Mastercard Inc

Mastercard chief speaks out against nationalism and Facebook

Ajay Banga says tech giant's Libra project morphed: 'I'm like, this doesn't sound right'

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Robert Armstrong in New York YESTERDAY

- Siloed payment systems 'stupid'
- Questions over Libra's money laundering controls
- Banga does not understand how Libra makes money

Few companies have more to gain from the march of globalisation and digitisation than Mastercard. The payment network's strength is its worldwide reach, and its growth is driven by the move from cash to electronic transactions.

So chief executive Ajay Banga is unequivocal about governments' attempts to break the global payments system into national fiefdoms.

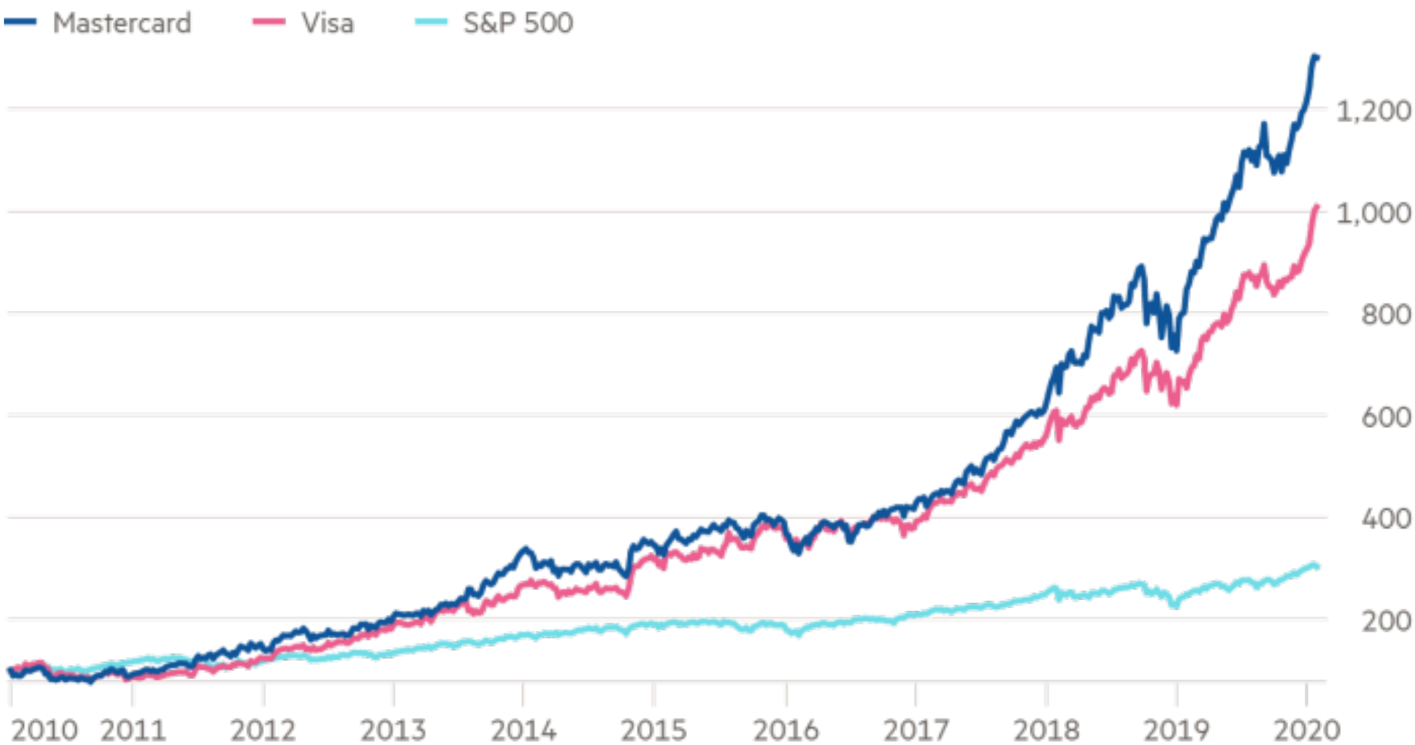
"The economic cost of building siloed systems in a world where citizens travel globally is really stupid, and where crime travels globally is even more stupid, and where technology is completely global is even three times more stupid," he says, with emphasis on each "stupid".

Mr Banga sees more governments edging towards nationalisation of consumer payments systems, and fears that consumers, wary of their privacy, could shift back towards cash.

Right now, though, Mastercard is in a strong position. Mr Banga, 60, says the company can hit 7-8 per cent revenue growth every year, “if [we] just fog the mirror and don’t make thousands of mistakes”. Mastercard takes a fraction of a percentage of every transaction on its network, and also sells services to banks and merchants.

Mastercard's strong performance

Share prices (rebased)



Source: Refinitiv
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Last week Mastercard reported 2019 revenue of $17bn, more than triple the level of a decade ago, when Mr Banga took the helm. Profit has grown faster still, and the company’s share price has risen from $20 to $320 under his tenure.

Globally, payments on credit and debit cards have quadrupled over the past 10 years, according to The Nilson Report, a data provider.

Mr Banga, who previously ran Citigroup’s operations in Asia, does not take growth for granted. “Global companies [could] get disallowed from working in a bunch of big markets around the world because these markets begin to say ‘I don’t want you around’. It gets exacerbated in days of populism and nationalism that we're going through."

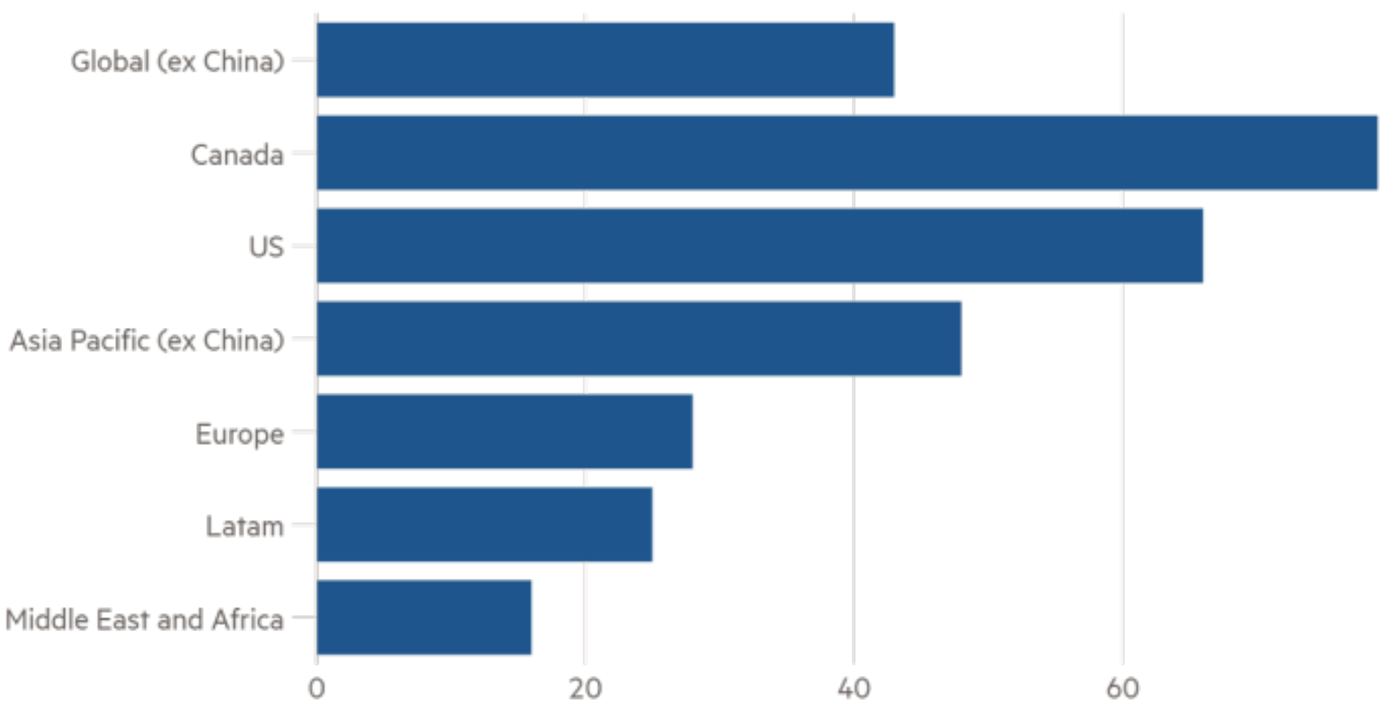
In recent years, several countries from Russia to Mr Banga's native India, have either developed national payments networks or lent government support to local payment groups. China has a fully nationalised payments network.

It is an established phenomenon, says Mr Banga. "This idea of finding a way to have national control on certain kinds of payments is not new — it's a fantasy that's been going on for a long time." He notes that France, Australia, Brazil and Mexico have all tried to build national payments networks, with limited success.

The problem with local networks is threefold, he argues. They require massive redundant investment; they are cumbersome or useless for cross-border transactions; and they fragment the data the network throws off, hindering the analytic work needed to track fraud and crime.

All other regions lag North America in card penetration

Per cent (2018)



Source: MoffettNathanson research

Mr Banga says that when he talks to national regulators "they'll garb [nationalisation] as national security". He points out in response that national data is of limited use when terrorists do not respect borders — and that domestic banks hold more country specific data anyway. "They all say, ‘that’s a good point’.”

“For national parochial reasons or [to help] domestic business . . . [governments] may still get prompted to chase me down. But now we’re not talking principles; now we’re talking good old dirty politics.”

Government parochialism is not the only threat. The movement towards electronic payments could switch the other way “because people get scared of digital transparency”, he says. “An event like Facebook-Cambridge Analytica actually could set you back because it could create the feeling among people like you and me who say, ‘do I really want everything to be visible to other people? Because other people are taking advantage of what they see of me. I don’t like that. I want my life back.’”

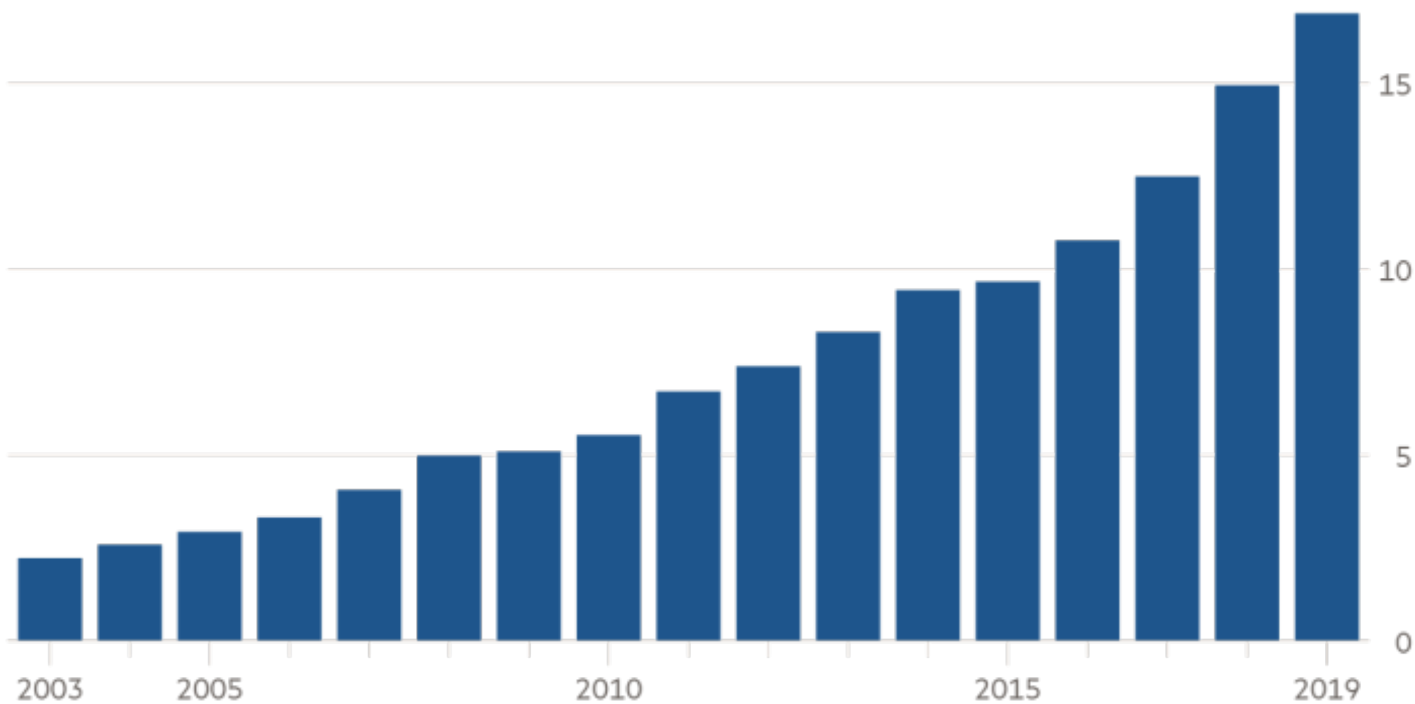
Mastercard is parsimonious about the user data it collects. Card networks receive only four pieces of information with each transaction: an account number, the value of the transaction, a time and a merchant code. This makes it possible for the company to keep high standards for data ownership and transparency, and insist that the customer “receive some benefit” any time their data is used.

Concerns about data integrity help explain why Mastercard pulled out of Libra, the Facebook-led digital currency project that was unveiled last year. Mr Banga likes the idea of a global currency and joined the association of companies backing Libra, but concerns over compliance and the business model led him to withdraw.

The association’s key members would not give a hard commitment to “not do anything that is not fully compliant with local law”. He points to due diligence considerations such as know your client, anti money laundering, data management, “all that . . . every time you talked to the main proponents of Libra, I said ‘Would you put that in writing?’ They wouldn’t.”

Mastercard's strong performance

Revenues ($bn)



Source: Bloomberg

He also did not see how Libra would make money, and “when you don’t understand how money gets made, it gets made in ways you don’t like”. Finally, he was alarmed that Facebook had positioned Libra as a financial inclusion tool but then proposed linking it to a proprietary digital wallet, Calibra.

“It went from this altruistic idea into their own wallet. I’m like: ‘this doesn’t sound right’ . . . For financial inclusion, the government has got to pay you in this [currency], you’ve got to receive it as an instrument you can understand, and you have to be able to use it to buy rice and cycles. If you get paid in Libra [coin] . . . which go into Calibras, which go back into pounds to buy rice, I don’t understand how that works.”

Arguably, Mr Banga also has self-serving reasons for pulling back from Libra. Lisa Ellis, payments analyst at MoffettNathanson, thinks that it is possible that a blockchain-based payments system could, years in the future, grow into a real-time global payments network — posing an “existential threat” to private networks such as Mastercard.

Analysts also fret that as digital wallets such as Apple Pay or India’s Paytm gain traction, and more transactions are conducted on big tech platforms such as those belonging to Google or Amazon, Mastercard's place in the payments ecosystem will become less prominent.

Mr Banga is unperturbed: "We have 30,000 plus banks around the world connected with 60m merchants with billions of people in 200 countries with local legal regs of every country built into the system. Everybody, even the digital giants, realises that is a [lot] of heavy lifting to try and do," and that it is "better, faster, cheaper" to partner with Mastercard.

Most analysts agree. "It's not easy to break into payments — many entrants have found that out, quickly and the hard way," says Sanjay Sakhrani of KBW. But, he says, it could be different with big tech companies "if they want ownership of everything" in ecommerce.

Surely as the tech players gain scale, they will at least ask Mastercard to lower its fees? Of course they will, says Mr Banga. "He who has bigger shoes is going to take them off and beat your goddamn head in . . . a bigger bank negotiates harder than a smaller bank. A bigger merchant negotiates harder than a poorer merchant. A bigger government negotiates harder than a smaller government. So China negotiates differently than Vietnam. It's just reality."