

4 July 2023

**Director - Payments System and Strategy Unit
Financial System Division
The Treasury**

By email: paymentsconsulation@treasury.gov.au

Discussion Paper: Reforms to the Payment System (Regulation) Act 1998 – Tyro Submission

Dear Sir/Madam,

Tyro Payments Limited (**Tyro**) appreciates the opportunity to provide a submission in response to The Treasury's (**Treasury**) discussion paper – *Reforms to the Payment Systems (Regulation) Act 1998*, released on 7 June 2023.

About Tyro

Founded in 2003, we are a technology-focused and values-driven company providing Australian businesses with payment solutions and value-adding business banking products. We provide simple, flexible, and reliable payments solutions as a merchant acquirer, along with complementary business banking products.

We were issued an Australian Financial Services Licence and became an Authorised Deposit-Taking Institution (**ADI**) in 2015, making us, at that time, the first new domestic banking licensee in over a decade. We are now Australia's fifth largest merchant acquiring bank by number of terminals in the market, behind the four major banks, serving over 66,000 merchants.

Overview

The proposed reforms to the Payment Systems (Regulation) Act 1998 (**the Act**) seek to address new risks related to payments as the industry evolves and increases in complexity. Noting Tyro's position within the payments landscape, we feel it is important that these risks are addressed so that key regulators are equipped to manage the new and emerging risks.

The consultation paper raises a wide-ranging set of topics and questions for consideration. We have limited our submission to those areas where we feel most qualified to comment and which are important to achieve the stated goals of the review, namely, to ensure regulators and Government can address new risks related to payments.

Proposed Definition Changes

The reforms propose updates to the current definitions of a '*Payment System*' and '*Participant*' under the Act, with the intention to expand regulatory coverage of the Reserve Bank of Australia (**RBA**) and ensure that all entities that play a role in facilitating or enabling payments are appropriately regulated. Tyro supports the proposed changes, noting that they seek to address risks associated with newer payment types that are not currently subject to the same

level of regulatory oversight as incumbent participants. Without reform, the status quo is likely to lead to increased asymmetry in the regulation of new and incumbent participants within the Payments System.

By implementing consistent regulatory oversight across all payment service providers, Tyro expects improved consumer outcomes. A prime example is the implementation of the Least Cost Routing (**LCR**) framework. Tyro has consistently demonstrated its support for the RBA's intensified emphasis on adopting and implementing the LCR framework. Given the surge in digital wallet transactions, Tyro advocates for the mandated implementation of the LCR framework for digital wallet providers, who are at present exempt from this requirement. Currently digital wallet providers typically default transactions to a primary scheme/network that often impose higher fees for transactions. If the LCR framework was applied, these providers would be mandated to provide merchants (through their acquirer) to route dual-network debit card transactions to the lowest cost network. This is likely to reduce costs for consumers and will increase competitive pressures between debit card payment schemes, such that there is a greater incentive for all schemes to lower fees. We believe the proposed changes in the reforms paper will address this current gap and ultimately lead to better consumer outcomes.

Proposed Ministerial Power

The proposed designation power will replicate the existing process the RBA takes before making decisions based on 'public interest grounds'. The power would enable the Treasurer to designate payment systems, allocate responsibility for addressing a particular policy issue concerning specific designated systems to the best-placed regulator, and issue specific directions to regulators.

Whilst Tyro is not opposed to the introduction of a ministerial designated power, further clarification is sought on the circumstances in which it might be used. If such a power is to be introduced, it will be crucial to establish guidelines on how and when it can be used, as well as developing suitable safeguards and prerequisites to govern its exercise. This is imperative to avoid unpredictability that can disrupt the payments ecosystem, making it challenging for industry participants to plan investment, develop long-term strategies and maintain suitable business operations. It is therefore crucial to carefully consider the implications of such reforms to ensure the regulatory framework supports a competitive, innovate and stable ecosystem that ultimate benefits consumers and payment providers alike.

Tyro would welcome the opportunity to participate in further consultation as the reforms are developed.

Yours sincerely,



Jon Davey
Chief Executive Officer