

CHARGING AHEAD

Mastercard, Visa battle for customers as the credit card industry changes

BY EILEEN ALT POWELL
AP Business Writer

NEW YORK — The credit card industry is anything but static these days, with new products and services coming at a fast pace.

Carl F. Pascarella, who has been president and chief executive officer of Visa USA in Foster City, Calif., for a decade, calls this "a revolutionary time."

"The technology is changing so rapidly that I think we're on the edge of significant breakthroughs" in how credit and debit cards are used and processed, he said.

Pascarella spent more than a decade with Visa's Asia-Pacific division in Tokyo before moving back to the United States, where he now heads Visa's largest regional operating unit. It's a nonstock corporation owned by the nation's banks.

Visa USA has just passed the \$1 trillion mark in transactions per year; it had reached the \$1 billion level in 1971. Debit, credit, prepaid and commercial transactions are processed at rate of \$32,000 a second.

The industry has weathered serious legal challenges. Visa and MasterCard in October 2001 lost an antitrust case brought by the Department of Justice, which is currently on appeal. Earlier this year, the card companies agreed to settle a class action suit brought by Wal-Mart and other retailers, who charged that the companies' policies forced them to pay more for debit card usage because of the linkage to credit cards. Visa agreed to pay \$2 billion and MasterCard \$1 billion and both lowered transactions fees to settle the case.

Pascarella spoke to The Associated Press about Visa and directions in the industry.

AP: You recently said, "We're no longer a credit card company, we're an electronic payments company." So just where are you taking Visa USA?

PASCARELLA: If you take a step back, Visa when it started was primarily a credit card company. In the mid-1990s, we made a concerted effort to mainstream debit. And today, debit is 51 percent of our transactions and about 30 percent of our sales volume, and it's growing about 25 percent year over year. ... We've put a lot of time and effort into developing a commercial suite of products. They're growing at significant rates. So while credit is important, we look at ourselves as providing a payment solution overall.

AP: The key is to get people to stop using cash and checks, right?

PASCARELLA: Personal consumption expenditure is about \$17 trillion, and we're 12 percent of that on our own. All the other card programs are roughly 12 percent as well, combined. So if you look at that, we're just scratching the surface. What we're all about is growing the entire payments industry. The growth engine is all about providing value to consumers and giving them the opportunity to use whatever payment device they want to use whenever they want to use it. We'll never get to a cashless or a checkless society. What we're looking for is less cash and less checks.

AP: How has the industry been affected by the recent court ruling in the Wal-Mart case?

PASCARELLA: First of all, we're very, very happy to have Wal-Mart behind us. We at Visa have three major parties to make the



CARL F. PASCARELLA

whole value proposition successful — the consumer, naturally, the merchant and the banks. I think now with that lawsuit behind us, we have an opportunity to go back and work with the merchants the way we have in the past. ... The merchants are interested in, they're interested in guaranteed payment, they're interested in the consumers being able to get through the store and buy their goods or services.

AP: What innovations do you see coming in the card business?

PASCARELLA: We have to take what we have today to the next level, over the horizon, to new payment devices. Recurring payments, and — it's all about using the Visa structure of the products and the services we have, the infrastructure of our telecommunications network, the infrastructure of our clearing and settlement. Among the products and services we have is the Payroll Card. So many people today are unbanked, they don't have bank or checking accounts. So we've offered to corporate entities the opportunity to pay their employees with a Visa Payroll Card. That Payroll Card is reloaded, and they (consumers) can use it everywhere Visa is accepted. So instead of having to go to a check cashing service, and paying a fee there and carrying around large sums of money, they now can carry a Visa Payroll Card, which is safe and secure.

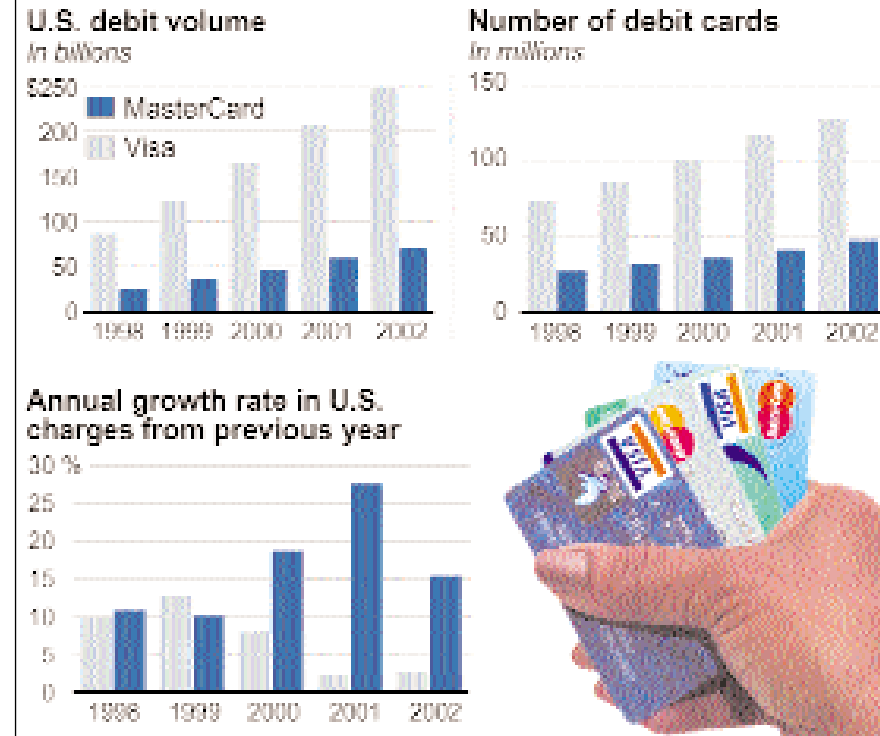
AP: Why not one card that can validate a check today, work as a debit card tomorrow and a credit card the next day?

PASCARELLA: That would require chip cards, which have been very slow taking off in the United States. The reason is that we haven't had a compelling value proposition that would make it cost efficient. We have the lowest telecommunications costs in the world. The reason chips are as prolific as they are in Europe is because the cost of telecommunications is so high, and it's very hard to validate transactions using telecommunications. That's why they use the chip in terminals. It doesn't transmit it anywhere; it validates and controls the transaction at that terminal. ... A chip has 80 times the data capacity of a magnetic stripe, so you would be able to put all your relationships on a chip. But again, we have to have a compelling value proposition to get that technology in the marketplace.

AP: Isn't business use of cards another growth area?

PASCARELLA: Small business to us is very important, and it's one of the fastest growing segments of our business. Three to

Although MasterCard is leading in credit card growth in the United States, it's still behind Visa in debit cards and total dollar volume.



SOURCE: Credit Card Management

four years ago, we virtually were abdicating that market to American Express. We've moved significant market share in the small business area, in the middle market and in the corporate area away from American Express and into the banking system. Another of the things that we've done is the Visa Commerce program. This is primarily for big B2B purchases. ... The way it works is that you get authentication for the buyer and the seller, and they just use our infrastructure to make their transactions happen. The technology is changing so rapidly that I think we're on the edge of significant breakthroughs.

AP: Consumers have some concerns about credit cards, notably taking on too much debt. What can Visa do about this?

PASCARELLA: The interesting thing about that is that a financially uneducated consumer — people who don't understand the responsibilities or how to deal with credit in the right way — is not good for Visa, is not good for the banks, is not good for the merchant because everyone loses. So it's in everyone's best interests to make sure that we have an educated consumer that understands how to use credit prudently. We have been very aggressive in working with credit counseling organizations. We have a program that we call Practical Money Skills for Life. So we're all about educating consumers.

AP: What's the most unusual thing you've purchased with your Visa credit card?

PASCARELLA: We've paid for horse shoeing. My wife rides a lot. I've bought a lot of stuff in Asia in the markets — pottery, watches, various and sundry things.

Expanding into checks and cash could put Mastercard in lead

BY EILEEN ALT POWELL
AP Business Writer

NEW YORK — For MasterCard, catching up with its main rival, Visa, would be priceless.

Although MasterCard is the leader in credit cards in the United States, with 315 million to Visa's 263 million, it's still behind Visa in debit cards and total transactions.

Ruth Ann Marshall, president of MasterCard International's North America division, doesn't see Visa as the main challenge. Since card usage accounts for just a little more than \$3 out of every \$10 that consumers spend, MasterCard is focusing on getting Americans to give up their checks and cash, she said.

"The biggest opportunity for all of us . . . is cash and checks," Marshall said. "There's still huge room for growth."

Marshall describes herself as a corporate brat, the business world's equivalent of an army brat. That's because her family moved 15 times before she was 18, following the career of her father, now-retired AT&T executive Charles Marshall.

"He absolutely imbedded in me that people are your greatest assets, that you need to treat every individual with all the dignity and respect they deserve," she said. "I think that's carried me a long way."

MasterCard International, headquartered in Purchase, N.Y., is a privately held association of banks. It has five geographic divisions, the largest being Marshall's North America unit covering the United States and Canada.

Consumers worldwide used MasterCard-branded cards for 13.6 billion transactions valued at \$1.14 trillion last year — nearly double the volume of five years earlier.

Marshall recently spoke with The Associated Press about MasterCard and the payments industry.

AP: Where is the payments industry headed?

MARSHALL: In all areas of the world, there's tons of opportunity for growth in payments. At least in my markets, only about one-third of the payments right now are electronic. Yet the biggest opportunity for all of us — and the biggest competitor — is cash and checks.

AP: How do you get Americans to give up their checks and cash?

MARSHALL: I think one way we do it is through our "priceless" advertising — to put our cards at the top of the wallet by talking to the heart and giving examples in life of where you might use a card to make a priceless experience for yourself. Another way we do it is through our rewards programs. Then I think it's really focusing on where cash and checks are more prevalent. Cash is most prevalent in the sub-\$40 purchase. So then you look and you say, OK, who serves the needs of customers sub-\$40? And it's movie theaters, it's fast food. We'll work with those merchants to make credit cards available in those spaces. ... On the flip side, where do most people pay with checks in addition to the supermarket, which is moving greatly to debit? It's the habit, especially in the United States though not so much in Canada, of sitting down on a monthly basis and writing your monthly bills. So who offers recurring payments? Utility companies, mortgage companies, gym memberships. So we go out and work with them.

AP: Why do you think the debit card has shown such spectacular growth, and will it continue?

MARSHALL: Convenience. It's fast, it's secure and it's more readily available for young people who might not qualify for a credit line. It enables you to manage your finances responsibly because when you're using that card, it's taking money directly out of your account so you're only using money that you have. We see the largest takeup with young people in urban environments, on both coasts. Credit is growing in the high single digits, and debit is growing 2 1/2 times that.

AP: Retailers led by Wal-Mart recently won a major lawsuit against Visa and MasterCard that charged that the companies' rules forced



RUTH ANN MARSHALL

them to pay excessively high fees for debit card transactions. How do you think this will affect the industry?

MARSHALL: The main effect I see is that the clout and the voice of the retailers is more prominent than it was before. For me personally, I'm delighted to have it behind us. ... Now we can focus on all the opportunities out there. I don't see retailers rejecting debit cards because the retail environment is so competitive. ... They have to be very sensitive to the consumer's decision at the point of sale what they want to have at the top of the wallet.

AP: MasterCard is No. 1 in credit cards, but still No. 2 in overall transactions to Visa. What are you doing to increase market share?

MARSHALL: Our share is growing overall at the expense of all the competitors in this space. Our goal is to become the global payments leader. I look at it like the three legs of a stool: First, working with the banks, we want to be — and I believe we are today — the best business partner, the most flexible business partner that thinks in terms of solutions to enhance the profitability of that bank. Second, we work with key merchants in key categories to put together preference campaigns, where they will pull or prompt from MasterCard over other forms of payments. ... The third leg of the stool is the consumers, and that's the 'priceless' part.

AP: What innovations do you see coming in the card business?

MARSHALL: Smart card, chip card, stored value card. We have 127 million of those now, branded MasterCard around the world. ... We're already seeing growth in the prepaid area, with gift cards, payroll cards for the unbanked, FSAs (flexible spending accounts) where you can put your medical allotment for a year on a card and then tap that throughout the year.

AP: Tell us about PayPass, which you began testing in Orlando, Fla., late last year.

MARSHALL: We have 61 merchants and 16,000 cards out there circulated by Citigroup, J.P. Morgan Chase and MBNA. ... When you go to a McDonald's or Loews theater or Dunkin' Donuts, you just tap the card on a reader and go. You don't have to wait to check that you have the amount and then sign. We're right in the midst of gathering the data and tabulating the results. ... It looks like the dollar amount, on average, and the number of times the card has been used is significantly above the norm. I'm hopeful that you will see it roll out nationally soon.

AP: What's the most priceless thing you've done with your MasterCard?

MARSHALL: I moved to New York City a year ago, and I traded in my SUV for a Mini Cooper and I paid off the balance with my MasterCard. To me that was fun. It's yellow and black, it's like a bumblebee.