

The Influence of Consumers

Using Market Intelligence to Help Define Payment Strategies

▶ STAR[®] Consumer Usage Payment Study

- Understanding Consumer Needs and Desires
- How Consumers Drive Payment Usage and Innovation
- Using Consumer Research as a Cornerstone of Payment Strategy Development and Education for retailers and financial institutions

▶ Primary objectives

- Examine behavior and attitudes regarding ATM and POS usage
- Identify concerns that may inhibit usage
- Evaluate interest in new services through the ATM and POS networks

Payments Use

Payment	% Using	Tx/month
Multiple types	78%	
ATM/debit only	3%	17.4
Credit only	2%	16.0
Check only	1%	6.0
Cash	12%	17.3

- ▶ Most consumers report using 2-4 payment types in the average month
- ▶ ATM/debit users report highest electronic payment use (30% over 2nd highest -- credit cards) and lowest use of other payment types

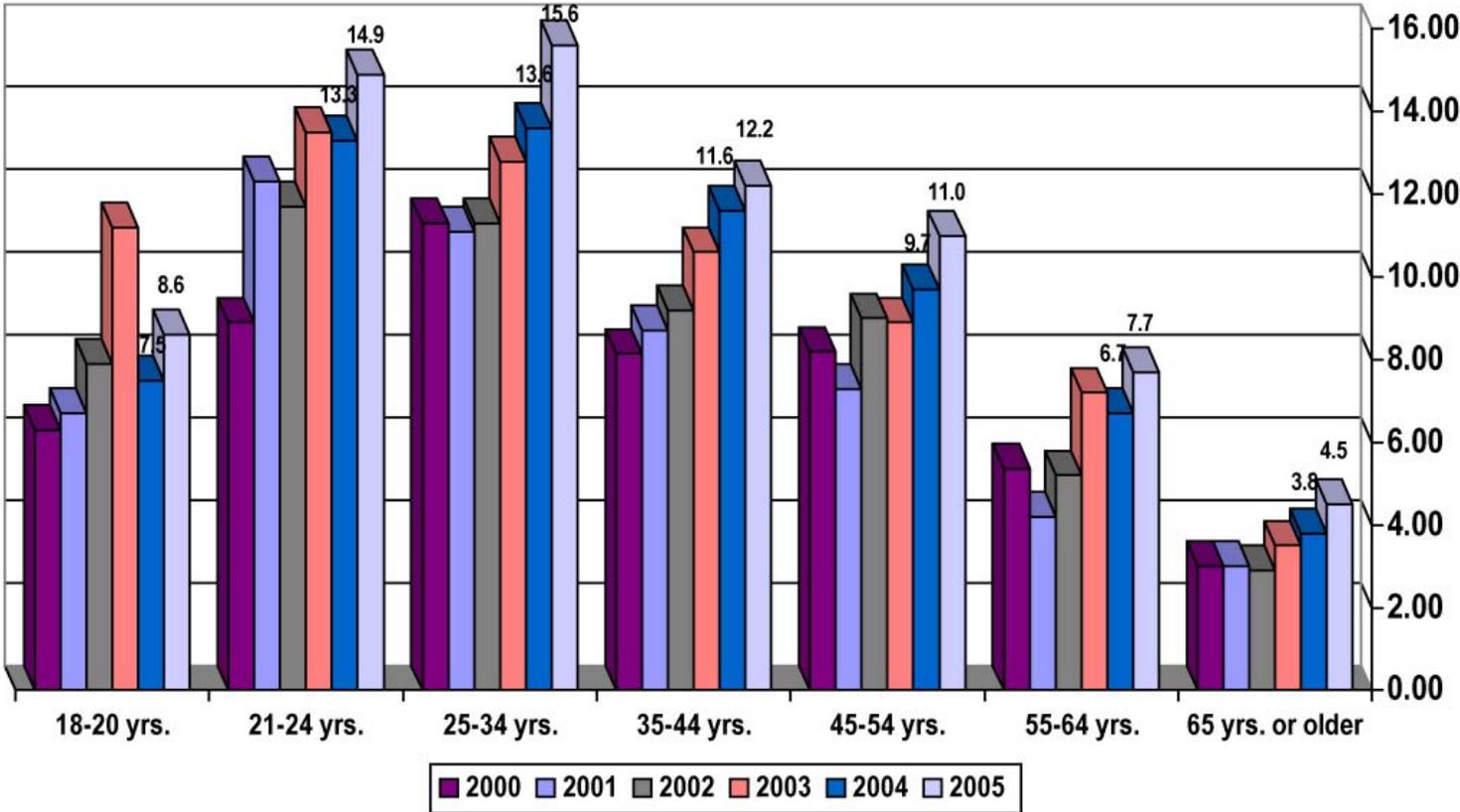
	Average Monthly Purchases With:					TOTAL
	ATM/ Debit Cards	Credit Cards	Checks	Cash		
Accountholders	8.9	6.5	1.8	13.4		29.2
ATM/debit Cardholders	11.1	6.6	1.7	13.4		31.5
ATM/debit POS Users	17.8	5.1	1.5	13.0	▼	36.2
Credit Users	9.0	11.4	2.3	14.2		35.3
Check Users	8.8	7.8	5.7	13.5		34.8
Cash Users	9.0	6.8	1.9	15.9		32.0

Source: 2005 STAR® Consumer Payments Usage Study



Debit Use Grows with Boomers

Average Reported Number of Times POS Used Last Month by Age
 Q55, 61 by Q3
 Systemwide



Source: 2005 STAR® Consumer Payments Usage Study



PIN- and Signature-Debit Usage at POS

Frequency (Past 30 Days)	2002	2003	2004	2005	Method Among ATM/DEBIT Users (Frequency of Use)
Signature Only	13.0	14.5	13.7	14.4	15%
PIN Only	8.9	9.1	9.0	10.0	25%
Both PIN & Sig	18.8	21.0	21.7	22.7	61%

- ▶ Consistent with previous years, dual method transactors are the highest transactors
- ▶ Consistent for 5+ years

Preference of POS Method					
	2001	2002	2003	2004	2005
PIN-based Method	51%	51%	50%	47%	45%
Signature-based Method	28	28	29	30	33
Both / Don't Care	12	13	12	13	15

Source: 2005 STAR® Consumer Payments Usage Study

PIN- and Signature-Debit Usage at POS

Awareness of POS Debit Features					
Nationwide 2005 responses	ATM/Debit Cardholders	STAR® Cardholders	Debit POS Users	Debit POS Non-Users	
Ability to Get Cash Back					
PIN-based Method	44%	51%	54%	26%	
Signature-based Method	9	9	7	11	
Both	24	25	25	22	
Neither	7	6	4	11	
No Liability					
PIN-based Method	13%	14%	14%	11%	
Signature-based Method	18	21	20	14	
Both	29	32	33	23	
Neither	10	10	8	12	

Source: 2005 STAR® Consumer Payments Usage Study



PIN- and Signature-Debit Usage at POS

Estimated Percentage of Increased Spending When Using POS Compared to Credit Cards	
	2005
Estimated Percentage of Increased Spending When Using POS Compared to Cash	46%
Estimated Percentage of Increased Spending When Using POS Compared to Checks	41%
Percentage of Respondents Who Spent More When Using POS Compared to Credit Cards	48%
Estimated Percentage of Increased Spending	50%
Percentage of Respondents Who Spent Less When Using POS Compared to Credit Cards	20%
Estimated Percentage of Decreased Spending	46%

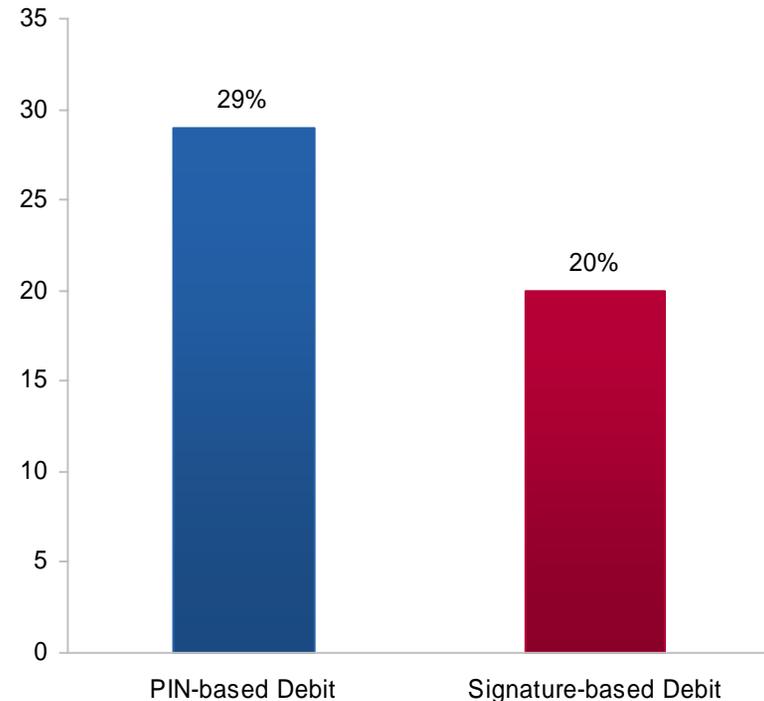
Source: 2005 STAR® Consumer Payments Usage Study

PIN- and Signature-Debit Usage at POS

- ▶ When asked whether a retailer has tried to steer a consumer into one method or another (PIN-based or signature-based), the majority of POS users have not been steered.
- ▶ However, 9% of all respondents are steered by retailers into using one method over another.

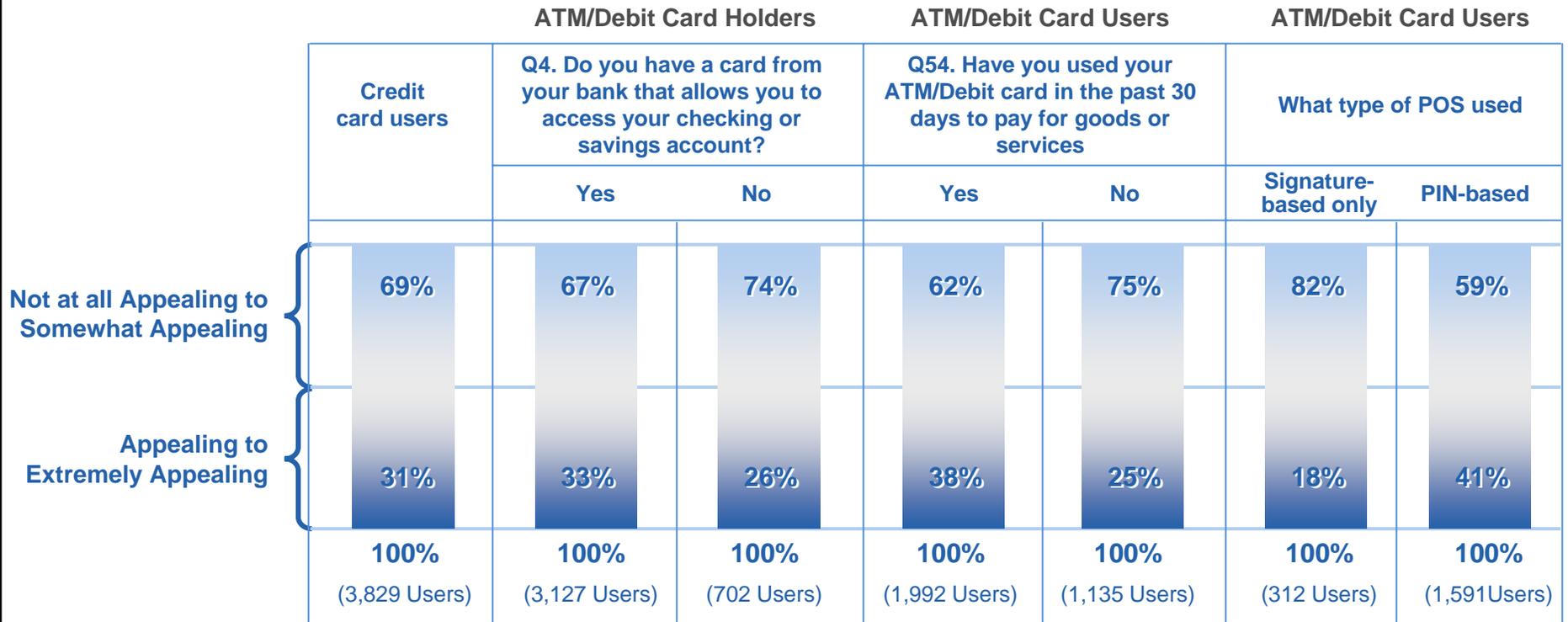
Average Percent of Times Users are Steered to a Specific Method

Base: Those who were steered



Source: 2005 STAR® Consumer Payments Usage Study

Appeal of PIN instead of signature with Credit Cards



▶ Appeal of Using PIN Instead of Signature (Mean Score) When Using a Credit Card to Pay for a Purchase

	Mean Scores 2005	Percent Found Extremely Appealing
Nationwide	4.3	15%

Source: 2005 STAR® Consumer Payments Usage Study



Payments Use

- ▶ ATM/debit cards tend to be used more for “fabric of life reasons” than specific features

Reason for PIN		Reason for ATM/DEBIT Use		Reason For Credit Card Use		Reason For Check Use		Reason For Cash Use	
Security	48%	More convenient	46%	More convenient, easier, faster	26%	Other options not available	29%	Easier/simpler	27%
Simpler, faster	38%	Do not like to carry cash	21%	To get mileage / points	15%	Habit	21%	Size of purchase / amount	22%
Don't Sign	11%	Easier/simpler	20%	Don't have the cash, don't carry cash or other cards	14%	Receipt / record keeping	9%	Prefer cash	19%
Get cash back	4%	More secure	8%	Want float/delay time	10%	Want float/delay time	6%	Faster/quicker	11%
Direct Access	1%	Faster/quicker	7%	Easier for tracking, to keep records	10%	Type of retailer	6%	Other payment options not available	11%

Source: 2005 STAR® Consumer Payments Usage Study



Payment Conversion Opportunities

Amount Spent Using ATM/DEBIT Compared To:

Form	Minimum		Maximum		Where?
	(Equal Above & Below) Median 2005	Average Mean 2005	Median 2005	Mean 2005	
Cash	\$1.00	\$3.20	\$100.00	\$314.67	<ul style="list-style-type: none"> ▶▶ Grocery Store 44% ▪ Gas Station 24% ▪ Fast Food 24% ▪ Dine-in Restaurant 20%
Check	\$10.00	\$12.79	\$400.00	\$1,049.85	<ul style="list-style-type: none"> ▪ Grocery Store 33% ▪ Specialty Retail Location 16% ▪ Discount Store 12% ▪ Doctor's Office 7%
Credit Card	\$10.00	\$15.52	\$500.00	▶▶ \$1,444.85	<ul style="list-style-type: none"> ▪ Gas Station 31% ▪ Grocery Store 30% ▪ Specialty Retail 29% ▪ Discount Store 16% ▪ Dine-in Restaurant 16%
ATM / Debit Card	\$5.00	\$10.15	\$200.00	\$575.90	<ul style="list-style-type: none"> ▪ Everywhere

Source: 2005 STAR® Consumer Payments Usage Study



Average Reported POS Transaction Fees

	Average Financial Institution Fee				Total Retailer Fees							
	PIN-Based				Signature-Based							
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
ATM/debit Cardholders	\$1.04	\$1.11	\$1.19	\$1.30	\$0.92	\$1.35	\$1.14	\$1.52	\$0.92	\$0.97	\$1.04	\$1.23
STAR® Cardholders	\$0.99	\$1.09	\$1.25	\$1.35	\$0.82	\$1.24	\$1.34	\$1.58	\$0.92	\$0.93	\$1.02	\$1.30
Debit POS Users	\$0.99	\$1.09	\$1.16	\$1.18	\$0.84	\$1.41	\$1.25	\$1.40	\$0.82	\$0.95	\$0.98	\$1.18
Debit POS Non-Users	\$1.17	\$1.16	\$1.29	\$1.63	\$0.80	\$1.53	\$1.25	\$1.72	\$1.12	\$0.88	\$1.25	\$1.50

Source: 2005 STAR® Consumer Payments Usage Study



Debit Transaction Fee Experience

Cardholder Awareness of POS Transaction Fees Levied by Financial Institutions

	2001	2002	2003	2004	2005
Fee levied by financial institution for PIN-based purchase	12%	12%	9%	10%	10%
Fee levied by financial institution for signature-based purchase	6	4	3	3	3

Reasonableness of Fees and FI Influence on Consumer Awareness

	2001	2002	2003	2004	2005
Cardholder Awareness of POS Transaction Fees Levied by Retailers or Restaurants	15%	14%	14%	13%	16%
POS Transaction Fee Levied by Retailer is Reasonable or Very Reasonable					
Very reasonable	5%	8%	5%	6%	3%
Reasonable	32	25	25	27	21
Total	36%	33%	30%	33%	24%
Financial Institutions Informed ATM Cardholder about using the PIN-based Debit for POS	58%	59%	67%	67%	57%

Source: 2005 STAR® Consumer Payments Usage Study

Drivers of Use: Loyalty/Reward Programs

Awareness and Enrollment in POS Rewards Programs				
	2002	2003	2004	2005
Offered a Reward Program	14%	13%	17%	18%
Type of POS				
PIN-based	30%	21%	18%	18%
Signature-based	25	25	25	27
Both	17	29	31	28
Percent Enrolled	40%	46%	46%	61%

Types of Rewards Offered by Financial Institutions				
	2002	2003	2004	2005
Airline Miles	47%	24%	23%	21%
Points Toward Purchases	55	13	23	26
Sweepstakes Entries	32	9	5	3
Percent of Purchase Returned	40	24	25	26
Discount Coupons	36	9	9	14
Other (Specify)	22	8	12	2
Contributions	N/A	N/A	N/A	2
Merchandise	N/A	N/A	N/A	3



In Closing....

- ▶ Consumers are using multiple payment platforms and demanding increased functionality from each form
- ▶ Market Intelligence is key in developing strategies to benefit all constituents in the payments industry.
- ▶ Learning about and understanding consumer preferences is an integral part in defining payment strategies that:
 - Align payment options and opportunities
 - Allow better understanding of current and future trends
 - Harness new technologies to address consumer needs

Thank You!