



31 January 2017

Email: ictprocurementtaskforce@pmc.gov.au

Dear Sir / Madam,

Submission on the Department of Prime Minister and Cabinet's ICT Procurement Taskforce Consultation Paper

Tyro Payments welcomes the opportunity to provide this submission on the above-named Consultation Paper.

Tyro is Australia's only independent EFTPOS banking institution and is the first new entrant in 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 offers unsecured cash flow-based lending to Australian EFTPOS merchants.

From Tyro's own experience, Government procurement can be a key enabler of innovation and competition. From data provided in the Consultation Paper, it is clear that an updated framework needs to be established to make it easier for new innovators to compete for Government contracts.

Tyro – a best practice case of Government procurement

Eleven years ago when the term 'Fintech' was yet not coined, Tyro was a start-up backed by three Australian entrepreneurs and a German entrepreneur. The Reserve Bank of Australia and the Australian Prudential Regulation Authority recognised that more competition was needed in the Australian banking system and Tyro is their vision realised. Back then, they granted our start-up a special banking licence and ensured our access to the core banking system.

At that time, the then Minister for Human Services, Joe Hockey, was interested to accelerate the adoption of electronic claiming with Medicare Australia to move away from the cumbersome and inefficient process of patients visiting a Medicare office, handing in claim documents and walking off with cheques. He invited the banks to offer a solution using the domestic debit card network that allows real-time credit to any Australian bank account holder.

A year later, the Commonwealth Bank agreed to provide the requested electronic claiming and rebating service. It did not take much convincing for Tyro to engage. On 21 December 2006, Tyro signed a ten year Electronic Medicare Claiming Accreditation and Service Provision Agreement. Tyro was not interested in negotiating as long as it was the exact same contract signed by the Commonwealth Bank.

For Tyro, the Medicare Australia contract was key to securing the required funding to develop the technology and to scale up to break-even in size. With it the unthinkable

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became true, and APRA granted Tyro a full banking licence to accept money on deposit and to offer loans. This was an Australian first as a banking licence had never been granted to a technology company in Australia.

The significance goes beyond Medicare, because it made it possible for Tyro to become the first nextGen banking institution in Australia, providing cloud-based, totally mobile and integrated banking services, removing the frictions in banking and providing cash flow-based lending to Australian SMEs.

Today, Tyro serves 17,000 small-to-medium businesses and services 4,500 medical practices, processing around 1.4 million rebates per month.

Medicare Easyclaim - Tyro's Journey

The Department of Human Services used a best practice case of procurement. It must not have been easy to convince Medicare Australia to procure via an open panel, where any participant of the domestic debit card system (CECS Member) was invited to become accredited and provide the claiming and rebating transactions.

The procurement path chosen was remarkable as Medicare had an own in-house alternative online claiming solution. This so called Medicare Online service competed with the new Medicare Easyclaim service. The strong sponsorship from Joe Hockey overcame cultural resistances, if they existed.

The Commonwealth Bank of Australia, and then other banks that followed, subsequently chose to provide a very limited and cumbersome stand-alone Medicare Easyclaim solution. They shied away from the investment required in real innovation and thus only achieved limited adoption.

Today, Tyro is the market leader, processing more than half of all Medicare Easyclaim transactions. Tyro went through significant effort and time to convince Medicare Australia to expand the specification to include machine readable files so as to allow a fully automated and integrated solution. Then we embedded our solution into the software application of currently twenty-two Australian practice automation software providers.

The integrated solution that Tyro and these Tyro certified software partners provide, allows patients to pay and claim within 11 seconds. The patients' money is immediately available in their bank account, available to be spent on medication at the pharmacy next door.

For their efforts in developing the solution and providing ongoing support, Tyro on-pays to certified software partners a portion of the Medicare Easyclaim fee revenue. This has become an important recurring income stream for them, their employees and stakeholders.

This eco-system supports a significant employment base: Tyro itself now employs 346 people on a full-time basis in Sydney's CBD. In the past twelve months, we have created around 100 new and high paying jobs. The practice management system providers who benefit from Easyclaim as part of the Tyro eco-system employ a further set of several hundred employees.



RFP - High effort and little opportunity

Tyro has received the occasional traditional Request for Proposal (RFP) like Basic Card or EFTPOS and Banking Services. We could never convince ourselves to invest into these. They require disproportionate effort compared to a miniscule chance of success.

As it states in the Consultation Paper, Government contracts are usually awarded to a small group of dominant tenderers, who generally understand the machinery of Government and who are also long-term clients with established relationships. The statistics in the Consultation Paper speak for themselves – more than 50 per cent of Government contracts were awarded to only 20 tenderers between the financial years of 09/10-14/15, with five of these tenderers obtaining the lion's share of the contracts. Which poses the question - where does that leave new players, such as Tyro, in being able to compete for Government contracts with these larger corporations?

The Consultation Paper recognises that for the Government to be able to innovate and keep up with the changing needs of the marketplace, there needs to be a higher level of engagement with small and medium enterprises (SMEs) to advance Government service delivery in terms of information and communications technology (ICT).

In the case of Medicare Easyclaim it was different. Tyro did not risk a huge effort in the tendering and contracting. We concentrated our investment on generating the best ideas and on delivering, as fast as possible, a fully automated solution that satisfied the requirements of medical staff and patients. The design of the user experience was based on gaining a deep understanding of the practice, medical staff and claimant patient reality, whereas the bank competition developed and provided solutions that forced significant effort on users and thus received the warranted push back.

Open Procurement

How can procurement be opened so that start-ups, scale-ups and small-to-medium businesses can compete for a tender against a large corporation who can afford to hire consultants to prepare their tender? If the tender process for obtaining Government contracts was straight-forward, a more diverse playing field of tenderers would develop.

For the Government to provide an improved ICT Procurement Framework that allows for more opportunity, there has to be a culture of deliberately accepting a certain level of risk. There has to be investment into raising skills to disaggregate large procurement projects into micro tenders and there have to be accepted criteria of ICT capabilities for the prospective tenderer to meet.

Currently, different Government agencies have different eligibility criteria which causes confusion and inconsistencies (e.g. the application of the Commonwealth Procurement Rules vary, depending on what agency you are working with). If a holistic approach could be adopted by the Government for ICT contracts, whereby a general set of rules and requirements needs to be met, this would help to streamline the procurement process across the board.



There has been significant experimentation with Smart Procurement by the UK Government. Under the UK Civil Service Reform Plan, all Government Departments had agreed that by the end of 2014, 'Senior Responsible Owners' appointed to Major Projects must have passed through the Government's Major Projects Leadership Academy (MPLA), run in conjunction with Oxford University's Saïd Business School.

David Pitchford – Executive Director of the Major Projects Authority (MPA) – put the case for improving the capability of major project leaders in this way:

“What has happened here over the last 25 years, and indeed in most western jurisdictions, is that there's been a very strong trend to outsource project leadership to the consultancy sector – and that means you're also outsourcing knowledge. At the end of the project, the contractor will walk out with the money and the knowledge.”ⁱⁱ

Another quote from the site states: “The Major Projects Leadership Academy allows over 100 Major Project Leaders per year to develop their competence and capabilities, which means the UK Government is building sufficient capability to successfully lead the portfolio of Major Projects across Government.”ⁱⁱⁱ

Collaboration with innovators

For ICT procurement to improve, the Government also needs to step outside its comfort zone and collaborate with innovative companies, challengers and new entrants such as Tyro, who can bring new ways of thinking to the fold.

For example, Tyro has become a driver for disruption within the payments and banking industry. The Government approaches disruption with caution, yet without it, industries would stagnate, along with our economy.

The Government also needs to be aware of the new technologies entering the marketplace, and be willing to adopt new practices to match these developments. For example, Tyro's integrated, cloud-based payments platform may be seen as 'new age,' yet it is the way of the future, with these technologies becoming smarter and more agile every day.

Yet, as the Taskforce details in the Consultation Paper, the Government has been reluctant to partner with cloud-based technologies, 'despite the rapid uptake of cloud services in the private sector and a Government commitment to increasing their use.' This demonstrates that there may be a need for the Government to establish an advisory group that provides expert support and training to Government agencies when implementing 'transformational technology' such as cloud-based services.

Since Tyro's inception, we have seen little change in the Government's ICT procurement practices. The traditional apparatus centred on tenderer's being awarded contracts based on their long-standing relationship and track record with Government agencies means that new entrants struggle to gain traction.

ICT is an important area of innovation, yet for the Government to keep abreast of developments in this area, partnerships need to be formed with non-traditional players, such as Tyro. This will ensure that Government projects are contracted to candidates that can break down the Government's barrier of adopting new innovative technologies.



The Medicare Easyclaim service is actually a best practice case of public procurement. The panel tender process that was originally used allowed the start-up Tyro to become a credible supplier alongside the dominant Commonwealth Bank of Australia. Tyro, and its contribution to the economy simply would not exist today without the support of the Reserve Bank of Australia and the Department of Human Services' accreditation at that time.

Our understanding is that the Government is currently seeking to stimulate and promote innovation broadly and competition in banking specifically. This includes the Prime Minister's stated desire to build a vibrant national Fintech industry. Open procurement projects would encourage and enable Tyro and the Tyro Fintech start-up community to engage with Government.

Kind regards,

A handwritten signature in blue ink, appearing to read 'Jost Stollmann', with a long horizontal flourish extending to the right.

Jost Stollmann
Executive Director
Tyro Payments Limited

ⁱ <http://www.sbs.ox.ac.uk/programmes/execed/custom/clients-and-case-studies/major-projects-leadership-academy>

ⁱⁱ Ibid