Payment nationalism is harming innovation

By Eric Grover

PaymentsSource

January 30, 2020

Favoring national players puts a damper on payments competition, innovation, and services to banks, merchants, and consumers.

Passing almost unnoticed, payments protectionism is sweeping the globe. Phase 1 of the mercantilist trade agreement between the U.S. and China was inked January 15, promising yet again to open China's payments market.

Payments matter enormously, greasing the skids of economic growth and boosting consumer welfare. It's a sector where - for the moment - the U.S. enjoys a competitive advantage.

Electronic payment networks Mastercard and Visa enable commerce worldwide. Competition between hundreds of national and global payment systems forces everybody to continually adapt, up their games, culling weaker and underperforming systems and inviting would-be better mouse traps to expand.

National systems cater to local demands and keep international players honest.

Few argue every country needs its own protected national champion(s) producing wine, stinky cheese, cellphones, PCs, or business suits. However, the idea that payments is a core national infrastructure and therefore different than other services is gaining currency. Mercantilist and turf-building policymakers hold there's utility in payments processed by national systems. But debit and credit transactions don't fly flags, and are subject to local laws.

Governments interfere to privilege or run national payment systems, muting market accountability. Banks are pressured to invest in or use systems to satisfy regulators rather than customers and shareholders. State-run systems aren't subject to the same ruthless market discipline imposed on private networks. Absent state protection, even dominant players failing to serve customers or anticipate needs are displaced. While in 2005 Dutch banks launched the iDeal system to better serve e-commerce, in 2012 they replaced their national debit newwork PIN with Mastercard and Visa, rather than upgrading it.

The best outcome would be a world where multinational systems can compete anywhere and national players undertake different strategies to expand beyond their home markets. In Kenya, for example, where many people were badly served by banks and traditional "card" systems, M-Pesa launched and now operates in 11 countries. PayPal initially got traction providing payments on eBay – a market neglected by Mastercard and Visa, and it now operates in 200 countries.

The pox of protectionism hasn't affected payments markets equally. China, the E.U. and U.S. reflect the continuum from closed markets, to open but interventionist, to open, respectively.

The China trade agreement requires that Beijing expeditiously accept and process applications by American payment systems to clear domestic card transactions. Skepticism is warranted. The world's second-largest electronic payments market is trade liberalizers' bête noire. Beijing signed trade memoranda with the U.S. in 1989, 1992, 1995, and 1996, none of which it honored. The Middle Kingdom flagrantly flouted its 2001 WTO commitment to open up its payments market by 2006. Notwithstanding losing a U.S. WTO case and serial assurances it would open up, there still hasn't been a single domestic Visa, Mastercard, PayPal, American Express, or Discover transaction in China.

E.U. regulators cheer putative continental champions. At the ECB's behest, 20 banks are considering developing a pan-E.U. payment system dubbed "Pepsi." It's been tried before. With the encouragement of Brussels, 24 Western European banks floated the Monnet network, which never made it out of the gate. A similarly inspired coalition of national systems called the Euro Alliance of Payment Systems floundered.

Notwithstanding the Trump administration’s saber-rattling on trade and tariffs, the U.S. electronic payments market is wide open. Excepting the Fed processing some interbank payments, it’s the accountable hands of the private-sector. Foreign systems like JCB, Alipay, WeChat Pay and China UnionPay compete freely. There are no burdensome licensing or in-country processing requirements. While it’d face hurdles finding a path to critical mass, if French banks’ Cartes Bancaires wanted to take a run at the U.S. market, it could.

Within the world’s largest emerging payments market India, there's a nationalist current. Spurred by the central bank in 2012, the bank-owned National Payments Corporation of India launched national-payments champion Rupay. Delhi mandates that payment systems process transactions in-country, raising entry costs. Nevertheless, unlike China it’s open, and there’s fierce competition between national and foreign traditional and alternative payments systems.

Russia mandated foreign payment systems process in-country and the central bank introduced its champion, Mir, in 2015. Moscow mandated government pension and welfare payments be processed by it.

Sri Lanka’s central bank jumped into the mix with its National Payment Scheme.

Turkey is Europe’s second-largest credit-card market. Turkish banks’ cooperative BKM debuted the card-network national champion called Troy in 2015.

Bank Indonesia is attempting to curate a national payments ecosystem, mandating use of national payment switches and schemes, and in 2018 launched the National Payment Gateway scheme.

While mercantilist national systems on standalone economic merits doesn’t bear scrutiny, there may be a national-security rationale. Washington banned U.S.-domiciled Visa, Mastercard, American Express, PayPal and Discover, from serving pariah states like Iran, North Korea and Syria. If, however, the world's dominant payment systems were Chinese, Russian, Turkish or French, would that instrument be used more benignly? And if the world's leading payment systems were, say, Swiss, it's not clear China UnionPay, Mir, and Troy wouldn't exist.

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Eric Grover, Principal, Intrepid Ventures