Governments Should Just Butt Out of Payments Competition

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Advocates of free trade and fighting protectionism are more likely to focus on industries like steel and agriculture, but they should also pay attention to the payments sphere.

U.S. business leaders are increasingly speaking up about global protectionism. Speaking at the graduation for New York University's Stern business school, GE CEO Jeffrey Immelt lamented a "protectionist global environment." But this is not just a problem with locomotives and gas turbines. Retail electronic payments are the lifeblood of commerce.

Many countries persist in cultivating and protecting their locally-based payments networks as national champions, to those countries' detriment. They should instead let networks sink or swim in the market on their merits, making clear that foreign networks are welcome to compete and local schemes won't be favored.

An illustration of such protectionism is playing out in Turkey. In April, Turkish banks launched Troy, a national payment-network champion. In June, PayPal withdrew from the Turkish market. The U.S. company could not get a new license from regulators in the country over Turkey's insistence that processing infrastructure be housed locally. But the move was seen as favoring the Turkish competitor.

There are other examples. In December, Russia launched its long-anticipated national network Mir, which is run by the country's central bank. The network was created after economic sanctions over Russia's annexation of Crimea blocked access of Russian banks to the Visa and MasterCard networks.

The biggest national payments champion of them of all with 5.4 billion badged cards is China UnionPay. Established in 2002 by a decree from the People's Bank of China, the network is owned by 85 banks — the largest of which are state-owned.

Notwithstanding China's 2001 commitment upon joining the World Trade Organization to open up its payment-card market by 2006, CUP still enjoys a protected domestic monopoly. The PBOC makes the rules and establishes permissible merchant service charges. CUP's current and previous chairman and current vice chairman and president are PBOC alumni.

However, domestic e-commerce payments giants Alipay, with 450 million users, and Tenpay are starting to compete with CUP at the physical point of sale. But Chinese consumers, merchants and banks would be even better off if foreign networks were free to compete as well.

The Reserve Bank of India wanted a domestic general-purpose payment network. In 2012, the National Payment Corporation of India launched Rupay.

Brazil's central bank in 2010 pushed for a national payment network option. Lo and behold, in 2011, the state-controlled institutions Banco do Brasil SA and Caixa Econômica Federal, and the privately-controlled Banco Bradesco, launched Elo, which vaulted to 7% market share.

Of course, not all national networks promoted by the state succeed. European Union regulators' efforts to spur continental champions Monnet and the Euro Alliance of Payment Schemes both failed. And the national-champion networks exposed to competition from the private sector are falling by the wayside. British banks sold Switch to MasterCard, which migrated the brand and processing to MasterCard. Banks in the Netherlands, Ireland, Finland and Poland shut down the PIN, Laser, Pankikkorti and Polcard debit networks, respectively.

The U.S. payment-networks market is wide open and (far and away) the world's most competitive. In the mid-eighties, there were 135 ATM and 35 debit regional bank-owned networks. Over several decades, the market consolidated to six national debit networks, with none owned by banks. Half a dozen regionals survived only because their bank owners or the armed forces have continued to use them. Today, open competition has given the market Visa, MasterCard, American Express, Discover, PayPal, Star, NYCE and Accel. Foreign networks — including Alipay, CUP and Japans' JCB — also compete here. And there's nothing stopping Cartes Bancaires and Interac from establishing U.S beachheads other than their value propositions.

Nations aren't made more prosperous protecting uncompetitive sugar producers and solar-panel manufacturers. Similarly, while shareholders and employees of protected, uncompetitive national networks may be better off, society is deprived of the efficient and innovative payments services that result from competition.

The world would benefit from more network competition. Protectionist walls and sentiment in payments should be torn down and a dynamic free market left to determine winners and losers and the optimal number of networks.

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