

Light regulation and free and open competitive markets create more robust competitors, innovation, and consumer value.

Let Competition Do Its Job

Contrasting the payments experience in Europe and America demonstrates the high cost, to consumers and payments players alike, of heavy-handed regulation, argues Eric Grover.

While more alike than not, there are important differences in payments innovation, value, and use between Europe and America.

Federal Reserve Bank governor Jerome Powell observes the U.S. payments market has less structural rigidity and greater flexibility, and therefore has led in payments innovation. In Europe, there is a greater belief that enlightened regulators can and should direct payments to produce better results. This affects innovation and competition, and consequently the cost, quality, and choice of payment products Europeans enjoy.

At the 2009 Kansas City Fed's payments conference, Finnish central banker Harry Leinonen argued a single payments network was more efficient. In response, Englishman and Oliver Wyman consultant Tony Hayes remarked he'd been in America too long as he thought choice a good thing. The exchange captured sentiments informing payments policy on either side of the Atlantic.

In "The Future and Its Enemies: the Growing Conflict Over Creativity, Enterprise and Progress," Virginia Postrel posits two schools of innovation: stasism: smart guys imposing the "right" solution; and dynamism—competing experimental innovation, which, while often messy, delivers superior results. In payments, Europe has tended to stasim and the U.S. to dynamism.

Hardly Pro-Consumer

Choice and competition are greater in the U.S. Largely unregulated, Visa, MasterCard, American Express, Discover, PayPal, half a dozen national PIN-debit networks, and now China UnionPay

compete. In stark contrast, most European countries have only several networks. Until 2009, Europe's third-largest card network, France's Cartes Bancaires, enjoyed a domestic monopoly.

Payment-card competition in the U.S. is fiercer, and cardholder and merchant value propositions consequently richer. Most credit cards have rewards and no annual fees. There are 3.5 general-purpose payment cards per capita in the U.S., but only 1.5 in the European Union and 1.25 in France, which has long had card-network interchange fees near Brussels' price caps. A leather or digital wallet chock-full of competing cards could be viewed as inefficient, but it fosters competition, payment by payment.

Payments in Europe often have taken a more centrally engineered approach, whereas Washington has left the market to pick winners and losers.

Monopoly utility France Telecom's Minitel was the first successful e-commerce platform to scale. But its U.S. beachheads failed, and, unwilling to adapt and to embrace the Internet, it stagnated.

European regulators actively encouraged and cheered 24 Western European banks' payment scheme Monnet, the Euro Alliance of Payment Schemes, and PayFair. Monnet was abandoned before launch and EAPS and PayFair are on life support, just.

European Commission overlords are fond of Dutch banks' e-commerce payment scheme IDEAL, by virtue of it's being inexpensive for merchants and not MasterCard or Visa. It was launched in 2005 because PIN-debit cards didn't work online. But a system like this that



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doesn't permit payment repudiation, even if goods aren't delivered, is hardly pro-consumer.

Regulation Matters

It's true that Europe has outpaced the U.S. in developing faster interbank payment processing. British regulators jawboned banks to implement a real-time automated clearing house. Sweden, Poland, and Denmark also have faster interbank payment systems. Business cases, however, remain sketchy.

While the U.S. central bank supports faster interbank payments, it has no statutory authority to mandate them, and so it has tread lightly. The U.S. has two ACH processors: the Fed and The Clearing House. However, the field of potential faster interbank-payments players is broader than that. With Fidelity Information Systems' PayNet harnessing the NYCE PIN-debit network, and with venture-capital-backed Dwolla, clearXchange, and, perhaps, MasterCard and Visa, competing, these players are likely to produce more sustainable value and businesses than centrally directed systems.

Epitomizing Europe's predilection for payments central planning, on July 27 the U.K. appointed a

payment-systems regulator to promote competition and innovation and ensure payment systems are operated and developed in a way that promotes the interests of users.

Regulation matters. In the U.S., there's no consensus that more payments regulation would benefit anyone other than Washington mandarins.

In 2010, with little debate, Senator Richard Durbin slipped through legislation curbing large banks' debit interchange, initially winning with 64 votes in the Senate. An effort to defer his price controls picked up 54 votes, a majority but shy of the 60 needed to clear the filibuster hurdle. While Congress would prefer to avoid a vote where it has to take sides between banks and merchants, a vote today would likely repeal Durbin's interchange price caps.

In the Old World earlier this year, the EU Parliament rubber-stamped (621 votes to 26, with 29 abstentions) the European Commission's proposal to cap interchange. Only 4% dissent—a Supreme Soviet-style margin—testified to no serious debate over fundamentals, notwithstanding the new controls will suppress payments innovation, competition, and cardholder value. Brussels views

payment networks as public utilities.

The highest-profile U.S. payments intervention was the Department of Justice eliminating MasterCard's and Visa's ban on banks using their products while participating in AmEx and Discover. It was pro-competition.

A Choice

Capital and talent go where there's opportunity and where they're well treated. Payments is no exception. In 2014, Fintech investment in the U.S. surged to \$9.89 billion, \$5.3 billion of which was in payments, and in Europe to \$1.48 billion, 42% of which was in the U.K. and Ireland.

In the sizzling-hot Bitcoin space in the first quarter, U.S. and Canadian firms raised \$492 million in venture capital while their European peers raised \$119 million. While London has become Europe's Fintech capital, there are still better prospects, and more capital, for payments entrepreneurs in the U.S.

Market rigidity is a choice, a choice neither Europe nor America should make. Light regulation and free and open competitive markets create more robust competitors, innovation, and consumer value. **DT**

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