



PRESERVING TRUST, LISTENING TO THE MARKETPLACE AND RELENTLESS INNOVATION: THESE ARE THE GOALS THE PAYMENT CARD INDUSTRY HAS TO WORK TOWARDS TIRELESSLY IN ORDER TO GROW ITS SHARE OF THE MARKET AND RETAIN THE LOYALTY OF THE CONSUMER, WRITES **JOHN PHILIP COGLAN**, PRESIDENT AND CEO, VISA USA.

A SECURE FUTURE

Our industry is going through a tremendous transformation, raising questions and uncertainty. Yet at the same time, there are equally tremendous opportunities for us if we innovate and pursue new directions. Successfully navigating this period of change will require imagination, fearlessness and, perhaps most importantly, collaboration and partnership.

In just a few decades, the payments industry has dramatically altered the way we live, work and pay. What began as a simple, though revolutionary, credit card has evolved into a wide range of payment options that have made payment faster, more secure, more convenient and more rewarding than ever before.

Together, we have collectively brought payments a long way from the first cards in the late 1950s. Remember them? They were designed to extend credit to the elite. They involved cumbersome, manually processed transactions with authorisations obtained via a telephone call.

Fraud prevention consisted of a store clerk who checked a warning bulletin the size of the Manhattan Yellow Pages. And physical paper sales drafts were shipped around

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the country to support settlement. Now, as a result of both our cooperation and our competition, we provide a comprehensive set of electronic financial management tools for consumers and businesses around the world that process transactions in seconds.

The key to the industry's success can be summarised in one word: innovation. We've achieved what many thought impossible by taking risks rather than playing it safe.

And let's look ahead just four years. The Nilson Report predicts that credit, debit and stored-value card transactions will surpass cash and cheques combined in 2010. That's a tremendous milestone. But we're looking toward new milestones that will mark the first decade of the millennium as a period of unparalleled expansion of electronic payments.

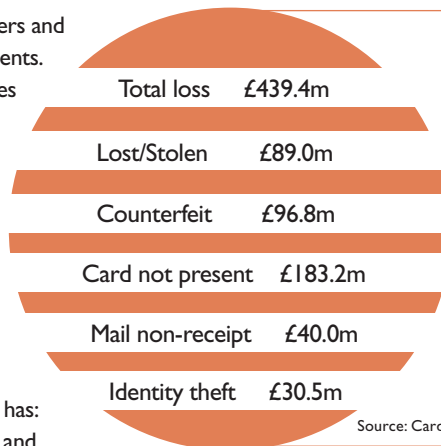
Securing the industry's future

There are still remarkable opportunities for growth. Consider that, despite our gains, when we look at consumer and business spending, we still see \$21tn spent through cash and cheques every year.

Migrating that \$21tn to electronic transactions is a massive opportunity for issuers, acquirers, technology developers – and for Visa. Given this industry's track record of success, we could easily look at this opportunity as an inheritance – but we will have to earn every bit of it.

To do so, I think that Visa, and the payments industry in general, must do three things:

Card fraud: 2005 UK figures



TACKLING UK CARD FRAUD

Figures released in March 2006 by APACS, the UK payments association, show total card fraud losses fell by 13 per cent compared to 2004. This fall is attributed to chip and PIN, which has already resulted in a reduction of nearly £60m in combined counterfeit and lost and stolen card fraud losses – a fall of 24 per cent – and in mail non-receipt fraud, which fell by 45 per cent. The only area of card fraud to rise was that of internet, phone and mail order transactions – known as card-not-present fraud – up 21 per cent on the previous year.

Source: CardWatch

- We must preserve the trust that consumers and businesses have placed in electronic payments. This will require confronting our challenges head-on.
- We have to do a better job of understanding the marketplace and anticipating its needs. We have to do a better job of listening to emerging market segments. They represent opportunity knocking.
- We have to open the door. We have to unlock those opportunities by using the most valuable tool the payments industry has: our ability to innovate. We have to create and adapt new solutions.

These are our three imperatives – preserving trust, listening to the marketplace and innovating.

Security

Security is the single greatest challenge to future growth. Driven by increasing breaches in data security across a variety of industries, the cost of fraud on an absolute basis continues to rise for issuers, acquirers and merchants alike. Even more importantly, those who commit fraud have become far more sophisticated in exploiting system weaknesses. So when there is a security breach, the impact on a particular group of banks, merchants or cardholders can be pronounced – and very newsworthy. Consider the nearly steady stream of highly visible security breaches we've seen this year – most recently, the theft of PIN numbers from a prominent merchant.

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If consumers don't trust us to protect their data, it doesn't matter what the actual security statistics say. Erosion in confidence will simply lead consumers to use other forms of payment because all systems of value exchange have, at their core, the trust of participants.

As an industry, we can't simply settle for pointing a finger and saying, 'It's not my problem'. The fact is, it is your problem and it's also my problem. It's a problem facing all of us in this industry. I realise that many of us would rather focus our talents elsewhere. Security is a thorny, time-consuming and expensive issue to tackle, but we cannot afford to address it in a piecemeal manner.

Investing in fraud prevention

At Visa, we recognise the need to make data security a way of life. But no one of us can solve this problem alone. Visa is committed to being a key player in bringing the industry together to deal with this problem. Firstly, we're significantly increasing our investment in security-related technology and processes to safeguard our systems and

protect cardholder and merchant information. This money is being directed to a variety of projects. We're hardening our systems to prevent hackers from getting in and to prevent information from getting out. This includes firewalls, intrusion detection and vulnerability assessment.

Secondly, we're increasing protection for cardholders at the point of sale through investments in such programmes as Advanced Authorization, which detects fraud before it occurs. Thirdly, we're increasing efforts to improve industry compliance with payment card industry (PCI) standards. Less than a year ago, only 2 per cent of the top 200 merchants were in compliance with PCI standards. Today, it's about 20 per cent, and we expect that to reach nearly two thirds by the end of the year.

While that's substantial progress, it's insufficient to the task. We have to work with merchants and the industry to identify roadblocks to compliance and remove them. As an example, some merchants have told us that communications around the PCI were unclear. We're trying to address this by communicating more often and, when appropriate, directly with merchants.

Innovation is the fuel that drives our industry. And successful innovation is rewarded with growth; the two are inextricably linked. At Visa, we're focused on a growth strategy that relies on innovation to deliver more ways and reasons for consumers and businesses to choose Visa and more places in which they can use Visa.

Together, we can take advantage of the infinite opportunities ahead. Together, we can pursue new directions and meet the needs of more consumers and businesses than ever – in more ways than ever. We look forward to working with our industry partners more closely to enable the enormous potential of electronic payments. FBA

JOHN PHILIP COGHILAN

John Philip Coghlan is president and CEO of Visa USA, responsible for setting the strategic priorities that will enable Visa USA to extend its industry leadership. Coghlan also oversees and guides a senior management team responsible for executing Visa's day-to-day operations, with a focus on delivering increased value to all stakeholders in the electronic payments chain, including Visa's members, cardholders and merchants.

Secure knowledge

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