

EQ **TIMES OF CHANGE**



The vision of MasterCard and Visa
The integration of the European payment markets into a single standardised payments market is well underway. In order to understand how two major schemes within the payment market view these changes and their consequences for third-party processors, we presented ten questions to MasterCard and Visa.

The number of processors is decreasing. In your view, how many processors will be required in seven years?

Visa “First of all, consolidation will take place on a European level. Local and national payment products will migrate to internationally standardised products that can be processed by all processors. I expect an initial increase in the number of newcomers in Europe. This number will, however, go down after some years, as prices will drop due to increasing volume requirements and pressure from competitors. How quickly this will take place depends on the speed of migration and standardisation. It is difficult to give an absolute number of remaining processors.”

MasterCard “Developments within the European payments market provide processors with opportunities to benefit from economies of scale. On the other hand, the changing landscape opens doors for niche parties to enter the market and specialise in, for instance, prepaid services. There is currently a visible decrease in number of processors, and it is possible that this consolidation will continue.”

Will the remaining processors be bank-owned or private equity-owned processors?

MasterCard “I believe both will still exist in seven years, but in a consolidated form and on a larger scale than today.”

Visa “Most processors will probably not be bank-owned, as banks that do not operate

worldwide will focus more on their core business, which does not include processing.”

From a scheme perspective, is there a preference for bank-owned or private equity-owned processors?

MasterCard “MasterCard has a worldwide network, enabling us to collaborate with many different partners within the market. These can vary from third-party processors to alternative payment systems, and from in-house customer processing to domestic utilities.”

Visa “Visa does not have a preference. What matters is that transactions are processed in a fast, efficient and secure manner.”

On what scale should a processor operate in order to survive?

MasterCard “There are two ways of looking to the future – from the perspective of economies of scale, and from the perspective of a niche. The minimum size of a processor depends on the costs and feature drivers.”

Visa “In addition to scale, aspects such as functionality, security, and service affect the survival chances of a processor. There are differences with respect to functionality and innovation in particular. Price is important, but it is not everything. In terms of volume, 10 billion is sometimes said to be the number of transactions required for a processor to survive in the future. But there are too many aspects involved – competition, the speed of European standardisation – for numbers like that to have any real value.”

Equens is a dual processor, focusing on both payments and cards. From a scheme point of view, does that enhance or diminish the survival chances?

Visa “I believe that a dual processor offers advantages. Many banks will want to purchase both. They see it as a one-stop shop. Furthermore, many card payments are converted into payments. A concept like iDeal shows that many card payments start to blur.”

MasterCard “Companies like Equens should, by definition, remain neutral. The banks will choose a preferred brand. For Equens this is a strength and a clear asset for the future.”

The services provided by processors overlap with the services from schemes. These include switching, clearing and settlement. Within these areas, they are in fact competitors. How do you see this?

MasterCard “Processors can operate in a number of countries, whereas cardholders can pay all over the world. MasterCard fulfils a complementary role, ensuring that worldwide issuing processing and acquiring processing are linked to each other via a switch. Furthermore, MasterCard develops additional services, such as fraud tools, data analytics, loyalty and rewards, and up-and-coming payment systems such as mobile payments. These and other services can also be of interest to banks on a local level. In these cases, MasterCard can provide additional services, while local processors can enhance their services to banks and financial institutions together with MasterCard.”

Visa “Just like a few other processors, Equens provides issuing processing, acquiring processing and switching. In the field of switching, we do in fact compete with each other, but only within Europe. Visa provides switching within the entire value chain, as we have a worldwide network for that functionality. On a global level, we are therefore not competitors within that field. This form of competition does not rule out collaboration. In the Netherlands or on a European level, Equens does not need Visa

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to provide switching services for certain banks. However, on a global level we are needed to deliver these services.”

Could a natural division arise between processors and schemes? In other words, do the two grant each other room to develop in a certain direction?

Visa “That is not how it works. Banks will choose a processor or a certain scheme for functional and financial reasons. It is not the case that if a certain party becomes a client of Visa, Visa then grants that party something in return. It does not work that way. It really is a business decision based on functionality and price.”

MasterCard “We see that different issuers and acquirers have different requirements for services. Some services can be provided by both the schemes and processors. Furthermore, there are many fields in which both parties can complement each other. In that way, there can be both healthy collaboration and competition, as long as the client benefits by receiving better and more cost-efficient services.”

The ECB recently held a consultation on separating brands and processing. What are the chances for a processor in that respect?

MasterCard “In the future, issuers and acquirers will have more options on a European level. This will result in different parties offering different services. This could mean that one party provides issuing processing services, while another party provides acquiring processing services, and yet another party is responsible for switching. In order to create clarity, all parties in the payments value chain will have to be able to provide their services separately. MasterCard already offers brand and switching services as two independent products.”

Visa “First of all, Visa Europe provides only a switching service which is a relatively small part of the total processing value chain. Due to the added value that we provide, Visa Europe has a strong service offering

in this part of the value chain. But we do not provide issuing and acquiring processing services. We therefore believe that the processing market today is already open enough for competition between the different providers. Moreover, financial institutions choose a scheme based on aspects such as the degree of acceptance, brand strength, security, and service not on processing capabilities alone, since we only provide a small part of the total processing value chain.”

What will be more important in the future: issuing processing or acquiring processing?

MasterCard “Both will be crucial. It is more interesting to know in which area Equens can offer the most added value.”

Visa “A processor opting for functionality offers both and will become a one-stop shop with full service, and may even offer switching. A processor opting for one of the two must focus on economies of scale. Then it is all about volume.”

I BELIEVE THAT A DUAL PROCESSOR OFFERS ADVANTAGES. MANY BANKS WILL WANT TO PURCHASE BOTH PAYMENT AND CARD SERVICES

Michiel Wielhouwer, VP Country Manager for the Benelux at Visa

What are Equens’ strengths and weaknesses?

Visa “Equens is right to look beyond the national borders to establish growth. The acquisition and collaboration policy is focused and integrated. This prevents Equens from becoming a patchwork. The transition to a world of fierce competition will not be easy. Equens will need to become more commercial and client-orientated, as they will be competing with other parties. That requires a more proactive approach, in particular with the phasing out of PIN (Dutch domestic debit) in 2012, and the entry of international schemes. Equens must prepare itself for that. Parties like Equens can play an important role in determining a strategy for banks.”

MasterCard “Equens can be seen as one of the European parties with growth potential. Furthermore, Equens will need to respond to the demand for complementary services from different market parties.”

