# Don’t Take Tech Giants’ Payments Ambitions Lightly

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While tech titans have long had ambitions in payments, it's been a tough slog. But they're still coming and the payments industry should be on alert.

When Microsoft co-founder Bill Gates in 1994 declared banks "dinosaurs," a ripple of fear went through the industry. However, the storied software giant's unsuccessful efforts in financial services underscore that notwithstanding enormous resources, reach and technology prowess, displacing banks and traditional payment systems isn't so easy. It threw in the towel on Microsoft Money in 1999 and on TransPoint, its joint electronic bill payment venture with Citigroup and First Data, in 2000.

But despite such failures, the payments industry shouldn't get complacent. Tech colossi remain keenly interested in payments.

It was with a mix of fear, envy and resentment that the French dubbed Google, Apple, Facebook and Amazon as the "GAFAs." These American technology titans are formidable networks. While they aren't payments businesses, they use and have further ambitions in payments to enhance their core franchises. European regulators worry about their cultural influence and platform dominance. It is similar to how they also are troubled by the reach of the world-reigning retail payment networks headquartered in the U.S.: MasterCard and Visa.

When Google Checkout was launched in 2005, some worried the search giant would displace existing payment systems. While that was unlikely Google's ambition, traditional networks remain entrenched and Google is still trying to make waves in the payments world.

Google's search, browser, YouTube, email and mobile-OS assets directly or indirectly support its core business: enabling commerce. To reduce payments friction, Android Pay is its latest digital-wallet contender. In a similar vein, Google, along with companies like Facebook, are also experimenting with buy buttons as an intuitively appealing means of improving ad-click-through-purchase performance. Despite these companies' hurdles in integrating merchants' delivery systems, and the lukewarm consumer reception to these innovations, these efforts bear watching.

Google is willing to lose money with Google Wallet and Gmail-anchored person-to-person payments to boost engagement. With the same aim, it is reportedly readying a Gmail-based bill-payment service, called Pony Express, through which consumers could manage day-to-day finances. While this would not be good for banks, it would be potentially a win for an Electronic Bill Payment and Presentment network and backend partner like Fiserv, FIS, ACI Worldwide or MasterCard.

The most valuable company on the planet and senior GAFA is a mobile engagement platform: Apple. Many worried that Apple Pay was an attempt to upend the payments ecosystem. Instead, Apple has astutely leveraged the existing system to advance the digital-wallet service. The Cupertino tech behemoth wants to enrich its iOS platform and customer relationships, not displace payment networks and processors or banks. However, as Apple Pay gains traction it will diminish banks' customer relationships, and make it more likely Apple will demand a greater slice of interchange. While merchants use iPhones and iPads to accept payments, Apple's greatest potential for dominance is in the services it could offer to consumers.

Facebook, meanwhile, with its 1.7 billion active users, is the social network gargantuan. Users of its WhatsApp and Messenger services generate a whopping 60 billion messages daily. Facebook supports profitable retail and unprofitable P2P payments platforms. More awareness of Facebook's payments services, and a more aggressive foray into digital wallets by the social networking giant, would increase users' on-platform engagement and therefore boost ad revenue.

Amazon may be the world's most successful merchant and logistics platform, albeit still unprofitable. Aside from a stumble in mobile acceptance, Amazon's incremental payments approach has worked. It is extending payments services to online merchants beyond Amazon, though many retailers may ultimately balk at accepting a competitor's wallet.

While GAFAs could have a go at disrupting the payments ecosystem, a more likely and sensible strategy for them is continuing to leverage existing systems to bolster their core businesses. Nevertheless, as former Intel CEO

Andy Grove would counsel the payments industry, "only the paranoid survive."

Massive GAFA networks will generate payments and money-transfer volume but, like Goliath banks, they have the potential to do more. They could become payment-concentration points, able to influence the mix of payments services in the market, and consequently squeeze networks' brands and economics.

Like MasterCard, Visa and the Goliath banks, the technology four horsemen have powerful trusted brands and reach. Adoption of their digital wallets and payment products reduces network brands' prominence. It matters. The brand conveys the network promise. The neutered brands of pin-debit networks like Star, NYCE and Accel are invisible to consumers and merchants. Consequently, banks treat them like backend utilities and their transaction economics are thinner than that of high-octane-branded networks.

The GAFAs will focus on enabling payments and financial services on their platforms, reinforcing their centrality in consumers' lives, while avoiding or minimizing participation in the most regulated aspects of financial services. Banks and payment networks must engage with these tech giants with care, with a view to safeguarding their brands and relationship equity with consumers and merchants. Easier said than done.

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