Innovation in Payments
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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)

- Debit: 70%
- Credit: 15%

**Mix of POS Debit Purchases**
(% of consumers)

- Real World: 91%
- Internet: 9%
Consumers consider payment products the most important part of their banking relationship.

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<thead>
<tr>
<th>Importance to consumers (% of respondents)</th>
<th>Creating Potential for Disruption</th>
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<tbody>
<tr>
<td>Debit Card 78%</td>
<td>• Payment products are often treated as cost centers</td>
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<td>Bill Pay 52%</td>
<td>• Few banks offer incentives (e.g., rewards) for transactions</td>
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<td>On-line Statements 47%</td>
<td>• Move to electronic payments eases ability to “capture” the payment relationship</td>
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<td>Branch Service 40%</td>
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<td>Checking Account 34%</td>
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<td>Check Writing 28%</td>
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<td>Credit Cards 13%</td>
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<td>Mortgage 11%</td>
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De-coupled debit leveraged the structural forces

- Rise of Debit
- On-line consumers
- Payments disruption
- Under-banked
- Disruptive Tech
- Rewards ubiquity

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