opinion on winners, winning technologies or business models, Tyro has always advocated for an open and competitive payment environment and for an engaged regulator ensuring consumer protection, stability, access and level playing field. In such an environment, many feel encouraged to give new ideas a go and the best ideas will finally prevail, locally and globally.

For instance, we were encouraged and supportive of the more proactive approach announced by the Reserve Bank of Australia in terms of setting goals and timelines for system-wide payment innovation to overcome the coordination challenges and investment disincentives of the major retail banks.

An innovative and competitive payment system – essential for productivity gains and growth – requires indeed the industry, regulator and competition authority to work together to ensure open and fair access. Otherwise parallel payment worlds will develop without regulatory oversight and thus with all the risks and failures that this engenders for the community.

It is in the public interest to have an open, but regulated payment system where innovation can happen inside the system with trust and security maintained.

Against this background, we want to lodge our serious concerns with regard to competitive disadvantages embedded in the New Payment Platform (NPP) set-up.

The membership of the NPP is limited to Australian Deposit-taking Institutions (ADIs), which means except for PayPal as Purchased Payment Facility (PPF) and service providers to general banks, access is restricted to general banks. That eliminates membership de-facto for new entrants because innovative new participants cannot, from the start, compete in the broad field of general banking, i.e. transacting, taking deposits and advancing money.

The access and service are discriminating, because the scope of real-time or near real-time settlement mandated by the RBA is limited to the interbank settlement between ADIs. Non-ADIs are forced to use more or less performing and expensive overlay services offered by their competitors to make their funds available to their own customers.

This puts an innovator and sole-acquirer like Tyro at significant competitive risk. We dare to compete with the major retail banks. Those banks who dominate NPP can control Tyro's competitive position through access conditions, and through the service level and costs that they offer in making funds available to our merchants.

If the NPP is implemented like that, an opportunity is lost to overcome today's dramatically unfair and anti-competitive settlement system, where the major banks make funds available to their own customers same day every day, whereas they make funds to Tyro only available on banking days with significant delays.

If all NPP does is create faster settlements between ADIs, its benefit is restricted to reducing, to a minor extent, systematic risk in the financial system. The meaningful benefit to the economy only arises when businesses and consumers actually have the frictional costs of the payment system reduced; and that only



happens if NPP actually means that businesses and consumers get real-time settlement into their accounts.

Conclusion

Technological advancements and increasing numbers and types of bank and non-bank participants have increased the complexity and vulnerability of the payment landscape.

An innovative and competitive payment system – essential for productivity gains and growth – requires the industry, regulator and competition authority to work together to ensure open and fair access.

All participants in a payment system, regulators, schemes, bank and non-bank participants, merchants and cardholders should share an interest in opening up the core payment system for innovation and competition to happen while preserving the reliability, confidence in and integrity of the overall system.

Tyro calls on the industry to change course. The New Payments Platform is a proof point on whether the major banks opt for protecting their turf by raising access barriers or open up to enable innovation and competition.

Tyro also calls on the regulator to move towards a more differentiated regulatory framework to enable and encourage new entrants while mitigating the increased risks arising from the growing number and diversity of new business models, their interdependence, their systemic risk and the impact a failure would have on public confidence in the core payment systems.

Yours Sincerely

Jost Stollmann
CEO



Background

Tyro Payments Limited is a special Australian Deposit Taking Institution (ADI) regulated by the Australian Prudential Regulation Authority. Tyro is Australia's independent provider of acquiring services for credit, scheme debit and EFTPOS cards and electronic Medicare processing services for patient paid and bulk-bill claims.

Tyro responds to the Reserve Bank of Australia (RBA)'s consultations, particularly from the perspective of the only new entrant in the payment space competing with the incumbent banks as a technology innovator and a sole-acquirer, i.e. an ADI that does not issue cards and does not take money on deposit.

Tyro has been operating as a sole-acquirer in the payments market for eight years.

Tyro's participation in the Australian payment system became possible through the engaged support of the RBA forcing an access regime in 2004 and 2005 on the global card system and in 2005 and 2006 on the domestic debit card system (EFTPOS) and the clearing and settlement streams BECS and CECS.

Tyro's success is also owed to the Australian Prudential Regulation Authority (APRA) making the then new, now defunct license regime Specialist Credit Card Institution (SCCI) workable within the requirements of banking regulatory oversight and the needs and resources of a start-up innovative banking institution.

However, Tyro's progress has been slowed by the many persistent entry and expansion barriers that continue to persist, mostly the broken EFTPOS access regime, the EFTPOS interchange fee regimes and the settling and bundling behaviour by the dominant retail banks.

Nonetheless, Tyro has built a business that caters for and is well suited to the small and medium business community, raising the bar for Australian merchant acquiring in terms of speed, security, reliability and ease of use.