



## **More competition, not protectionism and paternalism for Europe's card-payment market**

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In reaction to the EurActiv article:

### **EU pushes for rival to Visa and MasterCard**

Sir,

EU regulators continue to call for a third pan-European card payment system. All well and good. However, their commitment to stoking payment network competition and how they've pursued it leave much to be desired. Their actions suggest they simply want another regulated card-payment network public utility, one they can call European.

Regulators worry the European card-payment networks market is or will become a duopoly dominated by MasterCard and Visa, organisations they deride as American. What is most important about MasterCard and Visa is that that they are open global rather than European or national networks, not their origins or incorporation.

Most electronic payments in the EU are not processed by MasterCard and Visa or under their brands. They are performed by a patchwork of not-for-profit bank cooperative national payment schemes and processors.

Moreover, any MasterCard or Visa payment occurring in Poland, Ireland or any EU nation-state is subject to EU and national law. Are consumers and competition ill served because MasterCard and Visa Europe are incorporated in Delaware?

The ECB's director general for payment systems Jean-Michel Godeffroy says "Visa and MasterCard are not enough". But Visa Europe's CEO Peter Ayliffe contends that the EU's intention to stimulate payment scheme competition is a bad idea and further adds that "...having 3, 4 or 5 payment systems in Europe is not in the interest of consumers". Patent nonsense. Visa Europe doesn't want more

competitors. Why would it? No organisation, be it commercial enterprise, nonprofit or government bureaucracy, wants more competitors.

The EU payments market is almost as large as the US, where four full-suite commercial card-payment networks, a handful of national debit networks and a host of challengers, all independent of banks, compete. Some are logical potential competitors to MasterCard and Visa Europe.

But would the EU's regulatory mandarins be happy if Amex and Discover (Diners Club) expanded their networks to challenge MasterCard and Visa in Europe or if First Data which owns the second largest pin-debit network in the US and is Europe's largest and most pan-European payment processor were to roll up legacy national networks to challenge MasterCard and Visa? Probably not, which exposes the rank protectionist and paternalist sentiment animating EU regulators.

Godeffroy worries Visa Europe is American. If so, so what? But, setting aside its incorporation and licensing agreement with Visa Inc., its owners are European banks and its management and delivery systems are substantially in the U.K. The chairman of Spain's largest network ServiRed and Visa Europe board member José Gabieras suggests it is Visa Europe's put option to sell itself to Visa Inc. that raises regulators' hackles. Whether it had a put or not it could always sell itself to Visa Inc., as could ServiRed and other national networks.

Two prospective European contenders have captured the regulators' eye.

A loose ad hoc group of Dutch, Italian, French and German banks – with the Germans seeming keenest, have discussed establishing a new payment scheme, 'Monet'. But why would banks cough up €1 billion plus in capital to launch a new network unless they were free to run it with interchange for their commercial benefit over the long haul?

The second, the Euro Alliance of Payment Schemes (EAPS) coalition might require less investment because it harnesses existing payment networks. Nonetheless to be successful it will need to invest significant capital. EAPS too wants interchange.

What could regulators do to catalyse more network competition and electronic payments displacement of cash?

They could jawbone banks to spin off and commercialise their payment networks, encourage American and other firms best able to step up payment network competition in Europe to do so, and let networks freely set interchange.

Bank control and association governance of networks inhibit payments competition and innovation.

Regulators could nudge banks to sell Visa Europe to Visa Inc. or alternatively to separately IPO on the LSE, and to spin off national payment networks such as Carte Bancaire, EC, PIN, Bancopagomat and Multibanco. In the event, they should make clear they would welcome full-suite global payment networks with thin European acceptance, such as American Express and Discover, and private equity firms, acquiring national payment networks.

Free to compete, a consolidation of national continental networks ought to be commercially viable.

EU and many national regulators have curbed interchange, a critical pricing system networks use to balance the interests of the acceptance and spend sides of the network and thereby maximise transactions. Regulators should rescind interchange price controls. They suppress payment network and issuer competition and innovation, which work at cross purposes with increasing pan-European payment system competition and innovation and reducing cash.

Cash use in many EU markets is not declining. The grey economy in the EU is significantly greater than in the U.S. Of course different taxes and cultures play a role, but so do interchange regulation and less competition. Interchange funds cardholder benefits. US cardholders pay lower fees if any, and receive greater benefits and are therefore more motivated to use card payment products in lieu of cash.

Regulators want to treat MasterCard, Visa, national payment networks and any would-be pan-European challenger as public. This is not a path to more robust payments competition and innovation.

Knowing the optimal number of networks and resource allocation is beyond the ken of the smartest central planner. It is far better to let a free and dynamic market decide. What regulators can and should do is set conditions under which a free payments market can operate and assure those contemplating deploying capital to expand or cobble together existing networks or develop new ones, they will be free to pursue profits.

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