

# Too much concentration stifles payment innovation

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The U.S. enjoys the world's most competitive and innovative payments industry. Increasing concentration puts that at risk.

Larger delivery systems, development, administrative benefits, regulatory compliance and lobbying, and distribution economies of scale can be compelling. Many payments costs conceptually are fixed. Therefore, fewer players means greater efficiency, to a point. The great jurist Louis Brandeis argued "[efficiency in business does not grow indefinitely with the size of business.](#)"

There are tradeoffs. Increased concentration reduces payment system dynamism and innovation. Oligopolists rarely rock the boat competitively. Monopolies also diminish customer choice and system resilience.

Dominant banks, networks, and processors are more likely to politicize their business, diverting resources to support management's pet causes. Scrappy smaller players fighting for share, do good by focusing like a laser on their product(s), customers, and maximizing long-term sustainable profits.

The giants are getting bigger across the payments value chain.

The total number of U.S. banks has been declining since the early 1920s, excepting a couple years during the Great Depression. In 1929 there were [17,583 state banks and 8,150 national banks](#). In the [first quarter of](#)

[1984 there were 14,400 commercial banks](#). By the third quarter of 2020 it had fallen to 4,375.

In the mid-eighties there were 130 ATM, 30 debit, and five charge/credit networks. Notwithstanding consolidation, the network space is competitive. But PayPal is the only significant new U.S. retail payment network to emerge in the last quarter century.

The U.K. is more concentrated. Duopolists Mastercard and Visa account for [over 98% of its card payments](#). In China Alipay and WeChat Pay have [94% of mobile payments](#). With UnionPay, in-person retail payments creates a triopoly.

There's been a stampede of processor M&A underscored by Fiserv's, FIS's, and Global Payments' acquisitions of First Data, Worldpay, and Total Systems, respectively. If they Hoover up the field it won't auger well for merchant value. [FIS and Global Payments discussed merging](#). Such a Gargantua wouldn't be nimbler, more customer-focused or more innovative.

Issuer processing is an oligopoly. Fiserv, FIS, and Global Payments have more than 95% of U.S. third-party credit-card-issuer processing. However, encouragingly, there's a wave of issuer-processing challengers like Marqeta, I2C, Galileo, Stripe, Adyen, RS2, HPS, and Corecard.

The Fed has a monopoly issuing cash and is one of only two ACH and wire-transfer systems, sectors where there's been little if any innovation.

In [the Innovator's Dilemma](#) Harvard Business School professor Clayton Christian argued industry leaders have a disincentive from investment in pathbreaking, often initially inferior, products their customers aren't demanding.

Payments innovation has been spearheaded by outsiders and smaller players, not dominant incumbents.

In 1950 with Diners Club it was NYC financier Frank McNamara, not Citi, who invented general-purpose payment cards. In 1968 Seattle banker Dee Hock founded and was the initial CEO of the bankcard association Visa.

In 1999 radio DJ Steve Streit, not BofA, launched the first GPR prepaid card Green Dot. Fitness club operator Pete Kight, not Mastercard or Visa, in 1981 launched the most successful EBPP network Checkfree.

In the early 2000s Swiss and Chinese immigrants Daniel Chatelain and Will Graylin launched mobile- card-acceptance ventures Bozca and Way Systems, respectively. (Too early.)

Then iOS and Android changed the opportunity landscape. In 2009 Twitter co-founder Jack Dorsey started Square, which made mobile-acceptance mainstream, socialized flat and transparent pricing, built a processing brand, and streamlined merchant underwriting and retail origination.

Back in 1998 lawyer and former derivatives trader Peter Thiel and software engineers Max Levchin and Luke Nosek started Confinity, which led to the first successful digital wallet (PayPal).

Small processors like Mercury, not behemoth First Data, pioneered integrated payments.

English teacher Jack Ma founded China's preeminent mobile-payment system Alipay, not card-network monopolist UnionPay.

The Fed, appropriately, wasn't part of the digital-currency vanguard. In 1989 computer scientist David Chaum launched the first cryptocurrency Digicash. Pseudonymous Satoshi Nakamoto invented bitcoin, which went live in 2009. Serial entrepreneur Chris Larson's and programmer and entrepreneur Jeb McCaleb's Ripple (XRP) debuted in 2013. McCaleb then started Stellar (XLM) in 2014. And cryptocurrency writer and student Vitalik Buterin invented Ethereum, which launched in 2015.

Industries with dispersed market share self-correct and rarely suffer systemic failures. Failures can be healthy, allocating resources away from

weaker players, to those adapting and delivering superior value, thereby strengthening the system. In [AntiFragile: Things That Gain From Disorder](#) NYU professor of risk engineering Nassim Taleb contended things like our immune system and muscles are anti-fragile. Stressed, they become stronger. Highly concentrated industries, however, aren't anti-fragile. If a bank, network or processor with 75% market share or the central bank fails, it could be catastrophic.

There's a dynamic balance between the innovation and resiliency benefits of the messy, creative ferment of many smaller competitors, and an oligopoly's or monopoly's scale economies. The greater danger is too much market concentration.