Be Careful What You Wish For

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A brief thought experiment illustrates the benefits—and risks—of breaking up the dominant network duo.

Bank card networks Mastercard and Visa were the 20th century's greatest payments innovation. Today, there's a worldwide competitive patchwork of hundreds of "card" networks and alternative payment systems. But Mastercard and Visa are the only two genuinely global retail-payment networks.

They've been subjected to what is now a decades-long barrage of antitrust investigations, regulation, and lawsuits stemming from concerns that payment-network markets are insufficiently competitive and the two giants enjoy too much market power.

Nabanco's 1982 antitrust suit against Visa was the opening salvo. Years later, a fusillade of suits alleging that interchange fees violated the Sherman Antitrust Act caused the banks that owned Mastercard to spin it off in a watershed 2006 IPO.

There are tradeoffs between the benefits of more payment networks and competition, on the one hand, and consolidation and greater cost efficiencies, on the other. In a static world, where management enjoyed perfect knowledge and monopolies didn't abuse their power, a single, centrally engineered payment system would arguably be ideal. It would spread one set of substantially fixed costs across all payments.

However, the world isn't static. No management, however bright, can match the market's vast, distributed knowledge and dynamism. Also, men aren't beneficent angels. Unchecked by competitors, monopolies are less attentive to customers, costs, and service enhancements, and they often charge more.

Free-market competition is the most vigorous and ruthless regulator of value, continuously re-allocating resources from underperforming enterprises to those maximizing value. Hence, more cross-border and national payment-network competition would increase value and innovation worldwide.

Competitive Juices

Let's engage in a thought experiment. Suppose that, to end antitrust risks, Mastercard and Visa each split in two, creating four global payment networks. While each would process fewer transactions, they'd have substantially the same assets, excepting brands.

Critically, all four newborn networks could inherit the same global-acceptance network. Cardholder counts and spend could be split in half, with each network retaining a critical mass of issuer licensees planetwide. Each clone could inherit a copy of all delivery systems, software, and intellectual property. Personnel would be divvied up to ensure each clone started with comparable talent.

Brands would be the thorniest issue. Significant pieces of Mastercard's and Visa's $378-billion and $489-billion enterprise values, respectively, consist of brand equity. Their powerful brands convey the payment networks' promise to consumers, merchants, and banks worldwide. They couldn't be easily divided.

Two of the four networks, therefore, would have to craft new brands while finding a way to leverage, and yet distinguish themselves from, the existing brands—a huge undertaking fraught with risk. And, they'd have to be compensated.

While the new global networks' marginal payment costs, like those of the old, would still be zero, average transaction costs would initially increase.

The offsetting benefit would be greater payment-network competition and innovation. History has shown us that, after being unshackled by their IPOs from bank-association governance, Mastercard and Visa became more enterprising.

Splitting them up would further fire their competitive juices. Visa, Visa's clone, Mastercard, and Mastercard's clone would compete more fiercely planetwide for cross-border and national payments and would likely take different approaches. They'd be each other's most formidable rivals in many markets.

One or several of the new global payment networks might focus more on mobile network operators, tech platforms, penetration of national markets, digital currencies, or adjacent business-to-business and interbank payments. Several might become less (or more) woke. To gain share, several might get more aggressive on price; others might focus on boosting issuer value.

Persistent Protectionism

Still, while creating four competing global payment networks would put to bed most genuine antitrust concerns, protectionist sentiments wouldn't be assuaged. EU regulators would still stew in their euro-mercantilist juices because the four pan-European payment networks would be American.

Chinese regulators would remain keen to bar American payment networks, including PayPal, American Express, and Discover, from penetrating their domestic market.

To be sure, US-domiciled payment systems have been used as instruments of American foreign policy. To differentiate itself, one of the new networks might move to a more neutral jurisdiction, like Switzerland.

U.S. antitrust cases against the payment networks would become difficult, if not impossible, to make. When payment systems are viewed holistically, it has always been difficult to argue that Mastercard and Visa harmed consumers. With six national credit card networks and a dozen-plus national debit networks, the contention that the market wasn't sufficiently competitive would fail on its face.

There'd be two additional U.S. debit networks with signature-, signatureless-, PIN-, and PINless-authentication. There'd also be two more suppliers of tokens and EMV application identifiers. Debit-routing competition, consequently, would intensify.

Payment network competition in the United Kingdom, where Mastercard and Visa currently enjoy a 98% combined share, would become fiercer.

Fire in the Belly

While competing payment networks might welcome Mastercard's and Visa's breakups and the short-term benefit, long-term they'd rue the day. Each 50%-revenue-diminished network would have more competitive fire in the belly.

Intensified competition for cross-border and national payments worldwide would spur electronic payments growth and innovation. That would spur value creation and economic growth for consumers, merchants, and banks.

However, with Mastercard's and Visa's stellar post-IPO performance, the chances are slim shareholders would seriously entertain, much less execute, cleaving these systems in two.

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