

Statement of Bill Sheedy

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Chairman Durbin, Ranking Member Grassley, members of the Committee, my name is Bill Sheedy and I am Senior Advisor to the Chairman and CEO at Visa Inc. My career at Visa spans over 29 years where I have served as the Executive Vice President of our Corporate Strategy Group, and President of the Americas, among other roles. Thank you for the opportunity to testify today about Visa and the competitive landscape in the payments industry. I am pleased to be able to share with the Committee the many ways that Visa strives every day to be the best way to pay and be paid.

For more than 60 years, we have invested heavily to ensure we deliver an innovative, reliable, and secure transaction processing network globally. Our network is the connective tissue which brings consumers and merchants together to enable commerce no matter where they are in the world. Our success is contingent on consumers being able to engage in safe and secure commerce and merchants being able to confidently complete sales and grow their business. If merchants do not complete sales and submit transactions, we do not have a network to operate. It is as simple as that.

In addition to significant investments in the security and safety of our network, we stand behind every Visa transaction. This includes, as discussed in more detail below, zero liability for consumers on fraudulent transactions that they did not authorize, as well as guaranteeing payment to merchants. Likewise, our financial institution clients who provide the payment options that run over our network also invest tremendously to protect and improve payment experiences for consumers and merchants.

The security, reliability, and protections that Visa provides have never been more critical than during the pandemic. We have taken a number of proactive steps to ease the burden of the pandemic on consumers and merchants, including by adjusting our interchange rates to address evolving market and economic developments.

Visa competes in one of the most innovative and dynamic industries in the country and world right now, and it is an industry that is continuing to evolve rapidly. Consumer and merchant demands, technological innovations, and new use cases and payment options have spurred tremendous competition and investment. We believe this intense market competition is good for everyone. At the same time, regulatory interventions in a thriving sector often do lead to unintended consequences. Furthermore, regulations that exclusively focus on card payments, and do not take into account the influx of new players and payment methods in our industry, could shift consumer spending to payment options that are less secure and more expensive, and that do not demonstrate the same commitment to efficiency, transparency, and security that payment networks like Visa have dedicated themselves to for decades.

About Visa

Visa enables people, businesses of all sizes, and governments to make and receive payments through its innovative, reliable, and secure payment network. Visa's advanced transaction processing network operates in over 200 countries and territories around the world. Because of the rapid evolution of our industry, we must continuously innovate to meet the challenges of changing technology and payment methods, the growing sophistication of threats to payment system security, and the ever-changing needs of all those who use Visa's payment network.

While Visa is one of the world's most recognized brands, our role in the payments industry is not well understood. Visa is an open network that enables financial institutions and technology companies – from

established players to entrepreneurial start-ups – to connect their consumer and merchant customers, so that people on both sides of our network can pay, and receive payment, for goods and services.

Visa facilitates global commerce, enabling secure and efficient transactions between consumers, merchants, and financial institutions, whether it be via traditional means or any of the new, innovative payment methods we will discuss today. Every day we connect consumers with millions of merchants through thousands of financial institution customers across the globe. We do all of this while investing and innovating to deliver the highest levels of operational resilience, cyber security, and fraud prevention.

Visa’s network is capable of processing more than 65,000 transaction messages per second. To ensure near-constant availability and security, Visa maintains a set of geographically separated, synchronized, state-of-the art data processing centers, each one capable of processing every transaction on the Visa system by itself.¹ As I explain below, our cutting-edge security technology reduces fraud and controls many types of risk, delivering secure, efficient transactions for merchants big and small, across numerous types of cards and other payment devices, and for many types of payment uses.

Importantly, Visa is just one player in the payments landscape. We participate in a multiparty payment system, which includes financial institutions known as “acquirers” that sign up merchants to accept payment cards and “issuers” that sign up cardholders to enable them to transact using credit, debit, prepaid, and small business accounts.

Visa does not issue cards. It is the financial institutions, including banks and credit unions of all sizes, that issue Visa cards, set interest rates and consumer fees on those products, and compete to offer rewards and other benefits to cardholders. Similarly, acquiring banks sign up merchants for card acceptance, competing for merchant business based on the services they offer and the fees they charge. Visa does not earn revenue from interchange fees. Visa’s revenue comes from fees we charge financial institutions who issue cards and process transactions over our network.

As a service provider to thousands of regulated financial institutions, Visa meets stringent regulatory standards of safety, security, and reliability. Regulators abroad and in the United States frequently examine Visa. For instance, the Federal Financial Institutions Examination Council closely reviews our compliance with applicable regulatory requirements. We have regular and constructive engagement with many regulators on issues across the payments, financial services, and technology spectrums, as well as with members of the law enforcement community.

I am pleased to share with the Committee more about Visa and how we make payments more innovative, secure, and accessible. To that end, I am going to cover three topics:

1. Providing Security to Visa’s Customers
2. New Security Challenges, and Visa’s Recent Interchange Adjustments
3. Competition in the Payments Sector is Thriving

¹ As a result of the reliability and resilience of our operations, Visa’s flagship data center recently received a Management & Operations approval award from the Uptime Institute, which is the premier independent IT advisory organization assessing digital infrastructure performance.

Providing Security to Visa's Customers

For over six decades, Visa's employees have strived to make electronic payments what they are today – convenient, reliable, and secure. We help expand and accelerate digital payments, providing opportunities for consumers to transact at millions of merchants around the world, and helping economies thrive. Our early innovation in online authorization and transaction processing – predating the internet – vastly increased transaction speed and fraud control. We introduced the debit card nearly five decades ago as a convenient means of making everyday payments and worked with multiple stakeholders to expand the reach of our network, connecting businesses of all sizes and consumers across geographies. As payments evolve, we have forged partnerships with fintechs and others to enable emerging payment form factors, new consumer and merchant experiences, and to expand access to electronic payments.

At Visa, nothing is more important than trust. Trust and security are the foundation of everything we do – they are a fundamental component of our brand promise and value proposition to all consumers and businesses who we are proud to serve. We invest heavily and continuously in network security. For instance, we have spent more than \$9 billion over the past five years alone on reducing fraud and enhancing network security. We work tirelessly to intercept and prevent would-be attacks, thanks to a team of people dedicated to cybersecurity across the payments lifecycle, from protection to detection and response. In addition to our secure data centers, we operate a series of integrated cyber command hubs globally that handle 24/7 security monitoring, incident response, and investigations. Visa also utilizes a team of fraud experts to monitor 24/7 the integrity of the transactions on our network. In 2021 alone, our fraud prevention capabilities helped prevent nearly \$26 billion in attempted fraudulent transactions for merchants and financial institutions.

Given the dramatic expansion in e-commerce since the start of the pandemic, we have increased our focus on securing online commerce. To stay ahead of a massive upsurge in insidious malware, social engineering, and brute-force attacks, we invested to accelerate the speed and intelligence of our automated systems. We have built a deep bench of PhD researchers, data scientists, and engineers who collectively have more than 150 patents in Artificial Intelligence (“AI”) and machine learning. Our flagship AI-based platform, Visa Advanced Authorization, a risk management tool that evaluates transactions over Visa's network in real time, analyzed billions of Visa transactions in 2021. Each transaction is scored against hundreds of risk factors in one millisecond. Visa cardholders benefit from the greater effectiveness of our fraud controls on their cards, receiving helpful real-time alerts or other support from their financial institutions when a suspicious transaction is spotted.

All Visa cardholders can count on our zero liability protections on unauthorized or fraudulent transactions, ensuring that they do not have to pay for transactions they did not authorize. In addition, we maintain well-established dispute resolution processes to implement the consumer protections embedded in our network rules. The value of these protections has been especially evident throughout the pandemic, when consumers were able to tap into simple, widely used processes to dispute charges or to get refunds on purchases that did not work out as planned, including protections from unauthorized or fraudulent charges.

Visa also stands behind every transaction authorized on our network. For Visa merchants, this means they are guaranteed to receive payment on Visa transactions authorized by the issuer in accordance with Visa rules. This protection extends through our bank and credit union partners to every merchant,

irrespective of size, resources, or sophistication. The security of our guarantee allows merchants everywhere to confidently transact with any Visa account holder, from any corner of the world.

Given the scope and scale of payments we support, ensuring these promises and providing unparalleled reliability requires enormous investment, infrastructure, processing capacity, fraud and risk tools, and financial resources. It also requires constant, ongoing investment and state-of-the-art innovation, both to live up to the needs and expectations of consumers and merchants in our highly competitive industry, as well as to stay ahead of the increasingly challenging fraud and cyber landscape globally.

Most recently, our focus has been on removing sensitive account data from the flow of payments, so compromised information cannot be used by criminals for fraud:

The introduction of chip cards, which utilize a far richer level of card and security information, has made it so that more good transactions can be authorized and more fraudulent transactions prevented. Chip technology introduces dynamic data into each transaction. When used properly, it makes it more difficult for fraudsters to use counterfeit cards at the point of sale. Introducing chip technology into the complex U.S. payments ecosystem was a multi-year effort, including coordination across many payment system participants, significant investment, and the use of incentives to encourage the upgrading of existing payment technologies. By 2021, as a result of the widespread adoption of this chip technology, counterfeit fraud at the point of sale declined by approximately 90% among merchants for whom chip cards represent the bulk of their Visa payment volume. In addition, the recent adoption of chip technology at automated fuel dispensers (“AFDs”) is having a meaningful impact on reducing fraud at the pump. Since fuel merchants began to implement chip technology at AFDs, we have seen counterfeit fraud drop by almost 80%. Our efforts to continue to enhance security throughout the payments industry remains one of our highest priorities.

Visa has facilitated the widespread use of contactless payments, which employ the security of a chip using a touchless, tap-and-go interaction with the terminal. Contactless interactions have grown significantly during the pandemic and continue to be the preferred technology in environments like transit, where speed and convenience are critical.

Tokenization, another recent innovation, further secures the payments ecosystem. A token is a substitute proxy number that effectively creates a payment credential separate from the account number displayed on the physical card. Tokens also offer dynamic data elements, making them more secure, and they can be added to a mobile wallet, an app environment, a web browser, or hosted in the cloud. If a token is somehow compromised by fraudsters, it can be replaced behind the scenes without requiring a new card number or physical card to be issued. To date, Visa has invested hundreds of millions of dollars to develop, test, and roll out token technology to issuers, acquirers, mobile partners, and merchants. As token adoption continues to accelerate, we have already seen a 28% year-over-year reduction in fraud rates for digital payments.

In addition to its security benefits, tokenization has also unleashed innovation across the ecosystem, enabling digital wallets on smartphones like Apple Pay, Google Pay, and Samsung Pay, giving rise to wearables like rings or watches that you can simply wave to make a payment, and adding efficiency and security to various online subscription services. The use of tokenized payments will also unlock efficient and secure purchase experiences from cars, household

appliances, and virtually endless other devices as part of the “internet of things.” And over time, by reducing the use of the account numbers displayed on cards and replacing them with dynamic data, widespread token adoption in the e-commerce environment will greatly reduce the need for physical cards to be replaced and account numbers updated following a data breach, saving significant time and expense for cardholders, merchants, and financial institutions.

While we have steadily grown and expanded our network for over 60 years, we recognize that we will only have the privilege to serve consumers and businesses if we can continue to maintain the highest standards of safety, security, and innovation in a rapidly evolving, dynamic, and competitive environment. Our brand promise is rooted in being the best way to pay and be paid. We remain steadfast in our focus to deliver on this commitment and enable the commerce of tomorrow.

New Security Challenges, and Visa’s Recent Interchange Adjustments

Since the start of the pandemic, digital payments have enabled businesses to continue serving their customers, both in their local communities and online. We launched programs to bring more small businesses online and to provide them essential digital capabilities to support their continued recovery.

Businesses that had access to digital payments were more resilient and better able to compete than those that did not. Visa has taken a number of steps and invested considerable resources since the beginning of the pandemic to maintain the security, reliability, and stability in our payments system, including adjusting our interchange rates to address dynamic market and economic developments.

Here are a few of the more recent steps we have taken to support efficient commerce and economic growth:

First, since the pandemic, we lowered interchange rates for certain segments including grocery stores and supermarkets, restaurants, travel, small ticket, education, rent, telecommunications, healthcare, and insurance.

Second, in April of this year, Visa instituted changes to our credit interchange rates to help U.S. small businesses compete and grow by lowering key in-store and online consumer credit interchange rates for more than 90% of American businesses by 10%.

Finally, effective in April, Visa introduced two targeted interchange modifications for credit, focused on enhancing the security and integrity of the network, which were previously delayed. These changes are part of Visa’s efforts to promote behaviors that will help protect the entire payments ecosystem and are described below.

Visa counters fraud risks by bolstering our many layers of security and encouraging the use of secure tokens for Card Not Present (“CNP”) transactions, transactions that take place remotely or online and not at the physical point of sale. When merchants have a data breach, use of a token (a substitute proxy number) will help protect the account number. To incentivize merchants to use technology that reduces fraud and risk in the Visa payments system, we are increasing our CNP rate on transactions at merchants that have not adopted secure Visa Payment Tokens, while maintaining current rates on transactions at merchants that adopt this fraud-reducing technology.

We are also implementing changes designed to improve the quality and integrity of merchant and transaction data on our network. Among other benefits, this and related efforts will provide better information for consumers about their transactions. Merchants who meet these data quality and processing requirements will keep their current rates, but more importantly consumers and merchants will benefit from a safer and more efficient payment network.

Already, many merchants have adopted these best practices, and as a result will see no change to their current interchange rates. We are making these adjustments to improve the health of the payments ecosystem and consumer experience.

As a payment network, Visa takes its role in setting interchange rates very seriously with the goal of fostering balance, security, and stability, while growing the overall payments ecosystem. Consistent with this goal, within the Visa system the average effective rate for consumer credit in the United States remains at the same level as it was in 2015. As mentioned above, Visa does not earn revenue from interchange fees. Visa's interest is in optimizing secure transactions on our payment network, and therefore we have no interest in setting interchange rates too high or too low. Financial institutions receive these fees, which support the extension of credit to consumers and businesses across the country, and fund efforts in fraud prevention, cybersecurity, customer support, and payments innovation.

Competition in the Payments Sector is Thriving

Visa sets interchange in the context of a highly competitive market, with major new players and technologies in use today, and on the horizon. Some of the most significant players and brands in payments now include names like Paypal/Venmo, Square (Block), Affirm, Afterpay, Klarna, and Zelle, as well as large technology platforms including Facebook (Meta) and Amazon, among others, who have expressed ambitions to internalize payments into their platforms. We also see new forms of payment, like cryptocurrencies, open banking solutions, and significant investments in real-time payments by financial institutions, the Federal Reserve, and others. These rapid developments are changing how consumers and merchants think of payments. When this Committee last held hearings on competition in this industry, many of these names and trends would not have been mentioned in connection with payments; some did not even exist.

Indeed, competition in the payments sector is more dynamic than it has ever been, a trend that has accelerated rapidly over the past several years. New competitors, new ways of paying, and advances in security are increasingly technology driven. As payments go digital and become more and more smartphone-based, getting into payments has become as easy as developing and marketing an attractive app. The sheer number of payment options now available at checkout, especially online, is an indication of the many payment capabilities accessible to consumers. In this fast-moving environment, Visa's success is contingent upon innovating to deliver safer, more secure payments and a stronger value proposition compared to the numerous alternatives now available to consumers and businesses.

Competition in our industry exists among forms of payment, among business models, among established players and new entrants, and among an explosion of new, disruptive technologies. Even with the transformation taking place across the payments landscape, we continue to compete with cash, checks,

and money orders, which, despite their high costs and inefficiency, still make up one out of four consumer payments in the United States.

Across all payments, we also compete against “traditional” U.S. network competitors such as Mastercard, American Express, Discover/Pulse, STAR, and NYCE, for example, for card issuance, for merchant acceptance, and ultimately for consumer and merchant preference on each transaction at the point of sale. Specifically, competition in the credit space is intense. Consumers often carry multiple credit cards, and there are a wide range of products available from thousands of issuers who compete by offering different features, including benefits like purchase protections, co-branding with the consumer’s favorite merchants, and travel-related cards that offer airline, hotel, or loyalty discounts.

There are also an increasing number of players within payments operating outside the traditional banking regulatory structure, some of which promote account transfer rather than card-based payment methods. These players offer digital prepaid wallets, digital marketplaces, closed commerce ecosystems, real-time payments, Buy-Now-Pay-Later solutions, open banking systems, and cryptocurrency solutions. Each has experienced rapid growth over a very short period of time, transforming the competitive landscape for payments. In 2021 alone, the venture capital funding for payments start-ups more than doubled globally to \$32.7 billion (up from \$14.6 billion in 2020).²

Recent innovations that are most notable include:

Digital pre-paid wallets have emerged in recent years as alternatives to card-based payment technologies. Consumers increasingly view digital pre-paid wallets as convenient payment options. They provide a platform onto which users can load funds and then make payments using those funds and/or receive additional funds. For instance, one of the most prevalent digital wallets in the United States today offering a pre-paid solution, PayPal, reports 429 million active accounts and an acceptance network that spans the globe.

Buy-Now-Pay-Later solutions have emerged as a widely available payment method. Fintech companies such as Affirm, Afterpay and Klarna – as well as incumbent offerings (e.g., “Pay in 4” by PayPal) – allow consumers in the United States to make purchases in a predetermined number of installments over a fixed period of time. These solutions provide an alternative to traditional credit cards and are particularly attractive to younger buyers. Many of these Buy-Now-Pay-Later solutions have achieved widespread merchant acceptance.

The biggest tech companies in the world have also made substantial investments in payments. Apple, Amazon, Alphabet, Facebook (Meta), and others have all announced significant initiatives in this space. Their offerings include mobile or digital wallets similar to PayPal, which sometimes use payment cards, and other times favor pre-paid wallets, bank-to-bank or other non-card payment systems.

“Real-time payments” systems are designed to enable “faster payments” in the U.S. ecosystem. Large and small U.S. financial institutions, as well as the Federal Reserve, have implemented or have plans to build significant systems to enable “faster payments,” giving consumers additional options for electronically transferring money from their account to an individual or business using

² CB Insights Research, *State of Payments 2021 Report*, <https://www.cbinsights.com/research/report/payments-trends-2021/> (last visited April 30, 2022).

a mobile device or a participating bank's website. These systems are described as having the potential to offer consumer-to-merchant payment options at lower cost than existing payment networks.

Finally, cryptocurrencies and "stablecoins" are growing as a means of payment, with many well-funded crypto enterprises seeking to offer disruptive alternatives to existing payment options. Central Banks globally have shown interest as well as in potentially developing Central Bank Digital Currencies.

Each and every one of these competitors is seeking to enable consumers to transact in diverse environments, in new and convenient ways, wherever consumers and merchants want to transact: at the checkout counter in a physical store; online from computers or mobile devices; using chip or contactless cards, mobile payment wallets, QR codes, or buy-online and pick up at the store; on social media sites; for everyday purchases, necessities, luxury items, travel and entertainment, subscription-based services, streaming services, bill payment, person-to-person transfers, and more. The merchant "point of sale," which in the not-too-distant past involved the need for magnetic-stripe payment terminals, is demonstrating similarly dynamic innovation in the technologies available to serve the needs of merchants, from acceptance technology for physical sales environments integrated into tablets and smartphones, to software solutions offering ease for rapid adoption when setting up online sales. Dynamic innovation and consumer demand are driving the entrance of large numbers of new players into the sector and the level of investment, creativity, and opportunity to compete is high.

Finally, payments are global, and so are payments competitors. China UnionPay, or CUP, for instance, operates one of the largest card-based payment systems in the world. In addition, closed commerce ecosystems developed in foreign countries are growing rapidly and expanding their influence around the globe. Alipay and WeChat Pay, created by China's e-commerce giants Alibaba and Tencent, respectively, are prime examples of the growing influence of foreign payment giants. They are sophisticated players that have transformed the payments market in China and are now expanding their business model globally. We have already seen widespread acceptance of CUP, for example, in the United States.

As new and emerging payment options continue to grow, it is critical that policymakers focus on these market developments. Digital payments increase sales for both large and small businesses. Adoption of more efficient digital payments has been shown, time and time again, to drive overall economic growth.

The dramatically evolving landscape we see in payments competition and innovation is delivering new payment uses, new business models, and more frictionless commerce. We believe this intense market competition is good for everyone, encouraging greater adoption of digital payments. At the same time, regulatory interventions that embrace outdated and historic narratives by exclusively focusing on card payments could result in a shift of consumer spending to payment methods that do not offer the same consumer protection benefits as cards, that are more expensive to merchants, or that do not demonstrate the same commitment to efficiency, transparency, and security that payment networks like Visa have dedicated themselves to for decades.

Competition drives all players to excel. We frequently partner with new and emerging players, who find value in the ability to work with Visa and utilize the security and reach of our payment network. In fact, Visa continues to be a catalyst and enabler of innovation. We invest and seek to improve constantly, so

that the next time a consumer and merchant are making the choice of what payment option to use, no matter how many options are available, they will elect to use Visa.

Conclusion

Finally, as a participant in the highly competitive payments industry, it is important to note Visa's commitment to conducting our business with the highest integrity and doing things the right way. For the tenth consecutive year, Visa has been named one of the World's Most Ethical Companies by the Ethisphere Institute.³ The 2022 award reflects continuing recognition of how Visa employees consistently conduct business and interact with others in ways that are ethical, respectful, and responsible.

Visa is also deeply committed to advancing inclusive financial growth and helping drive financial inclusion. We do this by supporting debit, credit, prepaid, and other solutions that benefit consumers broadly in their payment needs, whether through receipt of a stimulus payment, or access to credit to help with a pressing emergency, and by encouraging greater adoption of digital payments, which give small, Main Street, and rural businesses tools to reach more customers and grow more efficiently and securely.

Financial literacy has been a longstanding priority at Visa. In the United States, our award-winning Practical Money Skills program strives to link consumers, educators, financial institutions, and governments to the tools they need to help people of all ages develop money management skills. Visa believes that great financial knowledge can empower people to better manage their money and improve their quality of life.

Visa levels the playing field between small and large merchants. Every merchant that accepts Visa can transact securely with billions of Visa cards across the globe and know that they will get paid because we stand behind every Visa transaction. By tapping into our network, any small e-commerce site can benefit from Visa's world-class security and fraud-fighting tools so they can better compete with big technology players. Similarly, every small community bank and credit union has access to the same payment products, processing capabilities, dispute tools and fraud-fighting technologies from Visa as the largest financial institutions. Visa is proud of the role we play in ensuring that the American and global economies are secure and will continue to grow.

We appreciate the opportunity to address the Committee on these important issues, and I look forward to answering your questions.

³ Ethisphere, *The 2022 World's Most Ethical Companies Honoree List: Visa Inc.*, <https://worldsmoethicalcompanies.com/honorees/visa-inc/> (last visited April 30, 2022).