

Europe's own network faces an uphill climb

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Sixteen Eurozone banks' [just-announced European Payment System Initiative](#) (EPI) is foremost a political project.

It proposes a retail card scheme for consumers and merchants, a digital wallet, and P2P payments leveraging the ECB's TARGET instant payment settlement (TIPS).

ECB board member [Benôit Cœuré decried Europe's "dependence on non-European global players"](#) in payments and declared "strategic autonomy in payments...part and parcel of the European agenda." The [EC](#) and [ECB](#) hail EPI and will try to grease the skids.

More competition in Europe's payment-network market is a laudable goal. More competition, however, is not what animates EU enthusiasm for EPI. If Visa were French and Mastercard German, nobody in Frankfurt or Brussels, would be pushing it or have cheered previous putative EU payments champions Monnet and the Euro Alliance of Payment Schemes (EAPS).

After several years of deliberation, 24 western European banks balked at launching Monnet as it would have cost billions of euros, been inferior to Mastercard and Visa, and offered no incremental revenue.

EAPS attempted to build a pan-European payment system on interoperability between national networks. While a plausible idea, it never had a fighting chance because members weren't willing to invest at the EAPS level. Today, a cloud-based payments hub accessed from mobile phones making payment-scheme interoperability automatic and frictionless would have better prospects in Europe and beyond.

The founder and CEO of Brussels-based PayFair Dominique Buysschaert enthused it was the third contender to be the EU's pined-for third and "European" pan-European payments scheme. Its launch with Belgian supermarket Colruyt promoting it as "One card for one Europe" captured PayFair's spirit. It wasn't, however, able to find a path to critical mass that was necessary to deliver value and relevance for consumers and merchants. Achieving payment network critical mass is enormously difficult, particularly in already well-served markets.

EU payments protectionists are prepping to have another go. Their latest would-be champion has to find a way to be compelling.

In a radical move EPI could be a credit-push system using TIPS to instantly pay merchants transaction by transaction. That would appeal to merchants. Consumers wouldn't care unless payment-repudiation rights were put at risk. Even as a traditional payment-pull system, it could offer merchants same-day or instant payments.

Banks will offer EPI cardholders instant, presumably EPI-wallet-initiated, P2P payments, and likely request-to-pay.

EPI issuers will have to cobrand with Mastercard or Visa, and, in markets with national payment schemes, perhaps even triple-brand. The routing-hierarchy would be first EPI, second national networks like Cartes Bancaires, Mister Cash, Girocard, and SistemaPay, and third the pan-European and global networks Mastercard and Visa.

This would provide a plausible path for EPI to build critical mass ensuring it could compete for transactions from cards enjoying ubiquitous acceptance that are habit. If the global payment network duopolists resist, the EC will bring competition charges against them.

The dirigiste EC and ECB will jawbone banks to join and national schemes to be absorbed into EPI. France bears watching. If the six French EPI banks committed to migrate their cardholders and merchants, that would sound the death knell of the EU's largest national scheme CB.

How banks stand to benefit beyond a pat on the back from their EU regulatory overlords is murky. They won't earn more interchange. While network fees may be less than the global duopolists', that's not nearly sufficient.

The genuinely pan-European retail-payment networks Mastercard and Visa, are American. Tier-two pan-European networks PayPal, Discover/Diners Club, and American Express, and promising digital wallets Apple Pay, Google Pay, and Facebook's Novi, are American. While the Libra Association is based in Switzerland, it may not feel sufficiently European. And, wallet Click to Pay is American, Chinese, and Japanese. It sticks in EU regulators' craw. While they view national payment systems as an impediment to EU integration, eliminating them – absent a euro-champion – would principally benefit resented U.S. payment systems.

The EC and ECB have and are likely to use a mix of tools to subsidize and attempt to advantage EPI. The EC's [Horizon 2020 Research & Innovation Program](#) touting over €80 billion in funding might be tapped to build the technology.

The [EC's enthusiastic expectation EPI will be "fully operational" in 2022 isn't realistic](#). Developing a new payment system is a formidable undertaking. But it doesn't have to build from scratch. For example, it could customize software from [ACI Worldwide](#), which powered Visa Europe for a spell, and leverage incumbents' experiential capital, perhaps engaging CB's systems integrator [FrenchSys](#).

A staged implementation rolling up national systems offers EPI its best prospects. Still it's a long shot.