VIXIO PAYMENTS COMPLIANCE

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Visa/Plaid Tie-Up Fail Will Fuel M&A In The Sector

- **Digitisation, COVID-19 fuelling M&A activity in payments**
- **Visa likely to face more scrutiny following DOJ complaint**

Opposition from the U.S. Department of Justice (DOJ) has led to Visa's decision to abandon its acquisition of Plaid, but this is unlikely to have a negative impact on M&A activity in the payments market this year.

2021 will see continued consolidation in the payments market following an uptick in deals at the end of last year, experts have agreed.

Last year's deals included Stripe's acquisition of Nigerian-based technology platform Paystack, as well as Nexi's acquisitions of SIA and Nets. The latter, subject to regulatory approvals, will create another giant among payment companies in Europe, following the merger of French companies Worldline and Ingenico.

One of the drivers behind the M&A trend is the acceleration of digital payments growth.

"The lockdowns have significantly limited, and in many cases rendered impossible, personal interactions, driving faster payments innovation," **said Aalap Merchant, managing director at Marlin & Associates, a U.S.-based consultancy.**

Changes in habit have also accelerated, a lot of it permanent, thereby fuelling innovation around digitisation and contactless payments, **he explained.** ***"Such innovations led to high M&A activity in 2020 and will help continue the momentum towards a record year in 2021."***

Banks will also continue to buy or try to buy fintech companies, predicted Scott McInnes, a partner at Bird & Bird. "It sometimes takes a long time for them to innovate," he said.

In July 2020, French bank Société Générale announced its acquisition of challenger bank Shine. This was after US bank Credit Sesame's acquisition of Canadian challenger bank STACK in June.

"Consolidation is likely to continue as institutions need to raise capital," said Jonathan Chertkow, UK-based partner at Hogan Lovells.

The impact of COVID-19 means many companies are suffering drops in revenue and profitability as payment volumes decline, he continued.

"They will be looking to bring in additional funding, some of which will come in the form of consolidation," Chertkow said.

Payments and e-money institutions were found to have been badly hit by the pandemic in survey results published earlier this month by the UK's Financial Conduct Authority. A total of 56.4 percent of payment firms said that they were unprofitable during the survey period of June and August, the highest proportion out of all sectors that took part. It was the only sector where the majority of respondents said that they were losing money.

"Payments consolidation will continue for the foreseeable future," agreed Latham & Watkins partner Christian McDermott.

From a commercial perspective, payments processing has historically been a relatively low-margin activity, he said. "It helps to have scale as this also offers the opportunity to do some things better, such as managing credit risk," he pointed out.

"Ever since WorldPay was spun out, there has been an M&A trend in payments," McDermott said, with many of these companies that were spun out from in-house banking operations having now transformed and matured.

Predictions that payments M&A will remain healthy contrasts with the interventionist tactics from regulators in the United States, who took action against Visa, as well as big tech companies, in 2020. This replicates the direction of authorities in Europe, through investigations taking place at member state and EU level, and not to mention the proposed Digital Markets Act and Digital Services Act.

***"Visa/Plaid should actually fuel the acquisition appetite for international card schemes as this is a sign that regulators want more competition to Visa and Mastercard,"* speculated Merchant.**

Following its clearance from the UK's Competition and Markets Authority, the U.S. DOJ sued to block Visa's acquisition of Plaid in November. Although the company released a defensive statement, the payments giant and Plaid announced the mutual termination of their merger agreement on January 13.

"A lot of the outcome depended on the quality of the complaint and the time spent crafting the document," said Mark Falcon, director at regulatory consultancy Zephyre, adding that the DOJ has achieved its goal without the hassle.

"Visa is unhappy of course, as it didn't want all the scrutiny about its pricing and business practices coming out in extended legal proceedings," Falcon said. "However, there is likely to a lot more scrutiny of Visa now anyway, as signalled by the DOJ complaint," he predicted.

Attention has turned to what will happen to Plaid, and whether it will still be bought off by a card scheme, shake up the payments market, or if it could disappear without a trace. "You can go from being a rising star to nothing," said Falcon.

The setback to Visa's plan to acquire Plaid contrasts with Mastercard, which gained approval from the DOJ to acquire U.S. software platform Finicity, a company that provides financial data aggregation.

The card giant also acquired the account-to-account business of the Nordic digital payments platform, Nets, after an approval from the European Commission in August. The following month, it also began a scheme of arrangement takeover of Australian technology company Warmeja, which is due to be finalised by the end of March this year.

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