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ASIC – CONSULTATION PAPER 260

Further measures to facilitate innovation in financial services

Tyro Payments is pleased to submit to the ASIC Consultation into further measures to facilitate innovation in financial services. Our contribution is from the perspective of a new entrant and innovator in the banking space and the founder of Australia's first fintech hub.

Tyro is Australia's EFTPOS banking institution and is the first new entrant into the banking business in more than 18 years. Tyro holds an authority under the Banking Act to carry on a banking business as an Australian Deposit-taking Institution (ADI) and operates under the supervision of the Australian Prudential Regulation Authority (APRA). Tyro provides credit, debit, eftpos card acquiring, Medicare and private health fund claiming and rebating services as well as a transaction and deposit account integrated with Xero cloud accounting. Tyro takes money on deposit and is about to launch its first lending product.

The Tyro Fintech Hub is Australia's first hub for financial technology entrepreneurs in Sydney. Opened in February 2015, the Tyro Fintech Hub supports fintech start-ups and high-growth companies with co-working space, mentoring, banking access, and a program to co-develop open APIs. The Tyro Fintech Hub is also host to accelerators, conferences, hackathons, meet-ups and programs to build Australia's burgeoning fintech ecosystem.

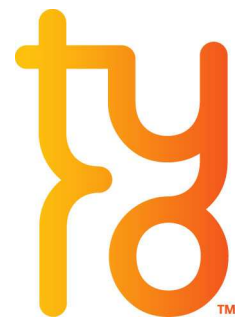
A1Q1

Do you agree that we should put in place additional measures to facilitate innovation or maintain the status quo? Please provide reasons.

Governments and regulators across the globe are competing to re-design their policies and regulations as a reaction to market crises and digital disruption.

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Tyro welcomes ASIC's various initiatives seeking to build a regulatory framework that enables innovation. The regulatory sandbox scheme which allows early-phase businesses to test their products in a controlled environment is another much-needed step. It means more entrepreneurs will spend more time building business ideas and less time trying or failing to meet complex financial services regulations.

A1Q2

What benefits do you consider will result from our proposed approach?

We are convinced that smart public policy and smart regulation is the source of sustainable competitive advantage for Australia in its ambition to become a leading Asian financial services hub.

We encourage thinking of new entrants and innovators as not injecting on balance risk but rather de-risking the financial systems and markets by delivering transparency and efficiency through automation, data and algorithm.

The new fintech products imagined, tested and launched by the new generation of entrepreneurs range from targeting consumers to businesses, from helping them to visualise and manage their financial affairs, to obtaining better deals, to fund personal lifestyle or business growth or to manage or transact on the customers' behalf.

The development of these solutions has huge potential to improve customers' financial outcomes, to bring transparency, integrity and efficiency to the financial services space and to drive productivity growth in the business community.

C7Q1

Do you support the requirement for a testing business to be 'sponsored' by an industry organisation? Please give reasons for your answer.

It is in the public interest to create an open environment where innovation and competition can thrive. Australia is one of the most consolidated markets in the developed world. The banking space is dominated by an oligopoly of four major retail banks.

The regulatory sandbox must be a trusted space where disruptive entrepreneurs can try their new products without fear of seeing their endeavour stifled or their IP divulged under the influence of the dominant incumbents.

The reality in Australia is that its associations, hubs and accelerators are dependent on the funding from the establishment. They are unsuited to be sponsors controlling the access of start-ups to the regulatory sandbox.



Only the regulator can be trusted and ensure open access to and fair and level playing field terms in the regulatory sandbox.

To expose the working of the sandbox to the influence of the incumbents is like “putting the fox in charge of the hen house”.

The UK experience that is well ahead in terms of opening up the banking sector, sandbox regulation, Open Data and Open API movement has proven that any approach leaving an oligopolistic industry to foster innovation and competition has failed. A skilled and engaged regulator mandating, enabling and even driving change is the key requirement.

The rate of change in the digital century is accelerating. That is a particular challenge for policy makers and regulators. This consultation seeking input from industry as to the parameters of the sandbox is to be applauded, but such a process takes a year if not more until it deliver results.

ASIC has to launch the “Sandbox in the Sandbox”.

ASIC has to build the skills in the new world of financial and regulatory technology in-house. It has to experiment whether the current framework of six months, a limit to 1,000 customers and \$5 million total exposure are the right rule settings. They might or they might not.

The regulator being responsible for assessing and approving a testing business would allow ASIC to build the skills and gain the experience to continuously experiment, learn and adjust the rules in the sandbox. On a case-by-case basis, ASIC could consider the appropriate transition into licensing for particular business models or testing businesses as opposed to having a blanket rule requiring the testing business to possibly ‘cease operations’ at the end of the six-month period, pending their ability to comply with the licensing obligations.

Fintech start-ups and fast-growth companies cannot thrive in an environment that requires years to deliver the critical prerequisites. The reality is that in the world of digital start-ups, companies that have to deal with years will not be created or will fail to scale up.

The importance of ASIC to develop the in-house skills and frameworks extends far beyond the financial industry itself into supporting the productivity and efficiency of the Australian economy, government and society. The prosperity of Australia in the digital century is at stake.

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