

Missing Links

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Earlier this year, I bought something from a chap in Frankfurt. The transaction was very efficient but, more importantly, it was a transaction that would never have happened at all without the Internet in general and eBay in particular. Score one for free trade: I got something I wanted and he got something he wanted. We were a willing buyer and a willing seller, matched through an electronic marketplace that didn't exist a couple of years ago. We were better off because of this and so, although by an imperceptibly small amount, was the European economy.

How did the transaction proceed? Using the web and e-mail, I searched on eBay, found what I wanted, bid for it and won the auction, agreed the shipping method and postage costs all with the minimum of effort. The total came to around €40. Then came the question of payment. I looked into a bank transfer, but it seemed rather expensive. A cheque wouldn't work, since I have only Sterling accounts and my counterparty had a Deutschmark account. Inexpensive (in fact free) and fast (in fact instant) person-to-person small payment solutions widely used in the US—Paypal, for example, or Billpoint—didn't yet work in Europe (note that Paypal now does work in Europe, and is extending its service to mobiles as well).

The European banks' principal thrust in this area, the smart card-based electronic purse—was useless for the task in hand. Being in the UK, I don't have one (Visa recently shut down their only scheme in Leeds, Mondex in Edinburgh closed earlier this year, and so on). Being in Germany, my counterparty did have one (as do 50m+ of his fellow citizens) but he couldn't use it on the Internet. Even if he had been in possession of a smart card reader connected to his PC, his Geldkarte would not have worked with my British bank account so it would have been pointless (and the situation would have been no different if my bank account was in Euros and his Geldkarte could store Euros, which it can't).

Banks have, in fact, probably done more harm than good with their botched launch of e-cash to the general public. The threat of non-bank competition for the retail payments franchise, and enthusiasm for high technology, led them to ignore poor feedback from pilot schemes. Instead of re-focusing their efforts into areas where the market wanted solutions (eg, the Internet, mobile phones and so on) they continued to push e-cash where it wasn't wanted: shops.

Eventually, thinking about travellers' cheques and so on, I e-mailed my German seller and asked him for his preferred payment method: he said that he'd rather I sent cash! So in the year 2000, to execute a transaction between two of the most advanced economies in the world, on the dawn of the single currency, I put two \$20 interest-free loans to Uncle Sam in an envelope and handed it over to the Royal Mail. A few days later my goods arrived and the transaction was complete. Now this strikes me as an odd situation: one of the most computerised, electronic, global businesses imaginable (ie, banking) is incapable of supporting intra-European cross-border trade and causes trading partners to use US banknotes and the postal service!

So small Net payments in Europe are a shambles. The European Central Bank (ECB) is now getting involved, and their work may yet bear fruit, but it's really a problem that needs addressing outside of the banking sector. The US wants action in this area as well—the Clinton administration has previously called for a new “standard-based mechanism” to handle retail payments on the Net—but in the US market non-banks have been quick to move in with new payment products: not just e-mail payment by PayPal, but phone billing by eCharge, ISP billing by iPin, pre-paid schemes (like mobile phone vouchers) such as the American Express Internet Shopping Card and so on.

I am not arguing that we need more regulation or legislation in Europe: far from it. But we do need to work hard at stimulating competition by removing regulatory barriers to non-bank entrants in the retail payments business. Just to pick one example, mobile operators are an obvious potential provider of payment services, not least because the world of m-commerce is as hampered by the lack of appropriate payment technology as much as the Internet is. The idea of the mobile phone as some kind of electronic wallet is, in any case, already widespread.

Until someone in the UK can e-mail €40 to someone in Frankfurt as easily as someone in San Francisco can e-mail \$40 to someone in New York (ie, very easily), the European e-economy cannot grow like the US e-economy. Who cares whether it is NatWest, Vodafone or Canal+ that provides the service?

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