



# PAYSYS **REPORT**

Issue 1 – March 2021

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In this issue:

1. Is there a future for a European payments scheme?

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## Contents

### 1. Is there a future for a European payments scheme?

In 2020 a group of major European banks has announced the decision to create EPI (European Payments Initiative) a European payment solution, both card- and wallet-based, for POS payments, eCommerce, cash withdrawals and P2P payments. Given that European banks have ignored the issue of a European payment scheme for many years and have neglected payments since that time, EPI is a challenging project. It is unclear whether the market will embrace European payment products, how quickly a critical transaction mass and break-even point will be reached so that - as desired by the European Union, the ECB and a number of European banks - a degree of European sovereignty in payments can be regained with the success of EPI. Historical experience provides little cause for optimism.

# Is there a future for a European payments scheme?

We warmly welcome our guest author **Ewald Judt**<sup>1</sup>, Honorary Professor at the Vienna University of Economics and Business. Many readers in the payments industry will remember him as managing director of Eurocard Austria and the successor companies Europay Austria and Pay-Life Bank from 1980 until 2011. He wrote this article together with our co-editor Prof. **Malte Krueger**<sup>2</sup> (University of Applied Sciences Aschaffenburg).

On July 2, 2020, 16 major European banks from five countries (Belgium, France, Germany, the Netherlands and Spain) announced the start of the implementation phase of the European Payments Initiative (EPI). Meanwhile other European banks and two large payment processors (Nets and Worldline) have joined the initiative, a managing director has been installed and an interim company has been founded. The aim is nothing short of creating "a unified pan-European payment solution", both card- and wallet-based, for POS payments, eCommerce, cash withdrawals and P2P payments. The initiative has the support of the European Central Bank and the European Commission.

## Our Comment:

### 1. [EPI 1.0 swallowed by Mastercard](#)

EPI already existed once. It was Europay International, a European payment scheme that was almost 90% owned directly or indirectly by European banks, Mastercard International was a minority shareholder with 12%. The business basis was initially Eurocard with Mastercard as the worldwide acceptance partner.

Due to the fact that the eurocheque countries of that period were strongly represented at Europay International, the eurocheque card, the first European card, became a Maestro card in the course of its phase-out - after the intermediate edc stage („electronic debit card“). This first widely issued true PIN-based debit card became another business driver for Europay International.



[EPI Special card for UEFA 2000](#)

After 2000, there were several considerations on how to

proceed strategically, but in view of competition concerns (scheme on the one hand and issuer/acquirer on the other) and an attractive offer for the shareholder institutions, a merger with Mastercard International took place in 2002. This sealed the end of Europay.

For the same reason, the briefly considered idea of including Visa alongside Mastercard in the group of shareholders and leaving it up to each member bank to place Mastercard or Visa for out-of-Europe acceptance was not pursued further.

## EPI already existed once. It was Europay International.

Mastercard International has been listed on the NYSE as Mastercard Inc. since 2006 and, to the delight of its shareholders, has not only developed impressively on the market (most of the shares are currently in free float), but also on the stock exchange. The market capitalization of Mastercard Inc. amounts to USD 355 billion.<sup>3</sup> Net income in 2020 was USD 6.4 billion.

### 2. [Visa's European approach](#)

Visa Europe used to be a kind of European payment scheme in which the former non-eurocheque countries were strongly represented. These were in particular the predominantly (Visa) credit card issuing countries Great Britain, France and Spain. In 2008, Visa International went public as Visa Inc. on the NYSE.

Visa Europe remained owned by the European Visa member banks until 2016, when it was subsequently acquired by Visa Inc.

The business of Visa Inc. developed well. From the IPO onwards, this was also reflected in an upward trend in the share price of Visa Inc. This trend continued after the acquisition of Visa Europe, to the delight of the shareholders (most of the shares are currently in free float). The market capitalization of Visa Inc. is USD 462 billion.<sup>4</sup> The net income in 2020 amounted to USD 10.8 billion.

### 3. [The role of the banks](#)

The role of the European banks with regard to a European payment scheme was disastrous. In favor of one-time revenues, the opportunity of a multiple (albeit later) gain was given away – even though there already was a clear advance of cashless payments. But even more important was the decision not to participate in the further development of payments.

There was no "spiritual leader" who could charismatically address the issue of a European payment scheme and drive its implementation. In addition, the top management of the European banks was not

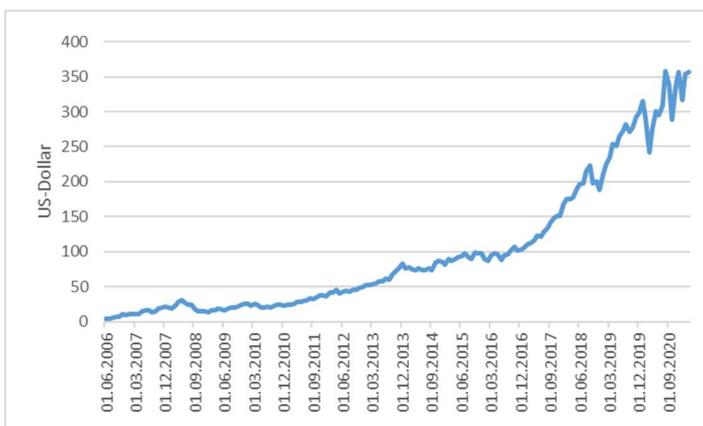


Figure. 1 [Share price of Mastercard Inc.](#)

Source: [www.finance.yahoo.com](http://www.finance.yahoo.com)

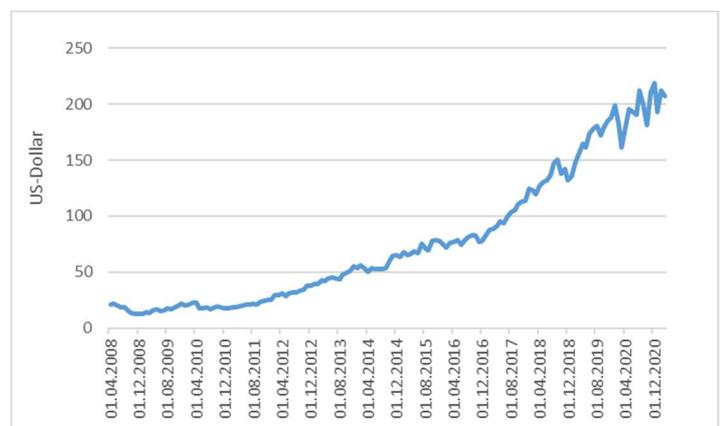


Figure. 2 [Share price of Visa Inc.](#)

Source: [www.finance.yahoo.com](http://www.finance.yahoo.com)

particularly interested in the topic.

On the issuing side of the market, the result is the widespread use of Mastercard and Visa brands for debit and credit products - often as co-brands in addition to the brands of national card schemes. The dominance of the international schemes is also reflected in the data on cards issued in the EU.

For example, at the end of 2020, there were 594 million credit & debit cards with the Mastercard brands and 752 million with the Visa brands.<sup>5</sup>

Acquiring, which decades ago was still the domain of banks/banking companies, has largely been detached from the banks over the years. After an initial wave of consolidation in Europe, acquiring is carried out by a number of mainly bank-independent payment providers. And there is a trend toward further consolidation. As a rule, acquirers offer merchants all of the cashless payment options customary in the respective country.

## The role of the European banks with regard to a European payment scheme was disastrous.

The largest payment providers in Europe are Worldline S.A. in France (based on the Atos Group and listed on the Paris Stock Exchange) and Nexi S.p.A. in Italy (listed on the Milan Stock Exchange). Worldline's acquisitions include the acquiring businesses, among others, of Banksys and BCC of Belgium, Equens of the Netherlands, Six Payments and Aduno of Switzerland, and Ingenico in France along with Payone of Germany. Nexi has expanded by acquiring SIA S.p.A. and the take-over of Nets A/S of Denmark, a company already active in several European countries, including Germany (as owner of Concardis).

### 4. [Former European initiatives failed](#)

With SEPA and its implementation, the topic of a Eu-

ropean payment scheme came up again and again. For example, Jean-Michel Godeffroy, the ECB Director responsible for payments at the time, called for not just one such payment scheme, but several of them, which were to be "unbundled and four-party," "co-branded," "bank-owned," with a "low interchange fee," "profitable," and "standardized".<sup>6</sup>

However, this vision did not become reality.

Three attempts launched by various interest groups in the direction of a European payment system also did not succeed:

- EAPS, the "European Alliance of Payment Schemes", supported by several national debit payment systems
- Monnet, a project initiated mainly by French, but also by Spanish and Italian and other some other European banks
- Payfair, a merchant-oriented payment system, but seeing itself as a neutral system open to banks.

### 5. [A new start](#)

EPI, the European Payments Initiative, supported by a number of prominent European banks, is making another push towards a European payment scheme, 19 years after the sale of EPI Europay International. EPI, the European Payments Initiative Interim Company, has started its work, from which a European public limited company (SE) is to emerge in the coming years as an alternative to "foreign" (= mainly those coming from the USA) payment schemes.

However, the latter - Mastercard and Visa - have established a global position for themselves with a significant lead in (card) payments both at the POS and in e-commerce.

EPI is now to create a multiple European payment scheme for Europe, the European banks and the European customers, and to regain sovereignty in (card) payments. The main issue here is governance. It is strategically problematic if countries have no real control over important retail payment systems.

### 6. [Competitors](#)

EPI is starting under less than ideal circumstances (to put it mildly): There are many years of neglect, during which the payment industry has evolved rapidly and dramatically, a trend that is continuing, and there are powerful, financially strong competitors. But: There are still enough opportunities for future development, as

currently around 50% of payment transactions are still made with cash.

The main competitors are probably the two international payment schemes Mastercard and Visa, which are domiciled in the USA. They have established a global position with a significant lead in (card) payments both at the POS and in e-commerce, which, as it looks, is unlikely to be threatened in the coming years - unless some as yet unknown "Black Swan" emerges.

Both have a tremendous economic base in terms of capitalization, revenue, and profit, as well as a resulting financial strength that is used for business expansion and innovation. In addition, PayPal (also a US company) should not be overlooked.

PayPal is firmly established as a widespread Internet payment system in many European markets and has also become active at the POS. The triumph of wallets and contactless technology at the POS makes the step from the Internet to the POS even easier.

In addition to these players, the BigTechs (GAFA - Google, Amazon, Facebook, Apple), which now use integrated solutions, in some cases with embedded (card) data from the two top U.S. payment schemes, and some of which also have payment solutions of their own, will possibly/probably also be/become competitors in the future.

Their advantage is that they have an interface to the customer in any case and can potentially offer payment options directly via this interface.

## 7. [Shareholders](#)

EPI currently has shareholders from 7 countries (including 6 euro countries), 31 banks/banking associations and the two largest European payment providers (Worldline and Nexi).

As more shareholders are sure to join, decision-making on major (and also on lesser) decisions can be difficult. Conflicts are thus foreseeable. This is a risk, because it is well known that many cooks spoil the broth.

However, the current shareholders are far from the full coverage of the European banking landscape that is necessary to successfully implement the ambitious project of a European payment scheme.

The most practicable solution to bring all European players on board would be to set up a member bank system to reconcile the diverse interests.

## 8. [Products](#)

The launch of the European payment products will certainly stimulate competition in Europe and offer customers more choice. It remains to be seen whether the product features of the European payment products are designed in such a way that both sides of the payment market - payment provider and payment acceptor - are competitive, i.e., at least on par with the competing schemes.

Instead, it would be more promising to deliver added value for both sides of the payment market that exceeds the features of today's products. In the end, payment providers will only switch to a new service if there is a tangible advantage for them.

The most important factors for competitiveness will be a) acceptance by payers throughout Europe, and b) a rapid product launch thereafter; in order to achieve sales among payees as soon as possible and subsequently a positive response from them.

A changeover phase lasting over x years will have a negative impact on the product image, especially with regard to image variables such as "significance", "size" and "relevance".

As for the prices payers and payees are willing to pay for European products, one should not be under the illusion that "European" means they are willing to pay more for them. On the contrary, due to increased competition, one must assume that especially the prices payees (i.e. merchants) have to pay will decrease for all those active on this market.

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## A particular challenge will be the achievement of worldwide acceptance

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One feature will probably be the name and logo of this European payment scheme, so that both payer and payee know under which (business) conditions payments are made. It will probably be assumed that all

payments with the payment product under this logo will actually be processed throughout Europe under this payment scheme and no other.

### 9. [Worldwide player?](#)

A particular challenge will be the achievement of worldwide acceptance. Building such an acceptance network is not an impossibility, but it is immensely difficult and expensive.

But given the competitive situation, especially with Mastercard and Visa, merely offering regional acceptance would be a clear drawback. Without worldwide acceptance EPI would offer a "worse" or even completely unsuitable product in the eyes of the customers.

This is especially true for the important group of bank customers who travel a lot and far. EPI initially envisages a product range of four "use cases": Peer2Peer transactions, POS transactions, E-&M-commerce transactions and "Cash Withdrawal" transactions (it is open whether only ATM transactions are meant here or also cash back transactions at a retail or service company).

Such "usages" are to take place in conventional form with card (plastic or virtual) or should be possible via instant payment with an app at the POS, in E-&M-commerce, to persons or companies.

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**It is essential to reach a critical mass very quickly.**

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Enormous investment will be required to bring the "use cases" to life, to launch them successfully and to process them successfully. EPI is an extremely demanding project and the size of investments will be in the € billion range. The capital will probably have to be raised by the shareholders –either as equity or debt.

### 10. [Huge investment](#)

The first step is to create an infrastructure with a platform at the center in order to carry out clearing, settlement, exception processing and to implement risk

management. In principle, one would like to use SCT Inst as a basis.

However, in order to be able to compete with the international schemes, one must be able to offer a broad range of functionality, which SCT Inst does not support in its current form.

Therefore, considerable costs must be expected at this point. Huge costs will also be incurred for a comprehensive acceptance network and the technical components of acceptance.

Furthermore, logo positioning, brand development and migration to the European product range will be costly.

But not only the dimension of initial investments will be big, also the running costs of this payment system will be significant, which is why the business case is of great importance. While the costs can be calculated with an acceptable tolerance, the revenues are much more difficult to forecast.

For start-ups, there is a rule of thumb that in the early days, costs will be twice as high as expected and revenues half as high. Building a business case that, after a start-up period, will lead the shareholders to massive profits is a challenging task.

### 11. [Business Case](#)

The revenues will probably have to come from the European members or customers, i.e., the issuers and the acquirers, in the form of management fees and transaction fees. It is then up to the latter to get their money's worth, as is currently the case with the products of the international payment schemes.

However, it is still unclear what the revenues of the acquirers/payment providers will be for instant payments, since unlike the other cashless payment options, a third party is not required for the payment transaction, which goes from account to account.

On the one hand, issuing is about convincing the European banks that are not shareholders that it is more favorable for them to migrate their payment products from the brand of an international payment scheme to that of the European Payment Initiative, which is a challenge in view of the financial possibilities of the international payment schemes and their largely conflict-free business relationships with the issuers.

And on the other hand, it is a matter of migrating the national payment products that are currently still in existence to the European payment scheme. This migration is not an easy task, as the national solutions

often have convenient features at the POS and/or in E-&M-commerce.

Acquiring, on the other hand, is easier. Two of the largest European acquirers/payment providers - Worldline and Nexi - are shareholders and can act as driving forces here.

However, there are also a large number of regional, national or supra-regional acquirers/payment providers to whom a convincing offer must be made in order to quickly achieve Europe-wide acceptance.

## 12. Critical mass

In order to become profitable soon, it is essential to reach a critical mass very quickly so that economies of scale can be achieved. In other words, it is essential to launch products soon and, at the same time, to rapidly establish acceptance.

A gradual increase in the number of payment products on the market and an equally gradual increase in acceptance, i.e., a smooth transition, will not make it possible to reach the necessary critical mass soon and will therefore postpone the break-even point.

A "Big Bang" could look like this: Issuers of the domestic schemes sacrifice their cards on the EPI altar and exchange their cards for the new EPI cards. This would mean that in one fell swoop, about 50 % of the European card turnover (EU 27) would be replaced.

The main question, however, is whether the customers of the two-sided market will accept the new products.

This question, which is only now being asked in view of the size of the project and the multitude of issues involved in a European payment scheme, is actually the most important of all.

However, it can only be answered once it has been clearly communicated to customers on both sides what the added value is that European payment products bring to payers and payees, and whether this is sufficient to move them away from their previous forms of payment.

## Our conclusion

Given that European banks have ignored the issue of a European payment scheme for many years and have neglected payments since that time, EPI, the European Payment Initiative, is a challenging project. It is unclear whether the market will embrace European payment products, how quickly a critical transaction mass and break-even point will be reached so that - as desired by the European Union, the ECB and a number of European banks - a degree of European sovereignty in payments can be regained with the success of EPI.

It will be interesting to see whether EPI actually succeeds and becomes the dominant payment scheme in Europe, or whether Europe's payment fate will be determined by the saying "*Life punishes those who are late.*" (Michael Gorbachev 1989 in the GDR).

**Notes**

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- 2 Malte Krueger, PaySys Consultancy and University of Applied Sciences Aschaffenburg, malte.krueger@th-ab.de
- 3 finance.yahoo.com, March 23, 2021.
- 4 finanzen.net February 11, 2021
- 5 The Nilson Report, June 2020, Issue 1177, p.4
- 6 New card schemes for Europe, Speech by Jean-Michel Godeffroy, Director General Payment Systems and Market Infrastructure, European Central Bank at the conference of Télécom-Paris, Paris, 26 October 2007.

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The PAYSYS REPORT is published 10 times a year in English in electronic format (pdf) and contains about 4-6 pages. The price is 500 EUR per year (company license)

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PAYSYS REPORT  
 March 2021

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