Why New Chief Should Take Visa Public

ERIC GROVER

Can Visa U.S.A.'s new CEO, John Coghlan, be a consequential leader, as Dee Hock and Chuck Russell each were, in different ways, in their eras?

Hock was Visa's pioneering architect and evangelist. Russell institutionalized the system.

Today, legal and regulatory assaults, and innovation anemia, challenge the payments Goliath. Coghlan can address these threats in one fell swoop.

He should move quickly and forcefully to change Visa into a for-profit public enterprise.

The bank card payment system was the 20th century's greatest retail financial services innovation. MasterCard and Visa were its trailblazers. Their approach of a semi-open multiparty contractual web, with payment networks at the center, member financial institutions, merchants and cardholders, and a value-enriching constellation of technology, processing, and services providers, was more robust than proprietary payment networks.

In the early years the bank card payment networks were bank utilities, in many respects. Cooperative joint ventures owned by and serving banks facilitated their collaboration. The model catalyzed creation of a powerful distribution network, enabling widespread acceptance, mass issuance, and utilization.

But Visa's paramount problems have changed. At this perilous juncture it needs thoughtful, independent, and muscular leadership. While Visa, arguably, has not always been well served by strong leadership, it is badly served by weak leaders.

Coghlan is not a payments guy. Hopefully he will quickly find his sea legs, step up, and make his mark by transforming Visa into a for-profit public enterprise.

A Visa IPO would have multiple benefits. Perhaps foremost from the standpoint of Visa's banks, an independent Visa would shield them from potential liability, direct and indirect.

Success and money attract plaintiffs' attorneys and regulators. Visa is a natural target. A bare handful of giant issuers and their interests dominate the payments colossus. Recent lawsuits have named these deep-pocket member banks in addition to the payment associations. Litigation risk looms large, and the catastrophic downside is imponderable.

An independent Visa would itself also have significantly less legal and regulatory risk.

The argument that Visa is a consortium of banks fixing prices, stifling competition, and extracting monopoly rents from merchants has been a powerful, often critical, undergirding rationale invoked by regulators and plaintiffs' attorneys to attack and regulate Visa, in jurisdictions worldwide. If Visa were genuinely independent this argument would be moot. Moreover, regulators' notion, which has been all too docilely accepted by banks and the associations, — that payment networks should be treated like public utilities — would be more difficult to sustain.

There would be positive as well as risk-avoidance benefits. Spun off from banks, Visa management would invest their creative energies in enhancing payment products and developing new markets, rather than plotting litigation strategy and kowtowing to regulators.

Having public stock would give Visa a new instrument for growth: an acquisition currency. Public payments companies such as First Data, eFunds, and Global Payments use M&A to enrich their offers and expand served markets, thereby building shareholder value.

An IPO would monetize the value banks have built up in Visa. Its revenue totaled $2.4 billion in the year ended last September. Visa U.S.A. is the country's premier payment network, with immense upside potential. It should command a significantly higher valuation revenue multiple than First Data's Concord and Metavante's NYCE acquisitions.

Banks would dividend cash to their shareholders, invest it in developing or acquiring additional businesses, or hold Visa shares.

However, for humongous issuers there might be a downside. B of A and Chase, quite naturally, view Visa as their captive utility. Everything else being equal, neither bank has an interest in an innovative, independent network payment service provider enabling smaller banks to compete more effectively and serving constituencies such as retailers and mobile phone operators.

But everything else is no longer equal.

Visa sits just north of Silicon Valley, the world's North Star of innovation and competitive verve. The contrast is stark.

The most important IPO benefit would be transforming an arrogantly complacent, sclerotic, risk-averse organization, whose first instinct is to use its bylaws to preempt competition, into an innovative competitor, aggressively engaged in the market arena, keen to develop new products and markets.

Reward systems, cultural and financial, drive organizational behavior. Stock options are a powerful incentive, aligning management's and shareholders' interests. Unfettered, incented, enterprising Visa management would cultivate new markets.

For instance, the idea that Visa is and should be a "bank card" payment system is an outdated artifact of its origins. Financial shareholders would take a different view of letting mobile phone operators issue, acquire, and co-develop Visa products.

When Visa was launched, the payment networks services market barely existed. Today it is a dynamic market, with for-profit Amex, Discover, First Data, eBay's PayPal, and others vigorously competing with the slower-footed bank card payment behemoths.

Visa needs to adapt its governance to the market reality. Markets work better than clever attorneys, judges, and regulators in determining optimal POS payment use and pricing, from the standpoint of satisfying millions of consumers and merchants.

It is high time Visa adapted its governance to defuse legal and regulatory threats and position itself as a 21st-century exemplar of payments innovation. Coghlan can best serve consumers, merchants, most banks, employees, and Visa's future by spearheading a Visa IPO.

Mr. Grover is a partner at Intrepid Ventures, a Menlo Park, Calif., corporate development and strategy consulting firm that specializes in financial services, technology, and payment systems. He was the manager of VisaNet sales for Europe, Middle East, and Africa at Visa International from 1991 to 1993.

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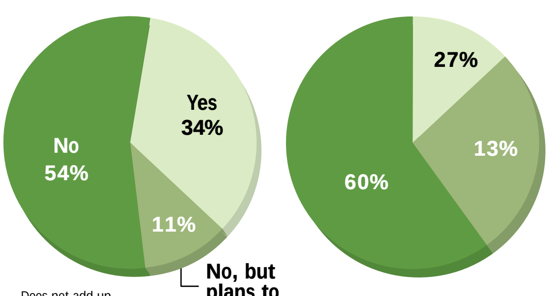

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LETTER TO THE EDITOR

OCC, OTS Fill-Ins Did Great Jobs

To the Editor:

I suppose that the image in Washington of an acting agency head has been one of a caretaker, someone who made sure that the grass got watered and the bills got paid.

If that is so, then it is a good thing that Julie Williams and Rick Riccobono were iconoclasts. Recently completing their service as acting heads of the Office of the Comptroller of the Currency and the Office of Thrift Supervision, respectively, Williams and Riccobono and their agencies generated an impressive array of achievements and productive activities, and the banking industry and nation are the better for it.

Bankers and their regulators have been faced this year with a daunting set of regulatory issues — many of them controversial and nearly all of them complicated — that directly affect the ability of banks to serve their customers. It might have been easier to leave these issues for the new guy, but that approach does nothing for customers.

It is great to have Comptroller Dugan and OTS Director Reich on the job — there is plenty of work for them to do — but fortunately for all of us there has been no sleeping on duty at the OCC and the OTS.

Wayne Abernathy
Executive director
Financial Institutions Policy and Regulatory Affairs
American Bankers Association

Editor's Note: The author is a former assistant Treasury secretary for financial institutions.