Brussels must scrap regulatory push on card-payment transactions

by Eric Grover

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Europe would benefit from more, not less, dynamism, competition and innovation in payments if MEPs rejected the Commission's proposal for maximum interchange fee levels for transactions in the EU, writes Eric Grover.

Eric Grover is principal at Intrepid Ventures, a global payments consultancy. Grover was the first to publicly call for banks to spin off MasterCard and Visa, and is the well-known expert on interchange and interchange regulation.

Nobody has done more than MasterCard and Visa delivering a real, high-trust, common retail payments market for consumers and merchants across Europe, indeed worldwide. Paraphrasing Winston Churchill, rarely have so many - billions of cardholders and tens of millions of merchants, owed so much to so few - the men and women who conceived and built open, global retail-payment networks, whose value is now taken for granted and affirmed by several hundred billion payment decisions annually.

The European Commission professes wanting to promote payments competition, innovation, market integration and financial inclusion, and to reduce cash and the grey economy. However, its proposed price controls on interchange, which two-sided payment systems use to balance participation and maximise total transactions and value, work at cross purposes to these goals.

With Orwellian chutzpah Brussels mandarins declared price controls would promote payment-card “services, efficiency and innovation,” and that systems such as MasterCard and Visa, for whom they harbor only thinly-veiled hostility, hinder achieving a common payments market. Whoa! It’s Commission overlords’ proposed price caps of 30 and 20 basis points for credit and debit card interchange respectively that will stymie network competition and innovation, payment-product choice and availability, and increase cash's relative attractiveness.

The critical issue is not whether 30 or 200 basis points is the right level but rather how prices are set: by Brussels central planners or the dynamic voluntary interplay of competing networks, financial institutions, consumers and merchants in the market.

Interchange funds issuer innovation, no-fee cards and benefits most Americans but fewer Europeans take for granted. In the lightly regulated US payments market interchange is higher than in Europe, competition and innovation at every stage in the value chain more intense, and there are more new entrants. In most European national markets it's lower because of weaker network competition and regulatory pressure. Until recently Cartes Bancaires enjoyed a monopoly in France.

In an open and competitive free European market, interchange would be higher than 30 basis points because consumer-payment preferences trump merchants'. Incentivising issuers and consumers to get payment products to the top of wallet is more important to boosting transactions than cutting retailer fees.

In many two-sided markets pricing is asymmetric to maximise total value. In media advertisers pay more than consumers. Google offers free search and charges sellers. Bars sometimes offer free drinks to women but not men.

The Commission preposterously asserted high interchange creates an entry barrier. Achieving payment-system critical mass wouldn't be easy, even if the European Commission itself weren't such a barrier. Confronted with its daunting price controls 24 European banks contemplating launching Monnet balked at pouring billions of euros down a political rat hole.

Cheerleading quixotic continental champions EAPS, PayFair and Monnet, hailing a national e-payment scheme iDeal with weak consumer protection, and flaying MasterCard and Visa, regulators signal in payments Europe is not open for business.

Eurocrats love to define what they do in opposition to America. Instead they could take a cue from an open and until 2011 unregulated payment-network market. Visa, MasterCard, Amex, Discover, Star, NYCE, Accel and PayPal, vigorously compete and it's intensifying. Discover is close to acceptance parity with MasterCard and Visa; Amex reaches merchants generating 90% of card spend; ecommerce phenom PayPal serves the physical point of sale; JCB and UnionPay have unfettered market access.

Brussels should eliminate its menacing regulatory climate and Europrotectionist tone. Notwithstanding American roots, Amex and Discover are plausible aspiring pan-European networks. The savings banks' Eufiserv, PayPal, AliPay, UnionPay, and Europe's third-largest scheme Cartes Bancaires, if it ventured beyond its increasingly shallow French moat, could step up.

Commission central planners won't take a hands-off approach of their own volition.

Brussels soft authoritarians don't brook opposition. Expecting MasterCard to kiss his ring rather than oppose regulation hurting its business, licensees and end customers, Commissioner for Internal Market and Services Michel Barnier lambasted as "unacceptable" its lobbying against being regulated as a public utility. Visa EU also protested but was deemed to have "a much more responsible (i.e. deferential to Brussels) attitude."

In free societies where government is servant not master, with consensual participatory politics, dissent and vigorous public debate are normal and healthy.

Reflecting the belief that the state rather than private-sector enterprises create wealth, Competition Commissioner Joaquín Almunia enthused "..thanks to this new proposal we can create new opportunities..." The attitude exemplifies economist Friedrich Hayek's "fatal conceit" that wise and beneficent central planners can achieve superior results to the market.

Global card networks were the greatest payment innovators of the 20th century. Regulators didn't create them. Nor did they create the iPhone, PC, Fedex or Amazon. Regulators can encourage innovation by enforcing a few, simple and transparent rules of the road, playing the role of the night watchman.

Men's views are dictated by what they do. Brussels is a bubble in which everyone's livelihood and status depends on expanded EU power. The

Commission and the European Parliament invariably act to increase Brussels power over the private sector and national governments.

Europe would benefit from more dynamism, competition and innovation in payments, not less. The European Parliament would surprise and best serve consumers by rejecting the Commission's payment-network price controls.