Retail Payments Strategy Discussion

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Agenda

- What Has Changed and Where Are We Today?
- Where Do We Go Tomorrow

New Regulations Have Impacted the P&L's of Financial Institutions

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In response many FI's have announced changes to their products including:

- Elimination of Free Checking
- New DDA fees and alternative options for avoiding fees
- Elimination of Debit Reward programs
- Increased ATM surcharges and discontinuation of waivers for foreign ATM transactions
- Electronic only accounts

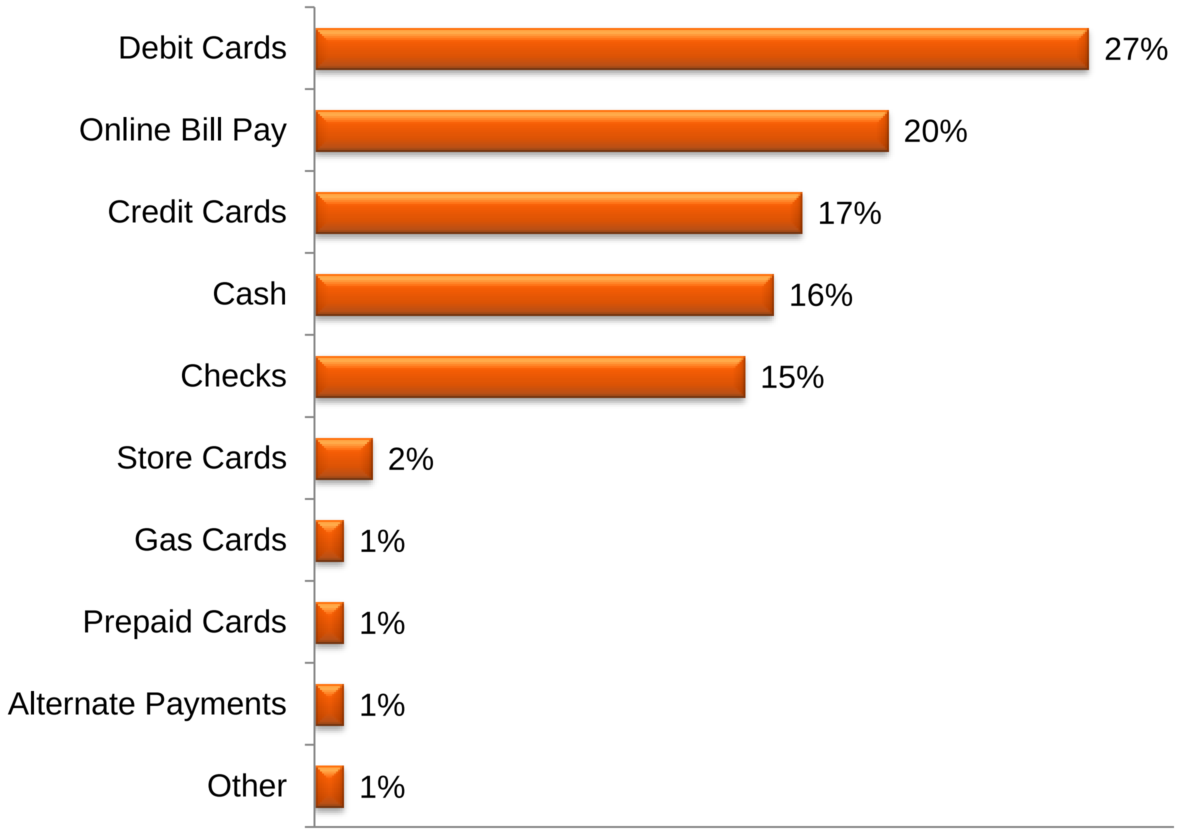
Additional actions under consideration include:

- Spending caps on debit purchases
- Transaction caps on debit purchases

Meanwhile Consumers Continue to be Highly Engaged with Debit

Debit Share of Wallet

% share of spend on each payment type per month (Debit card owners)



Based on a Market Sample

Source: MasterCard Advisors Comparative Cardholder Dynamics Study (CCD), 2010

Issuers must find the balance between revenue replacement and long-term customer engagement strategies

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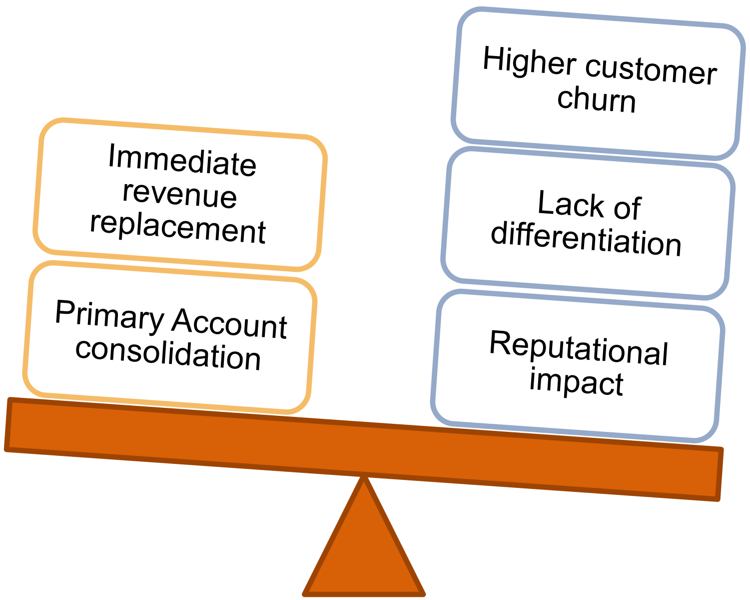
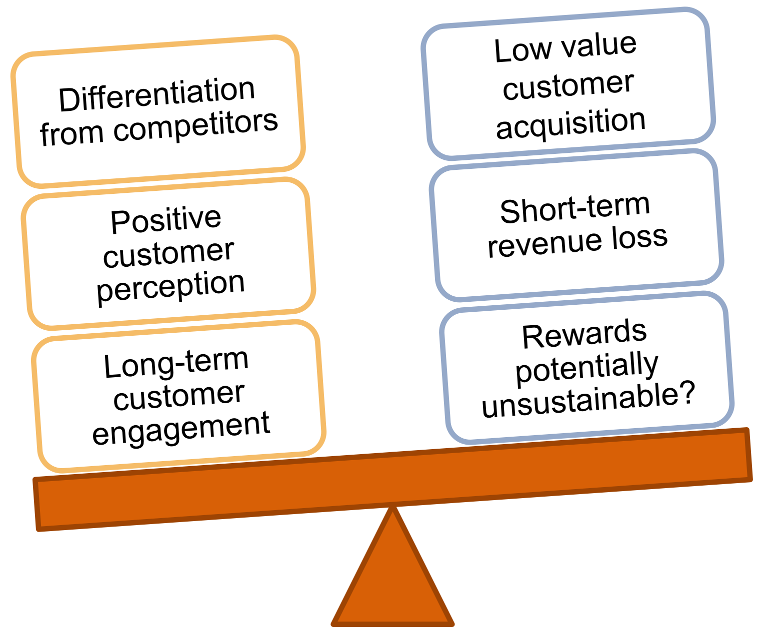
Re-pricing Strategy



“No Action” Strategy



Reliant on exploiting key levers:

- Increased acquisition
- Migrate non-primary accounts to primary
- Improved account retention

Both product re-pricing and “no action” strategies represent risks and opportunities that need to be assessed before making a decision

Smartphones have emerged as a powerful and rapidly growing consumer technology

Phenomenal growth over the past four years

First iPhone released June 2007

More than 50% of new phones sold in the U.S. are smartphones*

In the U.S., smartphone ownership is projected to double over the next five years to reach 65%

Already a high number of commerce and banking services

Mobile banking

eCommerce on mobile Internet devices

Initial interaction with physical stores

*NPD Group
**Gartner Group; BCG Analysis

Globally we see three key opportunity areas: Proximity, Remote and Mobile Money

	Topic	"Mature"	"Emerging"	Objectives
Banked	 Proximity	 Card at point of sale	 Near-Field Communications (NFC)	• Lead in NFC payments • Establish new competitive advantages
Banked	 Remote	 PC-based eCommerce	 More Internet connected devices	• Spur faster growth • Improve payment experience • Drive remote channel convergence
Unbanked	 Mobile Money	 Cash	 Mobile money services	• Capture new business • Diversify revenue streams

Creating value for MasterCard issuers

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Protect cardholder relationships in an NFC world	• Enable cardholders to conveniently access existing cards to their handsets → top of wallet proposition • Ensure an efficient and familiar payment experience for consumers
Generate opportunities in the NFC space	• Seize opportunities to capture traditional cash transactions • Launch innovative consumer services leveraging the mobile device
Shift share in traditional business	• Bridge traditional services with emerging capabilities • Drive cardholder engagement through value added services • Leverage investment in online & mobile banking platforms for further differentiation and customer engagement

Issuer Response

In response there are fundamental questions to be considered:

- How do I understand my current payment mix and how revenue and expenses flow.
- Have I segmented my customers according to their attitudes and demographics
- Have I evaluated a risk strategy to further penetrate products
- Have I created the right product value proposition to meet my customer needs.

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