



## Competitive Consideration - Due Diligence

In Australia, the big retail banks dominate the acquiring market. They all use similar legacy technology and they own the ageing terminal fleet. In order to offer some degree of innovation and most importantly integrate into the business software of merchants, they have tolerated middleware software providers like PC-EFTPOS and Quest.

These middleware providers have developed their offering into terminal management, transaction aggregation and switching to the acquirer of choice. The advantage of the approach is, so it is claimed, the ability to more easily switch acquirers.

The strategic question is whether the merchant is better off by

- accepting an additional cost layer as well as additional risk, performance and compliance problems suffered by putting in a middle layer like PC-EFTPOS or Quest to obtain easier contestability at the acquirer level or
- using a highly efficient and tightly integrated acquirer to create competitive tension at the issuer level.

For a merchant, it would mean to spend – let us say - 15 to 20 basis points for the middleware layer to make the sub 25 basis points acquiring layer easier switchable and then forego the competitive pressure on the 50 bps issuer level (interchange fee), because the Australian retail bank acquirers are also issuers.

The PC-EFTPOS and Quest strategy attacks the wrong layer of the value added chain. Questions that a due diligence of this strategy would raise are:

1. How does a middle layer implementation assure high availability non-stop acquiring i.e. describe real-time fail-over redundancies in the network, in the bank and scheme interconnects and the data centers. How does it work with each component failing (even assume one component is in maintenance and the other one fails). Are outage statistics available for the last 12 months? How is it reported on?
2. How does the PCI-DSS compliance work? Does the middle layer solution bring the merchant's IT infrastructure into PCI-DSS scope? What liability is assumed by whom? What support given?
3. Who has the overall responsibility of the acquiring? Is finger pointing excluded and how?
4. What transaction speeds can be guaranteed? Are there statistics? Reporting?
5. What costs per terminal are added by the middleware infrastructure?

MoneySwitch Limited  
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)