

The digital revolution won't be enough to supplant payments' network effect

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In the next decade electronic payments and e-commerce will have greater share, but will familiar systems reign? Or will a challenger join or supplant the club?

Network effects will still reign in 2030, whichever payment schemes are jockeying for supremacy.

Today there are nine branded electronic retail-payment networks that are at least semi-global. Five are American: Mastercard, Visa, American Express, Discover, and PayPal; three Chinese: Alipay, China UnionPay and WeChat Pay, and Japan's JCB. They have different assets, ambitions, and prospects.

Mastercard and Visa are the only genuinely worldwide retail payment networks. Ten years from now they'll be bigger and enjoy stronger network effects. They will, however, have found it more difficult to penetrate some national markets and been pushed out of others because of increased protectionist sentiment.

JCB is one of the big card schemes in Japan. It has modest issuance overseas, acceptance in corridors with significant Japanese tourist and business traffic and acceptance reciprocity in select countries with Discover, American Express, CUP, and Rupay. It's been a less successful substitute to Mastercard and Visa for national systems like LankaPay in Sri Lanka and Rupay in India, where it relies on co-branding for international acceptance.

Post-coronavirus, payment giants Alipay, CUP, and WeChat Pay will face increased headwinds in markets outside China's economic and political sphere, except for expanding acceptance to serve Chinese buyers on and offline.

Of the three, Alipay has the most aggressive and plausible expansion strategy for building critical mass on both sides of the network outside of China. It has acquired and invested in a portfolio of payment systems, principally in East, Southeast, and South Asia, but also London-based money-transfer business WorldFirst.

American Express and Discover/Diner's Club remain niche schemes outside the U.S. and it's hard to see that changing. Discover has a distinctive strategy providing acceptance to competitors including CUP, JCB, Rupay, Elo, and BCC. While this generates modest switch fees, with no co-branding and POS co-signage, it's had limited success.

PayPal is the most multinational digital-wallet-anchored alternative payment system. It's opening up the network, partnering with banks, payment systems like MercadoPago and MPesa, and mobile network operators such as Deutsche Telekom, Vodafone, Telcel, and Claro, thereby strengthening its network.

If any tier-two player challenges Mastercard and Visa globally in the next decade, it's likely to be PayPal or Alipay.

In order to build spending volume and acceptance off- and online, and expand its footprint, PayPal would have to more aggressively partner, acquire, and incent participants.

Alipay's MoneyGram acquisition was blocked because of national security concerns. It needs deeper partnerships and acquisitions in the Americas and Europe to have a fighting chance of becoming more than an Asian network.

In 2030 the much-ballyhooed bitcoin and 5,000-plus cryptocurrencies won't likely be in the mix. They don't have compelling licit use cases or plausible paths to critical mass, and face hostile regulators.

Mobile network operators have enormous reach and big payments ambitions. However, high-profile payments coalitions such as Simpay in Europe and Softcard in the U.S. failed. M-Pesa and Airtel Money have traction in emerging markets, but no obvious route to relevance planetwide. Pricey direct-carrier-billing schemes like Boku and Bango serve niche digital-goods markets, but in many jurisdictions an MNO's ability to bill or extend credit broadly is restricted. While the barriers are high, a global, interoperable, branded MNO payments coalition might have a shot.

The India stack, including real-time ACH, the Unified Payments Interface, and national biometric-ID database Aadhaar, create the ability to imagine atomistic, instant and free payments. In the sense that anything's possible, a worldwide web of aliases of email, mobile-phone numbers, and biometrics tied to a real-time payments infrastructure could evolve. More likely, however, is increased use of payment-key aliases by existing payment schemes, e.g. Mastercard "cardholders" using tokenized aliases to pay.

The most probable third global electronic payment system still isn't on the radar. It's digital dollars. Like electronic payment schemes, currencies – physical and digital, enjoy powerful network effects. More people trusting and using a currency begets more people trusting and using the currency. King dollar already reigns supreme worldwide. The digital version, delivered by banks, the Fed, Facebook, Visa, and others, will be as or more powerful online and at the physical POS worldwide.

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