



Senate Inquiry - Introduction

Friday 21 January 2011

I am honoured to be called upon as witness to this Senate Inquiry and to be able to contribute the perspective of the new market entrant.

Tyro, the company I run, is a special player in the banking industry in a number of ways.

Firstly, we are the only new entrant competing with the major banks head-on-head in a core banking service, merchant acquiring; helping businesses to take credit, debit and EFTPOS cards in payment. We are licensed by APRA. We are an ADI with the same regulatory and safety oversights of any Australian banking institution. It is a problem for us that we provide the same merchant acquiring services that the big banks do, but we cannot use the word bank.

Second, we are focused on acquiring only, so we do not have the conflict of interest as the major bank have i.e. driving up the interchange fee revenue at the expense of merchants. Thus, it does not surprise that we are the only ADI questioning the looming reversal and increase of the EFTPOS interchange fee threatening the SME community with an additional burden of up to \$¼ billion.

In the payment industry that is dominated by four issuing banks, two global schemes and two big retailers, we are a countervailing voice on behalf of the retailers. I wished I could say power.

Third, we are actually supportive of tight regulation and oversight of the banking industry. We have to eliminate risks through intelligent processes and information technology. We do not have the balance sheet of the major banks. We deployed a live-live acquiring infrastructure that eliminates outages. We are vocal in demanding intra-day and real time settlement systems. We have eliminated data breach risks ...

The reality is, Tyro has delivered reliable, efficient and flexible EFTPOS solutions. However, after 8 years of effort and \$30m in investment, we are processing only 0.55 percent of Australia's credit, debit and EFTPOS transaction volume. Only a significant further increased market share would reward investors, provide

Tyro Payments Limited
abn 49 103 575 042
125 york street
sydney nsw 2000
p+61 2 8907 1700
f+61 2 8907 1777
h+1 300 966 639
www.tyro.com



relevant competitive pressure on the major banks and most importantly encourage others to follow.

We have described 13 concrete single barriers to our further growth in our submission. To pick some examples of many:

First example, in the Australian payment system, MasterCard settles domestic transactions one day and international transactions two days later. The mechanism for how the funds flow is actually dependent upon the time in St. Louis in America. The big banks net off the issuer and acquirer side. Tyro as acquirer-only has to pre-fund the settlement. The consequence is that there is unnecessary counterparty risk in the system and there is a competitive disadvantage to Tyro. Tyro has been unsuccessful in obtaining debt from any of the Australian major banks to cover this problem.

Second example, in the Australian system payments are settled batch overnight, exposing the system to more risks than intraday or real-time settlements would engender. Again Tyro as acquirer-only suffers from competitive disadvantage. Tyro cannot net off as the major banks can. Major banks settle Tyro merchants a day later than their own; a huge switching barrier and an example of the banks benefiting from their bundling power to the disadvantage of Tyro an acquirer only.

The Australian government can make a difference. Medicare has opened up and created successfully competition in electronic claiming. I suggest the government could achieve similar outcomes in other payment areas; for instance in health fund claiming.

Five years after the RBA created the access regime, we are still the only new market entrant into the core banking business.

I think that if new entrants into the banking industry are wanted to provide better outcomes for Australian businesses and Australian citizens, we have more work to do.

I am looking forward to your questions.