

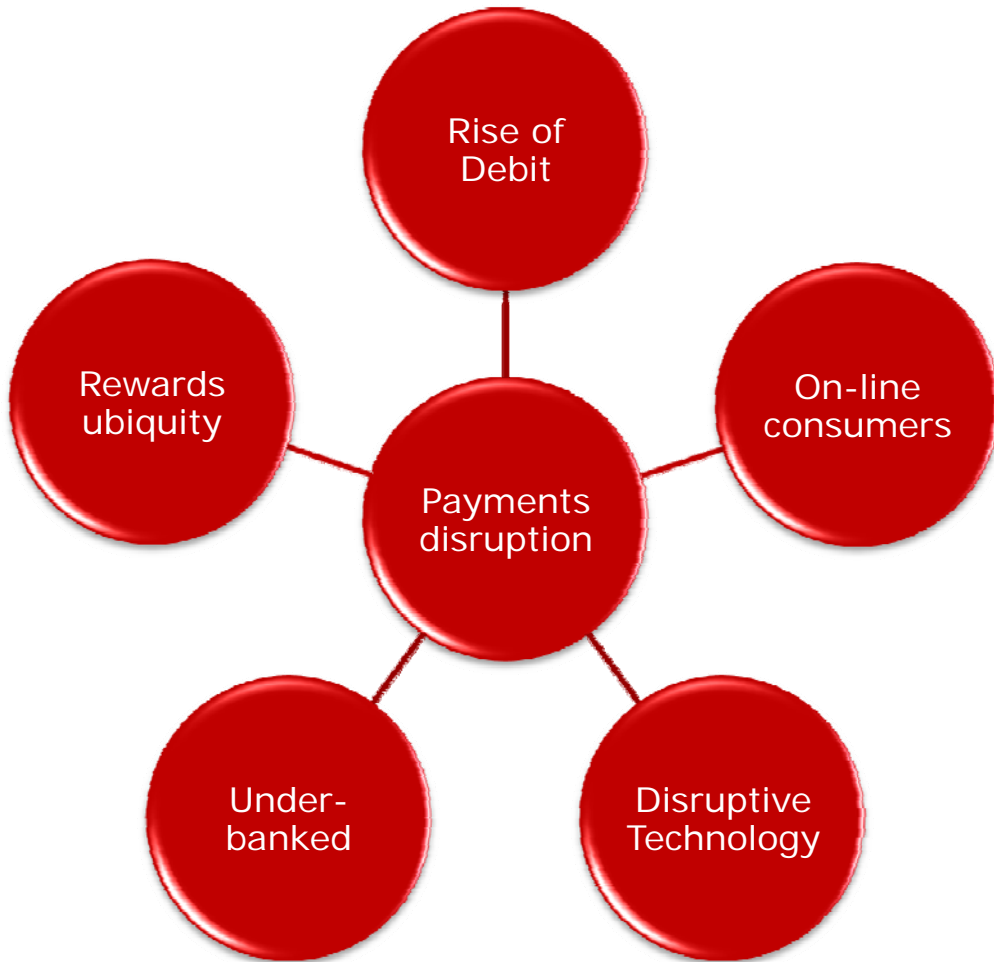


# Innovation in Payments

2009 FRB Payments Conference

Scott Grimes  
CEO and Founder  
Cardlytics, Inc.

# Structural forces are impacting payments

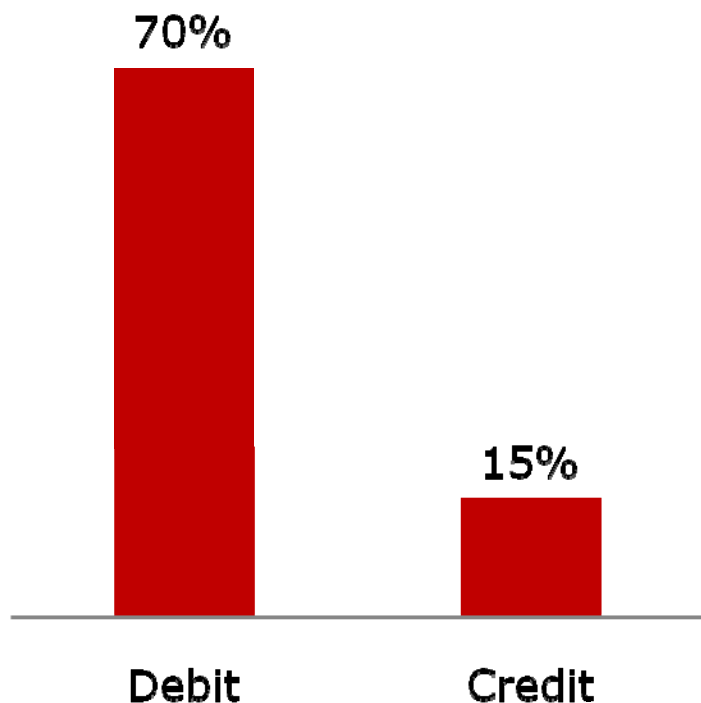


## Opportunities for innovation

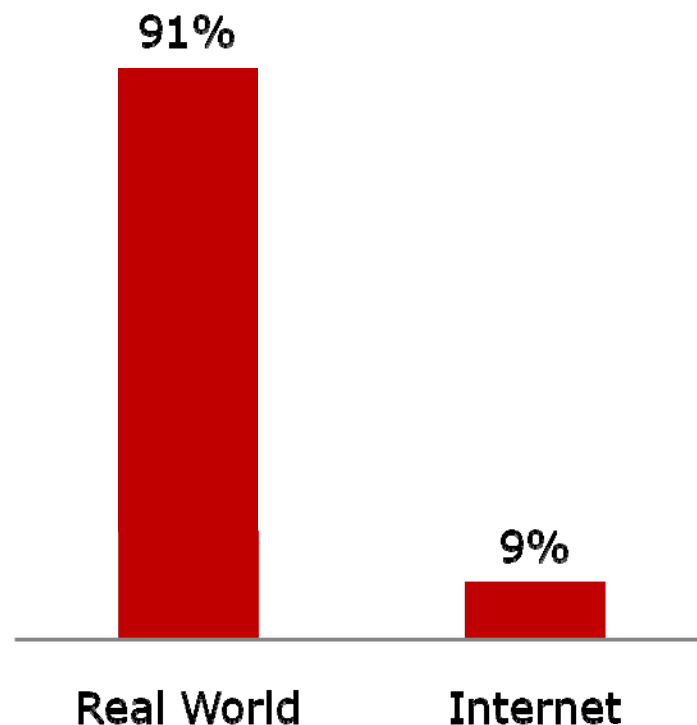
- Weakening network effects
- Disaggregation of banking relationships
- Increasing ability to market and service without a physical presence
- Consumers willingness to adopt
  - Awareness of payment choices
  - Desire for better rewards/deal

# To materially change consumer POS payments, a solution must impact retail debit purchases

Primary Transaction Product  
(% of consumers)

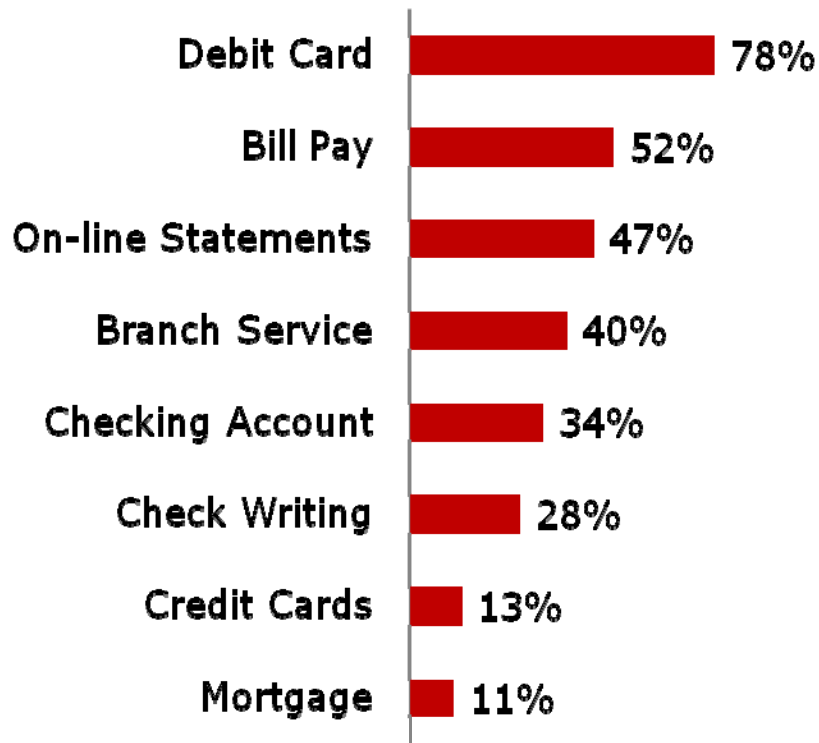


Mix of POS Debit Purchases  
(% of consumers)



# Consumers consider payment products the most important part of their banking relationship

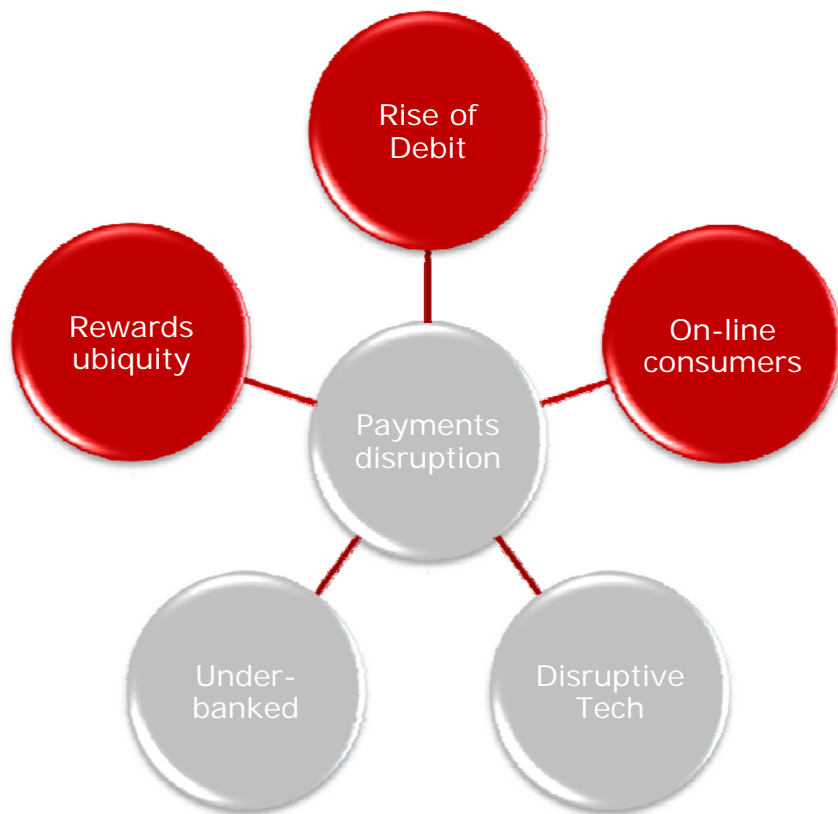
Importance to consumers  
(% of respondents)



## Creating Potential for Disruption

- Payment products are often treated as cost centers
- Few banks offer incentives (e.g., rewards) for transactions
- Move to electronic payments eases ability to “capture” the payment relationship

# De-coupled debit leveraged the structural forces



## De-coupled Debit

Capital One issued debit card

Worked with any banks DDA

Cleared funds via ACH

Funded by interchange

**Compelling rewards**

**Advanced on-line interface**

# New payment models can emerge but face challenges

## Consumers are generally happy

- Generally happy with how they pay
- Believe electronic payments are convenient and secure
- Plastic is easy

## Will switch for rewards

- Motivated by rewards
  - Rapid adoption
  - Better usage
- Loyalty to payment device, not bank account
- Secret is to minimize change in consumer behavior

## Economics are challenging

- Interchange, especially debit, is limited
- Unlikely to reduce costs to merchants
- Fraud can be challenging
- Needs to tap other sources of funding