



1,2,3 switching

Wednesday 6th May 2009 7:01 am EST

In the largely closed world of banking and payments three entities found the courage over the 2000s to have a crack at the business of “switching”, the careful, efficient and hopefully reliable business of carrying information on debit and credit payments from one bank to another.

Tyro Payments, Strategic Payments Services and Woolworths all had a go.

For the big retail chain the investment, which is recent, seems a success.

At SPS the investment may prove worthwhile for its founders and customers.

And for Tyro, still burning cash, the task remains to attract customers with payments volume looking for smarter processing and maybe cheaper processing as well.

The collective investment in switching, this decade, is in the order of \$50 million.

Switching is otherwise a long-established and, truly, a core business of banking. Commonwealth, Westpac, NAB, ANZ and Cashcard all run dated but still operable systems.

Whether this old architecture is adequate and whether there are fresher and better ways of doing things is a topic that attracts the occasional entrepreneur.

And in the payments game it’s a bit like cola or perhaps computer operating systems; a superior product faces the stiffest competition from the established brands, which boast impressive network reach, and control a customer base that would like to change but doesn’t.

Against this background, efforts to induce any of the five dominant suppliers in switching to pursue any sort of investment agenda in their sector have proved fruitless.

Insiders were, earlier this decade, enthusiastic about ANZ, which closely investigated the merit of moving its switch onto a Windows platform and consistent with the remainder of the bank’s technology architecture.

In the end the risks of shifting to Windows (a platform which then, and to some extent still, suffers from a reputation for unreliability) deterred ANZ.

No other bank has generated much notice inside, let alone outside, the industry for any serious effort to build a business case for a change to platforms that would accommodate business innovation but that would also open the door to rival operators seeking bilateral connections.

As with so many other areas of banking, the review of the business case almost always comes down on the side of making do with what banks have; generating whatever additional yield is available from prolonging the working life of systems that date, at their core, from decades ago and which provide definite side benefits.

Legacy systems are a devil to connect to for outsiders seeking to establish bilateral links with banks also always burdened with a multitude of alternative projects and in a position to make testing windows hard to get and short.

So the effort by Tyro, SPS and Woolworths is commendable for entrepreneurial spark, though whether any have proven a convincing business case for investment in switching is less clear cut.

All content is protected by © Copyright 2003— 2009 The Sheet