



14 January 2011

Senator Bushby  
Chair  
Economics References Committee  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
Australia

Dear Senator Bushby

**Inquiry into Competition within the Australian Banking Sector**

A few new entrants have made some progress in competition with the established banks for deposits, mortgages and credit card business. Tyro is the only new entrant, start-up and growth company that competes with the major retail banks head-to-head in the core business of merchant transactions and settlements.

Tyro has reviewed the recently announced Government measures aimed at increasing competition in banking and the documents already submitted to the Inquiry and as a result we feel compelled to make this additional submission.

Further, I am keen to meet with the Committee in person to talk about our experiences as a small and new entrant, challenging the banking establishment with payment solutions for the poorly served and overcharged Australian SMEs. Tyro has positioned itself as a strong SME advocate that is not conflicted by issuer interest.

In that role, Tyro wants to make the Inquiry aware of a major impending reversal of the domestic debit card interchange rate (EFTPOS). The result will be that the major retail banks (issuers) will charge Australian SMEs in the order of up to A QUARTER OF A BILLION DOLLARS (\$250 MILLION) IN ADDITIONAL FEES per annum. We would expect the big retailers, who negotiate this interchange fee with the major issuers directly, to protect their interest through tiered pricing similar to the one they have already been granted by the schemes and issuers in the scheme credit and debit card space.

Tyro is a small voice trying to be heard in protecting the Australian SME community from this huge and difficult to justify impost. The Senate Inquiry has the opportunity to become a voice on behalf of this almost voiceless community.

Tyro has developed in-house an end-to-end technology and offers an IP based EFTPOS solution. It brings technology, innovation, efficiency, transparency and fairness to the Australian SME community. Contrast this with the large retailers who have liberated themselves from the dominance



of the major four banks by bringing payment technology in-house that delivers payment solutions directly to their customers.

The large retail groups benefit from their scale, offering them significant cost advantages and - strategically more importantly - an ability to bundle payment processes with data capture, targeted marketing, traffic generation and discounting. Their activities challenge the SMEs' in the retention of their customers.

It is striking that against an understandable preoccupation in discussions about funding access, lending rates and bank profitability, there are only a few submissions that have commented that new market entrants provide an essential source of competition and should be encouraged. Tyro encourages the Inquiry to also consider how to improve competition in core transaction banking services and how to better encourage and enable competition in the highly regulated and networked core banking space dominated by the four major banks.

The only example of this approach is the Reserve Bank of Australia and APRA's creation of the Specialist Credit Card Institution (SCCI). This license category is designed to attract new entrants into a payment space that is currently lacking innovation and competitive tension.

This opportunity for the creation of new banking services and the entry of new service providers was taken up in 2003 by the start-up enterprise Tyro. Subsequently, the company was first authorised in 2005 to conduct the banking business of merchant acquiring. The establishment and growth of this business was and remains very challenging, primarily because of the significant barriers to entry and expansion erected by the incumbents that may well explain modest growth rate of Tyro and the lack of any follower since the access regime was created.

The key question then is how the Government, the RBA, banking and competition regulators and industry should create a framework that encourages and enables new market entrants to compete effectively with the major Australian banks in an industry in desperate need of NEW solutions and NEW competition.

For it to be a success, this framework must minimise the barriers to entry and expansion. In this regard, we refer to the detailed 12 steps in our initial submission (no 36) and we take this opportunity to add a thirteenth step that Tyro believes will substantially improve its ability to compete in the card payment space. This step is:



13. Expanding the use of the term “bank” to allow an SCCI to describe itself and its business as “bank”, for instance, “Merchant Services Bank”.

If Tyro could call itself by its function, the merchant community’s confusion would be substantially mitigated. This would in turn lower in the mind of the merchant the switching barrier they currently face in a move to the unknown brand of a new entrant ADI. The term “bank” would confer the added element of trust that Tyro, as a regulated and licensed entity is capable of meeting all its obligations.

Other regulated entities that compete with Tyro are the banks that enjoy the privilege and the brand status brought by the term “bank”. Tyro as a like regulated entity is denied that privilege and thus faces hurdles in competing in an industry urgently in need of new competition.

Tyro asks for no special treatment, it is simply asking for a level playing field.

This and Tyro’s prior submission describe 13 barriers to new providers entering the banking market of merchant services and barriers curtailing the growth of existing smaller providers. Our mission is to bring innovation and competitive tension to the payment space, allowing the Australian SME community access to innovative and competitive payment solutions. We will only succeed, if the Government, RBA, banking and competition regulators and industry engage in the development of a suitable framework to encourage new market entrants and to enable them to grow.

If major banks were to refrain from anti-competitive behaviour and, *prima facie* counter intuitively, support new entrants, they would actually be serving their own interests. They could benefit from the infusion of innovative ideas and models into their organisations, invest in new entrants or buy them outright at a later stage.

The major retail banks would certainly satisfy the Australian community’s expectations. The banking industry can learn from other industries such as the securities or pharmaceutical industry that recognised the virtue of such constructive behaviour.

Yours sincerely,

CEO