

Start-up brings a passion to payments

Jason Bryce last week interviewed Jost Stollmann (chief executive) and Paul Wood (chief technology officer). This is an edited transcript.

JB: Can you describe the operator-less system for processing transactions that you are developing?

Paul Wood: The existing [payments system] business has grown up over forty years and so many of the procedures are online analogies of things that had happened before. So in the early days of computer processing at banks, magnetic tapes used to be exchanged between people. That's moved to files being sent over communication links but the actual processing of the transactions when they get there still have many manual processes around that. Files arrive and they sit in places and have to be scheduled for execution. At the end of the day there are settlement figures that have come out of the system that have to be sent to the Reserve Bank.

We have worked hard to process all this automatically. So when we receive files from other banks we process them automatically. At the end of the day, when we've calculated our settlement positions, they're sent automatically to the Reserve Bank. If there are alerts or things are out of limits then we have operators there to check that but normally the processing requires no manual intervention. The only manual intervention we have is once a day we verify that this all worked and we verify our account balance with the Reserve Bank.

Jost Stollmann: There are two advantages to this, it limits errors and its safer, nobody touches it.

JB: Can you tell us about the security features of your system?

PW: They're at different levels for different areas. So overall we meet the payment card industry data security specifications, which is mostly about limiting access to data stored on disk, that is encrypting data on disk, intrusion detection and proper authentication of people that have access to our own internal system. This payment card industry specifications was developed within the last two years and all processors of debit and credit card systems are now having to comply with this which has significantly tightened up the conditions under which data is stored or is accessible. At other levels wherever we run data over communications lines we always encrypt that and we always authenticate the end points.

With our communications to other banks we are using virtual private network tunnels over our network to identify exactly where the data goes. At the terminal level we have encryption on all of the links and we have cryptographic authentication of the device that sends it to us, which in Australia is a first. We of course use all of the old encryption standards that have been used for the actual encryption pins and preventing alteration of messages and those standards have been around for 15 years, AS2805,

but to that we have added the more recent SSL encryption of the line and the positive identification of the device that sent it to us, which is not in the AS2805.

The other thing that has happened in security is that the bar is being raised all the time, in part because of security breaches like the card system solutions breach of May last year. The standards, if they had been followed would have prevented that breach, but the standards are only two years old - the payment card industry specifications - and people are just starting to implement those. We are going through audits on all of those at the moment.

JS: We have the advantage of a greenfield player to implement everything to the new standard. Should we talk about the chip and pin discussion? We are expecting that this technology to sooner or later become increasingly available in Australia, certainly in New Zealand, so our infrastructure accommodates this from the beginning.

JB: How do think the payments system will evolve and how are you planning for that?

JS: Well it remains to be seen how successful and attractive the new access regime will become. There is lots of debate that I'm hearing about how attractive or not it will be for large merchants to self-acquire, how many new players will enter the market. The more there are the more pressure there will be on the old architecture.

PW: The access regime has taken three years in the making and during that time there has been no serious discussion of any alternative other than the bilateral links. In fact one of the criteria for this access regime was that technological change was ruled out of scope. To date there has been no real industry participation in discussion of an alternate to the bilateral links.

Over the past year MoneySwitch is on record as an advocate of a single network but that has not been picked up by the industry to build anything. Now we have just got a committee at APCA starting to look at that, but given the amount of time that these things take the industry will implement the bilateral access regime as best as it is able knowing that it is not the optimum way of putting together a network today.

JB: Can you talk about the issues that you have faced joining CECS?

PW: There are two levels of issues. One is that you have to negotiate an interconnect arrangement with one of the existing players, we've done that in one case and now with the access regime coming up we are likely to do it with more and then you have test with those. As a separate part, you have to become members of the CECS and the membership rules and the technical requirements for that membership were increased in June last year and we are going through those procedures. They have been made more elaborate than apply to the existing players, but then the whole standard of security in the industry is increasing and we have an audit on those techniques and we expect to become members of CECS over the next month.

JB: What about sales and marketing. Where are you starting?

JS: We want to start with a simple and very robust Eftpos facility targeting the small and medium enterprise market. Strategically we are agnostic to terminals so we like to

work with the best of breed terminal providers that can satisfy us in security and that fits well in our Linux and IP architecture.

I think because we own our own technology we will be able to listen carefully to what merchants want and we will then be able to implement special features for industries or merchants. For instance we discussed recently the integration rates for Eftpos facilities is significantly lower in Australia than in the US so we would propose to industries to integrate the processing of their credit and debit card transactions into their operating system.

For example the hospitality industry, there is no reason why the property management system shouldn't be integrated with the payments system. There are other examples like general practitioners integrating with Medicare reimbursement. So lots of industries have different more complex requirements for their payments stream and we think it is easier for us to accommodate those.

We will go from an Eftpos system that is more available, more robust and more affordable and build special features for different markets.

JB: You say on your web site there is no need to apply, we'll come to you. How will that work in practice?

JS: We'll have different channels. We will have the direct sales channel but we will also use modern direct marketing models. We are very internet based so for internet savvy merchants it will be easy to deal with us over the web. The mix remains to be seen.

JB: The company was started in 2003, can you give us background that led you want to get into this market?

PW: We looked at the market here and we saw several things. The margins were significantly higher than they are in the US at that time, we saw that the incumbents haven't really been doing much with their technology and it was stuck in the nineties, in part because there had been very few new offerings. The RBA was concerned about this and was trying to make sure that there were new entrants. We reacted to it because we have very strong message switching technology background from our days at Cisco and predecessor companies. We had twenty years experience around the payments systems here and in the US and the necessary technology backgrounds to try and change the way messages were being processed.

Our strategy has been to own our own technology throughout the system to give us flexibility and become the lowest cost provider in the market.

JS: The reason I got fascinated was that a world class technology team had decided to focus not on marketing their technology to banks but took the route of building a banking business on their own. MoneySwitch is now a new breed of player that combines the technology savvy with specialized payments skills. That's a new way to shake up the market and its going to be very interesting how this plays out. It is a banking business, very much weighted towards business processing and technology. There have been in Australia technology companies that have seen the opportunity of

targeting banks as their customers and convincing banks to migrate their technology to the next generation, but that's not what we are doing, we are building a new financial institution.

JB: Jost what were you doing before this and how did you get to the point of joining MoneySwitch?

JS: I built a significant system network integrator in Germany called Compunet, I sold it to GE [General Electric] and sailed around the world with my family, discovered Australia and settled here. We are very happy here, our five children have disappeared into Australian schools and I was looking for a new entrepreneurial challenge. I met Paul and his team and theirs is a very compelling story. I have been here a year now and yes it is very hard. I don't know if Paul in 2003 if you had known what this would encompass, what your reaction would have been but things are taking off, we have cracked it. We have the entire upstream connections implemented.

There is also fascination in bringing innovation to the industry. You could say we are a little bit enfant terrible – the terrible child – that is not satisfied with how the world is and challenges the world, so that's also fun.

Send news to news@thesheet.com

Contact jason@thesheet.com or ian@thesheet.com

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