

Commercial Payments Overview

*Visa Commercial Partnerships
October 2013*



Agenda

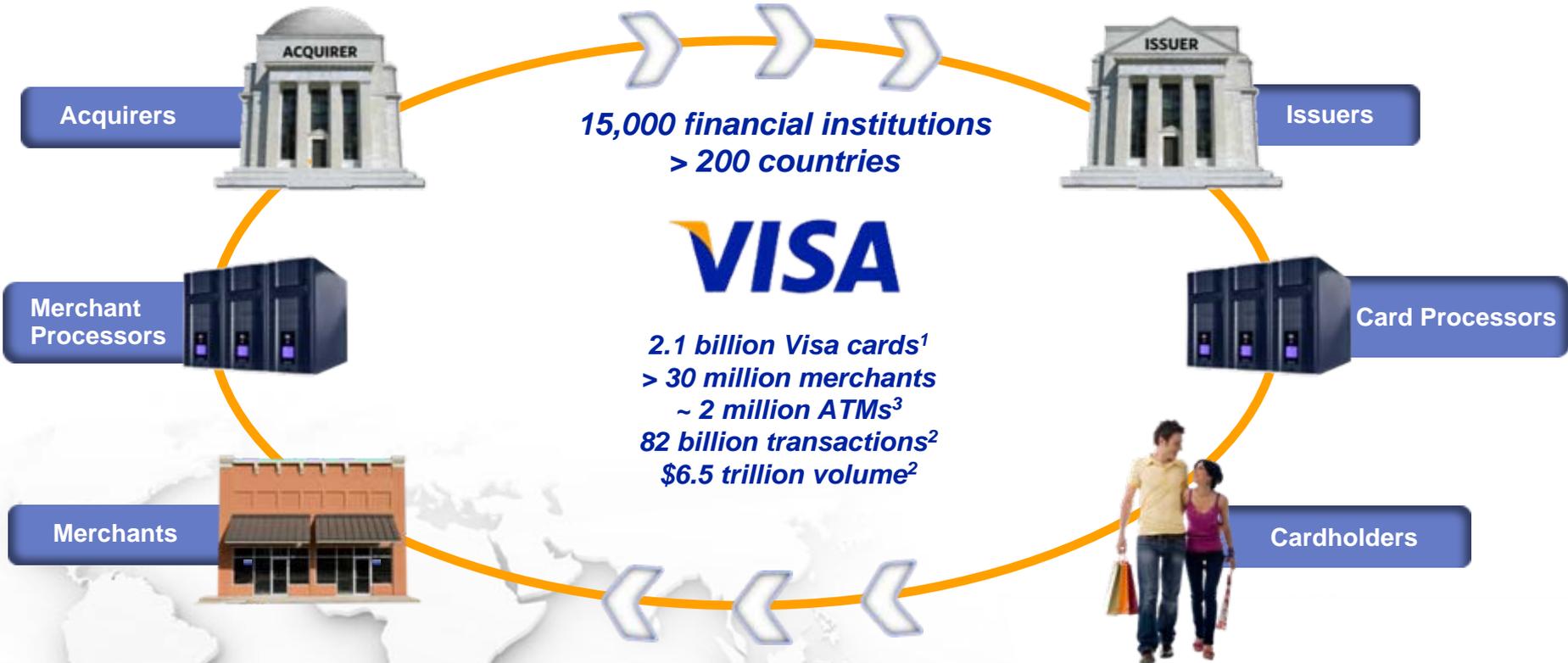
- Commercial Payments
 - VisaNet
 - Commercial Payments Trends
 - Fraud/Risk Mitigation
 - Regulatory update



Visa Payments Landscape

Securing the payment system:

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



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

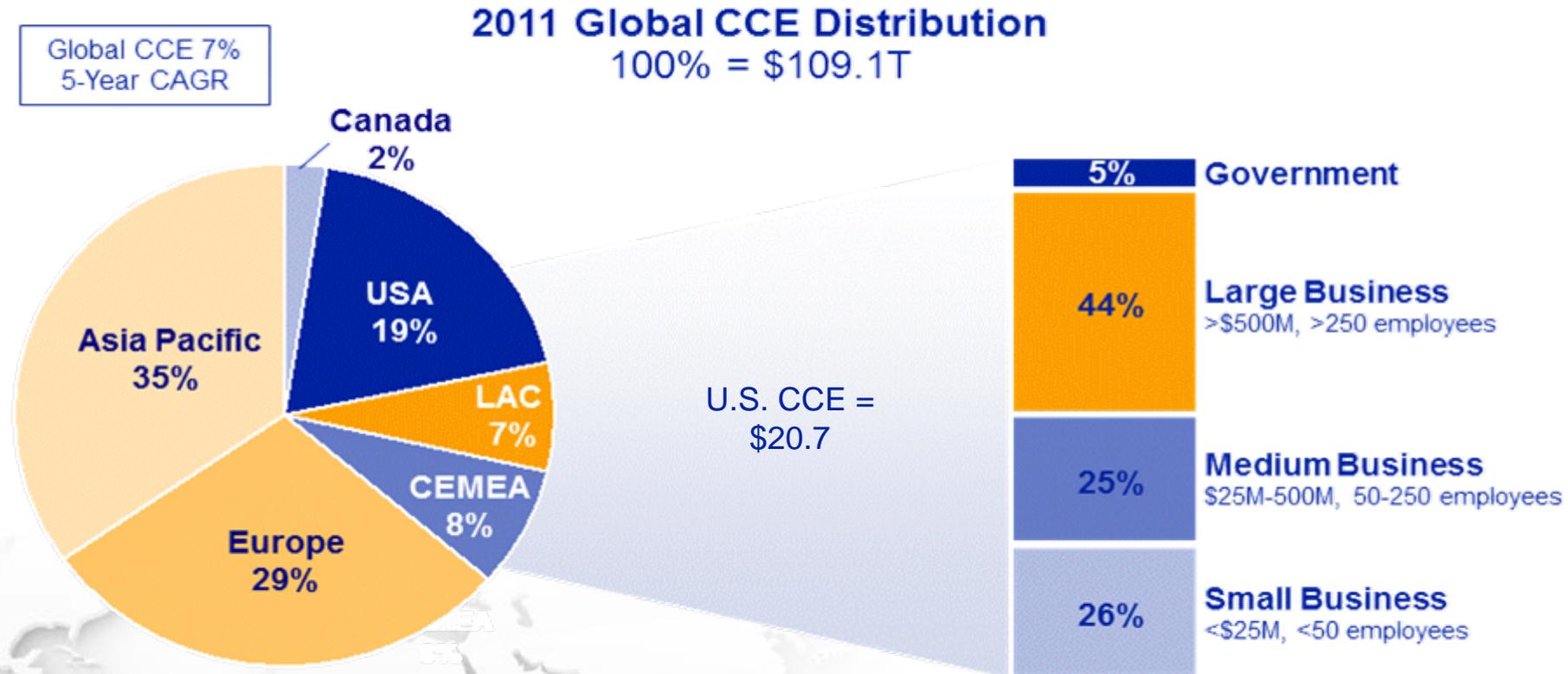
- Process Transactions
- Underwrite supplier risk
- Generate reports
- Provider customer service
- Differentiate service with custom products and enhancements
- Assess processing fees to suppliers

Commercial Payment Trends



Global Commercial Opportunity

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

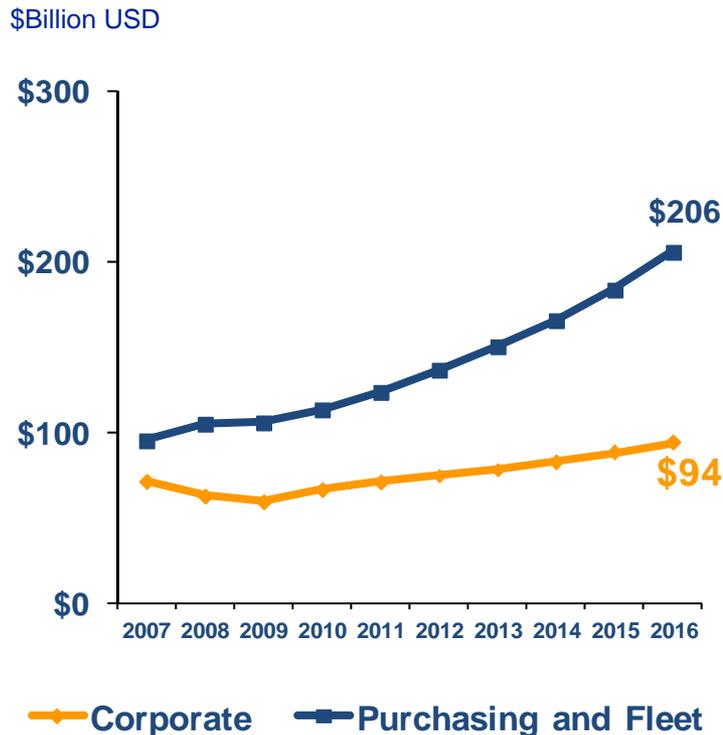


Source: Visa Commercial Consumption Expenditure Index; Economist Intelligence Unit (EIU) modeling and analysis, September 2012. Global CCE index data sources include Bureau of Economic Analysis (BEA), U.S. Census Bureau, Organization for Economic Cooperation and Development (OECD), Structural Analysis (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



U.S. Commercial Payment Card Purchase Volume by Type 2007 - 2016



Large and 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

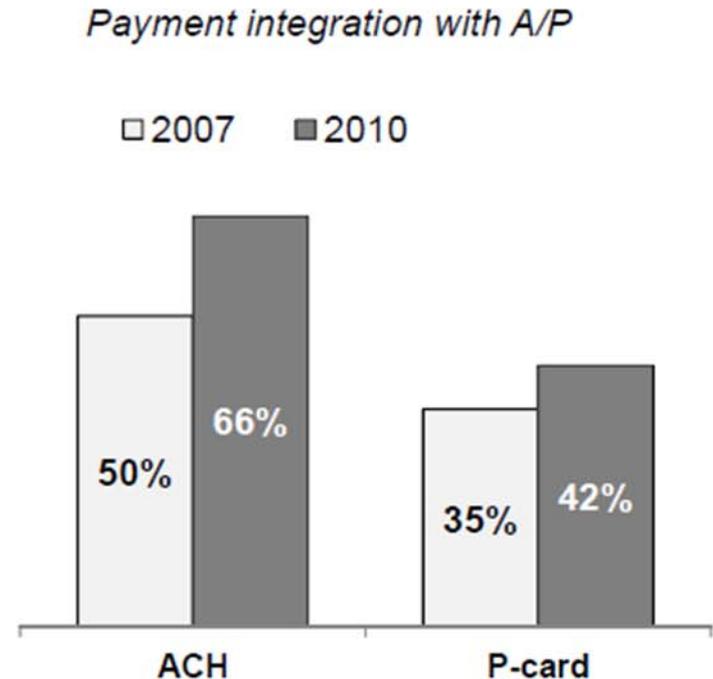
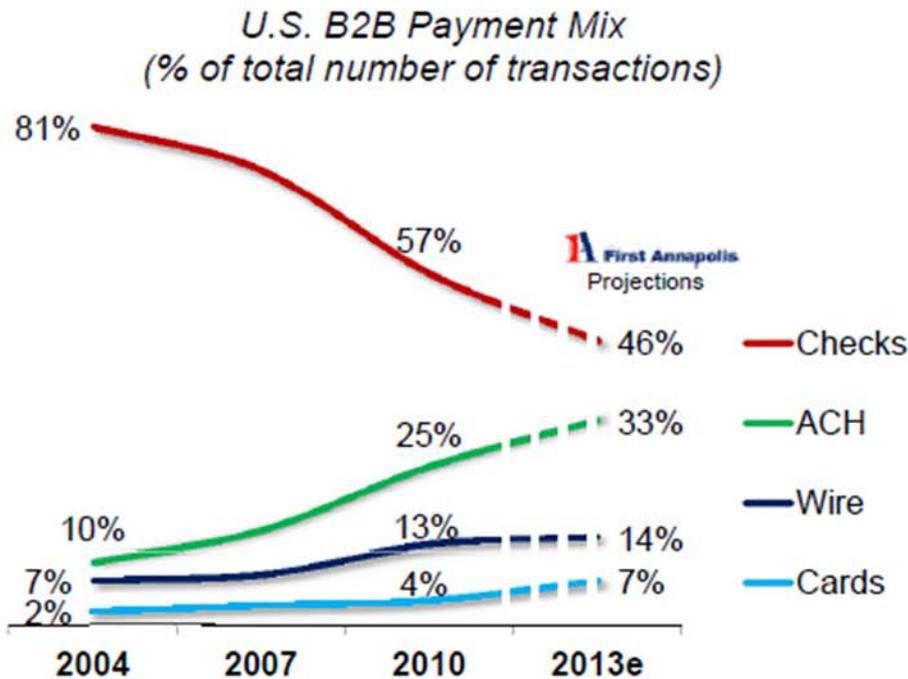
- This growth will be led by organizations with revenue greater than \$1B, where 88% of transactions are expected to be electronic
- Smaller organizations are also expected to make great strides, estimated at 59% by 2013

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.

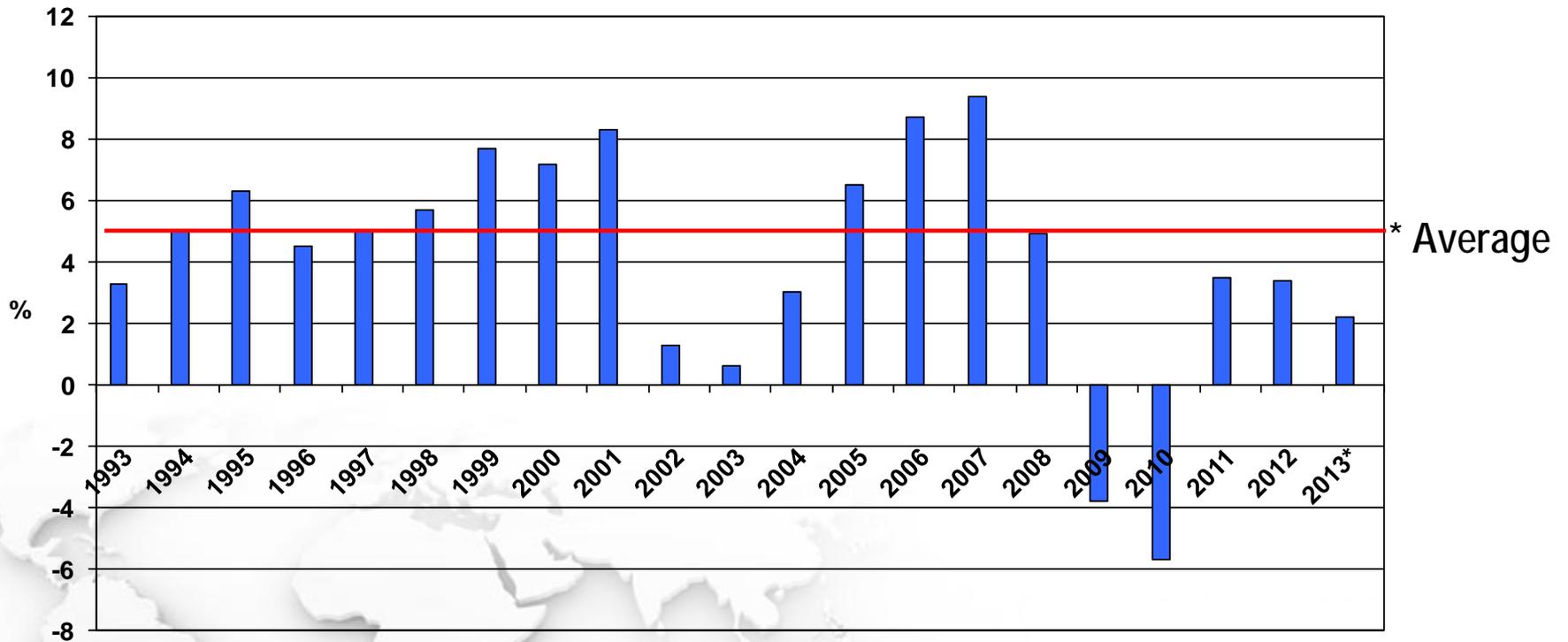


Source: AFP Electronic Payments Survey data for 2004-2010; .2011 First Annapolis Commercial Card Market Landscape

GF Growth



General Fund Expenditure Growth (%)

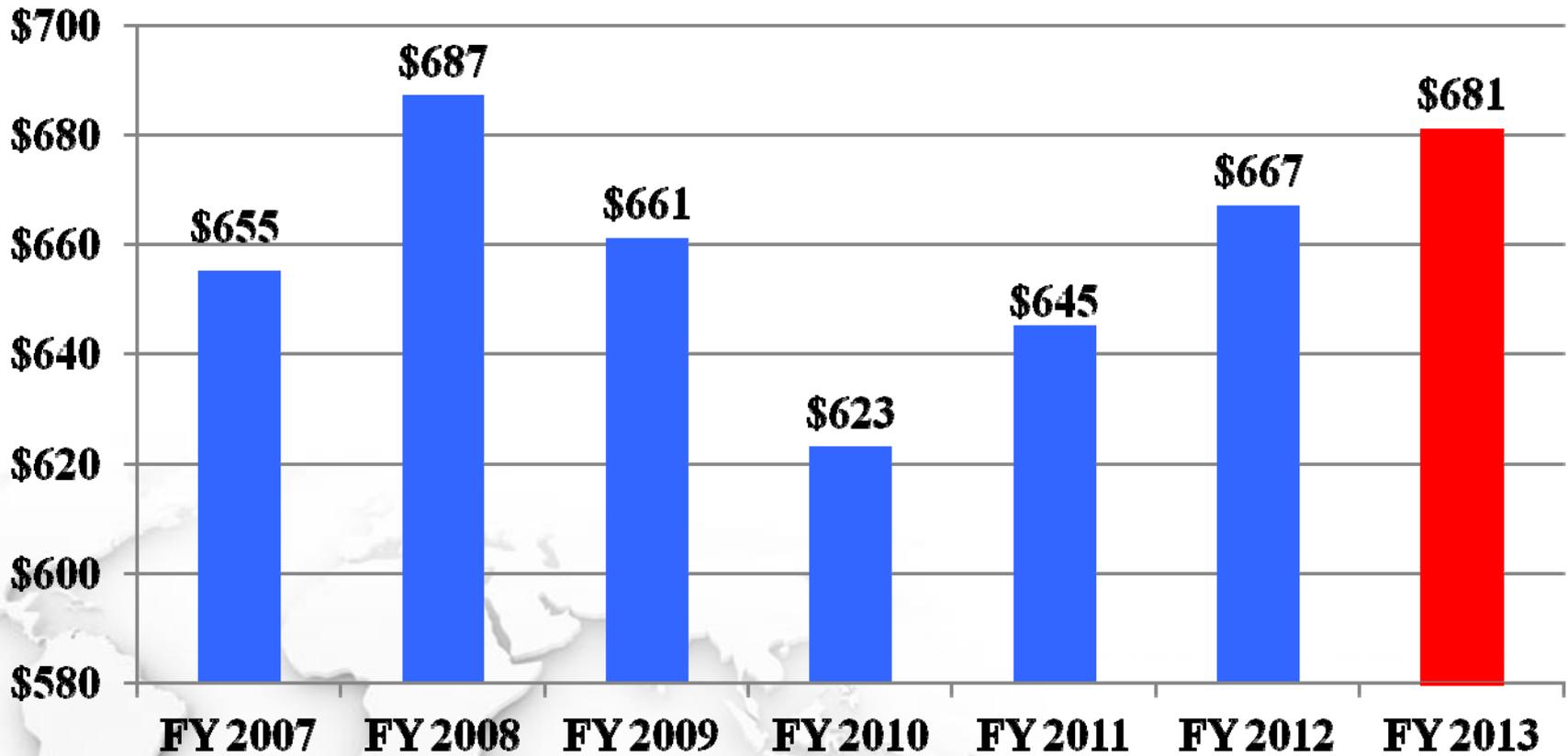


**35-year historical average rate of growth is 5.6 percent
Source: NASBO Fall 2012 Fiscal Survey of States*

**Fiscal '13 numbers are appropriated*

FY 2013 Appropriated Spending Still \$5.9 Billion Below FY 2008

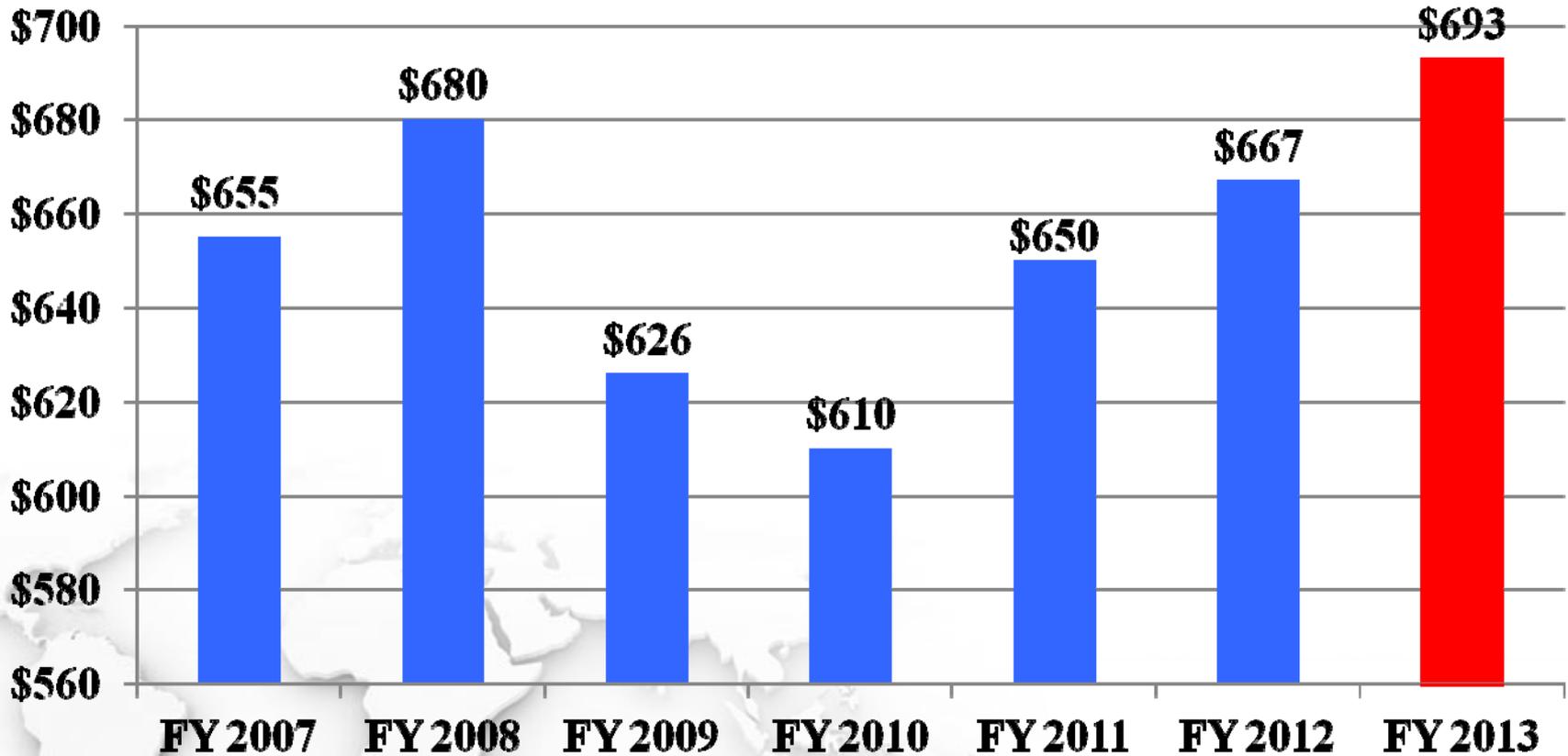
General Fund Spending: FY 2007-FY 2013



Source: NASBO Fall 2012 Fiscal Survey of States

FY 2013 General Fund Revenue is Expected to Surpass FY 2008 by \$13B

General Fund Revenue: FY 2007-FY 2013



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**



Industry Benchmark Survey Results

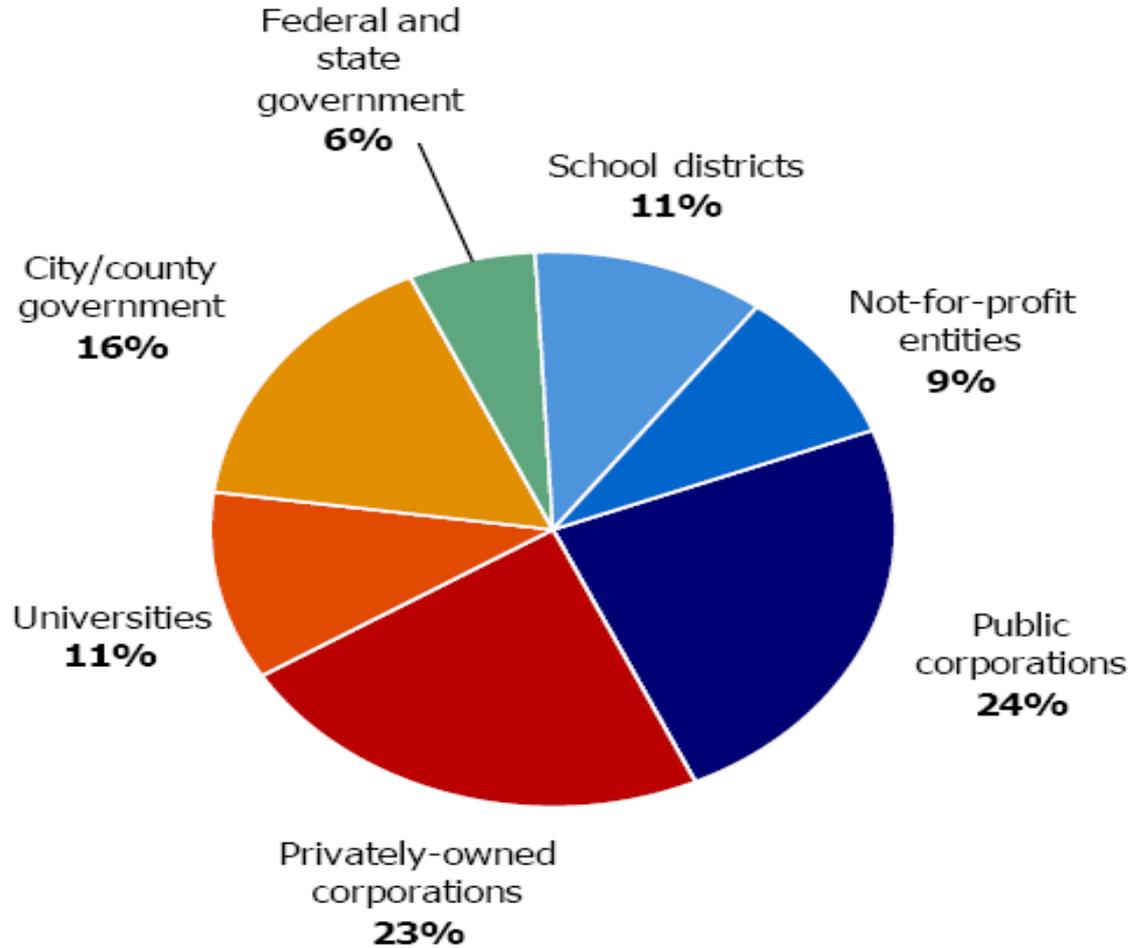
RPMG 2012



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Study Respondent Organization



Source: 2010 RPMG Purchasing Card Benchmark Survey Results

Key Organizational Performance Measures



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

	Best Practice	Needs Improvement	Percent Difference
Program Benefits			
Per transaction spending limit	\$2,916	\$1,835	59%
Monthly transactions per card	7.49	4.74	58%
Transaction amount	\$324	\$244	32%
Monthly spending per card	\$2,423	\$1,158	109%

Source: 2012 RPMG Purchasing Card Benchmark Survey Results

Average Growth Rates in Purchasing Card Spending



	2005-2007 Respondent Reported Growth	2007-2009 Respondent Reported Growth	2009-2011 Respondent Reported Growth
School districts	22%	27%	17%
Universities	23%	20%	14%
City/county agencies	22%	23%	17%
States and State agencies	15%	10%	8%
Federal agencies	7%	7%	-2%
Not-for-Profit organizations	31%	25%	23%

** 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.*

Expected Growth Rates in Purchasing Card Spending from 2011 to 2016

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

Source: 2012 RPMG Purchasing Card Benchmark Survey Results

Transactions by Payment Below \$2500



	Fortune 500-Size	Large Market	Middle Market	Government and Not-for-Profit
Purchasing cards	54%	45%	43%	49%
Paper check	22%	38%	45%	40%
ACH transfer	19%	12%	9%	7%
Wire transfer	4%	4%	2%	2%
Other	1%	1%	1%	2%

Source: RPMG Purchasing Card Benchmark Survey 2012

Payment for All Over transactions between \$2,500 and \$10,000



	Fortune 500-Size	Large Market	Middle Market	Government and Not-for-Profit
Purchasing cards	34%	28%	30%	26%
Paper check	31%	46%	53%	57%
ACH transfer	28%	18%	11%	11%
Wire transfer	6%	7%	4%	3%
Other	1%	1%	2%	3%

Source: RPMG Purchasing Card Benchmark Survey 2012

All Payments Over \$10,000 but Less Than \$100,000



	Fortune 500- Size	Large Market	Middle Market	Government and Not-for- Profit
Purchasing cards	12%	8%	11%	7%
Paper check	38%	51%	63%	70%
ACH transfer	34%	25%	14%	14%
Wire transfer	14%	15%	10%	5%
Other	2%	1%	2%	4%

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



Our Strategy: We have the Tools

➤ A layered approach



PREVENT
Minimize fraud
in the payment
system

Dynamic Authentication
Intelligent Authorization

- EMV chip
- Verified by Visa
- Visa Advanced Authorization
- Visa Consumer Authentication Service



PROTECT
Protect
vulnerable
account data

Data Security
Data Elimination

- Non-storage
- Encryption, tokenization
- PCI standards
- Payment gateways



RESPOND
Monitor and
manage events
that occur

Breach Response
Cardholder Empowerment
Shrink Zone of Impunity

- Proactive Alerts (CAMS)
- Transaction Alerts
- Law enforcement support
- Chargeback & Fraud programs
- Global Brand Protection programs

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

	Employee Misrepresentation	Internal Fraud	External Fraud	Total Fraud and Misrepresentation
Median dollars per incident	\$200	\$350	\$100	\$133
Loss to organization as a percent of purchasing card spending	.004%	.001%	.002%	.007%

	Employee Misrepresentation	Internal Fraud	External Fraud	Total Fraud and Misrepresentation
Corporations	.005%	.001%	.003%	.009%
Government and Not-for-Profit Organizations	.002%	.001%	.002%	.005%

Source: RPMG Purchasing Card Benchmark Survey 2012

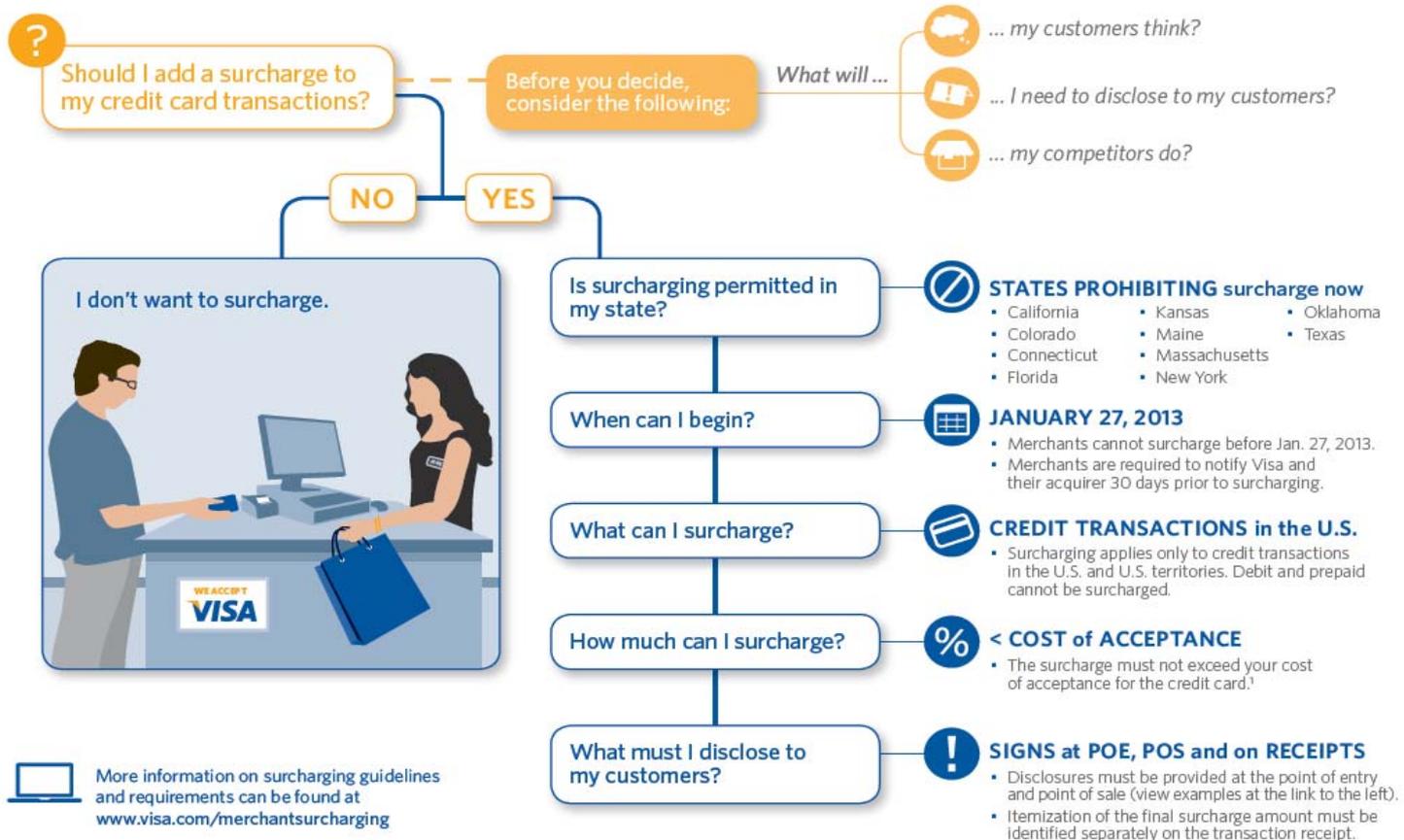
Regulatory update



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



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*:

- **Visa:**

<http://usa.visa.com/download/merchants/surcharging-faq-by-merchants.pdf>

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>

We impose a surcharge of \$ _____ on the total transaction amount on Visa credit card products, which is not greater than our cost of acceptance. We do not surcharge Visa debit cards.

SUBTOTAL	100.00
SURCHARGE	2.00
TOTAL	102.00
=====	
AMOUNT TENDERED	
VISA	102.00
ACCT: ***** 1234	
EXP: *****	
APPROVAL: 999999	
CARDHOLDER: JANE SMITH	
TOTAL PAYMENT	102.00

Unanswered Questions?

