

Comment on Visa deal: banks decide they are stronger together

Visa Inc has finally agreed the deal to buy Visa Europe. This is a negotiation that has been rolling for several years, and was always on the cards at some stage.



Visa Europe has been operating independently of Visa Inc and incorporated in the UK since 2004, with an exclusive licence in Europe.

The European banks that own Visa Europe wanted the payments body to stay an association and remain outside of the clutches of both the powerful US corporate owners and also the US regulators. A class action in America is an expensive fight to lose, as was seen in the merchant case over interchange, which cost Visa US\$6bn, and which the merchants are trying to take back to court. The case has been rolling for more than a decade.

On the other hand, Visa Europe banks have had to accept hugely reduced interchange fees after a European Union ruling. It is possible the sums no longer add up for them to stay on their own.

Former Visa Europe CEO Peter Ayliffe was very much an association man and against a merger, but present CEO Nicolas Huss took a very different view. His first job when joining Visa Europe was to complete three staffing overhauls, each one doing a tougher job of weeding out dead wood and unnecessary executives. The same has been done for Visa Europe's systems and procedures. The result is a much leaner organisation that made it an even more attractive take-over proposition. This has been reflected in the deal price that has risen from the estimated Eur9.1bn billion two years ago, to an eye watering Eur21.2bn.

Europe is a strong and still growing region with countless markets that are ripe for development. And Europe is the last piece of a strategic jigsaw for Visa Inc that covers the rest of the globe.

But the Visa acceptance brand has competitive challenges, and these days they come not only from MasterCard and American Express, but China's Union Pay, and the national systems of many other countries, including Russia and India.

There is also the challenge from new payments providers that range from Google, Apple and Samsung through to Bitcoin. Payments is far more complex and unpredictable these days, and bankers risk disintermediation from all directions.

For Visa Europe banks, this is a chance to fill their half empty coffers and appease disgruntled shareholders. For Visa Inc, it is the opportunity to cement its business in Europe before someone else moves in to challenge the status quo.

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And we must not omit to mention what it has done for recently floated WorldPay, which says it will sell its stake in Visa Europe for Eur1.25bn. Quite a windfall for a young plc.