



The Future of Card Acceptance: Lower Costs, Emergence of Pan-European Providers

Due to the credit crisis, many corporates are now pushing for a wider range of cash management solutions, such as account receivable (A/R) and accounts payable (A/P), as well as a card proposition, all rolled into one solution to gain better cash flow visibility. Within this trend, card payments are steadily increasing as a portion of the receivables value chain, from 28% in 2002 to 32% in 2007, in contrast to the steady decrease of other payment methods such as cheques (14% to 9%) in the same period.

Today, treasurers are dealing with a receivables chain that is already almost one-third card payments, and that portion will increase over the next few years, predicts the World Payments Report 2009. Therefore, a cash management bank that intends to provide a complete cash management service to its merchant customers must also have a card proposition in its portfolio. And yet, the European merchant acquiring market remains largely domestic and fragmented.

A Difficult Pan-European Proposition

A pan-European proposition for the point-of-sale (POS) business is very complex. First, there are no international standards, so nearly every country has its own payments schemes, as well as different technical equipment and service levels.

Additionally, even though the POS hardware is the same, each domestic scheme has a different protocol that has to be converted to one that is understood by the bank. Each domestic scheme also transmits different amounts of information.

The array of European languages adds another layer of complexity, in areas such as customer service, billing and reporting. And domestic legal restrictions, such as the data protection law in Poland, present more challenges.

In addition to the aforementioned issues, there are pricing hurdles. Within the European Union there is non-deductible value-added tax, which can put cross-border players at a disadvantage compared to domestic competitors. In some markets, where the issuing banks have a dominant market position, they have forced the (higher margin) issuing business by giving away the acquiring for free. This tactic makes it quite difficult for new players to break into these markets.

The European cards market has seen a number of years with double-digit growth in transactions, but many markets are still relatively underdeveloped compared to the

advanced United Kingdom market (especially with respect to credit cards). The domestic debit systems have led to relatively closed domestic markets and no real pan-European players have evolved with substantial scale.

Market Drivers for Pan-European Card Payments

The competitive landscape has changed significantly over the past two years, with much movement and some consolidation in the marketplace. There has also been a flood of new regulations — the most significant being the Single Euro Payments Area (SEPA) and its legal counterpart, the Payment Services Directive (PSD). SEPA, which aims to make cross-border payments the same as domestic payments, will force the domestic schemes to open up to external acquirers.

The SEPA Cards Framework has set a target deadline for the end of 2010 — when SEPA-compliant scheme cards must have the potential to be accepted at ATMs and POS in all 31 SEPA countries. Effectively, this will mean:

- Open participation for issuers and acquirers in all card schemes with a single license
- Transparent (unbundled) pricing without discrimination against cross-border transactions
- All cards and terminals have to comply with the EMV standard (chip technology)
- Merchants will be able to do business with one or several acquirers and choose which schemes to acquire and from which acquirer

In high probability, the domestic schemes will be replaced by a Europe-wide scheme or migrate to existing international schemes. However, domestic systems will continue to exist, at least for some time.

Innovation is also having an impact on the marketplace. E-wallets and merchant service providers (MSPs), such as PayPal, Moneybookers and ClickandBuy, are continuously grabbing market share from cards in the e-commerce world. Becoming more popular are online payment methods such as giropay (Germany), iDEAL (Netherlands), eps (Austria), etc. And mobile payments and near field communications (NFC) will rapidly gain importance.

Lastly, client demand is driving change. Merchants are demanding quality at a reasonable price. They want:

- Flexibility and quick time to market for innovation
- Speed of POS settlement
- High system availability
- Low cost
- High security standards
- Secure and guaranteed settlement

What to Expect

We predict that cards will see continued growth, especially in e-commerce. There will also be a further commoditisation of acquiring with respective margin compression. SEPA will open markets and foster a European debit scheme, but this will be a process over time. The competitive landscape will change (vertical and horizontal integration, new competitors, etc). And new payment methods will change the landscape and compete with cards, while innovation and technology will bring opportunities and challenges (mobile, NFC, etc.).

Merchants will see a significantly lower cost for card acceptance. They will have the opportunity to consolidate business with fewer providers and optimisation of internal processes and cost.

In the future, there will be more pan-European players, some which may directly handle merchant relationships, or some will act as consolidators, similar to what is seen in the cash management world today.