

The Australian

Big four banks holding out against real-time settlements

- Karen Dearne
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BIG-FOUR banks are clinging for commercial reasons to outdated batch settlement systems that delay transfers to customer accounts, a Senate competition inquiry has been told.

Tyro Payments chief executive Jost Stollmann said its web-based systems could settle credit card and eftpos payments on behalf of merchants in real time, but it was hampered by the banks' persistence with overnight processing.

"Tyro is the only new entrant competing with the major banks head-to-head in core banking services in eftpos and card payments," Mr Stollmann told the Senate economics committee hearing in Sydney this month.

"We have been vocal in demanding intra-day and real-time settlements" instead of overnight batching, which creates a delay of up to 24 hours, to reduce risks in the system. "As well, the local market does not settle on non-banking days, so we have huge pre-funding of (merchant) settlements over the weekend."

Council of Small Business Organisations of Australia executive director Peter Strong said the banks blamed outdated technology for delays in processing eftpos transactions.

"Put simply, merchants want their money and cannot see any valid reason why the banks refuse to credit it to them, given that the bank has already taken the funds from customers' accounts," Mr Strong said. "Banks may be delaying the replacement of old technology to maintain the current situation, because it adds to their profits through inefficiencies."

Australian Payments Clearing Association chief executive Chris Hamilton said the settlement infrastructure provided by the Reserve Bank could be changed.

"For settlements for transactions occurring over the weekend, generally the fund availability takes place on Tuesday, with a value date as at Monday," Mr Hamilton said.

"That means there is interest adjustment between the financial institutions. If it is a three-day public holiday weekend, then the period is longer."

Mr Hamilton said the Reserve Bank was looking at reform. Settlement could be done "in faster and more frequent ways" he said.

Mr Stollmann also warned that a planned change in the domestic eftpos interchange rate could allow banks to charge retailers "up to \$250 million in extra fees" annually.

Large retail groups were already "bringing payment technology in-house" to break the banks' dominance, and providing direct payment services to customers, he said.

Meanwhile, consumer groups are pushing for "account number portability" to make it easier for customers to switch

banks.

Consumer Action Law Centre director Nicole Rich said previous industry moves on account switching -- essentially providing a paper printout of a customer's direct debit and credit arrangements -- had proved inadequate.

"We believe this service compares poorly with overseas practice, and strongly recommend that it be improved," Ms Rich said.

The banks say such a scheme would be complex and costly, again, because of ageing systems.

UBS Securities banking analyst Jonathan Mott said some banks had estimated a cost of several hundred million dollars each to introduce account number portability.

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