



Productivity Commission – Inquiry

## **New business models and the digital economy**

20 February 2015

### **Australia has a huge and timely opportunity, if it were to open up the banking and financial services market, but that requires regulation.**

Tyro Payments Limited holds a special authority to carry on banking business in Australia confined to acquiring of credit and debit card transactions.

Tyro is Australia's independent provider of such acquiring services for credit, scheme debit and EFTPOS cards and electronic Medicare processing services for patient paid and bulk-bill claims.

Tyro is responding to the Productivity Commission's Inquiry 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.

Tyro has been operating as a sole-acquirer in the payments market for 9 years.

Tyro's participation in the Australian payment system became possible through the engaged support by the Reserve Bank of Australia (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 a new 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. This special license regime has, however become defunct effective 1 January 2015.

Tyro's progress has been slowed by 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 behavior 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.

The Specialist Credit Card Institution (SCCI) was a successful example of proactive regulation. It created sufficient access and support for Tyro Payments to become a new entrant into the core payment system. Unfortunately, we were the one and only one. That is of concern and needs to change.

- Tyro technology delivered a low-cost platform that broke even with \$3B in annual transaction volume (<1% share of Australia's market), a non-stop acquiring platform (zero second outage) and a secure integration architecture (zero data compromise) serving 12,000 small-to-medium businesses. We grow consistently with 30+ percent year on year.
- Tyro also decided to offer its access to the core banking system to other start-up and high growth companies who want to provide new business models and solutions to Australian businesses and consumers. You can have a quick look at <http://tyro.com/tyro-fintechhub/>

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If new Australian success stories are to be written in banking and financial services, then there needs to be a smart regulatory framework with a stringent enforcement regime in place that

- Grants access to the core banking infrastructure (deposit account and payments) and ensures a level playing field, overcoming the resistance of the dominant retail banks;
- Applies a graduated regulatory approach to specialised and new business models commensurate with the risk they inject into the financial system;
- Reins in - through heightened risks such as effects test and treble damages - anti-competitive cultures that broad-line, dominant, incumbent institutions could be prone to.

The UK regulator has already further progressed from trusting in industry self-regulation to a stronger posture designating and opening up the core infrastructure to innovation and competition. <http://www.fca.org.uk/news/psr/new-payment-systems-regulator-sets-out-how-it-will-regulate-the-75-trillion-industry->

All participants in a payment system, regulators, schemes, bank and non-bank participants, merchants and cardholders share an interest in preserving the reliability, confidence in and integrity of the overall system.

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

However, given that payments are an essential vein of the modern economy and society, there needs to be an even more elaborate regulatory risk framework to mitigate the increased risks arising from the growing number and diversity of new global and local entities, their interdependence, their systemic risk and the impact a failure would have on public confidence in the core payment systems.

The regulator has the obligation, skills and credibility to understand the risks and intervene in increasingly complex and interdependent payment systems and to ensure that system wide exposures are appropriately identified and managed.

Yours Sincerely

Jost Stollmann  
CEO

Appendix:

- Submission to the Financial System Inquiry (26 August 2014)
- Submission to the Review of Competition Policy (17 November 2014)
- Submission to the RBA Strategic Review of Innovation (31 August 2011)