

Anticipated acquisition by Visa International Service Association of Plaid Inc.

Summary of the CMA's decision on relevant merger situation and substantial lessening of competition

ME/6886/20

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SUMMARY

1. On 12 January 2020, Visa International Service Association, a wholly-owned subsidiary of Visa Inc. (**Visa**) agreed to acquire Plaid Inc. (**Plaid**) (the **Merger**). Visa and Plaid are together referred to as the **Parties** and, for statements referring to the market position if the Merger were to be completed, the **Merged Entity**.
2. Visa is a global supplier of a variety of electronic payment technologies, historically providing core solutions for consumer-to-business (**C2B**) payments.
3. Plaid is a US-based technology platform provider that focuses on enabling third party software applications and services (eg fintech developers) to connect with users' payment accounts through a suite of Application Programming Interfaces (**APIs**). In the UK, Plaid is authorised by the UK Financial Conduct Authority (**FCA**) to provide account information services (**AIS**) and payment initiation services (**PIS**):
 - (a) AIS provide a payment service user (typically a consumer) with aggregated online information in relation to different payment accounts held with the same or different payment service providers. This is intended to enable the payment service user to have an immediate overall view of its financial situation at any given moment.

- (b) PIS enable a payment initiation service provider to reliably signal to a payee that a payment has been initiated, thereby giving the payee comfort to complete a transaction (eg to release the goods or to deliver the service) without undue delay. Such services therefore enable consumers (ie end-users) to pay merchants (ie businesses, such as retailers and fintech developers) directly from a bank account, without using a debit or credit card. This is a low-cost solution for merchants and consumers, and provides consumers with the ability to shop online without a payment card.
4. For the purposes of the jurisdictional assessment of the Merger, the Competition and Markets Authority (**CMA**) believes that it is or may be the case that each of Visa and Plaid is an enterprise and that these enterprises will cease to be distinct as a result of the Merger.
 5. The CMA believes that the share of supply test is or may be met on the basis that the Parties overlap in the supply of services enabling C2B payments (including card-based payments and account-to-account (**A2A**) payments but excluding cash and cheques) in the UK. Visa provides these services primarily through its global card payment processing network (VisaNet). Plaid provides such services through its PIS offering. On this basis, the Parties have a combined share of supply of [60-70%], with an increment of [0-5]% brought about by the Merger, based on the number of transactions by UK card- and account-holders and successful payment requests made by UK customers using Plaid's PIS offering.
 6. The CMA therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.
 7. The CMA's assessment involves a comparison of the prospects for competition with the merger against the competitive situation without the merger. In this case, the CMA assessed the Merger against the prevailing conditions of competition but, in light of the dynamic nature of the sector, carefully considered the Parties' respective commercial strategies absent the Merger (including Plaid's expected growth in the UK) within its competitive assessment.

C2B payments

8. The Parties' activities overlap in the supply of services enabling C2B payments in the UK through:

- (a) VisaNet, an end-to-end solution for the processing of credit and debit card payments (**card-based payments**) historically focused on core C2B payments; and
 - (b) Plaid's PIS offering, which enables the initiation of real-time A2A payments without a user having to leave the third party application or website interface (**PIS-enabled payments**). In the UK, PIS-enabled payments are processed on the low-cost Faster Payments Service (**FPS**) network.
9. The CMA assessed the impact of the Merger on the supply of services enabling C2B payments (including card-based payments and PIS-enabled payments but excluding cash and cheques) in the UK. The available evidence indicates that there is already some demand-side substitution between card-based payments and PIS-enabled payments, and that this is likely to increase in future. The CMA also found that there is a degree of segmentation within the supply of services enabling C2B payments in the UK, and therefore sought to reflect the differences between card-based payments and PIS-enabled payments (as well as the possible interactions between these two segments) within its competitive assessment.
10. PIS-enabled payments remain at a relatively nascent stage of development within the UK but are increasingly gaining traction, in large part as a result of open banking regulations. The evidence available to the CMA indicates that the PIS-enabled payments segment is dynamic and rapidly evolving; the number of PIS providers active in the UK continues to grow, with a significant number of fintech developers and traditional payment providers (such as Visa, Mastercard, PayPal and American Express) entering the space in an attempt to capture new revenue opportunities. The CMA also found that consumers and merchants increasingly perceive PIS-enabled payments to be a viable alternative to card-based payments for C2B payments, and that the penetration of PIS-enabled payments is likely to continue in the future.

Loss of dynamic competition for the supply of services enabling C2B payments

11. The CMA assessed whether, and to what extent, the Merger could eliminate competition between Plaid's PIS-enabled C2B payments and Visa's card-based C2B payments. The concern under this theory of harm is that the removal of Plaid as an emerging competitor to Visa could allow the Merged Entity to increase prices, lower quality, reduce the range of its services and/or reduce innovation.
12. While Plaid is currently a relatively small player in C2B payments in the UK, the CMA found that there is already a material degree of competitive interaction between the Parties within the supply of services enabling C2B

payments, evidenced by the extent to which Plaid targets its account funding business at merchants currently using Visa's card-based payments. The CMA also found that the available evidence indicates that PIS-enabled payments will compete more closely with card-based payments in future, and that Plaid is well-placed to become an important PIS provider in the UK because of the capabilities it possesses, such as its existing international reach.

13. The CMA also found, however, that Plaid is one of a large number of PIS providers already active in the UK and that several of these providers, such as TrueLayer, Tink AB (**Tink**), Token.io and Yapily, possess similar (or stronger) competitive capabilities, and potential to develop further, to Plaid. The CMA also found that new PIS providers continue to enter the market and that existing PIS providers seek to expand in a variety of ways, including through partnerships with traditional payment providers. On this basis, the CMA considers that several PIS providers will continue to compete with the Merged Entity in the supply of services enabling C2B payments post-Merger. The CMA notes, in this regard, that the open banking regime in the UK, which standardises PIS APIs, is generally liable to facilitate the entry and expansion of PIS providers within the UK market (albeit while not eliminating competitive differentiation between providers or removing barriers to entry and expansion completely).
14. Finally, the CMA believes that other card operators, self-supply (eg by banks and merchant acquirers building their own PIS solutions), and payment applications are well-placed to constrain the Merged Entity's C2B payment offering, at least to some extent.
15. Taking the aggregate impact of these constraints in the round, the CMA believes that the Merger does not give rise to a realistic prospect of a substantial lessening of competition (**SLC**) in the supply of services enabling C2B payments as a result of the elimination of the competitive constraint imposed by Plaid on Visa.

Foreclosure of rival PIS providers

16. The CMA also assessed whether the Merged Entity could leverage Visa's position in card-based payments to foreclose rival PIS providers by tying or bundling the Merged Entity's card services with its PIS offering. The concern under this theory of harm is that the Merged Entity could foreclose rival PIS providers, allowing the Merged Entity to increase prices, lower quality, reduce the range of its services and/or reduce innovation in the supply of services enabling C2B payments, in particular in the PIS-enabled payments segment.

17. The available evidence indicates that Visa holds a significant degree of market power in the supply of services enabling C2B payments, with a particularly strong position in the processing of debit card payments. The CMA also found evidence that the ability of the Merged Entity to pursue a foreclosure strategy would, however, be limited by the fact that merchant acquirers and merchants often source payment options from multiple suppliers. The CMA also found that large merchants may seek to offer PIS-enabled payments to their customers by partnering directly with PIS providers, rather than via merchant acquirers (and that the incentive to purchase PIS-enabled payments and card-based payments is limited).
18. The CMA also further believes that there are effective and timely counterstrategies that rival providers of PIS could deploy in order to avoid foreclosure, including entering merger or partnership arrangements with acquirers or other significant payment providers with existing connections with merchants to facilitate customer acquisition. The CMA also notes that Visa's main competitor, Mastercard, could also produce a competing bundle (and has already taken some steps to do so).
19. On this basis, the CMA found that the Merged Entity would not have the ability to foreclose rival PIS providers.
20. As the CMA found that the Merged Entity would lack the ability to foreclose rival PIS providers, it has not been required to consider whether the Merged Entity would have the incentive to pursue such a strategy. For completeness, the CMA notes, however, that the pursuit of this kind of leveraging strategy in the UK does not form part of the rationale for the Merger, as set out in the deal rationale documents, and that there is no indication elsewhere in Visa's internal documents that Visa could pursue such a foreclosure strategy.
21. Therefore, the CMA believes that the Merger does not give rise to a realistic prospect of an SLC in the supply of services enabling C2B payments as a result of the foreclosure of rival PIS providers by the Merged Entity.

Decision

22. As a result, the CMA does not believe that it is or may be the case that the Merger may be expected to result in an SLC in the supply of services enabling C2B payments in the UK.
23. The Merger will therefore **not be referred** under section 33(1) of the Enterprise Act 2002 (the **Act**).