# Payments Markets Sort Out the Winners

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*Networks thrive or fail depending on how well they serve multiple constituencies.*

An evolving patchwork of more than 1,000 payment networks serves consumers, businesses, banks, and the economy. People take the reliability, convenience, security, and continued improvement of these systems for granted.

Unless existing systems aren't adequately serving consumers, businesses, and/or banks, they're difficult to displace. Once payment systems reach network critical mass, they're durable.

Still, new payment systems continually challenge established players, forcing them to up their game. That's good for the industry. Challengers join the ranks of established payment systems or even displace them.

Challengers compete by being more convenient, faster, offering better economics to users by being cheaper or by offering richer benefits, being more secure, leveraging powerful existing platforms and distribution, or enjoying political and regulatory favor.

Nevertheless, notwithstanding proposed superior features, most challengers fail to reach critical mass. Whatever’s better isn’t better enough.

Launched with fanfare in 2000 as a giant-slayer, Debitman tried to best American Express, Discover, Mastercard, and Visa by being cheaper for merchants and offering merchant issuance. The model failed. Revolution Money, too, tried to take on established networks by being less expensive and more secure. It didn’t pan out.

Even challengers backed by firms with enormous reach and resources often fail. Supported by 75 of America’s largest retailers, MCX’s CurrentC garnered headlines. After disappointing trials, it shut down in 2016.

Following unsuccessful pilots, mobile-network titans AT&T, T-Mobile, and Verizon shuttered Softcard in 2015. Canadian mobile network operator’s payment system, Suretap, was discontinued, also in 2016, due to low adoption and competition from other mobile-payment solutions.

Launched in 2011, French MNO Buyster never caught on. UK MNOs shut down their payments joint venture, Weve, in 2015 for lack of adoption. In 2003, MNOs Vodafone, Orange, Telefónica, and Deutsche Telekom’s T-Mobile, with First Data, attempted to build a payment network called Simpay. It never found a path to commercial relevance.

Conceived by Natwest in 1990, distributed stored-value payment system Mondex was acquired by Mastercard in 1996, giving it, in theory, global distribution. However, as existing systems worked well and were habit, and as positive authorizations became the norm, Mondex didn’t solve a burning problem. It finally died in 2008.

Advocates contend central bank digital currencies will improve payment efficiency and financial inclusion, and are critical for the national welfare. Thus far, however, they’ve had little impact. Initial CBDCs failed.

In 1993, the Bank of Finland launched a smart-card-anchored retail CBDC called Avant. By 1995, 500,000 Avant cards had been issued by a subsidiary of the central bank. It competed with physical cash and debit cards. The plug was pulled in 2006.

In 2014, Ecuador passed legislation authorizing the central bank to issue a retail CBDC. The dinero electrónico was a dollar CBDC distributed by the state MNO. A lack of trust in the central bank and its flawed distribution model sank the dinero electrónico in 2018.

Evangelists now argue cryptocurrencies will disrupt reigning payment systems. However, cryptocurrencies backed by electronic bits and algorithms have yet to find mainstream licit payments use cases and a path to network critical mass. More than half of the more than 24,000 cryptocurrencies launched have failed, costing speculators dearly.

Dollar-backed stablecoins may be the most interesting challenger payment systems. Supply has surged since 2021. Dollar stablecoins could be compelling for consumers and businesses in countries with debased and untrustworthy national currencies, and for cross-border payments.

Before they reach network critical mass, individual payment networks are fragile. The entire payment system, however, is rarely fragile. Competitive payment-system markets self-correct as resources are continually reallocated from inferior to stronger networks.

Failures are the market policing itself. Flagging payment networks may be acquired or shut down. Diners Club and the UK debit network Switch were acquired by Discover and Mastercard, respectively.

The Dutch PIN, Irish Laser, and Finnish Pankkikortti debit schemes were shuttered. They offered nothing global networks Mastercard and Visa didn’t. EBay’s own payments joint venture with Wells Fargo, Billpoint, was displaced by PayPal, which users found more compelling.

Policymakers worry about failures and system resiliency. Jostling between challenger and incumbent payment networks is healthy for the system, if not for weaker and complacent networks.

In “Antifragile: Things That Gain From Disorder,” philosopher and risk manager Nassim Nicolas Taleb contended some systems are “antifragile,” becoming stronger and more resilient when stressed. Our muscles and immune systems are examples. Competitive payment-network markets to a large degree are antifragile. When stressed, they improve.

Few, if any, private-sector payment systems are too big to fail. While it’s hard to imagine America’s largest retail payment system going belly-up, if Visa actually ceased operating, a host of competitors would be champing at the bit to scoop up its credit, debit, and credit-push payments.

Payment-system crises in the modern era have been caused when governments enjoyed monopolies on the currency—and abused them. Argentina, Venezuela and Zimbabwe are grim and vivid examples.

The Zimbabwean dollar experienced the 21st century’s first hyperinflation. In November 2008, the inflation rate yoy peaked at 89.7 sextillion percent. The economy collapsed. Argentina’s peso has suffered multiple severe debasements. In March 2024, it’s annual inflation rate hit 289%. Economist Steve Hanke estimates Venezuela’s hyperinflation crested at 165,400% in February 2019.

What maximizes value is competition between payment systems, innovation from incumbents and a stream of challengers, and the market purging weaker players and rewarding stronger ones.

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