Conducted by Catherine Distler (PROMETHEE) and Chris de Smet (Unisys)

Strategic conversation with

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Global system and franchise, local needs

Visa is one of the world's most global organisations, combining centralisation and decentralisation to achieve both efficiency and ubiquity. Can you explain how Visa operates and what the main challenges have been *vis-à-vis* cross-border performance and the implementation of your global strategy?

Hans van der Velde: Visa's structure is highly decentralised. Its business grew out of the US credit card business of the '50s and '60s, a relatively straightforward, single product proposition, but it is a model that has stood the test of time. This is because it has been able to recognise the specific needs of different markets and to adapt as it has grown into a truly global business. For example, in Europe, the card business is primarily debit, with the card linked directly to the customer's current account.

As the global business grew, it became necessary to effectively represent the interests of all of the markets in which we operate. This is done through a combination of regional boards that decide local policy and ownership, and influence over Visa International. Representation on the Board of Visa International is determined by share of Visa sales volume.

This structure creates a unique role for Visa International. The centre must provide strong leadership to ensure *interoperability* both of the physical systems and also of the rules and regulations that enforce *consistency of consumer experience* across the globe, as well as *risk management* to protect and preserve the system.

The decentralised approach operates as close to the market as is necessary. Depending on the number of issuing institutions per country, and therefore the need for coordination at such a level, there may or may not be a national organisation that operates below the regional layer. In essence, each stratum of the hierarchy possesses the necessary authority to coordinate its own system.

Visa EU was incorporated as an independent institution in July 2004. What does this move change for your organisation and for issuing financial institutions in Europe?

HV: As described above, Visa is a very complex organisation, comprised globally of incorporated Regional Group Members – Regional Boards, branch offices, and national organisations – that each possesses certain degrees of independence to handle regional coordination. Both Visa USA Inc. and Visa Canada, for instance, have been Group Members since the creation of Visa International. Likewise, since July 2004, Visa Europe Ltd is now also a Group Member – no longer a corporate branch – and, as such, a co-owner of Visa International in the same way as Visa USA or Visa Canada. Consequently, European banks are no longer owners of Visa International, but of Visa Europe, just as American banks are owners of Visa USA, not Visa International.

Until July 2004, ownership of Visa International was held by Visa USA (approximately 45%), Visa Canada (3%) and the financial institutions that were members of Visa International in the other Regions. Now, Visa Europe directly owns ca. 33% of Visa International, while individual members of Visa's Regions in Asia-Pacific, Central-Eastern Europe Middle East and Africa (CEMEA), and Latin America have the remaining voting rights.

Lastly, Visa International's Board of Directors is made up of representatives from both its Regional Boards and Incorporated Regional Group Members. Its main task is to unify the entire entity, focusing primarily on the *global brand, worldwide system interoperability and risk management*, as well as coordinating regulations and other assorted needs.

Global banks like HSBC issue millions of Visa cards in various regions of the world. Are they comfortable with this decentralised organisation that prevents them from having one principal interface with Visa?

HV: You picked a good name because there are very few retail banks that have global ambitions. Indeed, I would say HSBC and Citigroup are ones. It is a growing trend but today most other large banks have a considerable presence in one country and only maintain a second tier role elsewhere. Thus, HSBC and Citigroup are members in the Regions – and national organisations – in the areas where they operate.

In banking, it is essential to be part of a society's local fabric – legislatively, culturally and infrastructurally – and this is very much how Visa works: we are extremely decentralised and want to be perceived in every country as a local institution. This model directly counters the Coca Cola approach whereby the same bottle, and the same marketing and distribution techniques are deployed uniformly across all regions. I cannot stress enough that retail banking is not a global, but a local business. So, even if banks tried to adopt a single approach to Visa worldwide, they would never be able to apply this in practice. Organisations like McDonald's are also recognising this need to be local.

Of course, it is important for us to be able to coordinate international businesses for the big global banks, and Visa offers multi-regional member management for the banks that have such needs. However, they usually prefer to cede authority to regional management teams, rather than insisting upon a completely uniform approach globally.

In essence, banks seek coordination and economies of scale, but they understand that the cost to develop a system in Kazakhstan, for instance, is not the same as participating in the UK. Differing levels of technological wherewithal also exist, and this is one of the principal challenges we face in terms of efficiently : *balancing our global and local ambitions.*

Yes, nobody is sure as to whether retail banking will ever fully globalise. Consolidation has occurred mostly at the national level, and even the advent of the Euro has not yet induced considerable cross-border consolidation in Europe. Being a privileged observer of the European banking scene, do you anticipate cross-border consolidation of major banks in the near future?

HV: I have great personal doubts about this subject. For example, one can see how difficult it is for a Northern German bank to be successful in the South of Germany, despite common legislation and language. So what about Germany and France? Even within the Benelux region it is not easy.

I strongly believe that over time, Europe will unite as a single market – like the US – and this was another reason for Visa Europe to incorporate: a single market needs a single payment system, owned and controlled locally. So, we are preparing for this development in terms of operating regulations, fee structure and so on, but this cultural process will take decades. In my opinion, it would be a giant leap forward if a major retail bank were to merge with another such bank in a different country.

Don't you now find European institutions and banks as much more committed to payment consolidation than five years ago? The initiatives taken in that field – the Single Euro Payment Area (SEPA), especially – would not have been thought possible a few years ago.

HV: I agree. The political expectation behind the internal market and the Euro was to create an area in which free exchange of goods and services encountered no obstacles and wherein payment structures are as inexpensive as within national borders. Of course, to achieve this objective, an integrated payment system is necessary and if European banks want it to be realised shortly, they understand that there is a need for fluid cooperation and scale building. On a national level, this is why, for very good reasons, they formerly instituted domestic systems like *Interpay* in the Netherlands, *BACS* in the UK or *Cartes Bancaires* in France. However, these systems are historically divergent and were not conceived to handle cross border payments in Euros.

Ultimately, radical changes must take place for a *single Euro payment system* to be put in place. However, infrastructure projects take a long time to execute, in addition there is the *complexity of the system* that needs to be constructed and the lack of common payment standards.

Is the creation of these new payment systems and the incorporation of Visa Europe linked together?

HV: Already, 10% of all personal consumer expenditure at the point of sale in Europe is done with a Visa card. Cross-border transactions develop rapidly and we have by nature a system that easily crosses borders and works in many currencies. So, we want to have that system under our own control and this is a pre-condition for us to be competitive.

How many countries are there within Visa Europe?

HV: Visa Europe covers 34 countries. It means that it is bigger than the EU proper, encompassing the whole European Economic Area, in addition to countries like Turkey and Israel.

However, Visa Europe does not include Russia, Romania or Bulgaria. Nevertheless, if they enter the EU, it is part of our by-laws that they would move automatically into Visa Europe if they wish so.

Is there any difference for Visa Europe between the Eurozone, on one hand, and the rest of Europe, on the other?

HV: For Visa, the difference between the Euro and the Pound is almost irrelevant. Our system has been conceived to cope with different currencies and to operate across borders. In this respect, the transition toward a single currency has not been an issue, even though I am personally in favour of a single currency, as it will force harmonisation, which is important if you believe in Europe. To reiterate, then, from Visa's perspective, the single currency is irrelevant.

Where we might see a difference is between EU and non-EU countries. However, all the countries covered by Visa Europe are aligning themselves – competitively and legislatively – according to the Brussels rules. In fact, I would say Switzerland and Norway are more EU-organised than many other EU countries, and while Turkey has lagged behind in this process, it is presently catching up. Within Visa Europe, Israel probably is the only exception. In accordance with this fact, they too are trying to adapt their infrastructure, legislation and competitive rules to this environment. In total, then, it really is one region.

That is not the same for other countries outside the Region though, and this is one of the reasons we decided to split Europe-Middle East Africa (EMEA) into EU and the CEMEA.

How will the creation of Visa Europe affect your competitive positioning? Is the change mainly internal, or will it have a substantive impact *vis-à-vis* MasterCard and others?

HV: Before assessing Visa Europe's competitive position in a broad sense, let me first detail the competing payment schemes we face.

Cash and cheques, for instance, remain competing payment alternatives but they are expensive and we are replacing them progressively. Domestic card systems form another category of competitors, but by only operating within one national territory – and thus not offering multi-currency services – they are at a notable disadvantage. Based upon these characteristics, our Western European identity and our capacity to provide a broad range of European solutions will make us extremely attractive for the banks.

Last but not least, we have international competitors like MasterCard and American Express. In my opinion, though, they face two distinct disadvantages: first, they are controlled from outside Europe, an unacceptable feature in today's world; second, they don't focus on European solutions. By contrast, the European banks that are members of Visa Europe continually aim to improve coordination measures in the Region, while simultaneously profiting from Visa's global system and franchise. I should point out that Visa USA supports this development because American banks understand that the only way to have a more dynamic worldwide payment system is to have a strong system in Europe as well. And, the only way to achieve such a powerful European network is to have it owned and controlled by the European banks just as the Americans own and control their system.
MasterCard, however, went in the opposite direction and this seems to have been a defensive, not forward-looking, move. Competitively speaking, they had two main problems in that they were an un-integrated organisation and faced a cost problem because they are smaller than us. The only way to solve this latter issue was to *integrate tools*, hence their takeover of *Europay*. Additionally, I think they erred gravely by concentrating too much power and management in New York. Undoubtedly there are advantages to this model, but being 'global' doesn't mean control, it means *cooperation* and *coordination*. In this respect, there is no way an organisation can be 'global' without also being very local; you cannot operate a global organisation from one point!

How and where does the Visa brand bring value to bank cards? Do cardholders place higher value on the bank or Visa brand?

HV: The Visa brand is one of the most well-known and trusted brands in the world. It is extremely important for cardholders to know exactly that any point of sale with a Visa sign will accept his/her card. Thus, payment has to be *ubiquitous* and *universal*: anywhere in Spain, Mexico or Korea you want to know that you will be able to pay with your card and no bank alone can guarantee that on a worldwide basis. However, payment is just a small part of the services banks provide to their customers and Visa has no direct relationship with their customers nor do we issue cards. So, our brand brings a tremendous value to the banks, without in any way encroaching on the value of the banks' own brands. Based upon these factors, I think the brands mutually reinforce.

Globalisation is often addressed from the point of view of corporations, not customers. Do you see a 'global payment culture' developing? Is the difference between 'debit' and 'credit' cards across countries disappearing?

HV: Some sort of global payment culture develops in the sense that more customers understand the benefits and the convenience of a Visa card which can be used anywhere in the world in the same way you do it at home.

However, our role is to develop the market, not to prescribe which detailed model it should adopt. The UK, for example, used to be credit card centric, but has since developed into a dual credit/debit market. In the rest of Europe, though, debit products still account for more than 70% of the business – a key difference versus other global regions. At Visa, we want to have the right infrastructure to allow changes and market development, but I don't see why France, because of our presence, should change to exactly the same model as the UK.

However, you seem to say that some type of market convergence is occurring at the European level. Were the previously different 'market cultures' the result of individual choices or of varying regulations?

HV: European integration is an important driver of market harmonisation. Consider that 15-20 years ago, French banks – most of them nationalised – were not allowed to provide consumer credit, so they needed a different payment infrastructure than in the UK. The same is also true in Germany or Benelux where Eurocheque was a fantastic payment method across Europe, but proved to be a disaster for the banks as the costs they incurred continually exceeded what they were charging the merchants and their customers for this service.

European integration has therefore reduced many regulatory differences, but the culture itself needs more time to change. Indeed, we have to make sure our system can adapt for these various situations. Now as people move more frequently across borders and enjoy the benefits of a single currency system, it is increasingly less acceptable for them not to enjoy the advantages of all the markets simultaneously. To be sure, this liberty is really what they want. This does not mean, however, that they can have the freedom, convenience and flexibility of the UK system, while not paying more for it than previously in Germany. It would be ridiculous.

Nevertheless, we will see everything integrating into a more uniform market because of the EU and the Euro. However, different services and products will have different prices.

Are not regulators looking increasingly at what happens in the payment arena, influencing the prices banks are allowed to charge?

HV: I think that the regulators are interested in two things. First of all, they have a political ambition: they want to create one single internal market. This is understandable. Secondly, they are interested in forging a more efficient marketplace and a substantial aspect of this is to allow as much freedom and flexibility as possible to keep the market place attractive but also to prevent the creation of monopolies. From this perspective, they will certainly seek to ensure serious competition but this should not end up in rigid price regulation.

There has been a lot of debate about Interchange fees[1]. When this discussion emerged, there were a lot of infrastructures in place and regulators seemed to think that everything should be for free.

HV: Interchange is absolutely not understood. I firmly believe that it is something that really makes the system work and the attacks on it come primarily from merchants who, as you suggest, want everything for free. Despite this, Interchange remains the best and most efficient instrument to make a payment-system work. Everybody agrees on that, even the European Commission that granted an exemption to Visa's intra-regional Interchange structure in July 2002. In this respect, card payment strips the costs of cash and checks – which are much more expensive to the economy as a whole than the card – and furthermore, it provides convenience to the consumer. Obviously we could all go back to the purse, but then the real costs should be charged to the merchants as well.

Of course, some competition should exist, but starting to regulate Interchange without understanding how the whole system works is a danger.

How does e-commerce – or should I say u-commerce – stand in Visa Europe's strategy? What specific problems does it raise?

HV: Without cards, there would not have been any e-commerce. That is how it started.

In 2004, 7% of our transactions already resulted from e-commerce and I see

1. The Interchange fee is the fee flowing from the acquiring bank to the issuing bank through MasterCard and Visa to optimise the system, such that there are enough issuing banks (cardholders) as well as acquiring banks (merchants).

the share of Visa cards in this sphere growing; thus far, the number of such transactions we process has exhibited a growth rate of more than 100% annually.
The major problem we encounter today is security and this is key to further accelerating e-commerce's growth. However, although commonly debated, not everybody is yet ready to take the necessary risks to catalyse this process. In my opinion, e-commerce merchants should be the leaders in this field, but in practice we find that it is extremely difficult to agree upon, and implement, an effective security standard. However, fraud is decreasing progressively and is about half what it was two or three years ago as more advanced security measures like *Verified by Visa* have been introduced. As a consequence, consumer confidence is growing.

As mobile commerce expands, is Visa's leadership challenged?
HV: First-off, the growth of *mobile commerce* depends intrinsically on what you can purchase on your mobile, and to date, the options remain limited. Today, one can buy various small things, like ring tones or information, but it is a very small market compared to what can be done on a PC. In the future, I believe mobile commerce will largely exist to facilitate transactions where, and when, no other terminal is available – another way of paying for parking meters, for example – or when convenience is paramount like mobile top ups. Thus, I do not foresee phenomenal expansion but it will create its own market.

As these new technologies emerge, will not banking organisations, themselves, run the risk of no longer completely controlling distant payments?
HV: You mean telcos taking hold of the payment business? A few years ago, telcos were *already* supposed to replace the payment system, but this clearly has not panned out as they anticipated. So, let me emphasise that the issue is not technological. Technology is very important, but there are two other equally essential ingredients: *brand* on one side, and framework of *rules* with international coordination on the other. Telcos could easily enter into an agreement with a bank, but would they be able to do so with 21,000 banks and millions of merchants? How many bilateral agreements would they have to create? How would they manage them? They can bill, but can they get the money?
I *do* believe in m-commerce, just as I believe in e-commerce. But, let me stress that I don't believe that mobile communication will take care of the payment side; that is nonsense. It will be an interesting element of the total e-business climate, but no more.

What are the primary fields in which Visa intends to innovate during the coming years?

HV: Innovation, pure and simple, does not exist if one can predict its direction. We are presently working on a few new products like Visa money transfer, and just about everything related to chip technology and e-commerce. Accordingly, we are looking to make our systems available for processing in the European context but we have no intention of acquiring an automatic clearing house. Nonetheless, our systems could be used for multiple purposes in the payment area as well, so we intend to expand into virtually anything one can imagine in the payment industry.

What about small person-to-person payments over the Internet?

HV: We already have *Visa Direct*, which is a person-to-person money transfer service that operates in conjunction with banks – where you actually get the money on your account. In essence, any organisation that controls money flows is a bank as far as I am concerned. So, if telcos were granted a licence from the central banks to have deposits, then they too are banks – it is all semantics. In the end, we will work with all organisations allowed to take deposits, as they are the banks.

Are Visa Europe and Visa International considering any by-laws or governance changes that could transform it into something more business-like, thus eradicating its cooperative position?

HV: No, this is out of question. There is no reason for it and it would destroy the franchise. The essence of what we are doing is making competitors work together. How could we convince them to collaborate if we were there purely for our own interests?

You could do so as a bank like American Express, but if you want to be truly global, and work with 21,000 banks worldwide, you have to be an association. This is a strength, not a weakness.

In terms of governance, are conflicts of interest between your members potential obstacles to future development?

HV: Of course they are. 50% of our job is running the business and systems, while the remaining half is to reconcile all these multiple interests. That's our daily business.

In practice, nothing is smooth and nice. Even within one country, you can find completely diverging views of our role. And the banks from any country, taken altogether, have wholly different ideas of what Visa's role should be in Europe than the rest of Europe has. Coordination, and finding the biggest common denominators between our members, is at least half of our business. What you see – the card, the brand and the fantastic possibility of inserting your card into any terminal or ATM to get money wherever you are – that is all the result of the other 50%.

Lucio Loubet

9ème série de la Métamorphose n° 10
(81 x 60 cm)