

Smart Card Alliance
Industry Views on Mobile Payments



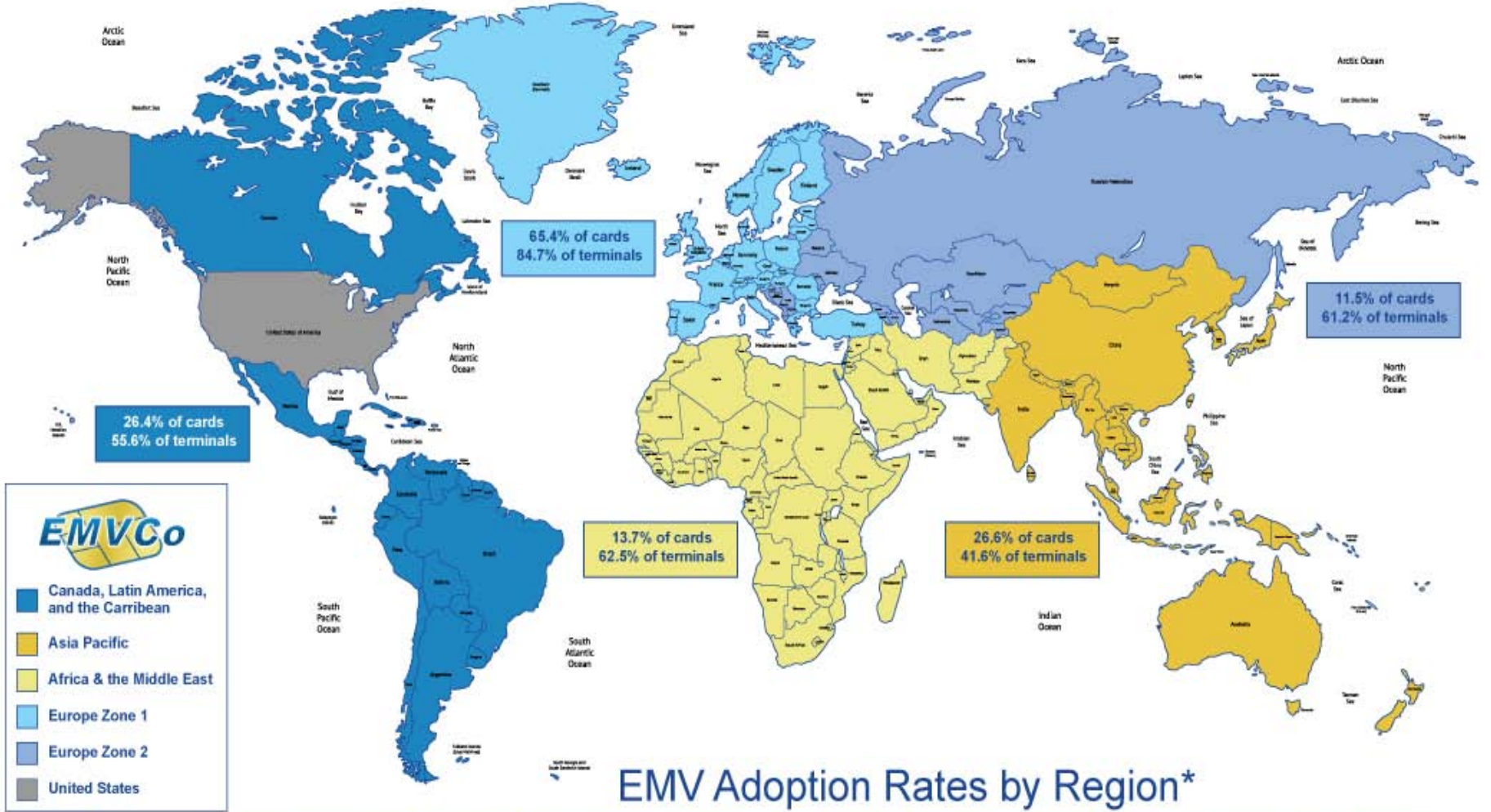
The MAG is...

The Merchant Advisory Group is a cross-industry association of large merchants involved in the payments industry.

MAG Merchants

ALON USA	Darden	Kwik Trip	Sprint
American Airlines	Delta Airlines	Lowe's	SUBWAY Restaurants
Amway Global	Dillard's	Marriott International	T-Mobile
Ann Taylor Stores	Guitar Center	McDonald's Corporation	Target
Avis Budget Group	The Home Depot	OfficeMax	Tesoro Refining & Marketing
Best Buy	HMSHost Corporation	Phillips-Van Heusen	Tiffany & Co.
Blockbuster	Hotwire	Polo Ralph Lauren	The TJX Companies
Brinker International	Hughes Network Systems	RaceTrac Petroleum	US Airways
CITGO Petroleum	JC Penney	Redbox Automated Retail	Verizon Wireless
Club Monaco	Jones Apparel Group	Rite Aid	Wal-Mart
ConocoPhillips	The Kroger Co.	Sears Holdings	WendysArbys
Continental Airlines		Southwest Airlines	YUM! Brands
CVS Caremark			

Current Landscape



EMV Adoption Rates by Region*

*Figures reported as of September 2010 and represent the latest statistics from American Express, JCB, MasterCard, and Visa, as reported by their member financial institutions globally. Figures do not include data from the United States.

Migration Toward NFC

- “In yet another sign 2011 promises to include an avalanche of Near Field Communication-related announcements, LG Corp. is jumping on the bandwagon.” – PaymentsSource, Feb. 4, 2011
- “Visa Europe and Wireless Dynamics Inc. are teaming up to offer a mobile contactless-payment service for Apple Inc. iPhone users in the United Kingdom.” – PaymentsSource, Jan. 25, 2011
- “Scotiabank and the Royal Bank of Canada will be the first Canadian banks to issue the Interac Association’s new contactless EMV chip-and-PIN cards.” – PaymentsSource, Nov. 18, 2010
- “First Data Corp. and South Korea-based SK C&C Co. Ltd. reportedly plan to collaborate to enable consumers in the United States, Canada and Mexico to use their mobile phones in place of physical wallets to initiate payment.” – Sept.17, 2010

Migration Toward NFC

- ⦿ “Verizon, AT&T and T-Mobile USA announced their joint venture today, with plans to introduce NFC-based mobile payment in selected markets during the next 18 months.” – *NFC Times*, Nov. 16, 2010
- ⦿ “Google is building a mobile wallet nicknamed “Cream,” which it plans to integrate with Android NFC phones that consumers could tap to pay in stores, sources told *NFC Times*. Among banks showing strong interest is U.S.-based Citigroup.” – *NFC Times*, Jan. 6, 2011

Migration Toward NFC

In a recent meeting with merchants, issuers, acquirers and brands, the following statement was agreed upon:

“There is an unquestionable movement in the market toward mobile transactions and information (payments, loyalty, ID, etc.).”

So why aren't things moving faster?

Banks and brands said last week to MAG that there is no business case.

So let's play
"Let's build a business case"

There was no “business case” for PCI, yet billions of dollars have been spent.

- Results of a MAG survey lead to an estimate that PCI Level 1 and Level 2 companies have spent \$20 billion to date on PCI compliance
- Those same companies incur ongoing PCI costs of an estimated \$650 million annually.
- Does not include all other merchants, acquirers, banks, vendors, fines, assessments, audit firm training, etc. (All in total \$30 – 40 billion to date/\$1 billion annually?)

If no business case for PCI, why have billions of dollars been spent?

- There was a problem to address
- There was liability to shift

Visa's TIP Program implies that EMV solves for PCI when properly deployed

“Visa's Technology Innovation Program (TIP), will eliminate the requirement that eligible merchants annually validate their compliance with the PCI DSS for any year in which at least 75 percent of the merchant's Visa transactions originate from chip-enabled terminals.”

Business Case



Avoid PCI Costs

Payment card fraud volumes, while difficult to quantify, still present a business case for action

Visa states fraud levels of 6 bp. Applied to 2009 total annual payment card volume that would be \$2 billion.

However, Nilson Reports indentified 2009 card fraud at \$8.6 billion, and others are higher.

Most fraud studies do not include or attempt to quantify victim costs, lost sales, cost of fraud prevention, PCI costs, undetected fraud, misclassified losses, and other related costs.

Business Case

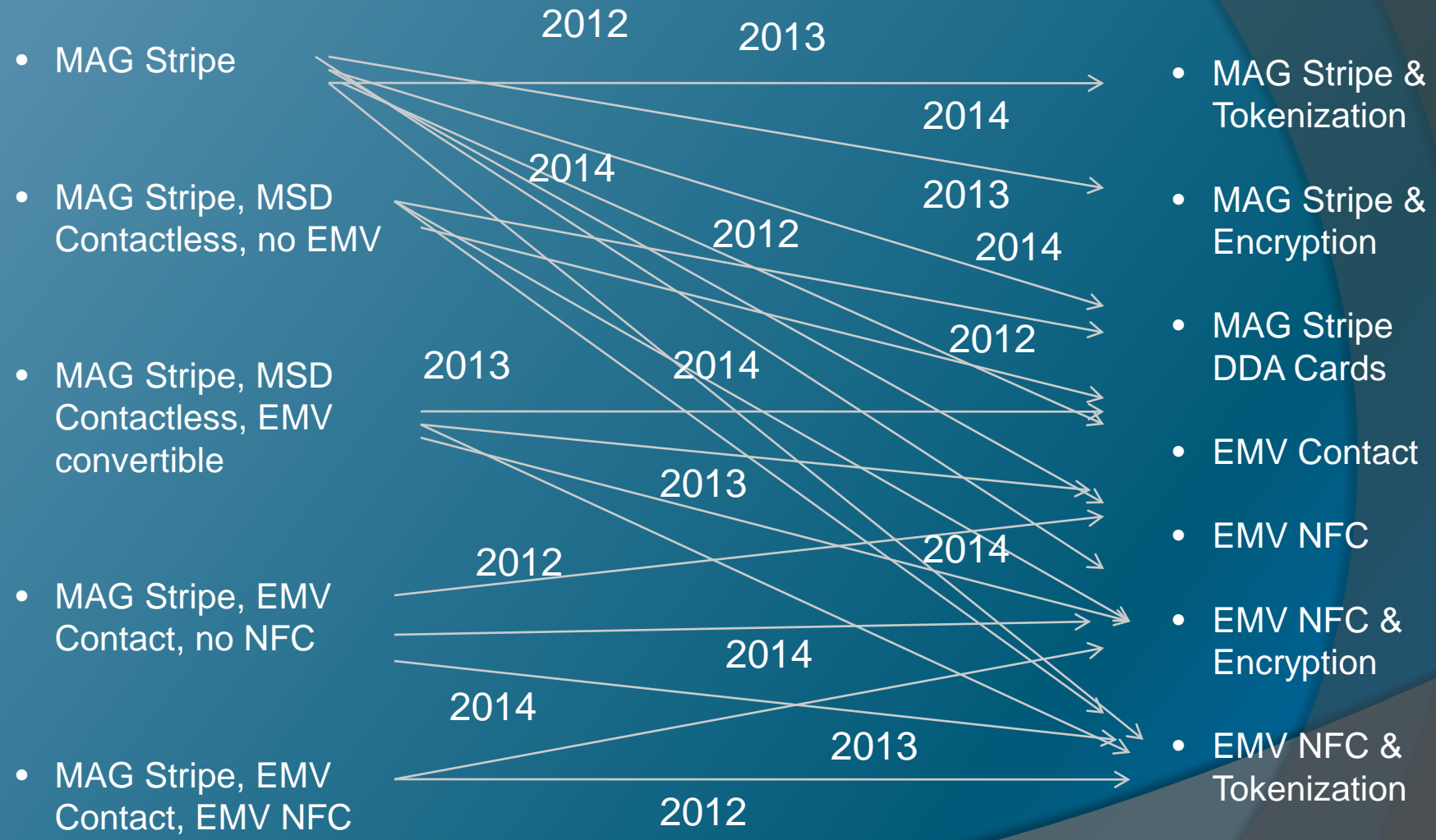
Avoid PCI Costs

Significantly
reduce fraud

Benefits of a roadmap/moving together

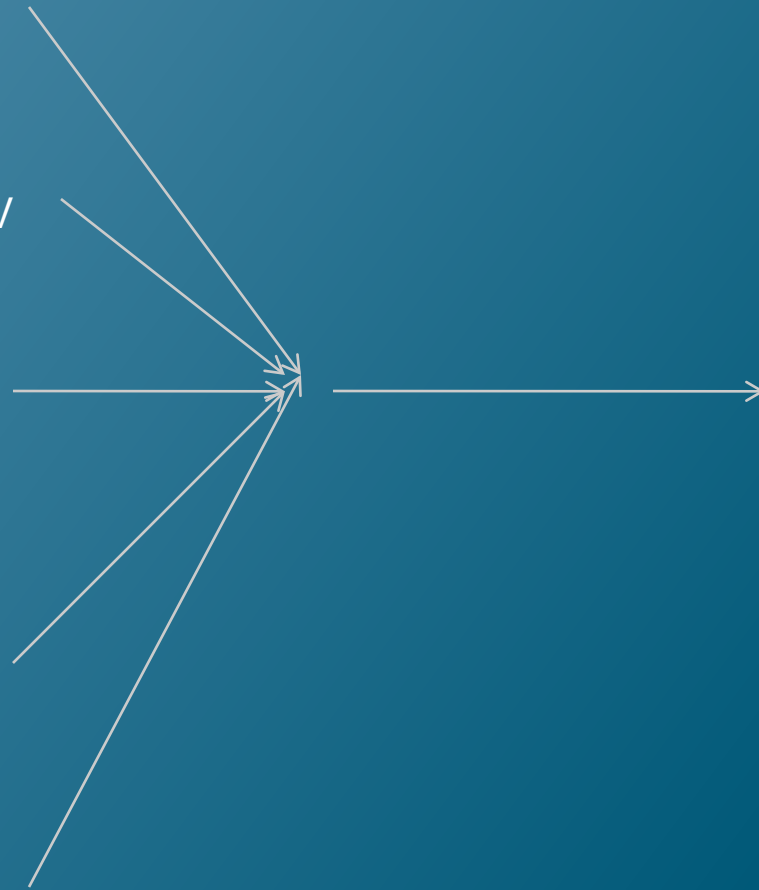
- Get to the end result faster
- Avoid wasting money on interim solutions
- Funds saved on interim solutions contribute to funding of EMV NFC

Current Merchant Outlook



Possible Merchant Outlook

- MAG Stripe
- MAG Stripe, MSD
Contactless, no EMV
- MAG Stripe, MSD
Contactless, EMV
convertible
- MAG Stripe, EMV
Contact, no NFC
- MAG Stripe, EMV
Contact, EMV NFC



EMV NFC
2014

Business Case

Avoid wasted
investments

Avoid PCI Costs

Significantly
reduce fraud

Revenue Opportunity

- New transactions
- Couponing
- Loyalty
- Information
- etc
- etc
- etc

Business Case

“We have a winner!”

Social
Responsibility

Stop Funding
Terrorism

Avoid wasted
investments

Drive revenue,
create opportunity

Achieve
Interoperability

Avoid PCI Costs

Significantly
reduce fraud

So if there is a business case, what is the problem?

- Moving to EMV/NFC in this country upsets the apple cart
- The ones with the biggest stake in the apple business don't want the cart upset
- Must solve for online. Since the technology exists to do so, even more apples are at risk
- It pays best to keep selling apples under the same contract as long as possible

Concluding Thoughts

- Acknowledge and respect the business case
- Don't catch up, lead
- Transition
- Help from public sector, law enforcement