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VIA EMAIL: [pysubmissions@rba.gov.au](mailto:pysubmissions@rba.gov.au)

Head of Payments Policy Department  
Ms Michele Bullock  
Reserve Bank of Australia  
GPO Box 3947  
SYDNEY NSW 2001

Dear Michele

### **Submission - Preliminary Conclusions of the 2007/08 Review**

MoneySwitch Limited trading as Tyro Payments is a Specialist Credit Card Institution authorised by the Australian Prudential Regulation Authority. It has launched acquiring services for credit, scheme debit and EFTPOS card transactions in Australia.

Tyro Payments is responding to the Reserve Bank of Australia's invitation for submissions on the *Preliminary Conclusions and Analysis of the 2007/08 Review*.

In our view, an indispensable requisite in best promoting competition and improving the efficiency of the Australian card payment system is the continued regulatory involvement of the Reserve Bank working towards a level playing field and a practical access for new entrants as well as creating the certainty required to encourage investment and innovation.

The industry continues to be dominated by two schemes and a handful of big issuer-acquirer banks with a strong focus on issuer interests. The main industry players continue to behave in a way that stifles competition.

Examples are the barriers frustrating a practical access to the bilateral EFTPOS network despite the new access regime, the average interchange fees pushing up against the regulated benchmark, the secrecy and discrimination in scheme fees and the practice of long term merchant contracts with prohibitive exit fees.

These industry realities results in many disadvantages to a new entrant who pursues acquiring (and thus merchant) interests only. Big banks seem to cross subsidise their acquiring from the issuing business through the interchange rate. The largest acquirer in Australia advertises on the web the following merchant service fees (ex GST) to SMEs, reaching down to the smallest merchant:

Gift & Homewares Industry - credit 0.673% and debit 12.7 cents  
Motor Traders Association - credit 0.545% and debit 9.1 cents

Given low industry average acquiring margins (29bps) and high average interchange fees (50bps), a new acquirer-only suffers from significant disadvantages:

1. The bilateral nature of access to the EFTPOS network forces the new entrant to pay big bank competitors significant fees to provide switching and settlement services to the other participants.

MoneySwitch Ltd  
t/a tyro payments  
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](http://www.tyro.com)



2. Scheme memberships result in significant upfront and continuous fixed fees for the new entrant.
3. Scheme fees are twice as high for the new entrant than the incumbent market leader.
4. The big issuers can further lower their scheme fees through on-us transactions and their interchange fee through direct-issuer interchange agreements.
5. The big acquirers earn substantial further income from switching on behalf of the charge card systems, realistically not available to a new entrant.
6. The big acquirers lock merchants in with multi-year contracts and prohibitive exit fees.

An initiative like Tyro Payments, establishing an innovative acquirer-only, requires the continuous oversight and regulation by the Reserve Bank. There remain many further issues that we can not trust the industry to address under a self-regulatory regime. These are primarily:

1. Given the maturity of the industry and the need for economic price signals, the cross subsidy from the interchange must be further reduced through the regulated cap, ideally to zero.
2. The transparency of scheme fees must be increased and discrimination against new entrants reduced.
3. The current EFTPOS network architecture and access arrangements must be reformed.

The fact that Tyro Payments has so far been the only new competitor to have entered the acquiring space might very well reflect the subsistence of significant competitive problems in the payment industry. Without the legal certainty resulting from continued and comprehensive regulation and oversight of the RBA, the entry and build-up of a new and innovative player will be even harder if not impossible to fund and execute.

Having said that, the industry is free, by its own initiative, to take meaningful steps to improve the competitive environment and improve innovation. Tyro Payments is eager to contribute to such initiatives.

Yours Sincerely

A handwritten signature in blue ink, appearing to read 'Jost Stollmann', written in a cursive style.

Jost Stollmann  
CEO