

What MC, Visa Can Learn from Wal-Mart ILC Bid

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By Eric Grover*

To the Editor:

In "Bankers Mishandled Wal-Mart's ILC Effort" [Jan. 19, page 10], Duncan MacDonald cuts through the fog of self-serving posturing which attended the debate and obscured banks' and their Washington accomplices' intention to prevent financial services competition.

Banks lobbied shamelessly to forestall the behemoth retailer's challenge. And why shouldn't they have? Retailers offering financial services wouldn't serve their shareholders. Banks have a long-standing record of persuading lawmakers and regulators to shield them from competition.

In the rough and tumble of the political process, those who do not vigorously make their case are likely to be trampled. It is surprising Wal-Mart, renowned for playing hardball with MasterCard, Visa, and suppliers, tried to appease its critics.

There's a lesson MasterCard and Visa should take to heart. Entreaties to policymakers to do the right thing often fall on deaf ears, especially in the absence of political pressure.

Politics, for better or generally for worse, has enormous, often decisive influence on the market. Politics is a contact sport. Nonbank actors need to take the gloves off.

Retailers are running anti-interchange ads in Vermont with a view to influencing the new chairman of the Senate Judiciary Committee, Patrick Leahy. Regulatory tom-toms are beating in Brussels. The Polish competition authority just eliminated interchange. In an environment where their critics are mobilized, appeasement won't work. MasterCard and Visa need to relentlessly make an aggressive affirmative case in the public arena, or, like Wal-Mart, they will suffer for it.

The market and roles have changed. In a world in which major card payment networks are genuinely independent of banks, the retailing Gargantuas', MasterCard's, and Visa's interests may soon align.

Card payment product issuing and banking could be decoupled, in which case banks would simply be one among a range of competing classes of payment card issuers, stitching together and managing relevant product components.

Third parties in between banks, retailers, payment networks, and consumers may well craft products and own the customer relationship. More than ever before they can serve consumers and steward or indeed own the product, sourcing payment products from the networks, credit from a bank, merchandise promotion and loyalty

from a retailer, health-care discounts from an insurance carrier, etc.

Wal-Mart and its consumers could benefit if it issued payment products directly, bypassing banks entirely. This might also affect its view on interchange. In the event, one would hope banks look to step up their game in the market rather than inside the beltway.

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Editor's Note: Intrepid Ventures, a Menlo Park, Calif., corporate development and strategy consulting firm, specializes in financial services, technology, and payments systems. The author of the above letter was the manager of VisaNet sales for Europe, the Middle East, and Africa at Visa International from 1991 to 1993. He holds stock in MasterCard Inc.