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A note in the press stating that Wirecard, a relatively young payment service provider, was worth more than Deutsche Bank, Germany's most prestigious bank, has raised some eyebrows. While this may say much about the long decline of Deutsche Bank it also shows the high valuation of some PSPs. PayPal, for instance, has left the “masters of the universe”, Goldman Sachs and Morgan Stanley far behind. Mastercard and Visa are valued even higher, their combined value surpasses Facebook's market cap and comes close to such heavy weights of the new economy like Amazon and Alphabet

2. Apple versus the banks: “Lex Apple Pay” and beyond

German law makers have passed a law (widely dubbed “Lex Apple Pay”) forcing “technical infrastructure providers” like Apple to open up. The decisions points to the general question how to deal with the market power of Apple and Alphabet as they enter the mobile payments arena. So far, the focus has been on access. But pricing power is as least as important. Apple demands hefty fees of issuing banks and Alphabet wants to be paid in the form of data - a type of payment that is more difficult to avaluate. Anti-trust authorities have a number of options that require further discussion.

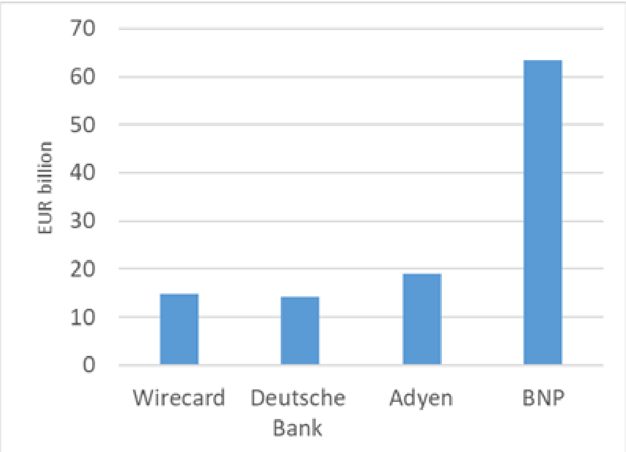
3. The PEPSI challenge

The Pan-European Payment System Initiative (PEPSI) is the working title of a project, still in think-tank-modus of about 20 banks, located in the eurozone. Details and an official announcement by the group are still missing. However, the concept is inspired by the vision of a pan-European retail payment scheme based on the brand-new SEPA Instant Credit Transfer (SCT Inst). Apparently, PEPSI is following two outlines: account-based instant payments by smart phones and card payments with instant ingredients.

Payments: no longer a boring plumbing business

(mk) Last year the press came up with the surprising news that the German PSP Wirecard was worth more than Deutsche Bank, Germany's largest bank. Even today, after difficult months for Wirecard's share price, both companies are of almost equal value.[1] This result reflects both the bullish outlook for PSPs – in particular those active in online payments – and the declining fortunes of Deutsche Bank.

Figure 1: Banks and PSPs: European examples



Source: https://www.onvista.de/ (downloaded on 12.11.2019)

Catching up with Deutsche Bank is partly a huge success for Wirecard, a company founded in 1999 which employs about 5000 people. Wirecard's valuation shows how positively markets view the online payments sector.

This positive outlook is also reflected in the valuations of other PSPs such Adyen, a Dutch PSP founded in 2006. However, the relative value of Wirecard and Deutsche Bank is also due to the decline in the fortunes of Deutsche Bank, Germany's most prestigious bank, founded in 1870, which employs more than 90,000 people. Other large European banks, such as for instance the French BNP, have a market valuation about four times higher.

Our Comment:

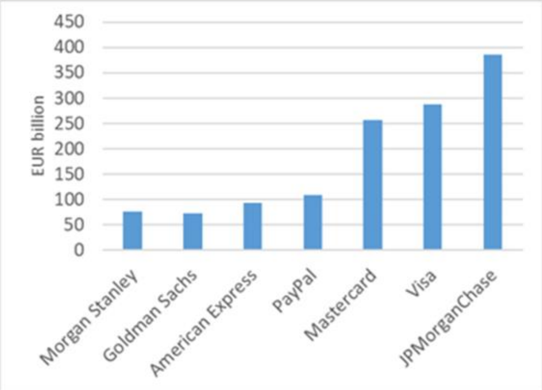
The phenomenon that relatively young PSPs have a higher value than prestigious names from the banking world can also be observed west of the Atlantic ocean where PayPal has left investment banking giants such as Morgan Stanley and Goldman Sachs far behind. Thus, the bread and butter business of processing payment transactions is valued higher than carrying out fancy financial deals.

However, PayPal's valuation is still far below the market cap of JPMorganChase, the largest US commercial bank (by market cap).

It seems that card payments, while much less in the limelight of public attention, are seen as big money spinners, equal to the likes of Google and Facebook.

Looking at the huge market valuations one wonders to what extent they are based on market power and the expectations of continuing market power.

Figure 2: Banks and PSPs: the view from the US



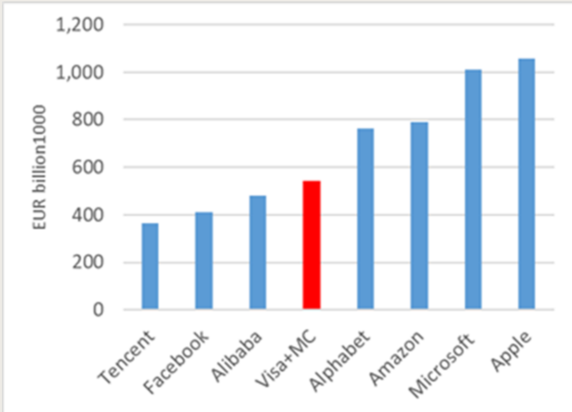
Source: https://www.onvista.de/ (downloaded on 12.11.2019)

But as far as market cap is concerned there are two PSPs specialised in card payments which are playing in the same league as the large US commercial banks: Visa and Mastercard with market caps of EURb288 (Visa) and EURb256 (Mastercard), respectively.

It is also noteworthy that the platform providers such as Visa and Mastercard are valued significantly higher than proprietary systems like PayPal and American Express.

In fact, Mastercard and Visa can be seen as providers of network services in a two-sided market. Thus, they have more in common with the stars of the new economy. At first sight, card payment providers do not seem to be able to compete with the high valuations of dominant providers of online retailing (Amazon), net search (Alphabet), social networking (Facebook) and operating systems (Apple and Microsoft). But in card payments we have the special situation of a duopoly, rather than one dominating company.[2] So if we ask, what's in for the card business relative to other network sectors, it may be necessary to combine the values of the two card companies. In this case, we find the 4-party payment-card platforms with a joint value of EURb543, right in the middle between Facebook (EURb410) on one side and Alphabet (EURb764) and Amazon (EURb788) on the other side. The joint valuation of Mastercard and Visa is also higher than the value of each of the two Chinese giants, Alibaba and Tencent.

Figure 3: The high value of the cards' business



Source: https://www.onvista.de/ (downloaded on 12.11.2019 and 19.11.2019)

Overall, we are witnessing huge value assigned to PSPs focussed on online payments. But the truly staggering valuations are of the two big card schemes. It seems that card payments, while much less in the limelight of public attention, are seen as big money spinners, equal to the likes of Google and Facebook.

One wonders whether policy makers have sufficiently digested this fact. When the president of the Bank of France states that a "*pan-European solution would be a major step forward that would help European banks withstand the challenges posed by the BigTechs*"[3] – does he also have Mastercard and Visa in mind?
Finally, these huge valuations should also provide food for thought for anti-trust authorities. Looking at the huge market valuations one wonders to what extent they are based on market power and the expectations of continuing market power.

Apple versus the banks: "Lex Apple Pay" and beyond

(mk) In a law implementing the 5th EU Anti Money Laundering Directive, Germany's law makers have inserted a paragraph regulating "*access to infrastructure services*" that are related to payment services. The paragraph in question was a last-minute proposal, which was inserted into the law overnight without much discussion. The providers of such infrastructure services must offer their services to PSPs who wish to use them. Effectively, such providers are forced to open their networks. Although Apple is not mentioned explicitly, Apple's operating system iOS seems to be the prime case that law makers had in mind when they passed the law. Therefore, commentaries quickly started to use the term "Lex Apple Pay"[4].

It is widely believed that the paragraph in question is the result of successful lobbying by German banks. This is not the place to provide a detailed discussion of Lex Apple Pay.[5] Rather, we would like to take a general look at the relationship between banks (and other PSPs) and the two owners of the leading mobile phone operating systems, Alphabet and Apple.

Our Comment:

If a bank or PSP wants to offer mobile payments, it obviously needs to get its payment application ("app") on the mobile phone. Installation of apps on mobile phones requires compatibility with the mobile operating system (OS). At the moment, there are two mobile OSs that are relevant: Apple's iOS and Alphabet's Android. Both Apple and Alphabet have also created digital wallets that can be used to store payment data and initiate payments via the mobile phone. Both companies have also created their own payment apps: Apple Pay and Google Pay.

Whereas Apple restricts the use of its wallet and the NFC interface to its own payment app, Alphabet allows PSPs to install their payment apps in its wallet and use the NFC interface.

Alphabet and Apple have both introduced digital wallets and their own mobile payment apps. The underlying payment instruments are usually credit or debit cards. In order for a card holder to be able to use either Apple Pay or Google Pay, the card issuer must have a contract with Apple or Alphabet. Whereas Apple demands a fee of the issuer (an implementation fee and a transaction fee), Alphabet is content receiving the payment data.

The two actors are following distinct approaches with respect to wallet access. Whereas Apple sticks to its "walled garden" policy, Alphabet is open for other players to use the Google wallet and NFC interface for their own payment apps.

Apple's approach, in particular, has had a mixed reception from banks. Given its position as one of the two providers of mobile operating systems and given strong brand loyalty of its customers (due to the convenience and the range of services) banks have to face the stark truth that iPhone owners may prefer to change their banking relationship rather than their mobile phone standard. Therefore, Apple has market

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Apple has market power. It is in a position to charge a high price for access to its customers.

power. It is in a position to charge a high price for access to its customers. In the words of the Australian Competition and Consumer Commission (ACCC)[6]:

"*While iPhones accounted for only around 36 per cent of Australian smartphones in recent years, the ACCC accepts that Apple has significant bargaining power in negotiations with the individual Applicant banks over terms and conditions to allow their payment cards to be provisioned into Apple Wallet.*"

Apple can use its market power

1. to extract high fees from co-operating banks,
2. block others from using Apple wallet and the NFC interface,
3. interfere with other payment solutions installed on iPhones.

As far as we know, Apple's pricing policy has not yet been the object of legal proceedings. But in many countries the implementation of Apple Pay has been delayed by the banks' hesitance to accept Apple's terms.

Strictly speaking, terms like "Apple Pay" and "Google Pay" are misnomers. Both companies are simply providing processing services for (mostly) Mastercard and Visa transactions. They do not move money, they do not shoulder any fraud risk, they do not have to keep accounts for payers and payees and they are not involved in dispute management or customer service. So, notwithstanding the marketing rhetoric and the excitement of Apple aficionados, it is a pretty plain vanilla technical service. But, if the unofficial figures that have been published so far are not far from the truth, Apple is charging hefty transaction fees for its services (see table 1). On top, there are on-boarding fees to be paid by issuers.

Table 1: Apple's fees for issuing banks: unofficial estimates

Country	Type of Card	Fee
Australia	Debit card POS	4 bp
	Debit card CNP	6 bp
	Credit card	15 bp
Germany	Credit card	17 bp
Taiwan	Credit card	15 bp
USA	Debit card	0.5 cents
	Credit card	15 bp
UK	"Cards"	a few bp

Sources: Australia: Eyers and Lekakis: Germany: market sources; Taiwan: Balaban, UK and US: Arnold, Felsted and Thomas[7].

Given these fees, it is not surprising that banks have been hesitant. But in the end, one bank after another gave in and accepted Apple's terms. One expert on card payments, Hanno Bender, has dubbed Apple's strategy as "daylight robbery"[8]

„*John D. Rockefeller at least sold kerosene after having given away kerosene lamps for free. Bill Gates at least supplied an operating system and additional software, after he had slipped IBM the operating system DOS as a license solution. Apple provides nothing comparable. Apple Pay cashes in on the participating banks simply for providing access to customers.*"

While Apple's fees have not been challenged legally, its walled garden approach has come under attack. As noted above, German law makers want to force Apple to open up. In other countries, banks were less successful. Australian banks, for instance, would have liked to install their own payment apps in the Apple wallet. Since Apple did not want to permit this, four large banks asked the Australian Competition and Consumer Commission (ACCC) to grant them authorisation to bargain collectively with Apple.[9] They wanted to bargain collectively with respect to

- access to Apple's NFC controller,
- access on reasonable terms to the Apple App Store,
- exclusion of any no-surcharge rule for Apple Pay transactions (application later withdrawn),
- a kind of collective boycott of Apple during negotiations.

The ACCC weighed the pros and cons and decided not to grant permission to bargain collectively - even though it had acknowledged that Apple had market power. As a result, the banks had to negotiate individually with Apple. Apple does not have to open up and by 2020 all of the large banks will be offering Apple Pay. Market power is not only an issue when it comes to access to the Apple wallet. Obviously, it is also important when it comes to negotiating Apple Pay fees. Since this issue was not part of the banks' application, it is not dealt with by the ACCC. Therefore, unfortunately, we do not know what the ACCC thinks about the level of fees that Apple is charging. However, unless banks come up with a killer application, the issue of Apple Pay fees is much more important than the issue of access to the Apple wallet.

Forcing Apple to open up its wallet does not really solve the issue of pricing power

In Switzerland, anti-trust authorities investigated Apple in a somewhat different case. The bank-owned payment service TWINT also had a payment app that could be loaded onto iPhones. TWINT works either via Bluetooth or via scanning a QR code with the phone's camera. In the second case, the phone is held relatively close to the merchant payment terminal. Whenever this happens, the iPhone will select Apple Pay and suppress other options. When TWINT complained, Apple was not willing to change this and so TWINT filed a formal complaint with the Swiss anti-trust watch dog WEKO. WEKO took up the case but did not have to make a formal decision because Apple offered a solution that would allow TWINT to temporarily disable the precedence rule for Apple Pay.[10]

In summary there are basically two issues, pricing and access. Forcing Apple to open up its wallet does not really solve the issue of pricing power – at least not as long as Apple is free to determine the entry charges.

Alphabet has met less resistance. It lets other players use its wallet and it does not charge a monetary fee. However, Alphabet's services do not come for free. Alphabet is paid with data.[11] Payment of fees in the form of data may be easier for banks to swallow. In fact, one can argue that payors are paying with their data, not the banks. The tricky question is whether the price Alphabet charges is too high from an anti-trust point of view.

So, if market power of Apple and Alphabet in the field of mobile payments constitutes a problem, what should regulators do?[12] As stated by the ACCC, letting banks negotiate jointly, as a cartel, with Apple (or Alphabet) would definitely increase their bargaining power. But accepting cartels is a hard act for anti-trust authorities.

Regulators could also introduce price regulations, as they have done with interchange fees. But price regulation is a very blunt instrument and the politically determined price may be far from the optimal level.

Regulators might consider an approach used for standard-essential patents. In these cases, the patent holder must grant licenses on FRAND terms. FRAND stands for "*fair, reasonable, and non-discriminatory*". Obviously, that does not come down to a concrete number. But it would be up to the courts to decide whether offered terms are in line with FRAND or not. German law makers seem to have something similar in mind. The new §58a of the Payment Services Oversight Law (ZAG-Zahlungsdiensteaufsichtsgesetz) states that technical infrastructure services have to be made available "*for an appropriate fee without delay and using appropriate access conditions*".

The PEPSI challenge

(hg) It has been so long ago, it must have been another life. Sometime in the 1980s, Pepsi Cola was aggressively challenging Coca Cola with the "Pepsi-challenge"[13]. These days, there seems to be a new Pepsi challenge in the making.

Since the beginning of the year, there have been frequent signs that a group of European banks are jointly considering a new pan-European payment system. In November, this embryo idea finally received a working title: PEPSI, the Pan-European Payment System Initiative, as stated by Carlo Bovero, global cards and retail payments manager at BNP Paribas, who had referred to the initiative at a Paris conference. The nucleus of PEPSI is the SEPA Instant Credit Transfer, the latest scheme of the European Payments Council (EPC), which became operational in November 2017.

So far, no official documents or statements of the group have been published. Even the list of about 20 banks and bank associations (besides BNP Paribas) is still confidential. However, several representatives of the eurosystem (e.g. Benoît Coeuré[14]) and the European Commission referred to this initiative in their speeches. Some features of the project are already recognizable.

Our Comment:

Let's start with a vision.

Every consumer has a euro-denominated current account and has a mobile device with direct online access to this account. With this device, as consumers we can initiate transfers in the shop or at home via an app, which will be definitely credited to the payee's current account after a few seconds. The payee also has a device with which he can check the receipt of the payment. The payments are not only very fast (a few seconds), but also secure via a biometric access interface of the device. The procedure is efficient and may only cost the recipient (merchant) a small bank fee.

We can pay anywhere in the entire euro zone. All payments are made individually directly through the current account and all payment users (and of course the banks as account providers) have a complete overview of all payment data. The PSD2 created in time a regulatory framework for open banking, facilitating third party providers to support (if necessary) payers to initiate the credit transfers (payment initiation services) and the payee to check its incoming payments (account information services).

There will be no rationale for front-end fragmentation (by Apple Pay & Co) and for disintermediation in the payment value chain and flow of money (e.g. by credit cards). We don´t need cards anymore, except a card of an USA-based international scheme, virtually embedded in our mobiles, to pay outside the eurozone or outside the EU. European sovereignty in retail payments would be restored.

There is no network dilemma to solve (main killer for new payment schemes), because all payment users are already contracted by their banks as account service providers with access to the instant payment scheme. Instant payment should be included in the services of the EU-regulated "basic payment account", which is accessible for every EU resident at low fees. For every bank at least in the eurozone, the scheme participation (SCT Inst) should be mandatory.

Apart from the latter marginal to-dos for the European

Commission, all the ingredients for this vision are already in place. Only now the cake has to be baked and made appetizing for the potential eaters.

Some observers believe that this vision will soon become reality (buzzword "new normal"). Others, more the strategists and regulators, believe that this vision can only be achieved if the banks in the eurozone jointly pursue this goal by creating a new pan-European scheme, based on SCT Inst. Is this the scenario of PEPSI?

What do we think we know about PEPSI?

The search "*PEPSI & payment system*" generates about 20 independent results by the Google search machine. Most of them are assessments, made by market observers since November 2019. Let us summarize the main results with some comments:

- Initiative of about 20 banks, representing a "big part" of the retail banking industry in Europe
  (The headquarters of all participating banks and banking associations that are mentioned are located in the eurozone: Austria, Belgium, France, Germany, Italy, Netherlands, Portugal and Spain)

- Strongly driven by the ECB as a political aim to establish or restore European payments sovereignty
  (Like the failed Monnet-project to create a pan-European card scheme about 10 years ago)

- Counterweight to the existing dominance of the "American" card schemes
  (Market shares of the non-European card schemes, like Mastercard and Visa in the EU (excluding UK) is approx. 49% of card sales volume in 2018[15])

- Challenge the threat of e-money based non-European payment schemes
  (Like PayPal, Amazon Pay, Alipay, WeChat and the announced Libra coin of Facebook and others)

- Defensive action to tackle the disintermediation by technological companies
  (Disintermediation at the front-end of mobile payments by Google Pay, Apple Pay etc.)

- A new payment solution, which is focused on retail payments (C2B & C2C)
  (It is stated, that the system would potentially cover about 60%[16] of all non-cash payments in the eurozone. It is not clear whether the outcome should be a solution, a system, an ecosystem or a real scheme).

- A system to transfer money denominated in € instantly (based on the SCF Inst scheme of EPC)

- Setting up a pan-European system before domestic instant retail payment schemes are established

- Mandatory reachability for SCT Inst payments at least for all banks by new EU regulation
  (Today, SCT Inst is an optional scheme. As stated by the EPC, 2,084 PSP´s already joined the scheme, which are 51% of the European PSP´s.[17] Only banks can directly access the scheme, other PSPs could join via a beneficiary bank. At the present time, 94% of the 2,084 PSPs are from Germany, Austria, France and Spain. Most of the 15 British participants are non-banks being regulated as payment institutions and e-money institutions. Sweden, Poland, Denmark, Bulgaria are represented by only one PSP. A PSP of Greece is missing. Already in February 2019, Valdis Dombrovskis, Vice-President of the EU Commission, announced a *"strong regulatory push*" to speed up instant payments.[18])

- No decision for take-off
  (The project is still at a preliminary stage. A decision to go forward should be taken in December 2019. This decision has probably been postponed to the first quarter of 2020).

Geopolitical, not a technical or a market-driven initiative

The coming out takes place at a moment when political pressure on banks is mounting. Scarcely a day passes without yet another central banker or government official declaring the importance of a European card payment, mobile payment and whatnot system. To quote just a few examples:

"*There is no denying that, today, the "centre of gravity" for payments is shifting towards these new players, especially the BigTechs. This displacement poses a challenge for banks' economic model, but could also be a threat to European sovereignty insofar that the infrastructures, knowledge and technologies underlying it are largely owned by non-European corporations.*"[19] (François Villeroy de Galhau, Governor of the Bank of France)

"*The European payments industry needs to address this front-end fragmentation and provide a competitive pan-European solution that meets the needs of European users and exploits the benefits of the Single Market.*"[20] (The Eurosystem)

"*Financial institutions in Europe – with backing from the central banks – are sketching out ideas for a pan-European payment system that can be used in a wide variety of payment situations – from the point of sale to the online checkout.*"[21] (Burkhard Balz, Board member of the German Bundesbank)

It is not clear whether European banks agree that the matter is so highly urgent. But they definitely feel the pressure from regulators.

The regulatory pendulum is apparently swinging back. As a result of regulatory intervention by the EU (in particular by the two PSDs and EMDs), payment transactions, which until then had been dominated by banks, have been opened up to new competitors since the turn of the millennium. In addition to the traditional credit institutions, 1,012 payment institutions (PI) and 341 electronic money institutions (EMI) will be active in payment transactions in the EU at the end of 2019.

PayPal is the shining example. Payment transactions are increasingly moving away from the banks' current accounts, which may only be an end point in the payment chain. These centrifugal forces are apparently also making regulators increasingly uneasy.

Growing enthusiasm for Instant Payments

Originally, the concept of instant retail payments was triggered by the ECB. Together with the EPC they have been looking for market applications for a long time. M-payments in the C2C segment were identified as a typical application. An evergreen is the example - still cited today - where friends want to pay for each other at dinner, because the waiter is too lazy to settle up with everyone. However, no business case can be built on this. It looked like instant payment was a solution that was looking for demand.

In the meantime the mood has changed. Banks see instant payment as the last chance to regain their dominance over payment traffic with the active support of the regulators. With this hopeful conviction, the banks seem to be also prepared to invest. An instant credit transfer is by definition a payment between bank accounts. The bank account is thus once again becoming the linchpin of retail payment transactions. IP could bring payments back to bank current accounts.

Merchants see IP as a real alternative to what they see (despite lower IF by regulation) as "expensive" card payments. This looks like a unique historical opportunity: banks, retailers and regulators pull together.

The only one who still has to be convinced is the consumer. For many, there is no doubt that consumers will prefer the smart phone to the plastic card. However, most m-payments today are card-based payments (based on virtual cards that are stored in the wallets). Is it still possible to reverse this trend?

The two story-lines of PEPSI

Current-account based instant payments by smart phone are a vision, which could perhaps become the "new normal". However, it is one part of the PEPSI story. The other part is related to the reality of dominance of card payments in the C2B market segment.

About 45% of all non-cash payments in the eurozone are card payments. In the C2B segment, it would be more than 90%. As already stated earlier, about 50% (after Brexit!) of all EU card payments are generated by the 7 remaining relevant domestic (mainly debit) schemes[22], which are owned and governed by European banks.

The regulatory pendulum is apparently swinging back

However, in Member States without domestic schemes and in cross-border card payments, non-European card schemes are dominating. If a cross-border card transaction is defined as a transaction where the issuer is located in another country than the acquirer, almost all cross-border card-present card transactions within the EU are today processed via the "American" brands Mastercard, Maestro, Visa, V PAY and Amex. However, in the card-not-present segment (ecommerce) we see an increasing acceptance of cards branded by domestic schemes by international merchants (e.g. payment with a card of the Belgium card scheme "Bancontact" at Amazon.de).

So, regarding the total market of the eurozone, there is no overall hegemony of non-European schemes. Rather, a 50/50 share seems to be a fair and robust guess. That is the starting base for the next round in the competition between domestic and international schemes.

How to get these card payments on the instant payment trail? And, as a subsequent question: how to make these (still card?) payments more attractive in comparison to the cards of the "American" schemes?

Initial steps of PEPSI in domestic card business could be the integration of current account and card identification standards for authentication and clearing and new clearing mechanisms based on SCT Inst for domestic schemes.

A subsequent step, as brought on the stage by the ECPA (European Card Payments Association), is the cooperation of the domestic schemes, as already discussed in our report 5/2019:

- Mutual acceptance of national cards via an additional pan-European brand,
- Bilateral or multilateral clearing & settlement of cross-border transactions based on SCF Inst.

However, the payment still remains a card payment (based on card scheme rules) and not an instant credit transfer. We still have domestic schemes (improved as instant card payment instead of transaction day + 1) and an instant payment clearing between the domestic schemes (cross-border acceptance of domestic schemes). The merchant account could be credited instantly. So what? What is the advantage from the cardholder's perspective?

The overall aim of PEPSI is to establish a real alternative to the international card schemes (ICS). If these instant-based PEPSI-initiatives would be a real competitive benefit, the ICS would do the same, probably earlier.

So far, there is no evidence that the PEPSI initiative is primarily focusing on the establishment of a pan-European card scheme. The flop of the ambitious Monnet plan is still felt in the banks' bones after 10 years. Yet, Monnet 2.0 could still be the medium-term end result of the initial announced PEPSI steps in a few years. But by then the train may already have left the station.

Card-initiated credit transfers?

Another PEPSI-idea could be the transformation of debit card transactions to card-initiated (instant) credit transfers.

If the IBAN is stored in the debit card chip, the merchant´s terminal could initiate an instant credit transfer authenticated by PIN like today[23], more or less in the same way as a mobile-based instant credit transfer by banking app. It would be like ELV in Germany, where IBAN-data stored in the chip of the card, is generating a genuine direct debit. The function of the card is reduced to be a data-bearing instrument to initiate a credit transfer according the schemes rules of a credit transfer. The transaction would no longer be a card transaction.

Smart phones and debit cards would be both devices to initiate current account-based instant credit transfers under the same scheme brand. This scenario would really change the scenery:

- The role of an acquirer (who guarantees the payment to the merchant) would be obsolete for card initiated credit transfers. However, other (terminal-related) services, account access and information services will become relevant for merchant service providers.

- The transaction will not be subject anymore to the interchange fees of the card schemes or other interchange fees. Each PSP (of the payer and the payee) could only cover its costs by fees to be paid directly by the user.

- Non-European card schemes will be obliged (if necessary by regulation) to open the chips on their cards for the necessary IBAN data. It would be a kind of inverse Lex Apple Pay (see chapter 2 of this report). Similar to today's co-badged cards, cardholders and merchants will be able to (pre)select the respective application (card or credit transfer) at the terminal. Banks in countries without domestic schemes are able to use their issued cards (with non-European brands) as access instruments for the new card-initiated SCF Inst. Even credit cards (incl. delayed debit cards) can be equipped with the additional SCT-app. The cards would be branded with both brands. However, issuers would lose the interchange fee revenues, if the credit transfer application is chosen.

We will probably soon see, if there are some really spicy ingredients in the PEPSI cake.

The cardholder´s benefit is the decisive factor.

Thirsty horses

To sum up, "*PEPSI for instant cards*" could bring advantages for banks as (domestic) card issuers and for card accepting merchants. But that is not enough. The cardholder´s benefit is the decisive factor. An old English proverb says, „*you can lead a horse to water, but you can't make it drink*".

An instant credit transfer is a definite payment, highly favored by online shops, however probably not by online consumers. How do you prefer to pay your next travel with potential castaways like Thomas Cook & Co? The chargeback option of cards is an advantage for consumers, not to be underestimated.

SEPA Inst is fairly plain vanilla. But POS payments, and even more so internet payments, may require additional features. That starts with things like reservation of funds and ends with security. Card schemes have put in various safeguards to protect users against fraud. That includes the simple fact that you need an acquiring contract in order to be able to accept payments, charge-back rights for card holders and all kinds of transaction monitoring. Some of this may be challenging to implement in a real-time framework. But without additional safeguards, for some customers "fast" may imply they can lose their money really fast.[24]

Moreover, acceptance of the PEPSI card would continue to be limited to the euro zone or the EU for the time being. In a global world the worldwide acceptance of the ICS is still a unique selling point.

Last but not least, is the business case for the banks a question to be answered by PEPSI? Are the payment users (payer and payee) willing to pay cost-covering fees or even more? Can the payment business be considered as stand-alone profitable business? Or are payment transactions only a feeder service for other profitable banking services?

Is the overall PEPSI-goal of bringing all payment transactions back to the current account a value in itself? If the new currency in the digital age is called "*consumer data*", the de-fragmentation of payment data is a crucial prerequisite for this source of earnings. But even with data as a source of earnings, there still is the unanswered question, will the horse drink?

So, will the PEPSI challenge be successful? We do not know. But it will be a tough task and the challenger should beware of the market leader. The "*Coca Cola of card payments*" might strike back.

Notes

1 Wirecard: Münchner Finanzdienstleister ist erstmals mehr wert als die Deutsche, Spiegel Online, 14.08.2018 (https://www.spiegel.de/wirtschaft/unternehmen/wirecard-ist-erstmals-mehr-wert-als-die-deutsche-bank-a-1223135.html)
2 Moreover, the internet giants have diversified into other areas such as cloud computing.
3 François Villeroy de Galhau: Central bank digital currency and innovative payments, Speech by Mr François Villeroy de Galhau, Governor of the Bank of France and Chairman of the Autorité de contrôle prudentiel et de resolution (ACPR), at the ACPR, Paris, 4 December 2019.
4 See, for instance, Lex Apple Pay: Bundesrat stimmt für offene Schnittstelle für Bezahldienste, heise online News 11/2019.
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8 Hanno Bender: ApplePay ist digitale Wegelagerei, 17. Dezember 2018 (http://www.bargeldlosblog.de/applepay-ist-digitale-wegelagerei/)
9 ACCC (2017) quoted above. Additional information can be found at https://www.accc.gov.au.
10 Wettbewerbskommission (WEKO): Schlussbericht des Sekretariats der WEKO vom 12. März 2019 in Sachen Vorabklärung gemäss Art. 26 KG betreffend 31-0519: TWINT/Apple.
11 For instance, PayPal, which can be used in Germany at the POS via Google Pay, states in its Terms and Conditions: "*In order for the transactions with PayPal to be carried out in Google Pay and displayed in the transaction list of the Google Pay App, PayPal transmits the amount of the payment, the currency, the name of the merchant and other transaction data to Google.*" (our translation.) See: Bedingungen für die Nutzung von PayPal in Google Pay (https://www.paypal.com/de/webapps/mpp/ua/ppgooglepay-tnc). Downloaded 22.12.2019.
12 The question how to deal with large digital platforms is become a hot topic. Oxera, a consultancy with expertise in the field of competition policy, discusses five recent expert reports on "digital platform regulation". See Gunnar Niels: Digital platform regulation: What are the proposals across Europe?, December 2019 (https://www.oxera.com/agenda/digital-platform-regulation-what-are-the-proposals-across-europe/)
13 If you want to know more about it ask Wikipedia.
14 Benoît Coeuré (Member of the Executive Board of the ECB), Towards the retail payments of tomorrow: a European strategy, speech of 26 November 2019.
15 Market share is based on the total card sales volume generated by cards issued in the EU-member states. The market share of the "American schemes" in the EU including UK is about 63%. See our Report, Issue 7/2019, p. 8.
16 We can only guess where this figure comes from. In the eurozone, 50% of the payment transactions are card payments and e-money transfers (according to ECB statistics for 2018). On the assumption that 50% of the credit transfers are retail payments by consumers, about 62% of all payments would be retail payments, where instant credit transfer could be theoretically applicable. We assume direct debits are not included. Regarding the specifics of a direct debit, instant payment as definitive payment seems not to be appropriate. This calculation could be the rationale behind this figure, mentioned on connection with PEPSI.
17 See website of the European Payments Council (status of 18 December 2019).
18 See Simon Lovegrove, Commission speech on progress of FinTech action plan, 27 February 2019 (https://www.regulationtomorrow.com/eu/commission-speech-on-progress-of-fintech-action-plan/). The text of Dombrovskis´speech, held at the 3rd Annual Afore Fintech Conference, is no longer available for download at the websites of the Commission.
19 François Villeroy de Galhau: Central bank digital currency and innovative payments, Speech by Mr François Villeroy de Galhau, Governor of the Bank of France and Chairman of the Autorité de contrôle prudentiel et de resolution (ACPR), at the ACPR, Paris, 4 December 2019.
20 ECB/Eurosystem: Innovation and its impact on the European retail payment landscape (https://www.ecb.europa.eu/pub/pdf/other/ecb.other191204~f6a84c14a7.en.pdf)
21 Burkhard Balz: Curtain up for the future of payments: from Bigtechs and Fintechs to Smartphones and Stablecoins, Roundtable on Digitalisation, German Institute for Japanese Studies, Tokyo, 30.10.2019.
22 Domestic card schemes in Belgium, Denmark, France, Germany, Italy, Portugal and Spain
23 SCA could complicate matters significantly at the POS.
24 See „Mobile, cards and instant payments: friends or foes?" in Issue 2/2019 of this newsletter.

We wish all our readers a Happy New Year!

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