

## **Nonbanks in the Payments System: Innovation, Competition, and Risk**

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Session 3: Competition: Vertical Integration

Panelist Remarks

Moderator: Kenneth Posner, Managing Director, Morgan Stanley

Panelist: Trey Jinks, Senior Director, Corporate Strategy and Planning, TSYS

### **Mr. Jinks: [remarks correspond with handout]**

I wanted to give you a brief history of Total System Services.

Total System Services is our trade name. We are known as TSYS now because we kind of fit in that both camps here on the nonbank and bank role in the payments system by virtue of our ownership structure.

We were formed as basically an in-house data processing group within a local bank in Columbus, Georgia, called Columbus Bank & Trust, now known as Synovus, which is a southeastern regional bank holding company. We as Total System began processing for other banks as that division back in 1974 and ultimately were spun out of the bank in 1983, though Synovus owns 81 percent of TSYS even though we are both public companies.

We are very successful in third-party processing. We fit in both camps on the nonbank and bank side from a regulatory environment. Today, we are recognized as a global leader and outsource service provider in the payments industry. We have presence in more than 75

countries around the world, though our dominant presence is in the U.S. market.

We always go back to our core competencies of what it is we do and what we do well. It always comes back to people, the service, and the technology. I will add a little more to that later when we get to the discussion about vertical integration.

Just to give a frame of reference for those of you who do not know TSYS, we processed at year-end 2006 about 464 million credit card holder accounts for 1 million merchant locations and, over the course of the year, about 13 billion financial transactions.

On slide 3 is how we view ourselves. Predominantly, as I mentioned, we are basically an issuer processor and acquiring processor. Make sure you understand that on the issuing side of the business, our customers are typically financial institutions on the scheme-branded cards or retailers on the private-label cards, and then, for those retailers that have been granted the industrial loan bank status, their multibrand cards as well.

On the acquiring side of the business, we are an acquiring processor, meaning our customers are acquirers. We do not own any merchant contracts either directly or indirectly as a processor, which is actually very unique in that side of the business.

So basically, we look at our business as having two main areas of focus: the acquiring processing business and the issuing processing

business. To that end, we have built products and services over time to build out those two areas of competency, namely in managed services, prepaid, and loyalty as well.

As a third-party processor, clients or prospective clients come to us for three reasons that usually start out at the top of the pyramid that we have laid out here on slide 4. It is all about costs. Costs take out. You have to do it faster, better, cheaper. Ultimately as we lead with our core competencies around the technology and the service aspect, it grows into a more strategic focus, wherein the customers as well as TSYS are able to focus on their respective core competencies. Then where that leads to for us and some of our businesses is around an innovation where we, with our interclient partnerships, innovate new products for the markets.

On slide 5 is our approach to vertical integration. Ken had a great graph in his model, and we are the outsourcer there in that. We don't have a payment network. I would argue that we are not vertically integrated, and I do not know that we will be vertically integrated in the near future, but we have been very successful with our business and with our customers in the business we have provided so far.

Where it comes to us is you are managing channel conflict because our customers are banks, our customers are acquirers, and we believe it is best to not blend that too much in that we can refocus in respective core competencies.

We believe strongly in focusing and developing centers of excellence around the acquiring processing side of the business, as well as the issuing processing side of the business, and within that, developing new product and geographic segments beyond that as our clients grow and as we expand globally. We believe in expanding both sides of the business in the ecosystems around merchants and issuers or cardholders because they are two very different business models and different mindsets. Ultimately, our objective is to increase our clients' value with their customers, and then we believe we will follow on with that value creation for TSYS.

It is to allow us to be an independent provider to allow our clients to be competitive with each other. As you might imagine, especially on the issuing side of the business, we have clients who compete against each other, yet they both use our products and services. It is how they use our products and services that allows them to remain competitive in their respective markets.

The key message from the TSYS perspective is that we believe in focusing on the areas of core competency. We do not have strategies in order to be vertically integrated. We believe that vertical integration can actually limit innovation because you can disintermediate yourselves as change occurs. And it could lead to a zero-sum game with your customers. We believe in delivering client-tailored solutions

in order to enable our clients to differentiate themselves in that one size does not fit all.

**Mr. Posner:**

Thank you, Trey. Let me ask you one quick question, if I may.

So, I am a bank customer of yours. I am in talks with a big retailer or a medium-sized one, it does not matter, about some kind of co-branded or possibly a private-label transaction. I call your place and say, "You know, Trey, I just noticed that retailer XYZ is a customer of yours and we are a customer of yours. Can't we just draw a direct link for any business that gets done on our cards between this merchant and this bank and not have to go through the payment network and get into all this interchange and other kind of stuff?"

**Mr. Jinks:**

Without inviting the regulations into play, because there are certainly relations on a geographic basis and whether they are allowed to be bilateral arrangements ...

**Mr. Posner:**

Whose regulations are those?

**Mr. Jinks:**

Those would be the Visa/MasterCard regulations. In the event that it was one of the scheme-branded Visa/MasterCard, it would have to comply with those regulations. Now, of course, customers may want to violate those regulations, in which case we get a waiver on that. We look at it, frankly, from a technical aspect rather than a regulatory aspect in that example.

**Mr. Posner:**

Let's move along to our third panelist here, Pamela Joseph, Vice Chair, U.S. Bancorp, who has a very interesting perspective.