SEPA: Eastward ho?

As SEPA opens up EU national markets, the small scale of card operations in eastern and central Europe means that their attractions need to be kept in perspective

At long last the prediction that the European card acquiring market will be consolidating may finally come true. So far, national champions have stood their ground and cross-border acquiring has been slow to develop. However, SEPA is likely to open national markets and intensify cross-border competition. In the card world, the consequences will affect acquirers, in particular. This raises the question, how existing acquirers should position themselves in order to thrive – or survive – in SEPA.

By Malte Krueger

A belief shared by all experts is that economies of scale are important in acquiring. If this is the case, the first point on the agenda of most acquirers must be growth. And indeed many acquirers are currently looking for ways to expand their businesses. One important option being explored is cross-border expansion.

Acquirers with cross-border ambitions often look towards the group of accession countries which joined the EU in 2005. Most of these markets are young, promise high growth and are characterized by higher margins.

However, before targeting particular markets within Europe, an acquirer should take the time and look at relative size of card activities within Europe.

A look at Figure 1 shows that there are two large markets in Europe with market shares above 20% – in terms of number of payments – and four mid-sized markets with market shares between 5% and 10%. These six countries taken together have a market share of over 75%. All the accession countries (eastern Europe plus Malta and Cyprus) have a market share of 3.7%.

If economies of scale are important, and everyone believes they are, acquirers have to attack the French and/or UK market. These two markets alone account for roughly 50% of card transactions. A market share of 10% in these markets provides a far higher volume then 100% of the accession countries.

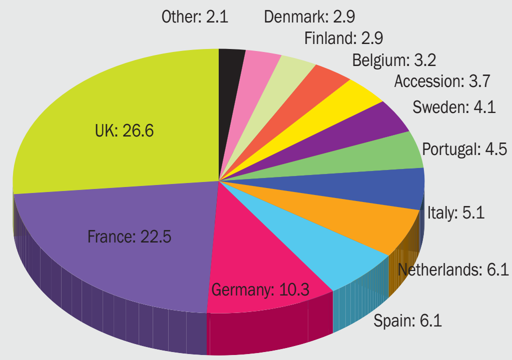
Now it may be argued that this is not relevant because the young markets of the east are likely to grow much faster than those of the west. This is certainly true. As Table 2 shows, growth rates in the east are substantially higher. Between 2001 and 2005, average growth in the eastern countries of the EU was about 33%, whereas in the west it was only 12.1%. In spite of the high growth rates, card usage is far below the average level of the west so, there is still plenty of scope for growth in the east.

For a long-term strategy, does it make sense to look for scale in accession countries? PaySys Consultancy has calculated a 10-year scenario. The assumptions were that countries with fairly low card usage (less than 40 payments per head) will reach a level currently observed in the UK (100 payments). Countries with higher card usage were expected to achieve an average growth rate of card usage of 10% per annum, somewhat lower than the current rate of 12% for western Europe.

Results under these assumptions are shown in Table 4. Accession countries will reach about 101 payments per capita and western Europe 167 payments per capita. The average growth rate would be about 28.5% and in the west about 11.2%.

Even with such consistently high

1: Card Payment Market Shares in EU-27 in 2005



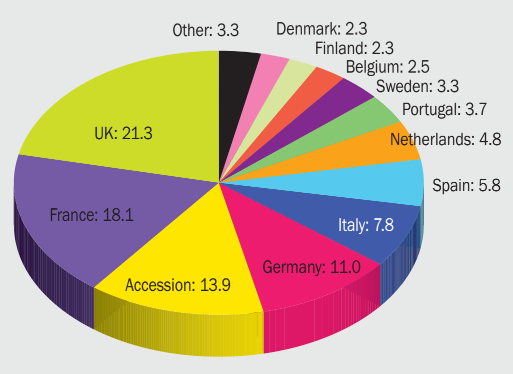
Source: ECB Blue Book, PaySys calculations; figures are percentages.

2: Payments per Capita in 2005 and Growth 2001-05

	Growth 2001-05 %	Payments per capita	Total millions
Belgium	10.1	70.5	739
Denmark	9.3	122.7	665
Germany	9.5	28.8	2,372
Greece	8.1	6.1	67
Spain	11.9	32.7	1,418
France	9.3	83.6	5,244
Ireland	10.9	42.3	176
Italy	12.5	20.4	1,196
Luxembourg	10.0	81.0	37
Netherlands	8.9	86.2	1,406
Austria	18.4	25.2	208
Portugal	9.0	100.3	1,059
Finland	17.1	128.4	674
Sweden	24.4	106.4	961
UK	9.1	102.8	6,189
EU-25	12.5	50.1	23,174
Accession	33.7	8.2	850
West-EU	12.1	57.7	22,411
EU-27	12.6	47.3	23,261

Source: ECB Blue Book, PaySys calculations.

3: Card Payment Market Shares in EU-27 in 2015



Source: ECB Blue Book, PaySys calculations; figures are percentages.

growth rates, the 12 accession countries would still account for no more than 14% of the card volume in the EU-27. The UK and France would still command a combined market share of almost 40% and the six largest markets would have a market share of over 70%.

Thus, from the point of view of gaining scale, the eastern European countries do not seem to be a priority. The only possible exception is Poland, which reaches an EU market share of 5%.

The main reason for this result is the relative proportion of populations. Most accession countries are small in terms of the number of inhabitants. Even if GDP per capita and card usage per capita converge to western averages, this would not change the basic conclusion.

The total population of the accession countries is about 103 million, equivalent to 125% of the population of Germany. On average, that makes 8.6 million per country. If the two largest countries, Poland and Romania, are excluded, the average falls to 4.4 million inhabitants. For these countries, markets would be less than 1 billion transactions, even if they achieve per capita transaction volumes currently observed in the UK.

For an acquirer looking for scale, even in the long run, the economies further to the right in Figure 5 are most interesting, though only Poland is from the group of accession countries.

Economies of scale may not be the prime reason for entering eastern European markets. Many market players in the west are also tempted by relatively high margins they expect to earn in the accession countries. But here, as well, there is reason for caution. Experience with deregulation has shown time and again how fast fat margins can be slimmed down in the fight for market share – a fight that will be intensified by 'SEPA for Cards.'

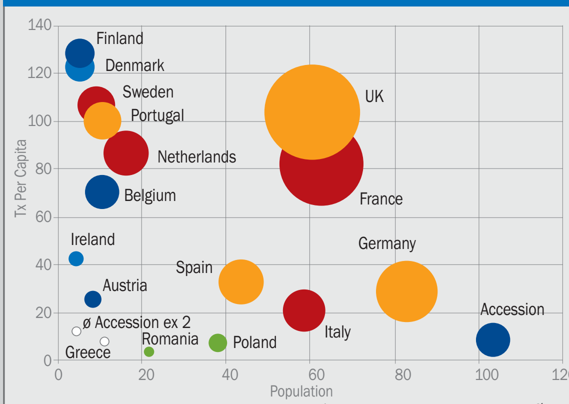
4: Card Payments in the EU in 2015

	Payments per capita 2015	Growth rate 2005-15 %	Share of EU27 in 2015 %
Belgium	183.0	10.0	2.5
Denmark	318.3	10.0	2.3
Germany	100.0	13.3	11.0
Greece	100.0	32.4	1.5
Spain	100.0	11.8	5.8
France	216.9	10.0	18.1
Ireland	109.8	10.0	0.6
Italy	100.0	17.2	7.8
Luxembourg	210.1	10.0	0.1
Netherlands	223.5	10.0	4.8
Austria	100.0	14.7	1.1
Portugal	260.1	10.0	3.7
Finland	333.0	10.0	2.3
Sweden	276.0	10.0	3.3
UK	266.7	10.0	21.3
Accession	101.2	28.5	13.9
West-EU	167.0	11.2	86.1

Source: ECB Blue Book and PaySys calculations.

The conclusion is that an acquirer who wants to be a big player in SEPA needs to be doing business in France and/or the UK. If he is not yet in these markets it is about time to think about an entry strategy. Otherwise, reaching scale may prove to be an elusive goal. ECR

5: Card Payments and Population Size 2005



Notes: red/orange = markets with more than 1bn card payments per annum; ØAccession ex2 = average values for the group of accession countries excluding Poland and Romania.
Source: ECB and PaySys calculations.