WIRECARD TSUNAMI ROLLS ACROSS MARKETS

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The payments world has been left reeling recently, and not solely due to the impact on transactions brought by the invisible enemy', COVID-19. Wirecard, a reputable market leader, collapsed, resulting in millions of cardholder accounts across Europe being frozen. The impact on the financial services industry will be more significant than Enron's collapse was to the energy sector. Who takes ultimate responsibility will be poured over for months.

THE DOMINO EFFECT

Having weathered at least the first wave of a pandemic and seen some return of business in the 'new normal', card programme owners working with Wirecard once again find themselves in limbo. The crash could genuinely be the death nell for some of these programmes through no fault of their own. Time is not on their side and the money needed to revive their efforts is considerable, especially during a worldwide recession. Even if they move to another issuer, they will need to ensure the issuer is integrated with their current processor. For speed, they will need to re-card all cardholders (which won't be cheap) and then hope all existing cardholders re-engage. This takes time to plan and execute, with no guarantee customers will stay and continue transacting at levels they did previously.

Getting the planning right will be a considerable effort and at a time when businesses are considering their operational costs. To be effective, programme owners will need to understand the challenges before them, the likely costs – both in time, investment, testing, and system integrations – and how, operationally, they will manage the roadmap and associated knock-on impacts to pre-planned transformation activities. Questions abound with none being trivial. Do they pause and evaluate the entire programme or do they jump to ensure limited amount of disruption? Options will be made available to them, but at what cost financially and in the long term?

Wirecard clients may not be the only ones enticed into looking for a new processor. Wirecard provided issuing (and processing and acquiring in some cases) for some of the largest challenger banks in Europe. Its collapse and the impact it will have regarding the processing needs of these blue-chip financial institutions provides an opportunity for other suppliers to disrupt the current value chains. This may cause the other programme owners to move processors, which is no mean feat.

DISRUPTION ABHORS A VACUUM

The collapse of Wirecard has created a tsunami that will roll across not only their clients but the market as a whole. It will cause many issuers to further consider the serious impact a choice of processor can have on their card programmes and what that means in terms of time, cost, and effort. Add to this the fact that there still exist markets which are ripe for disruption and the consideration of other options may just prove how much disruption hates a vacuum.

The UK is one such market, ripe for disruption for corporates to consumers, from prepaid to credit. It had some big players, with the likes of FIS, Worldpay, First Data, and TSYS, but, one by one, they chose to remove themselves from the UK prepaid space and opted into debit programmes on a case by case basis. Leaving aside TSYS, who focused entirely on the credit card market, FIS –

given its recent acquisition of Worldpay – has effectively retreated (probably temporarily) to focus on the integration and restructuring of its larger business, and First Data changed direction, opting to focus on the larger markets. This means GPS (a previous challenger) is left standing as the UK processor open to all. How does a market, vacated by the leaders of the past and held currently by just GPS, enable fair competition and choice for tomorrows? How can we provide a diverse payments landscape – when there is only one show in town? A quick review of the UK market in recent years will prove that the desire to offer choice has not been for the lack of trying.

In the last few years, Nordic firm Evry attempted to launch its solutions into the UK marketplace, yet, with its stated focus being only on acquiring the large banks, it was forced to quickly retreat and re-evaluate due to lack of traction. A slew of US processors shortly followed, attempting to gain traction:

Marqueta, Galileo, and Qrails. All are successful in the US and were willing to turn their attention on the UK. Marqueta quickly laid claim to the UK market with its hefty valuation and early investment from Visa. Its two US counterparts opting, instead, to move in more discreetly and deliberately.

With regulators focused on increasing the level of competition in banking, the number of new banks and card issuers gaining banking licenses is causing a demand for processors in the present. Why have so many tried and failed in a market rich with opportunity? Although we would like to think that processing is the simple act of recording transactions, there are many layers of complexity and flexibility that a processor needs to provide even in the most basic scenario. Data, security, compliance, transactions, flexible APIs, and robust reporting are considered "table stakes" for any issuers evaluating a processor.

It is not evident at this point that there are choices amongst the processors in the market which can meet the needs of these newly licensed entities with their innovative platforms, customer growth plans, and investment in infrastructure. Some efforts may be evolving along a path which can meet these needs and, if the need is to be met in the shorter term, it may require importing.

Spotting an opportunity, a group of ex-GPS employees formed Paymentology, a UK-based processing house. Flying under the radar, this group applied lessons learned from the success story of GPS to create a reliable and credible alternative in the space. In a short time, they were powering the likes of Revolut and have become an under-appreciated proven processor. So, who out of this mix of players will support or take the risk on the next challenger?

Nets is a Danish-headquartered processor originally built by the Danish government as the Nordics marched toward a cashless society. Having recently invested heavily in key markets, they could be just the disruptor the UK needs. Nets is a processor of scale, profit making, and has recently invested heavily in their platform to ensure further reliability. If there is a desire to broaden available choices processing, why shouldn't an effort be made to give them a reason to stake a claim in the UK market?

The market is gaining in size and complexity all the time and has the potential to be significantly disrupted by processors that can prove they're scalable, can serve all key groups, and have invested heavily in their infrastructure. New processors, which come to market and disrupt, enter having to compete on price. They will need to trade attractive pricing for the trust those first few clients are willing to place in them over a multi-year contract.

They come to market with newer platforms, flexible configurations, and access to new functions which are missing from the legacy processors. As attractive as the pricing and technological benefits may be, the question unanswered is always "are the new arrivals built to last"? Do you choose the early-stage, innovative offering or work with the older established business and work around any shortcomings?

This is why, as issuers react to the Wirecard debacle and the demand for more choice in markets such as the UK, finding a viable processing option is not a simple matter.

BEST PRACTICES TO IMPROVE CHANCES OF SUCCES

THERE ARE BEST PRACTICES TO FOLLOW WHEN EVALUATING PROCESSORS. THESE HAVE BEEN FINETUNED OVER YEARS OF PRACTICE OF WORKING WITH ISSUERS IN THE AREA:

- CARD TYPES: What do you offer today, and what may you want to offer in future? Not all processors support credit, debit, and prepaid.
- INVESTMENT: What level of investment – both in the past and planned for the future – is the processor making into their infrastructure and the platform. A processing partner must be able to support your requirements today and over the next several years' time.
- SCALABILITY: Wherever you sit on the continuum of size, you will require a processor that is prepared to invest in you, support your growth strategy, and become a true partner to help you grow and meet aspirations. This inevitably means the capability, flexibility, and robustness of their solutions – especially their business continuity and disaster recovery plans.
- SCHEME ACCEPTANCE: Avoid processors that have approvals from only one scheme. The nature of scheme agreements for card issuers is such, that it is often prudent to ensure flexibility to be able to change scheme from time to time, and therefore, a core requirement is the ability to have acceptance of multiple schemes.
- DATA CENTRES: The processors' ability to operate in multiple jurisdictions should be an essential consideration for any growth strategy, given the 'connected' world which allows consumers to shop virtually everywhere and travel across borders when able.
- FLEXIBILITY OF APIS: Financial products strive to evolve, adding more features and regulatory criteria such as Open Banking capabilities. Flexibility will be key to supporting your future needs as the market further evolves.
- THE RIGHT REPORTING: What do you require from a processor for your general, market, and regulatory reporting? Does the processor offer what you need standard in his service, or will you need to pay to get the data you need?

THE BOTTOM LINE

The collapse of Wirecard will create much discussion across the card issuing landscape. The opportunities to re-think the future requirements for card processing have never been more relevant or timely.

Competition is growing, and this is much needed, particularly in the UK. The important points outlined above will help programme owners – and processors – identify their strategic direction while giving them the ability to support a growing card market as cash usage continues to fall.

Our experience of supporting card issuers and programme owners has taught us that when you know and understand the options available well, identifying the right potential partner becomes clearer. Finding that right partner is critical, especially when processor contracts typically range from three to five years. Considering what has happened in just the last two months, that is a long time. The processor is the engine for your payments vehicle and, as such, sustainability, profitability, flexibility and reliability are all key considerations for ensuring that partnership's success.

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