Middleware in payments – Are they relevant in today's context

Earlier Banking Applications
The banks around 1980s built applications using UNIX, COBOL and mainly on AS400/Mainframe platform to support various activities including account maintenance, payments, trade, Loans etc. The systems helped banks scale up and reduce a lot of manual work and by 2000, almost all aspects of banking were handled using system, mostly mainframe based systems. Around 1990 all of the banks started to move away from Fax/Telex to SWIFT and most of the applications were fine tuned to handle payments received through messaging gateway.

Internet World
Internet is around 30 years, first of the few web based accounts came in and around 1995, however the growth of it came more post 2000. Net accounts which came up in 1990s to help view balance/do basic transaction have evolved over the period both functionally and also by technology. Today fund transfer is an option most used online along with a host of other features that are used to help banking become easier for mankind. Many ISO standards on messaging have come to help align with newer technology available for systems to help in transferring of funds more easily.

Today, what Banks are using Internet and Mobile Apps as more a selling point, if we look at the world of Apps, for past 8 years mainly with launch of iPhone and android based applications, the features are way ahead of what banking apps provide. As per Statista, around 1.6 million apps are on Google Play store and it is on the increase every day. Likewise stats shared by Statista shows that more people prefer applications over the Web GUI since they are more user friendly and easy to use and this trend is only going to increase.

Many mobile wallet applications have come in, helping users to transact fairly easily and bulk day to day transactions are handled using app. From a banks point it only passes a book entry and transferring the funds as most of it is done out of the app's front end. Today, social media is also getting used to help movement of money, this also helps connect non registered users on net account to get the funds. More of it will make banks to only pass the entries and settle the funds.

Changing regulatory framework around payments
Most of the regulators are now keen on simplifying payments and also get most of the payments to be processed in real time for all its local payments. Allowing more third party companies to get into payments flow, allowing to bring down the cost of payments to help the common citizens.

Across border, again there has been work to improve on getting the transfer in real time and also have formatting changed to help improve STP. With advent of SEPA in EU and hopefully in future with more alignment of countries happening and currencies trying to dominate each other, we might see more countries coming together to help transaction flow happen more easily and also real time to help both citizens and trade, it is a matter of time before we see this happening.

Present status on middleware in Banks
As the technology changes, banks are also upgrading or rolling out middleware software to support payment flow to support increased growth. Today's middleware at banks are being looked at to facilitate

- Growth expansion
- Improve on STP, reduce staff cost
- Uniform platform to help bring down cost of Technology
- Improving on FX revenue
- Help mergers and consolidation

With banks trying to consolidate and reduce the balance sheet and with the present economic condition plus new players coming in to foray with different payment options, mergers and acquisitions are a bit difficulty. With more evolving technology, more users on the internet, lot of new players coming in, reduced spread on payments and newer ways of settling the funds, there is a good opportunity for banks becoming just a book keeper.

With all the changes continuing to happen, with cost pressure… Investing in middleware is something banks should look at? Time to re-think…..