

# Investing in expansion

Kelley Knutson, executive vice president of TSYS International, is upbeat about the prospects for the global processing market and says the sector's dynamism offers considerable opportunities for the future. With overall responsibility for international strategic direction, client sales, relationship management, service delivery and operations outside North America, Knutson speaks to **Ronan McCaughey** about the company's goals and plans in the years ahead



Kelley Knutson, TSYS International

## **What is the state of the processing and payments sector internationally?**

The processing and payments market is interesting because it has become more competitive. On the other hand, emerging technologies are adding new players to the field. I think what used to be viewed as a back-office utility business under the broad heading of processing has really changed to one that needs to be effective and efficient. While we are all challenged by what is happening in the global economic environment, there are more opportunities surfacing now in the markets outside North America than we have seen previously.

## **Are customers becoming more demanding now because of the global economic downturn?**

Our main clients are banks and retailers, and we all know what they are experiencing and so are trying to be empathic regarding their operating and financial challenges. Clients' expectations are higher and I think they are trying to shift some risk, and in some cases responsibility, our way.

They are asking us to do a little bit more than we did in the past and at a fair and competitive commercial level. They are asking us to invest in security, protecting data and raising the bar on how we operate our day-to-day business. We are trying to abide by some of those requests and do what we need to in order to help our clients as best as we can.

## **How are the markets you are responsible for being affected by the global economic downturn?**

In Latin America, our primary focus is on Brazil. There has been good news in Brazil with the announcement of the 2016 Olympics. Furthermore, the economy seems to be reasonably stable. Brazil is a large and dynamic market with a young population where payment cards and transactions are growing in nature. It is a market we have invested a lot in and where we are going to invest more.

The regulations in Brazil are being reviewed with the intention of creating more competition in the market, especially on the acquiring side of

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the business. Some of the banks and larger retailers in Brazil tend to do their own processing. Visa and MasterCard currently have a duopoly hold on the market, and both are going to have to become more competitive and process other brands. That change will create opportunities for new entrants and we think we are reasonably well-positioned. We are just starting an initiative with a large entity that has a significant retail presence in Brazil, and we think there are more business opportunities in Brazil on the back some of the other investments. Once

we have a solid foundation in Brazil, it will be a very good launch pad for us into Latin America.

## **What are TSYS' plans in Asia?**

We tend to look at Asia as multiple pockets of opportunity. We have a great partnership with China UnionPay via CUP Data that is doing well, and we are looking at forming additional partnerships in that market, perhaps even on the acquiring side. We have also got good clients in India and are starting to spend more time and money in building our back-end technology to try to create a foundation for the future. India has gone through a couple of phases of growth and its debit market is now expanding. There will also be more competition on the acquiring side and so India is one of those medium- to long-term bets.

We have had a presence in Japan for a while with mixed results. We currently have an acquiring and switching business, but in 2010 we are bringing some additional technology capabilities to the market and are launching new issuing and processing services in the Japanese market. We also have pockets of business throughout south and southeast Asia, and are going to begin looking at markets like Hong Kong, Singapore, Malaysia, Thailand and Indonesia.

## **Why is TSYS expanding into acquiring?**

Our heritage and pedigree stems from issuer processing primarily on

credit cards. We have also moved into debit card processing, have some prepaid capabilities, and now provide a series of managed services in the back office. For us to be a successful payments processor, we need to get more actively involved in the acquiring side of the equation so we can see the perspectives of both card issuers and merchant acquirers. This will not only help us balance our business, but also let us take advantage of some of the opportunities as the market starts to consolidate and as a third payment scheme potentially evolves in Europe.

We need to be multi-dimensional and multi-faceted in nature. There are a couple of banks that are looking for additional processing capabilities from their e-commerce services. A number of banks are starting to expand across Europe and what you are going to see from TSYS is that in some markets we will be a processing partner and in some markets we will be a joint venture partner in providing acquiring services. We are currently in discussions in Europe regarding a variety of acquiring and processing opportunities.

#### **What implications does the Single Euro Payments Area (SEPA) have for TSYS?**

SEPA is probably lagging behind a bit in terms of expectations. However, SEPA is definitely flushing out the existing capabilities of some of the domestic processors, and either forcing them to invest in a consolidated European picture or sell and get out of the business before they have to make a serious infrastructure or technology investment. You are going to see fewer processors in Europe, but those that survive will have pan-European capabilities.

However, in some ways, processors will still have to straddle the fence between moving to a true SEPA world where payments will be standardised and fairly consistent, while still having to provide some individual country nuances. I think SEPA will be good for TSYS and for those processors who are making the investment for a future SEPA world.

In Europe we are currently working on two European debit card processing deals, and following our deal with Deutsche Bank earlier this year, we are starting to see additional opportunities in the German market. Hopefully we will be able to announce some additional issuing deals in Southern and Central Europe with pan-European players before the end of the year. We are also trying to bring some of our acquiring and processing capabilities to bear in Central Europe. Going into 2011, we will be driving some additional revenue on a pan-

these developments is can they gain a critical mass in order to become really interesting for players like ourselves, network operators, banks or retailers. The younger generations are using mobile phones differently than five or ten years ago, so I think that using a mobile phone as a payment device, acceptance terminal, or P2P payment instrument will be a lot different in the next five years.

The challenge right now is around convenience, who is going to pay for these new enhancements and will they

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European basis – although not so much in 2010 as it will take us a little time to build up these operations.

#### **How might a third European payment scheme impact TSYS?**

Whether a third scheme actually happens or not, the prospect of a third scheme is good for the industry. I believe the possibility will keep the other schemes on their toes and ensure that they are providing good service, capabilities and brand support. There are banks that fundamentally believe that if four or five of the larger European banks could get together and form a close knit series of bilateral arrangements, creating a third scheme could offer commercial advantages by creating leverage, as well as potential brand merits. This type of dialogue is healthy for the industry whether a third scheme happens or not, and what this scheme will look like is hard to tell or even predict right now.

#### **What implications does the rise of mobile and contactless payments have for TSYS?**

In the short-term, mobile and contactless payments will grab a lot of headlines as always happens whenever there is an innovation or new payment type. The real question about

be secure enough to really protect customer data and payment details? You begin seeing the bundling of different types of services that allow mobile phones to play a key role either as an authentication device or as a payment instrument, however security and distribution will be key.

#### **Is debit the new credit, and is TSYS increasingly focusing on debit card processing?**

A major theme of the industry today is that banks are looking at the overall retail banking strategy and at how they are going to give customers access to credit, whether that is through an overdraft on the current account, a separate line of credit on the credit card, or an unsecured loan. Banks are spending a lot more time looking at the creditworthiness of customers and then evaluating ways to provide access to various forms of credit, so without a doubt you are going to see a lot more integrated retail product offerings and packages.

For TSYS, our pedigree and skills have traditionally focused on credit card issuing. However, we will continue to enhance our products and services in the debit cards space and we expect to see ongoing growth in this area, as well as growth in credit cards. ●