Driving Growth in Debit

AGENDA:

Introductions

Debit Growth

- ➢ Debit Update
- ➢ Creating a Successful Plan-What to do?
- ➢ 10 Key Success Opportunities
- ➢ Other Growth Strategies

INTRODUCTION

CSCU Sr. Portfolio Consultants:

Ann Farrell

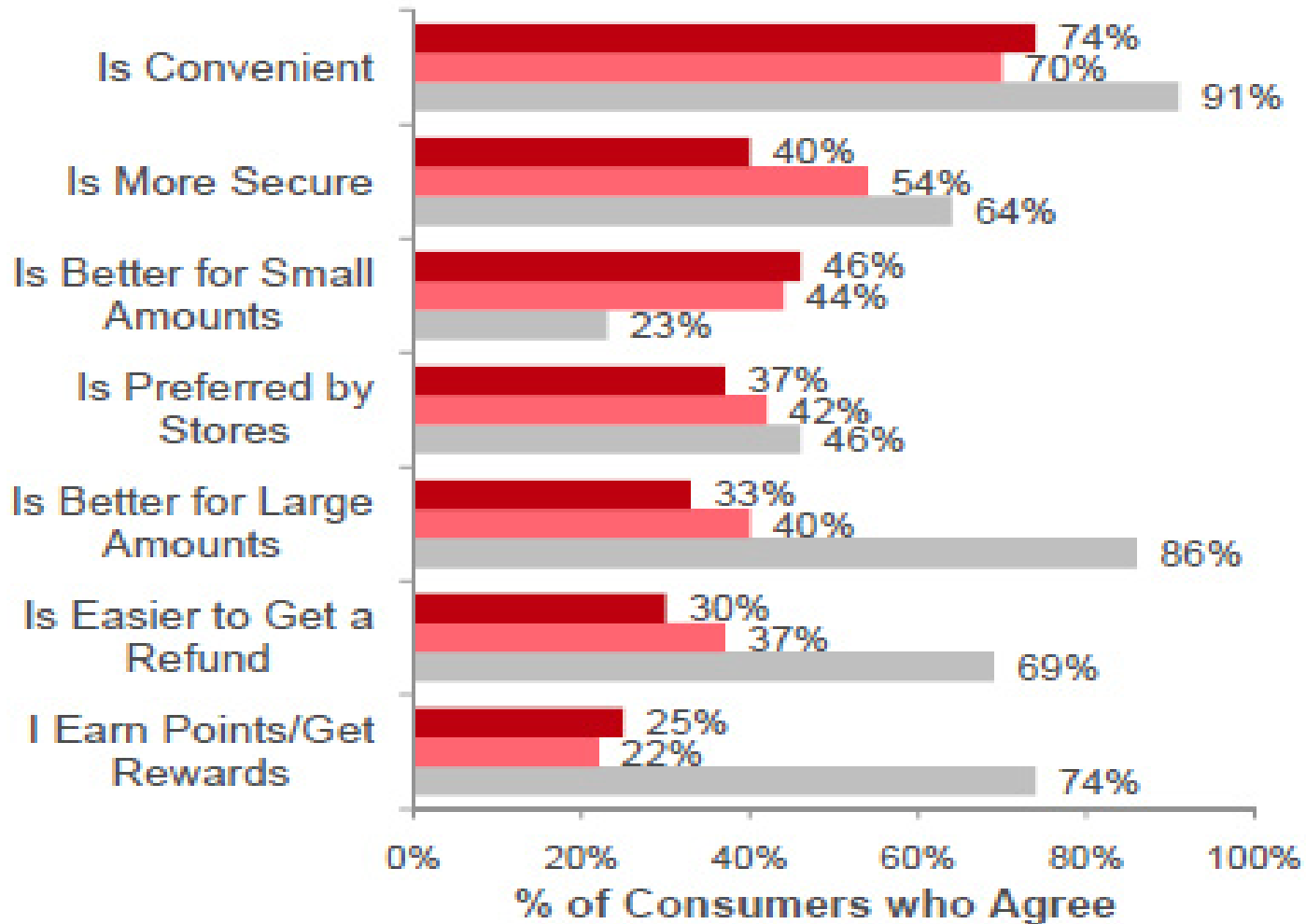Michelle Evans

Melissa Oxendine

DEBIT UPDATE

QUARTERLY STATISTICS AS OF DECEMBER 31, 2010

Your source for everything!

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DEBIT INDUSTRY TRENDS

➢ Consumer comfort with debit cards could bode well for growth opportunities

➢ During the heavy hit to the economy over the past two years, consumers have turned to DEBIT CARDS over other forms of payment at an increasing rate

➢ According to industry experts, the number of debit cards at the Point of Sale exceeds credit card transactions by 1.47 billion

➢ At the end of 2010, that number increased to *8.68 billion*

➢ Increasingly savvy consumers will demand more from their debit cards

[1]*American Banker, February 24, 2009,* [2]*American Banker, January 5, 2009 ,*[3]*2008 Study of Consumer Payment Preferences, BAI*

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Perceptions of Debit vs. Credit

Is Convenient
- Signature Debit: 74%
- PIN Debit: 70%
- Credit Card: 91%

Is More Secure
- Signature Debit: 40%
- PIN Debit: 54%
- Credit Card: 64%

Is Better for Small Amounts
- Signature Debit: 46%
- PIN Debit: 44%
- Credit Card: 23%

Is Preferred by Stores
- Signature Debit: 37%
- PIN Debit: 42%
- Credit Card: 46%

Is Better for Large Amounts
- Signature Debit: 33%
- PIN Debit: 40%
- Credit Card: 86%

Is Easier to Get a Refund
- Signature Debit: 30%
- PIN Debit: 37%
- Credit Card: 69%

I Earn Points/Get Rewards
- Signature Debit: 25%
- PIN Debit: 22%
- Credit Card: 74%

% of Consumers who Agree

■ Signature Debit ■ PIN Debit ■ Credit Card

Source: Hitachi Consulting 2010 Study of Consumer Payment Preferences

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DEBIT CARD USAGE

➢ Debit card usage continues to be the most popular form of payment with an increase in usage from 37% in 2008 to 42% in 2010.

➢ The number of credit cards issued is twice that of debit cards, the usage of debit cards outpaces that of credit cards.

➢ Debit transactions per active account were three times more than credit card transaction per active account

➢ Consumers value debit – convenience, security, control – and will continue to shift cash and check payments to card

# Debit in Top 3 Payment Method by Age

Source: Hitachi Consulting 2010 Study of Consumer Payment Preferences

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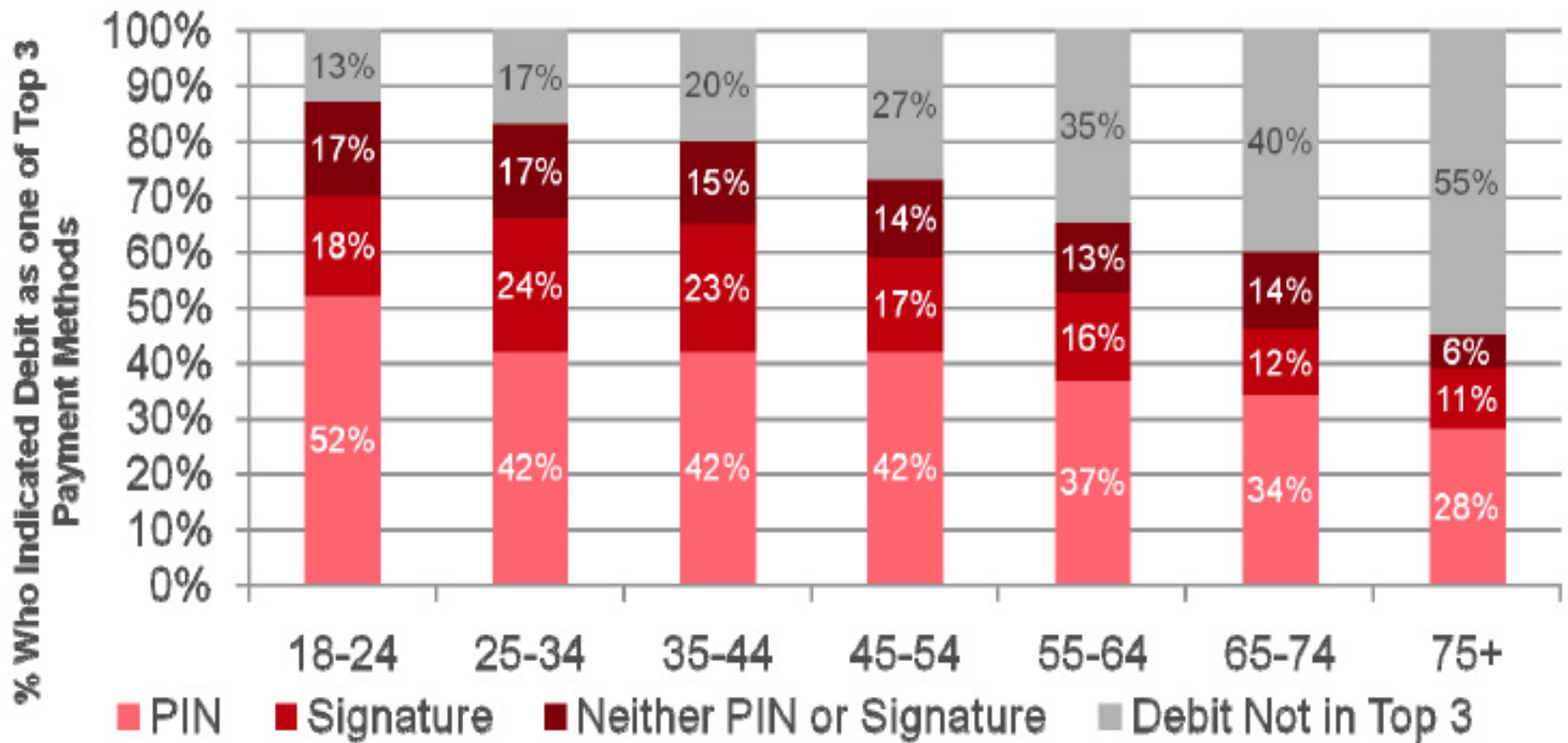
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DEBIT TRENDS:
IN-STORE TRANSACTION USAGE

Debit continues to be the most popular form of in-store payment with an increase in usage from 37% in 2008 to 42% in 2010. With the continued decline in cash and check usage, financial institutions may want to evaluate its implications to costs.

In-Store Transaction Usage, 1999-2010

Source: Hitachi Consulting 2010 Study of Consumer Payment Preferences
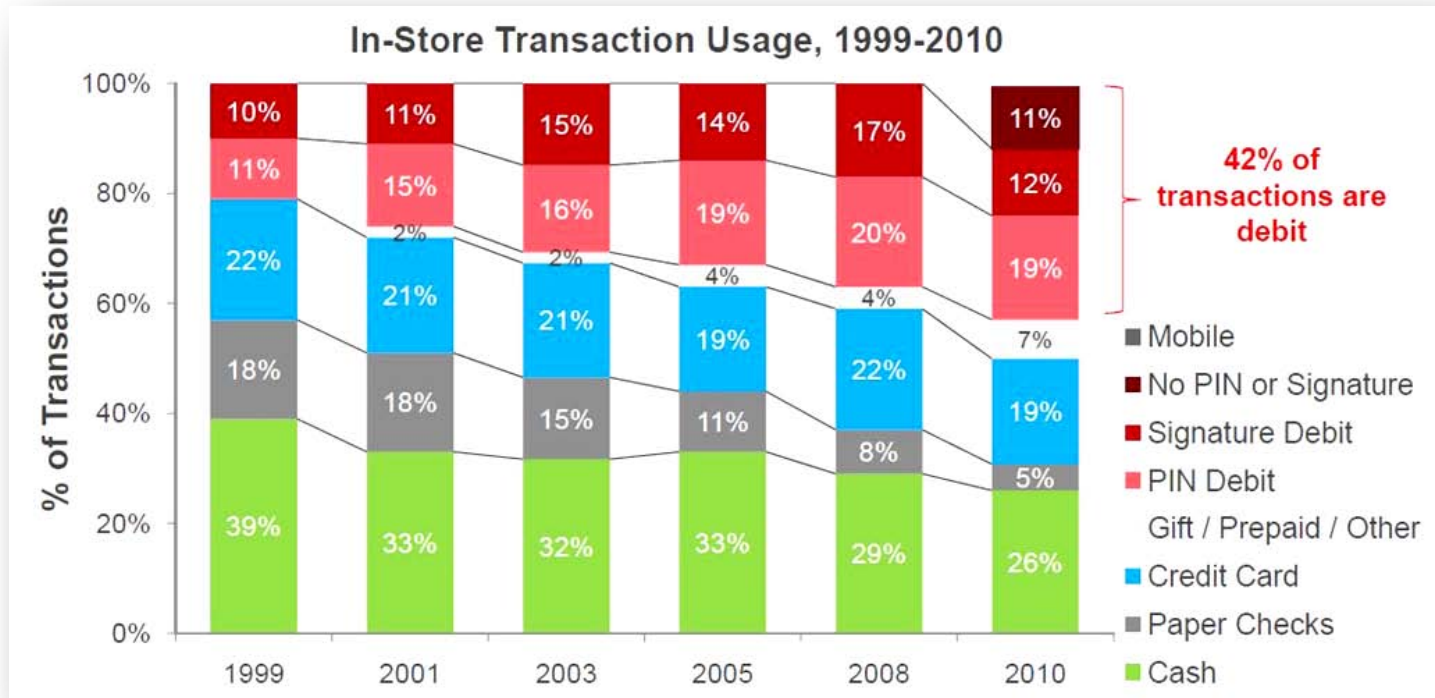
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DEBIT ECONOMICS ARE CHANGING

Issuers need to work even smarter than before to reduce costs and maximize program efficiencies

- ➤ However, this does not mean to stop promoting Visa Debit or marketing to your cardholders

- ➤ Issuers should focus on:
  - ✓ Low and no cost marketing strategies and initiatives
  - ✓ Cross-sell initiatives
  - ✓ Improving operational efficiencies
  - ✓ Reducing fraud losses

CREATING A SUCCESSFUL PLAN

WHAT TO DO?

- ➢ Benchmarking
  - ✓ Concentrate on the basic portfolio management strategies:
  - ✓ Penetration (Acquisition)
  - ✓ Retention
  - ✓ Activation
  - ✓ Utilization
  - ✓ Risk Management

- ➢ Gaining Knowledge

- ➢ Marketing Resources

Portfolio Profitability
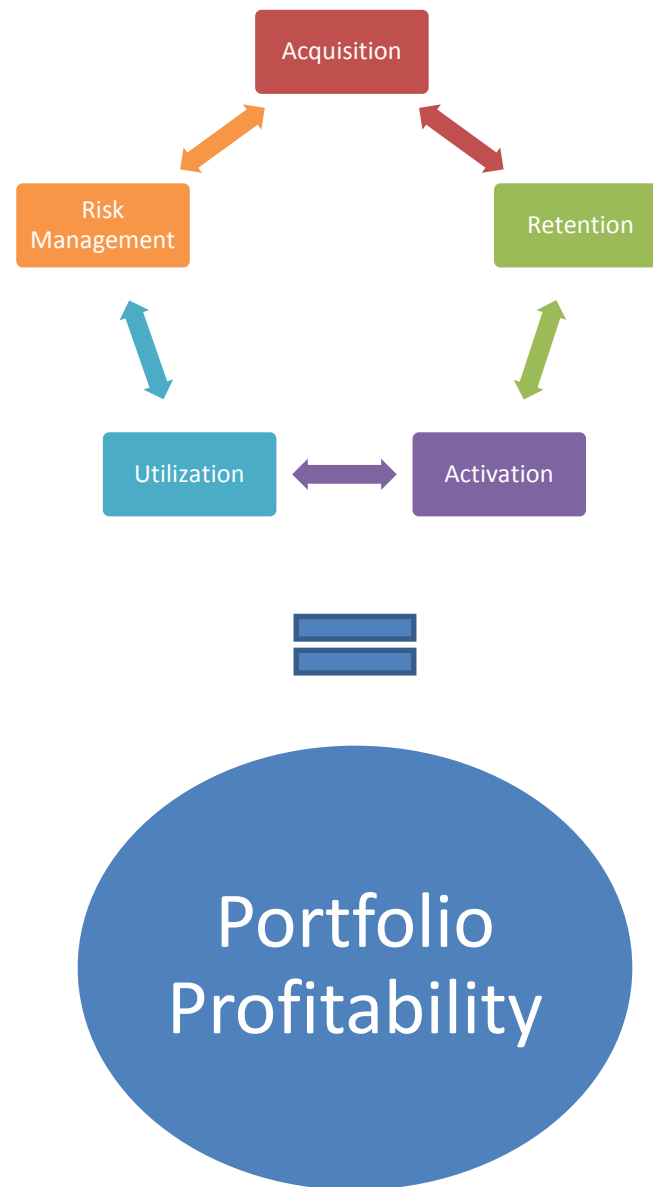
WHAT TO DO…

➤ BENCHMARKING

- ✓ Understanding where you currently stand today
- ✓ Take Advantage of a Complimentary Debit Consultation from CSCU

➤ GAINING KNOWLEDGE-STRATEGY

- ✓ Know Your Audience
- ✓ 10 Key Success Opportunities

➤ MARKETING EFFORTS

- ✓ Putting the knowledge to work! Marketing your program in all avenues to get the results you are looking for
- ✓ Education in Fraud

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BENCHMARKING

Utilize the Consumer Debit Products Peer Group Scorecard to identify areas of opportunity

BENCHMARK AGAINST:

- ✓ Visa system averages
- ✓ Various Peer Groups
- ✓ Competitors

BENCHMARK KEY METRICS:

- ✓ PAU
- ✓ Sales volume growth
- ✓ Account and card growth
- ✓ Key (MCC) growth rates
- ✓ Key operations metrics
- ✓ Authorization Decline and approval Rates
    - ✓ Adopt Partial Authorization
    - ✓ Review Parameters
    - ✓ Review Daily Authorization and Transaction Reports

VISA

Consumer Debit Products Scorecard
4Q 2010
Visa System & Peer Comparison*
% change represents the percentage from the same quarter of the previous year

Metric		CSCU	Visa System	Issuers 1 - 20 >$700m Quarterly	Issuers 21 - 50 >$165m Quarterly	Issuers 51 -100 >$90m Quarterly	Issuers 101-250 >$38m Quarterly
Power Scores:							
Transaction (P x A x U)	#VALUE!	8.57	7.83	9.30	8.83	8.64	8.18
Sales Volume (P x A X U X Avg. Ti	#VALUE!	$313.43	$273.55	$324.03	$306.64	$303.29	$302.17
PAU:							
Penetration	#VALUE!	76.6%	77.2%	76.1%	73.3%	76.4%	71.4%
Activation	#VALUE!	66.9%	66.7%	69.4%	75.8%	72.5%	74.9%
Usage	#VALUE!	13.4	15.2	17.6	15.9	15.6	15.3
Portfolio Growth:							
Sales Volume	#VALUE!	14.5%	16.0%	20.6%	9.1%	16.7%	13.1%
Transaction Volume	#VALUE!	14.8%	17.0%	21.9%	8.9%	17.9%	13.6%
Average Ticket	#VALUE!	$35.02	$34.95	$34.86	$34.71	$35.10	$36.93
Accounts & Cards:							
VCC Accounts**		92,763	169,766,753	5,631,456	285,900	142,594	72,723
VCC Account Growth	#VALUE!	11.5%	5.5%	5.6%	1.5%	11.2%	6.4%
VCC Card Growth	#VALUE!	10.2%	8.2%	6.4%	1.7%	11.7%	7.5%
Sales Volume by MCC*:**							
Retail	-	30.4%	29.7%	30.9%	31.6%	31.6%	30.7%
Restaurants	-	10.4%	10.1%	960.0%	9.3%	9.3%	10.0%
Supermarkets	-	8.5%	8.4%	10.7%	10.4%	10.4%	9.5%
Fuel	-	12.5%	9.9%	12.0%	12.9%	12.9%	12.1%
Bill Payment	-	12.1%	15.9%	12.5%	12.2%	12.2%	12.6%
Quick Service Restaurants	-	6.5%	5.9%	5.9%	5.6%	5.6%	6.3%
Mail/Telephone Order	-	8.6%	10.5%	8.8%	8.7%	8.7%	8.9%
Internet	-	15.7%	17.3%	14.7%	15.0%	15.0%	15.5%
Operations Metrics**:**							
Authorization Approval Rate	-	94.0%	94.1%	94.6%	94.7%	94.7%	94.5%
Decline Rate	-	4.1%	4.2%	3.9%	3.7%	3.7%	3.9%
Overall Chargeback Rate	-	0.02%	0.03%	0.02%	0.02%	0.02%	0.02%
Reported Fraud Loss Rate (bp)	-	8.43	10.59	12.22	8.51	8.51	10.51

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FOUR IMPORTANT AREAS TO FOCUS

1. Non-sufficient funds declines

2. Recurring charges
    ➢ Do not decline for invalid or mismatched expiration dates

3. E-commerce and mail order/telephone order transactions
    ➢ Focus CVV2 mismatch decline strategies on highest risk transactions
    ➢ Establish fraud detection authorization strategies that consider e- commerce and MOTO transaction risk
    ➢ Do not decline card-absent transactions solely because of mismatched expiration dates

4. Partial Authorization for Debit transactions
    ➢ Helps improve Authorization Approval rate, cardholder experience
    ➢ Allows issuers to approve some transactions that might otherwise be declined for non-sufficient funds
    ➢ Differentiate debit program

Visa Check Card PAU Sensitivity Model

VISA

Scenario: Greylock

Step 1: Develop Baseline VCC Program Performance

Enter scenario name to appear on your report.

Scenario Name: Greylock

Enter data for the most recent quarter for which data is available.

Most Recent Quarter	2nd
VCC Sales $ (offline POS):	$34,233,537
# of VCC Transactions (offline POS):	897,247
# of DDAs:	54,000
# of VCCs:	30,146
# of VCC Accounts:	29,135
# of Active VCC Accounts:	22,568
Estimated Effective IRF Rate:	1.46%

Step 2: Establish Target Performance Levels

Enter either target performance levels or target change estimates, or both. Then select which you would like to include in the report using the drop-down menu below.

Target Performance	Baseline	Target Change in Performance	Target Performance
Penetration Rate	54.0%	24.0%	78.0%
Activation Rate	77.5%	-2.5%	75.0%
Usage	13.3	6.7	20.0
Transaction Power Score	5.54	6.2	11.70

Target Change	Baseline	Target Change in Performance	Target Performance
Penetration Rate	54.0%	3.0%	57.0%
Activation Rate	77.5%	5.0%	82.5%
Usage	13.3	15.0	28.3
Transaction Power Score	5.54	7.73	13.27
Source of Targets:			

Target Change ▾

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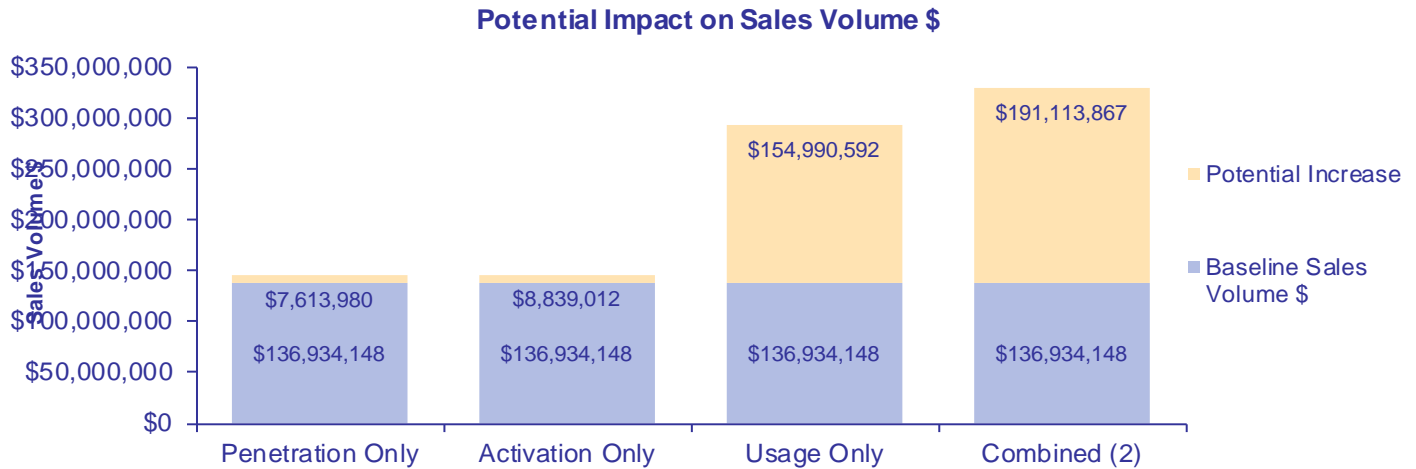| Scenario: Greylock		Baseline	Annualized VCC Program Performance [1]			
			Penetration Only	Activation Only	Usage Only	Combined [2]
Sensitivity Assumptions	Baseline Portfolio Performance	2nd	54.0%	77.5%	13.3	--
	Target Change in Performance [3]	--	3.0%	5.0%	15.0	--
	Target Portfolio Performance [3]	--	57.0%	82.5%	28.3	--
Portfolio Profile	# of DDAs	54,000	54,000	54,000	54,000	54,000
	# of VCC Accounts	29,135	30,755	29,135	29,135	30,755
	# of Active VCC Accounts	22,568	23,823	24,025	22,568	25,361
	Penetration Rate	54.0%	57.0%	54.0%	54.0%	57.0%
	Activation Rate	77.5%	77.5%	82.5%	77.5%	82.5%
	Usage	13.3	13.3	13.3	28.3	28.3
	Annualized Sales	$136,934,148	$144,548,128	$145,773,160	$291,924,740	$328,048,015
	Annualized # of Sales Transactions	3,588,988	3,788,547	3,820,655	7,651,228	8,598,004
	Average Ticket	$38.15	$38.15	$38.15	$38.15	$38.15
	Estimated Effective VCC Interchange Rate	1.46%	1.46%	1.46%	1.46%	1.46%
Annualized VCC Program Performance [1]	Change in Sales $	--	$7,613,980	$8,839,012	$154,990,592	$191,113,867
	% Change in Sales $	--	5.6%	6.5%	113.2%	139.6%
	Change in Interchange Revenue	--	$111,164	$129,050	$2,262,863	$2,790,262
	Estimated Interchange Revenue Over 12 Mos.	$1,999,239	$2,110,403	$2,128,288	$4,262,101	$4,789,501
	% Change in Interchange Revenue	--	5.6%	6.5%	113.2%	139.6%
Even Ramp-up Over 12 Months [4]	Change in Sales $	--	$3,806,990	$4,419,506	$77,495,296	$95,556,934
	% Change in Sales $	--	2.8%	3.2%	56.6%	69.8%
	Change in Interchange Revenue	--	$55,582	$64,525	$1,131,431	$1,395,131
	Estimated Interchange Revenue Over 12 Mos.	--	$2,054,821	$2,063,763	$3,130,670	$3,394,370
	% Change in Interchange Revenue	--	2.8%	3.2%	56.6%	69.8%

(1) Assumes full-year impact of metric changes.

(2) Results from changing all three metrics at one time will be greater than the sum of the results from changes in individual metrics.

(3) Assumes all target metrics are attained. Baseline metrics held constant if actual metric already exceeds target. Source of estimates for target portfolio performance:
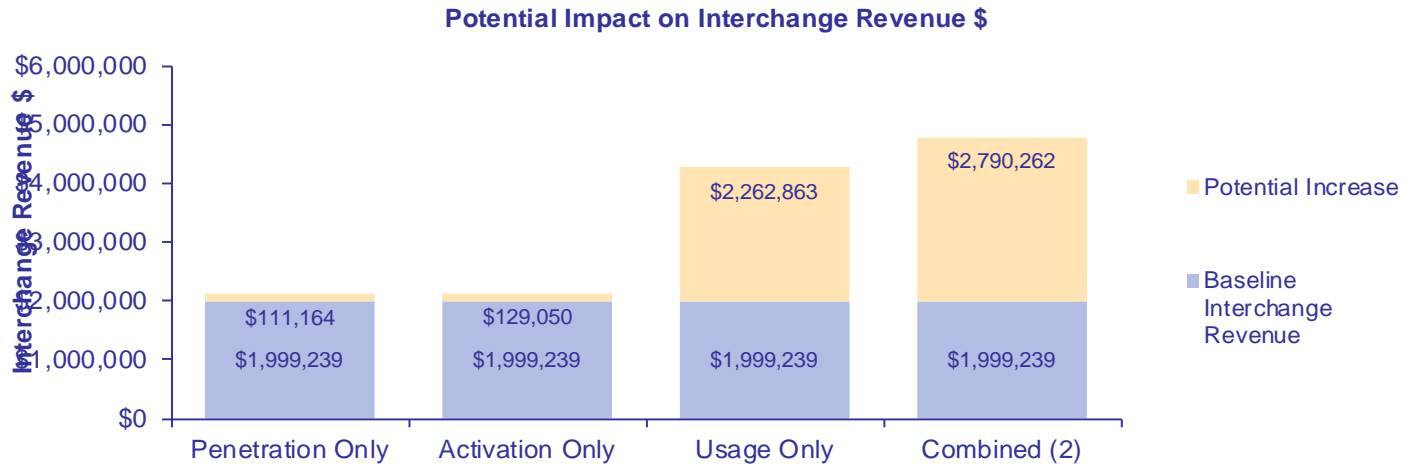
(4) Assumes growth is evenly distributed across 12-month period.

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Potential Impact on Sales Volume $

	Penetration Only	Activation Only	Usage Only	Combined (2)
Potential Increase	$7,613,980	$8,839,012	$154,990,592	$191,113,867
Baseline Sales Volume $	$136,934,148	$136,934,148	$136,934,148	$136,934,148

Potential Impact on Interchange Revenue $

	Penetration Only	Activation Only	Usage Only	Combined (2)
Potential Increase	$111,164	$129,050	$2,262,863	$2,790,262
Baseline Interchange Revenue	$1,999,239	$1,999,239	$1,999,239	$1,999,239

Potential Impact on Sales Volume (1)

Potential Impact on Interchange Revenue (1)

(1) Assumes full-year impact of metric changes.
(2) Results from changing all three metrics at one time will be greater than the sum of the results from changes in individual metrics.

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KNOW YOUR AUDIENCE

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DEBIT USER PROFILES

Infrequent User

- Not entirely sure how debit cards work
- Record keepers, concerned about over spending
- Concerned about security
- ***Opportunity: Early education on product features, benefits and how to use; promote security features and control/record keeping features***

Moderate User

- General understanding of how debit cards work
- Use a range of payment methods and need additional reasons to use their debit card more
- ***Opportunity: Generate incremental usage with Rewards and expanded Merchant categories; promote benefits of signing***

Frequent User

- Understand how debit works and are using it as their preferred payment method of choice
- Sometimes sign and sometimes PIN
- ***Opportunity: Use debit in new emerging channels (QSR, Bill Pay, etc); use debit for higher and lower value transactions and reinforce signing***

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Visa Debit Sales Volume Growth 4Q10

Retail CNP and Bill Pay were the fastest growing segments and represented over 25% of total debit growth in 4Q10

VCC + Interlink Sales Volume Share by Merchant Group
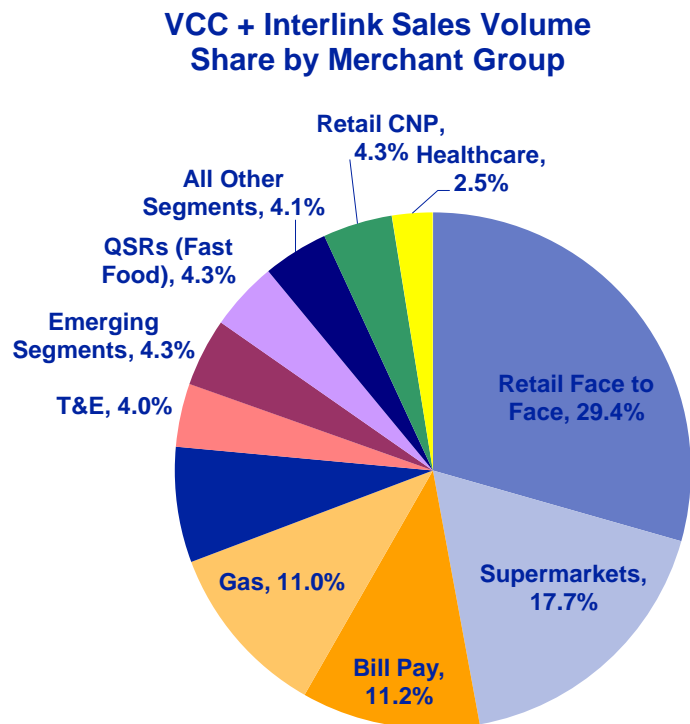
Segment	Growth	Share of Total Growth
Retail Face to Face	5.4%	16.8%
Supermarkets	7.3%	13.4%
Bill Pay	15.5%	16.8%
Gas	14.5%	15.5%
Restaurants	11.1%	8.0%
T&E	12.4%	4.9%
Emerging Segments	9.3%	4.1%
QSRs (Fast Food)	13.2%	5.6%
All Other Segments	8.2%	3.5%
Retail CNP	21.5%	8.6%
Healthcare	10.9%	2.8%
Total	**9.8%**	**100.0%**

Source: VisaNet Base II system growth rates; Data normalized to exclude effects of major issuer brand conversions, some of which are estimated; VCC excludes Prepaid; Interlink includes cash back and excludes Prepaid and Small Business; "Emerging Segments" is composed of: Government, B2B, Toll and Bridge Fees and Other Emerging (Small Tickets); "Healthcare & Services" is composed of: Healthcare; Legal Services; Personal Services ; Wire transfers and miscellaneous merchants

Check Card Sales and Transactions
4Q10

T&E, Bill Pay and <u>Healthcare</u> posted the largest average tickets in 4Q10, while QSRs had the lowest average ticket

Sales Volume: Share by Merchant Group

All Other Segments, 5.2%
Healthcare, 3.3%
Retail Face to Face, 24.1%
Retail CNP, 6.0%
QSRs, 5.9%
Emerging, 5.6%
T&E, 5.4%
Bill Pay, 14.7%
Supermarkets, 8.9%
Restaurants, 9.9%
Gas, 11.0%
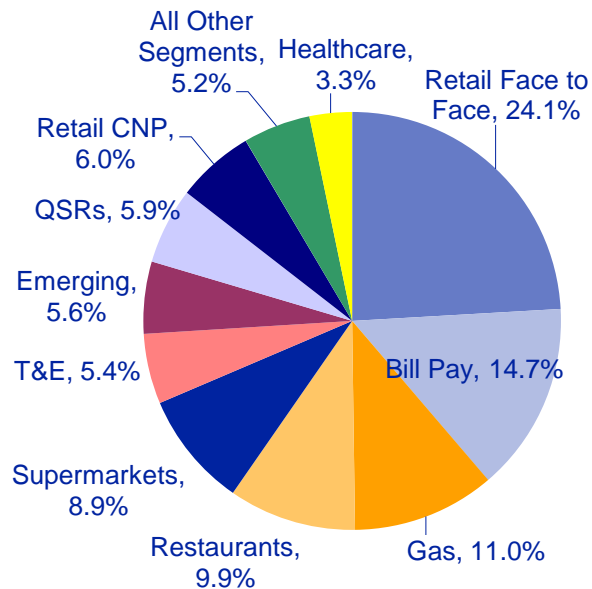
Average Tickets 4Q10	
Retail Face to Face	$45.25
Bill Pay	$74.20
Gas	$24.71
Restaurants	$26.25
Supermarkets	$40.89
T&E	$98.70
Emerging	$31.43
QSRs	$9.33
Retail CNP	$52.55
All Other Segments	$75.97
Healthcare	$73.43
Total	**$34.92**

Source: VisaNet Base II for Consumer Visa check card (excluding Prepaid)
"Emerging Segments" is composed of: Government, B2B, Toll and Bridge Fees and Other Emerging (Small Tickets)
"All Other Segments" is comprised of Direct Marketing and Remaining Merchants

DEBIT SALES VOLUME MIX

eCommerce continued to show strong growth in 4Q10

Sales Volume by Channel
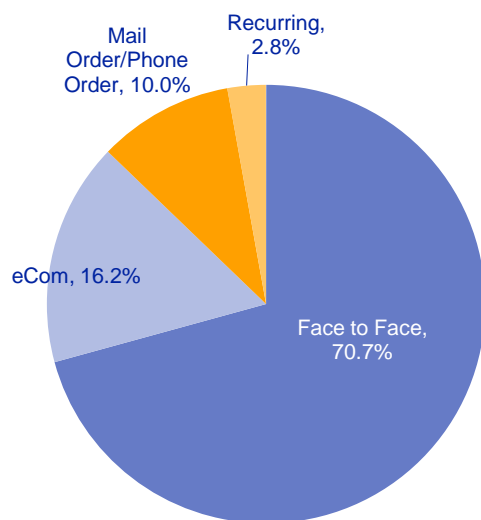
Channel	Sales Volume Share	Sales Volume Growth	Average Ticket
Face to Face	70.7%	8.9%	$29.14
eCommerce	16.5%	21.5%	$67.59
Mail Order/Phone Order	10.0%	11.5%	$80.75
Recurring	2.8%	18.6%	$40.89
Total	**100.0%**	**11.3%**	**$34.92**

10 KEY SUCCESS OPPORTUNITIES

10 KEY SUCCESS OPPORTUNITIES

1. Communicate the benefits of Visa Debit

- ➢ Convenience over cash and checks
- ➢ Safer than cash, faster than checks
- ➢ Accepted at millions of locations worldwide
- ➢ Easy access to your money when traveling abroad
- ➢ Easy budget management
- ➢ <u>Zero Liability</u> protection
- ➢ No need to hassle with change or trips to the ATM

2. Encourage electronic delivery of all statements

- ➢ Consider a fee for paper statements

10 KEY SUCCESS OPPORTUNITIES

3. Segment members into CU relationship/income pools

   ➢ Consider loan/deposits balances
   ➢ Consider new/increased fees to less active
   ➢ Incent members who have stronger relationships

4. Leverage your processor

   ➢ Consolidation
   ➢ Outsourcing

10 KEY SUCCESS OPPORTUNITIES

5. Re-evaluate your reward programs

➢ Competitive advantage
- ✓ **Use rewards to win NEW members**
- ✓ **Strengthen your relationship with your existing members/cardholder**
- ✓ **Use for in-house trade for lower rate on consumer loan, higher rate CD-cash with redeemed points**

➢ Marketing opportunity
- ✓ **Debit rewards can be a huge differentiator**
- ✓ **Offer Points or Cash Back**
- ✓ **Merchant Funded**

➢ Cost Control – Cost/Benefit analysis
- ✓ **Consider some variation of changes similar to the big boys**
- ✓ **Householding**
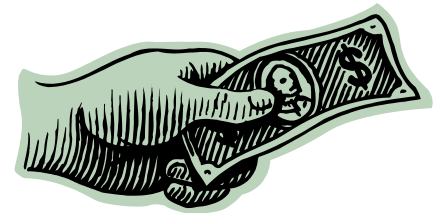
10 KEY SUCCESS OPPORTUNITIES

6. Improve Fraud Processes and Procedures

➢ 95% of debit card issuers were affected by data breaches, making fraud mitigation a top challenge for issuers!

➢ Consumer Fraud Education

  ✓ Available for ordering August 2011

➢ Visit CSCU Website for more fraud information

http://www.cscu.net/Fraud
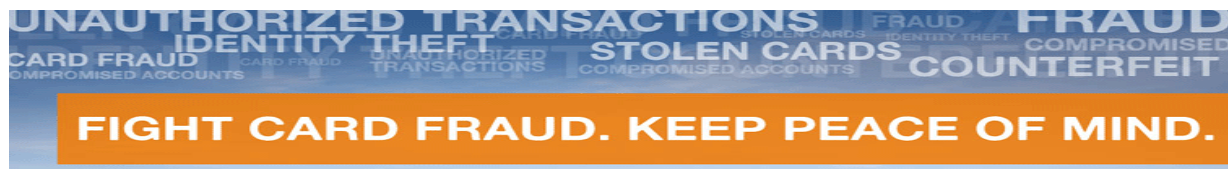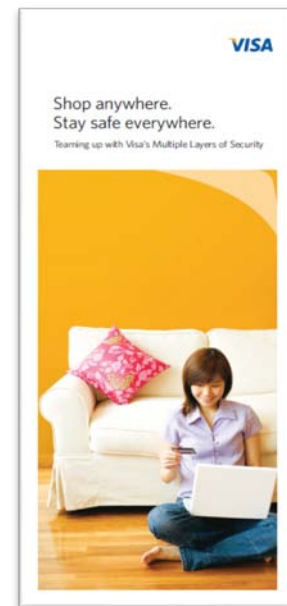
10 KEY SUCCESS OPPORTUNITIES

7. Consider additional fee revenue
   - Transaction Fees
   - Annual Fees for non users
     - Example: Quarterly fee $3.00 for no use

8. **Consider other card options**
   - General purpose reloadable card
   - Gift Cards
   - Travel Cards
   - Health Cards

9. **Manage your expenses**
   - Review your invoices MONTHLY!
   - Review effectiveness of products/services

10 KEY SUCCESS OPPORTUNITIES

10. Let's get some of your ideas!!

OTHER GROWTH STRATEGIES

FASTTRACK FOR DEBIT

- ➢ ***FastTrack*** is a market-leading, cost-effective program that targets cardholders who have not activated their cards within a certain number of days since issuance, and cardholders with no signature transaction activity within a specified period of time.

- ➢ Energizes your debit card portfolio with multiple mailings during a 90-day program

- ➢ Offers cardholders an attractive selection of rewards for signature purchase transactions using their debit card

- ➢ Costs far less than the cost of replacing a lost card or lost relationship

- ➢ Provides a risk-free program-pays for itself!

SIGN & EARN

x *Debit Card Rewards*

SMALL BUSINESS

➢ Small Business-Big Opportunity!!!

➢ Consumers currently using your card as a DBA or small business card

- ✓ Free Credit and Debit Card Statement Inserts/ Take Ones

- ✓ Higher Interchange Revenue for Business Bins

- ✓ Contact CSCU

Make doing business easier!

Access your money the fast, easy way
with a Visa® Business Debit Card

- Make purchases directly from your business share draft account
- Easily track spending with detailed reports
- Save money with special discounts from popular business merchants

VISA BUSINESS DEBIT

FREE BENEFIT
of your account

VISA

> Ask your credit union representative about the Visa Business Debit Card today
Or visit visa.com/smallbusiness

DBT-PRE

more small businesses go forward with Visa | **VISA** BUSINESS

2011 CSCU MARKETING CALENDAR

2011 Marketing Resource Guide											
January	February	March	April	May	June	July	August	September	October	November	December
		Visa Debit Usage SI									
					Generic InBranch Acquisition Kits						
Visa Merchant Offer Program Online				Visa Summer MOP						Visa Holiday MOP	
						Visa Job Well Done In Branch Acquisition					
	Balance Transfer					Balance Transfer					
								Visa 2011 NFL			
							Visa Fraud SI				
									Visa SB Credit/Debit SI		
									Fraud Marketing Toolkit		

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MARKETING SUPPORT

- ➢ Visa Merchant Offer Program
  - ✓ Order May 2011
  - ✓ No Cost
  - ✓ 1st come 1st serve

- ➢ Visa Resources
  - ✓ Find a Card
  - ✓ Social Media Web Banners
  - ✓ Giving Gateway
  - ✓ Practical Money Skills for Life "The Money Guide"
  - ✓ Online Training (credit and Debit)

MARKETING PAYMENTS
SOLUTIONS TO MEMBERS
CAN BE AS EASY AS CSCU.

www.cscu.net/Marketing

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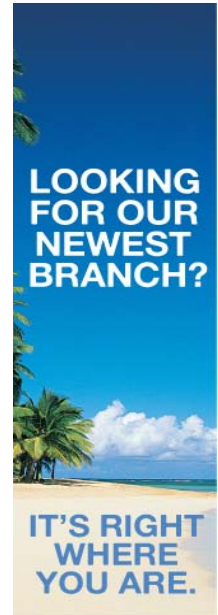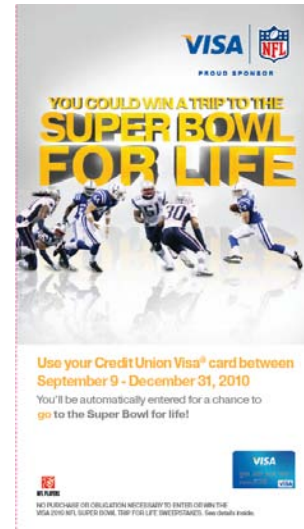CARD SERVICES FOR CREDIT UNIONS

MARKETING SUPPORT

➢ Do you have Mobile Banking?
✓ We have web banners
✓ www.cscu.net/Mobile

➢ NFL Order in July 2011 in Market Oct – Dec 2011!

✓ Leverage Visa's NFL Sponsorship to encourage members to use your credit union's debit card

✓ National Sweepstakes with grand prize!

✓ Piggyback a In-house Sweepstake specific to your members!

www.cscu.net/Marketing

ADDITIONAL RESOURCES

> **Visa Online**
> - ✓ To log on, go to us.visaonline.com
> - ✓ New User?
>   - ✓ www.volenroll.com
>   - ✓ 888-847-2488

> **MasterCard Marketing Center**
> - ✓ To log on or if you're a new user, go to https://marketingcenter.mastercard.com
> - ✓ To view previous webcast, go to www.cscu.net/MCMarketingWebcast

QUESTIONS