

Opinion **The FT View**

Growing payments firms may pose systemic risk

Regulators must keep pace with the innovation in digital money

THE EDITORIAL BOARD



Investors are now valuing the likes of Worldpay at double the rate attached to the behemoths of banking, from JPMorgan to HSBC © Bloomberg

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Not very long ago the companies that processed payments were the unloved workhorses of the [financial](#) system, labouring behind the scenes to send money [around the world](#). The growth of digital money and the fintech industry has changed that. The shift away from cash-based transactions towards digital finance has been dramatic. More than 80 per cent of purchases in countries such as Sweden and South Korea are made without cash, as smartphone apps and card payments have proliferated. In the UK and US, the tally is more than two-thirds. The payments industry is a high-growth, high-tech sector that commands high valuations to match.

On Monday, Worldpay — one of the leading companies linking retailers to card companies and banks — announced it was to be acquired by a [rival, FIS, for \\$43bn](#). The offer represented a premium to a rich market price. Investors are now valuing the

likes of Worldpay at double the rate attached to the behemoths of banking, from JPMorgan to HSBC.

The latest combination is part of a trend for payments groups to use acquisitions as a short-cut to scale and to consolidate a still highly fragmented industry. Earthport, a UK payments business, is to be acquired by Visa after a bidding war with Mastercard. Last year PayPal bought Swedish “unicorn” iZettle. Over the past 20 years FIS has done a deal a year to catapult it to the top ranks of the payments industry.

All this reflects a natural expansion of a new dimension of the economy. But there may be causes for concern.

The prices look steep, given that growth is slowing in payments. Despite the dramatic increases in volumes seen in many developed markets in recent years, the shift from cash to digital is finite, so a slowdown is inevitable as that progression enters its later stages.

At the same time the speed and [scale of the dealmaking](#) is creating complex groups that may lack the sophistication of governance to manage them. In the case of Worldpay, FIS’s boss will be chairman, president and chief executive of the vastly enlarged group.

Size and complexity bring technological challenges, too. The payments industry is among the most dangerous [when it comes to cyber risk](#). A targeted attack on a dominant payments company could disable large parts of the economy without notice.

Bigger operators should have a greater capacity to invest in the best cyber-risk defences. But there is a double edge. The larger the payments group, the higher its systemic risk. Even a brief [outage in Visa Europe’s](#) operations last summer caused chaos for millions of people.

It is painfully clear that the robust approach to bank regulation conceived in the aftermath of the 2008 financial crisis is not matched in other evolving areas of finance. Global policymakers have already concluded that huge insurers and asset managers should not be deemed systemically important. With similar myopia they are failing to see the mounting risks in fintech.

The regulatory system that governs payments groups is disjointed and lacks heft. It does not match the supervision of banks, leaving doubts about how solidly financed companies are and how good their defences might be against a serious cyber attack. There is a parallel here with largely unregulated cloud computing providers and the

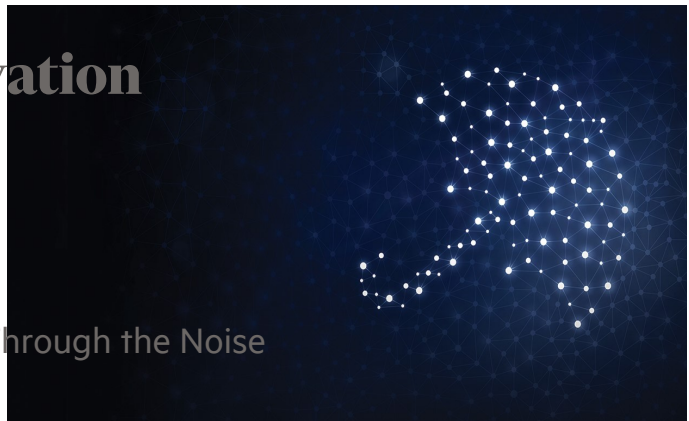
extent to which the operations of the world's biggest banks are vulnerable to three principal cloud providers.

Policymakers did a good job on bank regulation. But they seem to be forgetting a secondary lesson of the 2008 crisis: that regulation must keep pace with financial innovation.

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