Commercial Payments Overview

Visa Commercial Partnerships
October 2013
Agenda

• Commercial Payments
  ▪ VisaNet
  ▪ Commercial Payments Trends
  ▪ Fraud/Risk Mitigation
  ▪ Regulatory update
Visa Payments Landscape

Securing the payment system:

- **Strategic priority for Visa**
- **Shared responsibility by all participants**
- **Complex and evolving landscape**

15,000 financial institutions
> 200 countries

2.1 billion Visa cards
> 30 million merchants
~ 2 million ATMs
82 billion transactions
$6.5 trillion volume

Figures are rounded, exclude Visa Europe and are as of March 31, 2013 unless otherwise noted.
Figures from 4Q12 operational performance data except number of financial institutions and ATMs.
1 As of December 31, 2012
2 Includes payments and cash transactions.
3 As reported by client financial institutions and therefore may be subject to change; includes ATMs in the Visa Europe territory. As of March 31, 2012.
**Roles and Responsibilities**

**Issuer**
- Issue cards
- Assume credit risk
- Fraud monitoring
- Risk mitigation
- Provide EAS
- Provide customer service
- Provide custom products and enhancements

**Visa**
- Sets standards and rules
- Provides systems/operations
- Move money and data
- Provides risk management
- Balance the needs of Issuers, Acquirers, Merchants, Cardholders and Businesses
- Provide expert service/support to Issuers, Acquirers, Merchants, Cardholders and Businesses

**Acquirers**
- Process Transactions
- Underwrite supplier risk
- Generate reports
- Provider customer service
- Differentiate service with custom products and enhancements
- Assess processing fees to suppliers
Commercial Payment Trends
Global Commercial Opportunity

Commercial Consumption Expenditure (CCE) spend capture opportunities exist across business segments and geographic regions.

2011 Global CCE Distribution

100% = $109.1T

- USA 19%
- Asia Pacific 35%
- Europe 29%
- LAC 7%
- CEMEA 8%
- Canada 2%

U.S. CCE = $20.7

Government

Large Business

> $500M, > 250 employees

Medium Business

$25M-500M, 50-250 employees

Small Business

< $25M, < 50 employees

Source: Visa Commercial Consumption Expenditure Index, Economist Intelligence Unit (EIU) modeling and analysis, September 2012. Global CCE index data sources include Bureau of Economic Analysis (BEA), U.S. Census Bureau, Organization for Economic Cooperation and Development (OECD), STructural Aanalysis (STAn) Database, EuroStat Database, General Government Accounts from the National Accounts of OECD Countries, United Nations Statistics Division National Accounts Main Aggregates Database, EIU proprietary databases, government data and EIU model estimates where government data was unavailable. Large contracted defense spending not included in CCE Index.
Large/Middle Market Trends

- Anti-fraud and security measures continue to be top-of-mind for companies, even with fraud rates on the decline
- Purchasing and Prepaid are primary drivers of U.S. product growth
- Traditional Corporate Card volumes will benefit from strong business travel levels
- Mobile innovation and reporting/auditing tools will be two key options for growth outside of classic card benefits
- Green and Eco-business Initiatives are at the forefront of successful product strategies
- U.S. Markets show greatest opportunity, but Emerging Markets will play a key role in growth
- U.S. Commercial Card Growth is Greater than Small Business and volume growth will be led by Visa

Source: Packaged Facts, December 2011
Payables Automation Overview

70% of all B2B payments will be electronic by 2013

- This growth will be led by organizations with revenue greater than $1B, where 88% of transactions are expected to be electronic
- Smaller organizations are also expected to make great strides, estimated at 59% by 2013

Source: American Productivity and Quality Center 2010
Electronic Payments – Trends in Accounts Payable
Sample: 280 Accounts Payable professionals in organizations spanning 15 industries
Payments Mix

Check displacement & payment integration with AP are powering electronic payments.


Visa Commercial Payments Overview 2013
GF Growth

General Fund Expenditure Growth (%)

*35-year historical average rate of growth is 5.6 percent
*Fiscal '13 numbers are appropriated
Source: NASBO Fall 2012 Fiscal Survey of States

*Average
FY 2013 Appropriated Spending Still $5.9 Billion Below FY 2008

General Fund Spending: FY 2007-FY 2013

Source: NASBO Fall 2012 Fiscal Survey of States
FY 2013 General Fund Revenue is Expected to Surpass FY 2008 by $13B

Source: NASBO Fall 2012 Fiscal Survey of States
States and Locals Continue to Eliminate Positions

- State and local employment has declined 753,000 from the start of the recession through this February
  - State employment declined 195,000 from Aug. 2008-Feb. 2013
  - Local employment declined 558,000 from Aug. 2008-Feb. 2013

- State governments eliminated 8,000 positions in February; local employment declined by 2,000

Source: Bureau of Labor Statistics
Industry Benchmark Survey Results

RPMG 2012
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Study Respondent Organization

- Privately-owned corporations: 23%
- Public corporations: 24%
- Universities: 11%
- City/county government: 16%
- School districts: 11%
- Not-for-profit entities: 9%
- Federal and state government: 6%

Source: 2010 RPMG Purchasing Card Benchmark Survey Results
## Key Organizational Performance Measures

**Effect of Increased Transaction Spending Limits on Average Monthly Spending per Card**

<table>
<thead>
<tr>
<th>Program Benefits</th>
<th>Best Practice</th>
<th>Needs Improvement</th>
<th>Percent Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per transaction spending limit</td>
<td>$2,916</td>
<td>$1,835</td>
<td>59%</td>
</tr>
<tr>
<td>Monthly transactions per card</td>
<td>7.49</td>
<td>4.74</td>
<td>58%</td>
</tr>
<tr>
<td>Transaction amount</td>
<td>$324</td>
<td>$244</td>
<td>32%</td>
</tr>
<tr>
<td>Monthly spending per card</td>
<td>$2,423</td>
<td>$1,158</td>
<td>109%</td>
</tr>
</tbody>
</table>

Source: 2012 RPMG Purchasing Card Benchmark Survey Results
## Average Growth Rates in Purchasing Card Spending

*Source: 2012 RPMG Purchasing Card Benchmark Survey Results*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>School districts</td>
<td>22%</td>
<td>27%</td>
<td>17%</td>
</tr>
<tr>
<td>Universities</td>
<td>23%</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>City/county agencies</td>
<td>22%</td>
<td>23%</td>
<td>17%</td>
</tr>
<tr>
<td>States and State agencies</td>
<td>15%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Federal agencies</td>
<td>7%</td>
<td>7%</td>
<td>-2%</td>
</tr>
<tr>
<td>Not-for-Profit organizations</td>
<td>31%</td>
<td>25%</td>
<td>23%</td>
</tr>
</tbody>
</table>

*The 2009-2011 rate of purchasing card spending growth for Not-for-Profit organizations and Cities and Counties that use plastic cards only or put most of their spending on plastic cards and some on EAP accounts was 25% and 16%, respectively. The rate of purchasing card spending growth at other governmental categories remain unchanged by inclusion or exclusion of different types of card platforms.*

Source: 2012 RPMG Purchasing Card Benchmark Survey Results
## Expected Growth Rates in Purchasing Card Spending from 2011 to 2016

<table>
<thead>
<tr>
<th></th>
<th>School Districts</th>
<th>Universities</th>
<th>Cities/Counties</th>
<th>State Agencies</th>
<th>Federal Agencies</th>
<th>Not-for-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total spending change</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>expected from 2011-2012</strong></td>
<td>4%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td><strong>expected from 2011-2014</strong></td>
<td>12%</td>
<td>21%</td>
<td>18%</td>
<td>17%</td>
<td>5%</td>
<td>20%</td>
</tr>
<tr>
<td><strong>expected from 2011-2016</strong></td>
<td>20%</td>
<td>37%</td>
<td>36%</td>
<td>31%</td>
<td>13%</td>
<td>34%</td>
</tr>
</tbody>
</table>

Source: 2012 RPMG Purchasing Card Benchmark Survey Results
## Transactions by Payment Below $2500

<table>
<thead>
<tr>
<th>Method</th>
<th>Fortune 500-Size</th>
<th>Large Market</th>
<th>Middle Market</th>
<th>Government and Not-for-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing cards</td>
<td>54%</td>
<td>45%</td>
<td>43%</td>
<td>49%</td>
</tr>
<tr>
<td>Paper check</td>
<td>22%</td>
<td>38%</td>
<td>45%</td>
<td>40%</td>
</tr>
<tr>
<td>ACH transfer</td>
<td>19%</td>
<td>12%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>Wire transfer</td>
<td>4%</td>
<td>4%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: RPMG Purchasing Card Benchmark Survey 2012
## Payment for All Over transactions between $2,500 and $10,000

<table>
<thead>
<tr>
<th>Payments Method</th>
<th>Fortune 500-Size</th>
<th>Large Market</th>
<th>Middle Market</th>
<th>Government and Not-for-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing cards</td>
<td>34%</td>
<td>28%</td>
<td>30%</td>
<td>26%</td>
</tr>
<tr>
<td>Paper check</td>
<td>31%</td>
<td>46%</td>
<td>53%</td>
<td>57%</td>
</tr>
<tr>
<td>ACH transfer</td>
<td>28%</td>
<td>18%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Wire transfer</td>
<td>6%</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: RPMG Purchasing Card Benchmark Survey 2012
### All Payments Over $10,000 but Less Than $100,000

<table>
<thead>
<tr>
<th>Method</th>
<th>Fortune 500-Size</th>
<th>Large Market</th>
<th>Middle Market</th>
<th>Government and Not-for-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing cards</td>
<td>12%</td>
<td>8%</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>Paper check</td>
<td>38%</td>
<td>51%</td>
<td>63%</td>
<td>70%</td>
</tr>
<tr>
<td>ACH transfer</td>
<td>34%</td>
<td>25%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Wire transfer</td>
<td>14%</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: RPMG Purchasing Card Benchmark Survey 2012
Fraud Awareness, Prevention and Mitigation
Fraud, Abuse, & Misuse: Definitions

**Fraud** – The theft card information by fraudsters
- Account takeover (information change)
- Mail thefts
- Counterfeit cards
- Lost/Stolen cards
- Mail order/telephone order
- Skimming
- Database Hacking
- Franchise Software Hacking
- Sniffing
- Phishing

**Abuse** – Intentionally or unintentionally violating policies and procedures for personal gain

**Misuse** – Intentionally or unintentionally violating policies and procedures for work related gain
Our Strategy

A layered approach

Build and enhance stakeholder trust in Visa as the most secure way to pay and be paid

PREVENT
Minimize fraud in the payment system

PROTECT
Protect vulnerable account data

RESPOND
Monitor and manage events that occur

Trust and Partnership

ADVANCE
Execute risk strategies for emerging products and channels
Our Strategy: We have the Tools

A layered approach

**PREVENT**
Minimize fraud in the payment system

**Dynamic Authentication**
• EMV chip
• Verified by Visa
• Visa Advanced Authorization
• Visa Consumer Authentication Service

**PROTECT**
Protect vulnerable account data

**Data Security**
• Non-storage
• Encryption, tokenization
• PCI standards
• Payment gateways

**RESPOND**
Monitor and manage events that occur

**Breach Response**
• Proactive Alerts (CAMS)
• Transaction Alerts
• Law enforcement support
• Chargeback & Fraud programs
• Global Brand Protection programs

**Intelligent Authorization**

**Data Elimination**

**Cardholder Empowerment**

**Shrink Zone of Impunity**
Multi-Layered Strategy

To address security concerns we need to align rules, strategies, programs, initiatives and solutions.

- Education, Awareness and Best Practices
- Risk Information and Benchmarking
- Visa Programs and Solutions
- Visa Rules and Regulations
- Industry Standards
- Laws and Regulations
External Data Compromise

**Ongoing Servicing Mitigation:**
- Continue to monitor all transaction activity within fraud strategies to detect/prevent high risk activity
- Notify by issuing bank as *targeted* cardholder accounts are identified that warrant close/reissue to combat fraud attack
- Exception processing to accommodate the PA and/or cardholder special requests, including overnight plastics to expedite receipt of replacement plastics

**Entity Client Notification:**
- Recent change in state laws mandate that entity must notify cardholders of data breach
- May result in client being informed before targeted accounts for replacement
- Notification may occur from 3rd party vendor or via media notification

**External Data Compromise:**
- Fraudsters are patient in leveraging data obtained
Misuse/Abuse Claims

- **Notification of Termination:**
  - Associate involved must be terminated to qualify for insurance coverage
  - VISA covers 75 days prior to termination and 14 days after
  - $100,000 per cardholder
  - No exclusion on transaction types

- **Posted Abuse charges that require credit:**
  - Notify the bank of account closure or complete cancelation of account ASAP to protect interests
  - Contact bank’s fraud team to determine next steps with possible recovery efforts
  - VISA requires form and supporting documents to be provided to file Claim Verification of associate dismissal, Itemization of the charges that are involved in case
  - Issuing bank files paperwork with VISA on your behalf
  - Subsequent credit will be applied to credit card account
  - Expect 30-60 days for resolution
Security Challenges

- across channels, products and geographies
- their business models and changing their methods
- to protect the system are increasing
- in the system is eroded by fraud and data compromises
And An Old Favorite – “The Handheld Skimmer”

- This device can capture over 2500 credit card account numbers, expiration dates and CVV codes in the palm of your hand.
- The unit can operate continuously for 40 hours on a single 3V battery (6000 swipes).
- Skimmed data can be downloaded to any PC with software provided.
- At a moment’s notice, or the moment of arrest, the contents can be deleted with the press of a button to avoid prosecution.
- Cost = $500
ATM Skimmers

• False fronts on ATM terminals with built in magnetic stripe readers.
• Hidden camera captures PIN and transmits the information to a nearby crook
• Increasingly common
## Losses from Misrepresentation and Internal and External Frauds

<table>
<thead>
<tr>
<th></th>
<th>Employee Misrepresentation</th>
<th>Internal Fraud</th>
<th>External Fraud</th>
<th>Total Fraud and Misrepresentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median dollars per incident</td>
<td>$200</td>
<td>$350</td>
<td>$100</td>
<td>$133</td>
</tr>
<tr>
<td>Loss to organization as a percent of purchasing card spending</td>
<td>.004%</td>
<td>.001%</td>
<td>.002%</td>
<td>.007%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th>Internal Fraud</th>
<th>External Fraud</th>
<th>Total Fraud and Misrepresentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporations</td>
<td>.005%</td>
<td>.001%</td>
<td>.003%</td>
<td>.009%</td>
</tr>
<tr>
<td>Government and Not-for-Profit Organizations</td>
<td>.002%</td>
<td>.001%</td>
<td>.002%</td>
<td>.005%</td>
</tr>
</tbody>
</table>

Source: RPMG Purchasing Card Benchmark Survey 2012
Regulatory update
Surcharging Frequently Asked Questions

• What will it take for a merchant to be able to surcharge?
• How will the process be regulated?
• What can a client do if they feel a merchant should not be surcharging?
• How does surcharging notification work?
• Are Purchasing Cards considered Credit Cards?
• Does this impact Debit Cards?
• How many merchants have already signed up to surcharge?
Merchant Surcharging Considerations and Requirements

Should I add a surcharge to my credit card transactions?

Before you decide, consider the following:

What will...
- my customers think?
- I need to disclose to my customers?
- my competitors do?

NO

I don't want to surcharge.

YES

Is surcharging permitted in my state?

STATES PROHIBITING surcharge now
- California
- Colorado
- Connecticut
- Florida
- Kansas
- Maine
- Massachusetts
- New York
- Oklahoma
- Texas

JANUARY 27, 2013
- Merchants cannot surcharge before Jan. 27, 2013.
- Merchants are required to notify Visa and their acquirer 30 days prior to surcharging.

CREDIT TRANSACTIONS in the U.S.
- Surcharging applies only to credit transactions in the U.S. and U.S. territories. Debit and prepaid cannot be surcharged.

When can I begin?

What can I surcharge?

How much can I surcharge?

What must I disclose to my customers?

More information on surcharging guidelines and requirements can be found at www.visa.com/merchantsurcharging

1 In cases where the merchant’s cost of acceptance exceeds 4% of the underlying transaction amount, in no event can the merchant assess a surcharge above 4%.

COST of ACCEPTANCE
- The surcharge must not exceed your cost of acceptance for the credit card.

SIGNs at POE, POS and on RECEIPTS
- Disclosures must be provided at the point of entry and point of sale (view examples at the link to the left).
- Notification of the final surcharge amount must be identified separately on the transaction receipt.
Settlement Update – “Check-Out Fees”

- The card networks (Visa and MC) and several bank issuers have reached a preliminary agreement on the interchange lawsuit filed by merchants. The lawsuit was brought in 2005 by merchant plaintiffs alleging that banks and card payment networks restricted competition on interchange rates.

- With the preliminary agreement, Beginning Jan 27, 2013, merchants will be able to add “checkout fees” (surcharge fees) for Visa & MasterCard credit card transactions per the terms of the settlement agreement. The terms apply to all Visa and MasterCard credit cards.

- Debit and Prepaid cards cannot be assessed “checkout fees”.

- 10 U.S. states have surcharging restrictions including California, Colorado, Connecticut, Florida, Kansas, Maine, Massachusetts, New York, Oklahoma and Texas.
Settlement Update – “Check-Out Fees”

• Check-Out fees are being imposed solely at the merchant/supplier discretion.

• A merchant/supplier must disclose the check-out fee at the point of sale (or online check out screen). Also, merchants/suppliers are required to provide a separate line item on the receipt that shows the dollar amount of the fee. (example provided on next slide)

• Each merchant will determine how much the “checkout fee” will be if they decide to charge one, however, no merchant may charge more than 4% of the transaction amount. Merchants are required to disclose the amount of the surcharge before you make a purchase; look for signs at the store entrance and at the cash register or point of sale.

• U.S. Merchants that intend to surcharge must complete a notification form with Visa or MC 30 days in advance of charging the fee
Settlement Update – “Check-Out Fees”

Client Questions and Disputes

Clients can access information from Visa directly:

Follow the links below for additional information:


If a cardholder believes that a charge is questionable (they were charged more than 4% or the fee was not disclosed upfront), they should contact Visa. Follow the link below in order to report a merchant violation:

Visa

Customer Assistance Center: 1-800-847-2911

Report a Merchant Violation Online Form: https://usa.visa.com/checkoutfees/contact.jsp
Unanswered Questions?