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Payments Policy Department  
Tony Richards  
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Dear Tony

**Submission – Strategic Review of Innovation in the Payment System: Conclusions**

Tyro Payments Limited is a Specialist Credit Card Institution authorised by the Australian Prudential Regulation Authority. It has launched acquiring services for credit, scheme debit and EFTPOS cards and electronic Medicare processing services for patient paid and bulk-bill claims.

Tyro Payments is responding to the Reserve Bank of Australia's consultation 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 deposits.

**New or potential participants are increasingly dramatically locked out**

While customer-facing smartphone, tablet and internet based payment innovations have accelerated recently, the necessary supporting payment system infrastructure has not followed and that because the required investments were and are not made. Instead there have been failures, disruptions and outages.

The major retail banks do invest in their own payment systems to provide more value to their customers and differentiate themselves competitively. The CBA, for instance, is now heavily promoting to the merchant community same day every day settlement. They make funds available to their merchant provided that they use the CBA both as acquirer and transaction bank.

Thanks to stifling the inter-bank payment infrastructure for years, the major retail banks now lock out one sided competitors (like sole acquirers) from competing.

For the oligopoly it makes perfect sense to bundle its services, lock in their own customers and lock out competitors. The community's interests however are better served with an open payment infrastructure which allows new entrants and innovators access and the ability to compete on a level playing field.

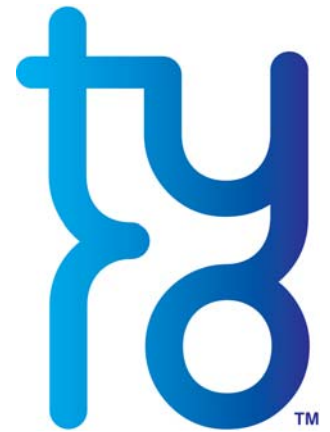
If the dominant participants can access bank accounts for their merchants to make funds available in real or near real-time and specialized new entrants and innovators participants can make fund only available with one to two days delay, the latter are excluded from competition within the regulated banking system.

Using their market power and privileging proprietary investment, the major retail banks have stifled industry wide investment resulting in negating fair and open access to new and potential participants.

This needs to be addressed as a matter of urgency.

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### **Tyro's Position as to the Initial Strategic Objectives**

Tyro fully agrees with the strategic objectives but is very concerned with the long deadlines afforded to an industry with a notoriously underperforming implementation track record.

With accelerating technology innovation and the appearance of new resourceful technology companies endeavouring to become game changing major new participants in the payment space, Tyro recommends the RBA to consider taking immediate control and mandating more ambitious deadlines.

For any new or potential participant on the acquiring side an existential capability in the fast appearing new payment world is to make funds available in real-time or near real-time.

It has become existential, since CBA now offers this capability but only as a bundled service to its merchants. Tyro merchants who are CBA transaction account customers are deprived of this fast payment solution.

New participants need urgently multiple every day intraday settlements of the payment instructions, and that including near real-time posting and funds availability on the transaction bank account of the merchants' choice.

Allowing the industry to deliver that functionality which is ultimately the one that matters to the merchant community in another four and a half years only risks to significantly disrupt new entrants' business and certainly discourage any potential new participant.

### **Tyro's Position as to the Consultative Process**

Tyro fully supports the Payment Systems Board's preference for a consultative approach in setting the strategic goals and objectives as well as overseeing delivery but is very concerned with the history of continuous delays in implementing the overdue innovations of the payment infrastructure.

With the industry lagging system-wide investments into the payment infrastructure, it is key that the RBA's objectives including deadlines have "bite" i.e. emanate from the PSB's statutory power and enforce the required investments by the institutions.

The new industry body dialoguing directly with the PSB should be consultative, an Advisory Council of Authoritative Personalities. The objective of the Advisory Council would be to provide the PSB with independent recommendations and divergent views reflecting a broad industry view. The Council should not be entrusted with securing industry buy-in and the investment decisions.

That is the role of an Industry Steering Committee with RBA participation constituted within APCA that oversees the industry delivery against RBA mandates. This Committee's objective would be to bring public interest consideration more to the fore in industry coordination. It would oversee and coordinate the delivery against PSB goals and mandates.

This approach is consistent with APCA's recent aspiration for an increased self-regulatory role and it is in line with its Governance Reform currently under way.



The new Advisory Body should be of limited size and lead by an independent Chairman. Members should be nominated and appointed by the PSB.

The composition of the membership has to reflect that the payment space is not limited to a few banks, but has a far broader constituency to take into consideration.

Stakeholders who should contribute their views include a major and minor retail bank, non-bank bank, global and domestic scheme, global and domestic technology player, payment processor, major and minor retailer, biller and consumer.

In Tyro's view there should be no consensus requirement on an elusive one-and-only industry position and thus there are no issues of voting structures and rights. Representation should be at an appropriate senior level to make sure that views are authoritative.

The Advisory Council should contribute well-articulated views on strategic goals, measurements and mandates, for instance for

- real-time interbank settlement and account posting
- network choice in contactless environments
- retail payment system reliability
- settlement exposures in the payment system
- access to the payment system infrastructure

The payment system participants on the provider side should work within the existing APCA framework to submit their committed project with milestones and deadlines as well as regular updates on progress towards those milestones.

An APCA Industry Steering Committee should oversee the timely implementation of the current strategic goals aiming to deliver an open real-time retail payment infrastructure.

The distinction between a consultative body, the Advisory Council, dialoguing with the PSB and an industry body, the Industry Steering Committee, coordinating and overseeing the delivery creates clarity. The separation of roles permits the representation of the public interest in one forum and the implementation navigating industry institutional interests in the other.

Whatever format the PSB will finally chose, Tyro offers to join - if that is seen as useful - contributing the perspective of a new technology and innovation oriented banking entrant.

Tyro encourages passionately a representation of the broader technology, merchant and consumer community.

It is easy for the PSB today to tab the opinions of the dominant retail banks and retailers. That is the efficiency of the oligopoly. With APCA, ABA and ePAL they have organized very well the dialogue and the pursuit of their interests.

An Advisory Council limited in numbers, broad in representation and not dominated by the oligopoly, would be a major step forward to a more open payment system.



### **Tyro's Position as to the provision of infrastructure**

In light of the Australian oligopolistic industry structure as well as the industry's culture and track record, Tyro recommends the RBA to provide increased infrastructure.

Tyro would prefer the RBA to provide the architecture itself, because this would in our view allow implementing the overdue infrastructure in the fastest way and it would engender the required trust in open access and a level playing field.

While an industry solution or a networked solution has in theory a lot to be argued for, the reality is that in Australia for reasons of industry structure and culture the best outcome would be delivered by the RBA itself.

We are very supportive of the PSB taking immediate control, nominating an interim consultative council, driving industry investments with ambitious and binding mandates and incentives. We are also very supportive of the RBA delivering a real-time retail payment and settlement hub.

Anything we can contribute, we will eagerly do.

Yours Sincerely

A handwritten signature in blue ink, appearing to read 'Jost Stollmann', is written over a light blue horizontal line.

Jost Stollmann  
CEO