

Worldline And Ingenico: The What, the Why, And What's Next? Part II

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The combination of the French payments colossi Worldline S.A. and Ingenico Group S.A. spans multiple adjacent, but historically distinct, markets across the payments value chain.

Issuer processing has been an oligopoly of ponderous, industrial-strength scale players such as Worldline, FIS, Fiserv/First Data, Total Systems, SIA/SSB, Nets, and Evry/Tieto. The traditional business model is recurring account and transaction fees on the back of payments growth, five-to-seven-year contracts, and sticky relationships with financial institutions.

Recently, however, there's been a wave of new entrants like Stripe, Adyen, Marqeta, and Tribe. HPS and RS2 are coming up from emerging markets. And, touting a more flexible platform since the early 2000s, last year Georgia-based Corecard won Goldman Sachs's Apple Card. They're starting to challenge incumbent issuer processors around the edges on both sides of the Atlantic.

Worldline's network and interbank processing businesses in markets such as Belgium, Germany, and Holland are generating transaction fees but are all but invisible.

The merchant-acquiring-and-processing space has been hot. Banks are continuing to spin off processing assets. There has been ferocious consolidation, with new entrants offering putative better mousetraps and bundling more value around payments. That's making inexorably growing recurring revenue streams more sustainable.

A giant processor realizing synergies from a major POS-system provider, as in the Worldline-Ingenico combination, is a virgin path. Potentially, the combination can develop a more powerful integrated POS-system

proposition. However, there's a downside. Ingenico sells most POS systems through merchant acquirers and processors with which it competes. The greater its success with integrated processing, the greater the friction with other acquirers.

The Holy Grail has been to develop platform economics in processing and the POS-system business(es). At the dawn of the mobile-payments era, Verifone CEO Doug Bergeron enthused his company enjoyed beachfront property in the coming mobile transformation and consequently would collect tolls to enable commerce.

Ingenico's platform play is Tetra, offering some 800 value-added applications. But Fiserv/First Data's Clover-branded ecosystem of first- and third-party software and services on proprietary hardware is enjoying good growth. Clover hardware shipments increased more than 25% in 2019. "Annualized" payment volume increased more than 40%. Much of that, however, was existing First Data merchants converting, which is still positive as it reduced attrition and fee erosion.

For small merchants, ballyhooed **Square** created the processing industry's strongest brand and continues to enrich its suite of services. It's enjoying heady growth. In the fourth quarter, 2019 revenue increased 40% year-over-year.

Integrating processors in silos is well-trodden ground. Better yet for the Worldline/Ingenico combination would be integrated services end-to-end.

The new Worldline would operate across the payments value chain: offering issuer processing, running a network in Belgium, doing network processing in other markets like the Netherlands, offering merchant acquiring and processing offline and online, and providing POS systems. Touching transactions across the value chain could enable the French processing behemoth to deliver closed-loop benefits, boosting spend for issuers and merchants.

While the colossus will have more scale, a richer product suite, and greater bank and merchant distribution, it won't be more nimble or innovative. There will be diseconomies of complexity.

The combination of two storied French payments players betokens further consolidation. Fiserv, FIS, and Global Payments generate gushers of cash and have access to cheap debt capital to fuel future acquisitions. Worldline is likely to push south into the Latin markets Italy, Spain, and Portugal, where card utilization is significantly less than in Northern Europe.

Nexi and SIA/SSA in Italy, Sistema 4B, Redsys and bank acquirers in Spain, and perhaps Sibs in Portugal could be in French payments consolidators' cross hairs.