Facebook’s moves shake up ‘big tech’ payments balance

By Eric Grover

PaymentsSource

October 5, 2020

America’s tech giants Google, Amazon, Facebook, and Apple continue apace their march into payments. With Google Pay, Amazon Pay, Facebook Pay, and Apple Pay, they’ve put their brands foremost and use payments to boost on-platform engagement and commerce, reinforcing their centrality in consumers’ lives.

They’ve taken an incrementalist approach, working with incumbent payment networks, processors, and banks, thus far. However, as their payments’ footprints broaden and deepen, that modus vivendi will be stressed.

In particular, Facebook, the world’s leading social-media network outside China, bears watching. It’s starting to roll out Facebook Pay to two billion WhatsApp users and prepping to launch Libra, which could roil the reigning

Libra uses stablecoins backed by fiat currencies. If it gets traction it’ll be disruptive. However, building payment-network critical mass, and therefore value and relevance, is hard. Existing systems work. Consumers and merchants are creatures of habit in payments. The graveyard of payment systems is chock full of putatively better mousetraps.

But, this potentially better mousetrap has a sponsor with 2.5 billion daily users worldwide and will leverage permissioned third parties to further extend its reach.

It will compete with well-entrenched systems like Mastercard, PayPal, Visa, Western Union, and MoneyGram, and physical cash. Physical greenbacks will still enjoy advantages. They’re anonymous and don’t require electronic devices and connectivity to use.

If billions of people can instantly send Zuck bucks to each other from mobile phones, on Facebook’s platforms, online, and in-person, that will rock established networks. It will also spur further dollarization in emerging markets with weak currencies and banking and payment systems.

While the social-media giant’s initial foray into payments Facebook Credit failed, it persisted. It’s pushing Facebook Pay across all its properties. Recently it cleared Brazilian regulators’ concerns over providing payments to 120 million WhatsApp users in Latin America’s largest market.

India, with 400 million WhatsApp users and the world’s largest emerging market, is an even bigger prize. There, traditional networks Mastercard, Visa, and Rupay, alternative payment systems including Paytm, Walmart’s PhonePe, and MobiKwik, along with the MNOs, and Google Pay, Amazon Pay, and now, Facebook Pay, are all jockeying for pride of place.

Partnering with complementary platforms can pay dividends. Facebook invested $5.7 billion in Jio Platforms, whose Jio subsidiary has 400 million mobile-phone users, JioMart serving millions of SMEs, and Jio Payments Bank, all backed by Mukesh Ambani, India's richest man.

Facebook is also curating an ecosystem à la WeChat Pay in China, for underserved micro-businesses, farmers, and rural dwellers. Initially the platform partners will encourage commerce between JioMart and WhatsApp users. Presumably, Facebook Pay and JioPay will coexist, and, perhaps interoperate.

Google also invested in Jio ($4.5 billion) and they’ll collaborate on low-cost mobile phones.

While it’s punched under its weight, among the tech behemoths Google has the greatest potential after Facebook to change global payments. The world’s leading search engine, browser, email, video platform, and mobile OS, has been in payments since Google Checkout’s 2006 debut. With

Google Pay it offers retail, P2P, and bill payments, and has partnered with eight banks to integrate digital banking.

While U.S. adoption has been slow, in India where a whopping 98% of smartphones use Android, Google Pay has enjoyed stupendous growth. It leverages the National Payment Corporation of India's real time ACH (IMPS) and alias directory (UPI). The search Goliath had 67 million active users as of September 2019 and $110 billion in annualized payments volume.

Google has focused on payments to boost engagement and capture data, not to reap fees. Nonetheless, where platform power permits, Google is happy to collect rich tolls. It takes 30% of payments within the Google Play app store. It could take more, but sensibly leaves a hefty piece to incent developers.

Amazon has built payments mass on the back of e-retailing. While its WebPay (P2P payments) and Local Register (mobile acceptance) failed, the e-retailing Gargantua has patiently and relentlessly reduced payments friction on-platform, and moved off-platform with PayPal-like Amazon Pay.

Finally, the world's most valuable company uses Apple Pay to enhance the iOS platform and capture a greater share of its customers. It exacts a piece of interchange from banks. Like the search Goliath, on payments made in its app store it takes a juicy fee - 100x the EU's .3% credit-interchange cap. It doesn't, however, want to be a payment network, processor or bank. It wants to control Apple-branded payments.

Concentration and the ability to influence share commands economics. As the tech Pays grow, they'll squeeze processors', banks', and even networks', economics and brands. Where they aren't dependent on established retail-payment systems' acceptance networks and backend funding, they're most threatening.

However, the tech titans benefit enormously from the reigning payments and banking ecosystem. There are limits to how deep they'll go. Regulators take the view that like activities should be subject to the same regulatory burden regardless of the roof under which they're occurring. At the Clearing House's 2019 annual conference, asked about tech giants getting deeper into banking and financial services, FDIC Chair Jelena McWilliams, smiled, and said, I have 5,000 regulators. I'd be happy to get 5,000 more. Come on in.

The tech titans don't want to cross that Rubicon.

Eric Grover is Principal at Intrepid Ventures