How Their Open-Banking Buys Could Propel Mastercard and Visa

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The global retail-payment networks Mastercard and Visa are on a tear, acquiring and investing in adjacent payment-opportunity space in networks that can leverage and reinforce their existing franchises.

Their traditional payment schemes are dominant worldwide and near indestructible. While for the foreseeable future they could grow on autopilot, to their credit, neither network is resting on its laurels. For example, this year, Visa and Mastercard acquired open-banking assets Plaid and Finicity for up to $5.3 billion and $985 million (including a $160-million earnout), respectively.

Barron's reported Visa paid "nearly 50 times revenue for Plaid" and Mastercard paid "more than 50 times revenue for Finicity." These stratospheric valuation multiples testify to the strategic value the global payment networks see in these markets.

Finicity is smaller than **Plaid** and has focused more on supporting alternative credit decisioning. But Plaid and Finicity are both two-sided markets. On one side of their networks, they provide fintechs consumer banking and financial data through application programming interfaces and screen scraping. And they enable payments and a burgeoning range of financial services from fintechs and traditional players developing new apps. On the other side of their networks, they serve banks and FIs supplying financial data. More fintechs beget more value for banks, and more banks beget more value for fintechs.

To maximize holistic value, the financial-data networks' pricing is asymmetric. Similarly, two-sided markets like the "card" networks charge merchants more than cardholders, Facebook and Google charge advertisers fees but not social-media and search users, and bars sometimes offer free drinks to women but not men. With financial-data networks, fintechs bear the lion's share of fees.

Mastercard's and Visa's enormous resources, their trust capital, and their reach with virtually every retail bank of consequence planetwide should turbocharge Plaid's and Finicity's growth. In parallel, financial-data sharing will reinforce Mastercard's and Visa's centrality not only for banks but also for the fast-evolving ecosystem of fintechs, enhancing network economics and spurring more revenue-generating transactions.

As the world's largest payment system, Visa touts its "network of network" strategy. Combining mutually reinforcing networks offers a powerful multiplier. More network participants, related services, and transactions beget stronger network effects.

Consider what the Visa and Mastercard networks now offer. They support installment payments and credit, viewing it as additive rather than cannibalizing debit and credit card transactions. In 2016, Mastercard introduced an installment credit product in Europe. In 2019, it acquired buy-now-pay-later platform **Vyze**. In 2020, **Visa** partnered with Splitit to support installment payments at the physical and online pos.

Both global payment schemes have also acquired and developed new payment rails, enriching the suite of payments offered licensees and addressing adjacent markets, to buoy long-term growth.

Visa's expanding roster of platforms includes its traditional card-delivery systems, its acquisition of **Earthport**, homegrown B2B Connect, the repurposed credit-push transaction Visa Direct, and now, financial-data network Plaid.

Mastercard has card-delivery systems and the credit-push platform Mastercard Send, plus acquired noncard cross-border rails Transfast, interbank real-time-payments platform **Vocalink**, and, pending a greenlight from regulators, Nets real-time-payments and billing assets in Europe. While retail payments remain paramount, B2B, interbank, P2P, bill pay, B2C, and government-to-consumer payments, over multiple rails along with full-throated provision of financial data, analytics, and risk management, are increasingly important. They enable an expanding ecosystem of licensees delivering more payments and financial applications, bolstering growth and rendering the global-payment-network duopolists ever-more indispensable.

Being able to plug into a single platform planetwide to access the entire suite will be compelling for banks, fintechs, merchants, mobile network operators, and tech platforms.

However, it’s not a slam dunk.

Notwithstanding their enormous resources, talent, and assets, the global networks have often struggled when they ventured beyond their roots in retail-card networks. Their early ventures in electronic bill payment and presentment ventures floundered. Their attempts to develop digital wallets thus far haven’t moved the needle. Perhaps the newly launched **Click to Pay** online buy button will be the charm. Longstanding efforts to enable global P2P payments—in theory a compelling idea and a natural opportunity to leverage a network of thousands of banks and billions of cardholders—disappointed.

Simply put, stitching together multiple networks is fraught with risks of diseconomies of complexity. The pieces have different competitive dynamics. Nevertheless, the recent acquisitions of financial-data networks should strengthen Mastercard and Visa.