Hugely anticipated Apple Pay went live this week. If Apple's mobile wallet is successful banks are likely to be the big losers.

Out of the gate the Cupertino smartphone giant extracted fees – 15 basis points for credit and half a cent for debit transactions - from large bank issuers for permitting them to participate. It was able to squeeze banks because it could credibly threaten to shift spend. Smaller banks likely will pay more to play because they have less negotiating clout and for debit earn double the interchange fees the Goliaths do. In retail payment systems, absent regulatory constraints, entities controlling or strongly influencing spend capture the lion's share of transaction economics. Wells Fargo CFO John Shrewsberry said it was participating as a hedge. Indeed. Wells Fargo cardholders use iPhones. If the Cupertino wizards' mobile wallet takes off and Wells Fargo wasn't participating some would shift spend to another card in their wallet or purse that was in the Apple Pay club.

Apple Pay is unlikely to accelerate conversion of cash to electronic payments. It won't dent the grey economy. Cards are already faster and easier than cash. The Dodd-Frank Act permits merchants to not accept credit cards for payments under $10 and notwithstanding cash's handling cost, some of them still resist taking cards for small transactions.

Large banks would prefer their customers use their wallets rather than Apple Pay. On its October 14th quarterly earnings call CFO Marianne Lake underscored the point confirming notwithstanding participating in Apple Pay, that Chase was continuing to work on its proprietary wallet, which Chairman and CEO Jamie Dimon assured investors would have "some competitive advantage." One would hope so. Certainly for transactions where Chase owns merchant and cardholder relationships it can deliver more value.

If their customers' top choice to pay in mobile commerce and at the physical pos is Apple's wallet, banks' customer relationships will be diminished. In extremis if a digital wallet with a powerful trusted brand were to become the primary instrument through which consumers managed payments credentials, rewards, loyalty and promotions, banks could be relegated to being backend payment utilities, and a majority of interchange and payments fees would be captured by the wallet platform, not banks.

To date the raft of 200-plus digital wallets have disappointed. In 2014 the graveyard started to fill up with aborted high-profile digital wallets. France's leading payments processor Worldline and three largest MNOs Orange, Bouygues Telecom and SFR after five years threw in the towel on their digital-wallet joint venture Buyster. UK MNO O2 shuttered its mobile wallet. After running the gauntlet to get approval in 2012 from the European Commission for "Project Oscar" their mobile wallet joint venture Weve, UK MNOs Everything Everywhere, O2 and Vodafone scrapped it, deciding to go their separate ways. Outside Europe Visa pivoted from V.me, which had achieved minimal consumer use, to Visa Checkout. Square Wallet was replaced with the less ambitious Square Order.

Notwithstanding high-profile data breaches and merchant whinging about costs, the existing payment system works extraordinarily well and is habit. Consumers and merchants must have compelling reasons to change behavior and adopt digital wallets.

In mobile commerce, lower friction is enough and has fueled explosive growth for PayPal and a range of in-app wallets. For desktop e-commerce however while friction is an issue, traditional card payments work and dominate. At the physical pos the system isn't broken.

Activist investor Carl Icahn penned a letter to CEO Tim Cook speculatively gushing Apple could generate $2.5 billion in payments revenue if it reaches 30% of all U.S. credit and debit card spend by 2017. That's not going to happen. If however Apple ultimately captured anywhere near 30% of U.S. payment-card volume, it would demand and receive a greater piece of banks' economics. Banks will have to make do with this potentially harsh market reality. Privately they have to be hoping Apple Pay fails.

Merchant acquirers and processors have rushed to support integration for mobile applications.

From the networks' standpoint, Apple Pay's a plus. The Cupertino smartphone titan embraced the existing payments ecosystem. At least initially Amex, MasterCard and Visa are providing tokenization processing, earning fees, which with Apple's fingerprint authentication enhances transaction security and their positions at the heart of the payments ecosystem, and likely preempt any move by Washington to guide by law or regulatory diktat payment-system security.

From the competitive field, network, processor and digital wallet PayPal reacted swiftly and pugnaciously, running an ad in the *NYT* "We the people want our money safer than our selfies. PayPal, protecting the people economy…." mocking Apple for a lack of security over Hollywood starlets' hacked photos, and intimidating the Cupertino tech giant shouldn't be trusted with consumers' payment credentials. Certainly Apple plunging in will spur competitive responses from Google wallet and its more open platform.

Experimental innovation Apple is undertaking on a massive scale is the best path to enhancing the payments system and creating additional value for consumers. Godspeed.