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# NYCE: Optimizing Your Debit Network Relationship

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# Discussion Items

- Durbin Amendment
- Industry Update
- NYCE Network Overview
- NYCE Strategic Imperative

# Durbin Amendment



# REGULATION – Key Points

- FIs must maintain at least two debit network relationships
  - Defined as having POS access to DDAs
    - No distinction between signature and PIN authentication
  - The two networks must not be affiliated
- Merchants control routing
  - Issuers no longer can designate routing between networks
  - Multiple PIN network relationships will be economically devastating - “How low can you go?”
- FIs with assets of \$10B and above
  - Regulated interchange - \$.12 initial thought
  - Cannot have net POS transaction income - circumvention
- Final guidelines
  - The Fed is expected to release final guidelines ?????



# FINANCIAL INSTITUTION IMPACTS

Provision	Result
<b>FIs must have at least two unaffiliated debit networks</b> Exclusive MC/Maestro or Visa/Interlink will no longer be permitted	<b>FIs will need to join another network</b> Replace existing PIN based relationship to avoid impacts of merchant routing discretion
<b>Merchants will have full discretion in transaction routing</b> FIs in multiple PIN based debit networks will likely see interchange virtually eliminated thru competitive downward spiral	<b>FIs should maintain only one PIN based network relationship</b> Maintain higher interchange by preventing merchants from “least cost” PIN based routing
<b>FIs with \$10B and above in assets will have interchange capped</b> Proposed at \$.12	<b>Again, maintain only one PIN based network relationship</b> Even though capped, removal of merchant routing discretion will likely preserve highest allowable interchange

# STRATEGIC IMPERATIVE

- Single focus on issuer value proposition
  - Favorable interchange structure for issuers
    - ATM
    - POS
  - Reach and maintain net income parity with signature debit
- NYCE does not engage in conflicting business lines
  - Merchant processing
  - Debit card product introduction

# Industry Trends





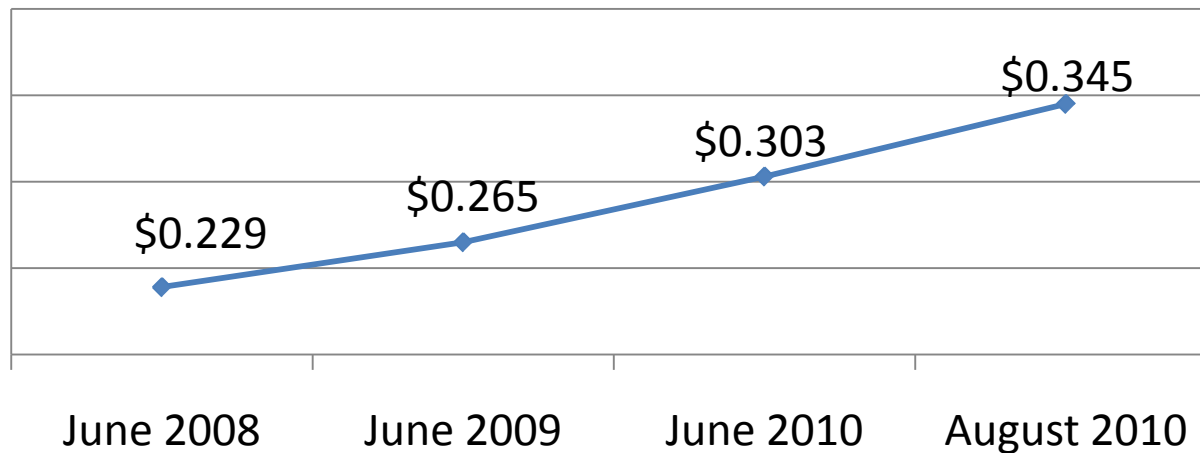
# SUMMARY – INDUSTRY TRENDS

- PIN debit used predominantly for every day purchases
- PIN interchange climbing rapidly in last 2 - 3 years
  - Rates changing once or twice a year
  - Interchange gap between PIN and signature narrows to all-time low
- Signature debit used for low-ticket every day purchases and high-ticket less frequent purchases
- Signature interchange flat or decreasing for some categories
  - Significantly reduced for utility bill payments
  - “No Signature Required Program”
  - PIN and signature interchange rate differences eliminated in some categories
- Both PIN and signature average tickets in range of high \$30s to low \$40s

# NYCE PIN POS INTERCHANGE

- NYCE PIN interchange adjustments have resulted in a significant interchange income increase for financial institutions in last two years

## Example NYCE Financial Institution PIN POS Interchange



# CASH BACK AT THE POS EXPANDS TO NEW RETAILER SEGMENTS

- Customer receives cash back on PIN POS transactions approximately 8 percent of the time
- Retailers from varied market sectors are increasingly offering cash back at the POS

Retailer Segment	% of Transactions with Cash Back as % of Total Transactions
Drug Stores	16%
Postal Service	16%
Supermarkets	11%
General Merchandise Stores	11%
Wholesale Clubs, Warehouse Stores	10%

# CASH BACK AT THE POS PROVIDES LIFT FOR PIN POS INTERCHANGE

- Cash back is unique to PIN POS (Signature debit does not offer cash back)
- Cash back at the POS typically increases transaction amount 90 – 100 percent and is calculated on the total transaction amount
  - For transactions with cash back, the average purchase is \$31, cash back is \$29 and the total ticket is \$60
- As PIN interchange rates increasingly have high or no maximums, cash back transactions more frequently generate higher PIN interchange than the same transactions in signature

Retailer Type	Purchase Amount	Cash back Amount	Total Ticket	PIN Interchange with Cashback	Signature Interchange (Purchase Amount Only)	Delta PIN vs. Signature	% Delta PIN vs. Signature
Large Drug Store	\$45	\$35	\$80	\$0.60	\$0.49	\$0.11	21%
Large Discount Store	\$30	\$25	\$55	\$0.45	\$0.37	\$0.08	21%
Large C-Store	\$15	\$35	\$50	\$0.54	\$0.28	\$0.26	95%
Office Supply Store	\$25	\$25	\$50	\$0.63	\$0.44	\$0.19	44%

# TYPICAL PIN POS ACTIVITY

## ■ Top 50 Retailers

Rank	PIN Debit Retailer	% of Total
1	Walmart	9.6%
2	Exxon Mobil	3.6%
3	CVS	3.4%
4	Food Lion, Hannaford, Bloom	3.2%
5	Target	3.0%
6	Equiva (Texaco, Chevron, Shell)	2.9%
7	Walgreens	2.6%
8	SuperValu	2.1%
9	Stop & Shop, Giant Food	2.0%
10	Kroger	1.9%
11	Home Depot	1.8%
12	7 Eleven	1.8%
13	BP PLC Amoco	1.7%
14	Kwik Trip	1.5%
15	Cumberland Farms	1.5%
16	Meijer	1.5%
17	Rite Aid	1.4%
18	Kmart/Sears	1.4%
19	A&P, Food Basics, Pathmark	1.3%
20	Sunoco	1.3%
21	Publix	1.2%
22	Safeway (Vons, Dominicks)	1.1%
23	Lowe's	1.0%
24	Costco Wholesale	0.9%
25	Dollar General	0.9%

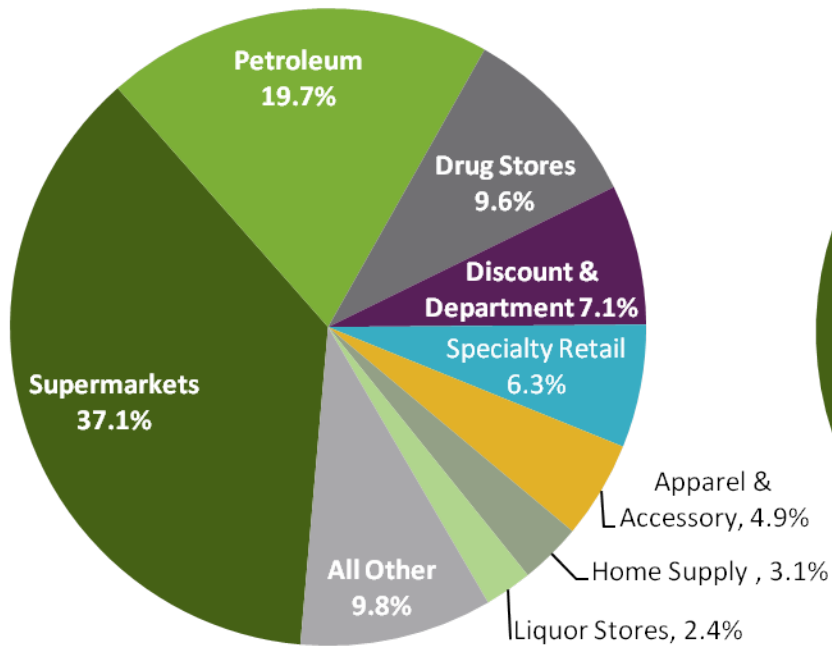
Rank	PIN Debit Retailer	% of Total
26	USPS	0.9%
27	TJ Maxx, Marshalls	0.8%
28	Hess Corp	0.8%
29	Family Dollar	0.8%
30	Shoprite	0.7%
31	Citgo	0.7%
32	BJs Wholesale	0.7%
33	Dollar Tree	0.6%
34	Speedway	0.6%
35	Circle K	0.6%
36	Kohl's	0.6%
37	AAFES	0.5%
38	Trader Joes	0.5%
39	The Gap	0.5%
40	Bed, Bath & Beyond	0.5%
41	JC Penney	0.5%
42	Best Buy	0.5%
43	Macy's, Bloomingdales, Burdines	0.4%
44	Marathon Petroleum	0.4%
45	Whole Foods	0.4%
46	The Limited	0.4%
47	Staples	0.4%
48	BarnesNoble	0.4%
49	Winn Dixie	0.4%
50	Blockbuster Video	0.4%
	<b>Total Top 50</b>	<b>68.5%</b>

# DIFFERENCES BETWEEN PIN AND SIGNATURE PORTFOLIOS

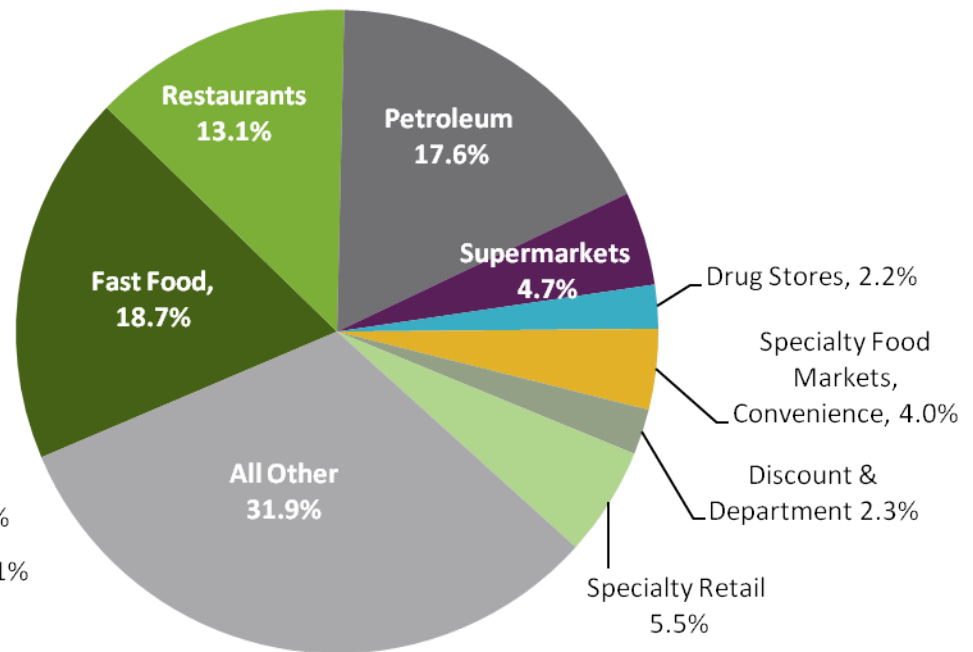
- Average tickets in each portfolio similar, but content varies significantly
- Signature portfolio has wide range of retailer type; some retailers not found in PIN
- Low-ticket signature categories with little or no corresponding PIN transactions
  - Fast food
  - Coffee shops
  - Taxis
- High-ticket signature categories with little or no corresponding PIN transactions
  - Travel (lodging, cruise lines, airlines, rental cars)
  - Automobile service, repairs
  - Jewelry stores, antique stores
  - Professional services

# DEBIT VOLUME BY MARKET SEGMENT

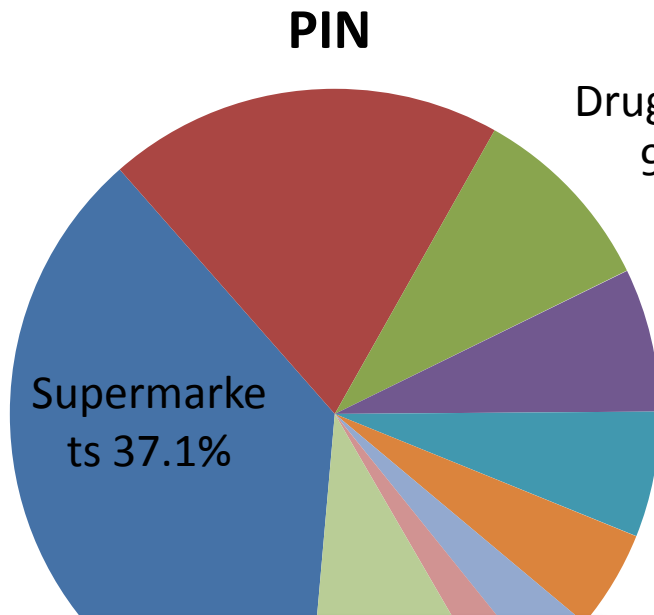
**PIN**



**Signature**

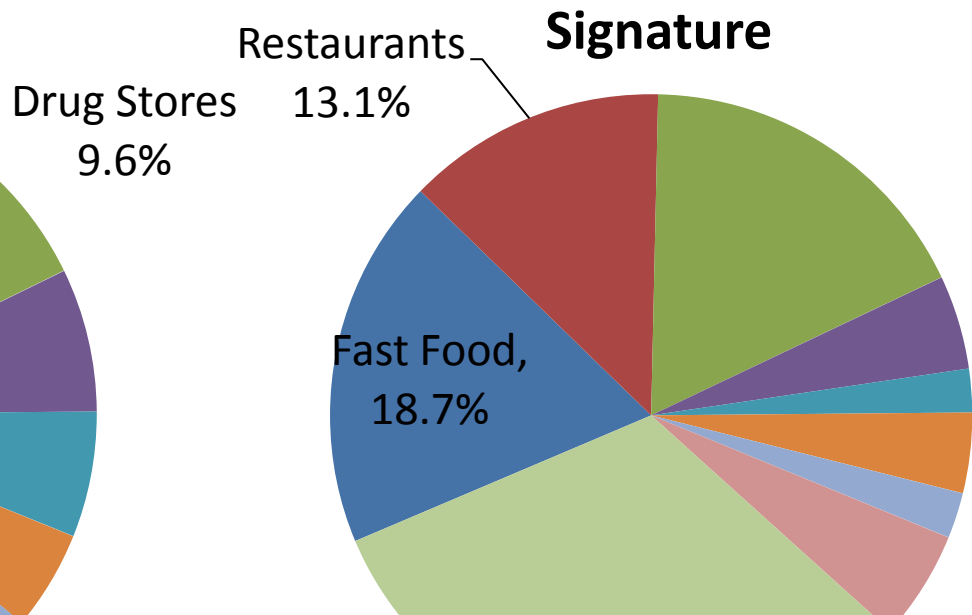


# MAJOR DIFFERENCES IN MARKET SEGMENTS FOR PIN AND SIGNATURE PORTFOLIOS



Major market segments that are predominantly PIN:

- Supermarkets (avg. ticket \$50)
- Drug stores (avg. ticket \$30)



Major market segments that are predominantly signature:

- Fast food (avg. ticket \$8)
- Restaurants (avg. ticket \$30)



# PIN POS TRANSACTION COMPARED TO SIGNATURE (VISACHECK)

	NYCE PIN August 2010	VisaCheck
Average Blended Interchange on \$44 PIN POS Ticket and \$40 Signature Ticket <sup>1</sup>	\$0.346	\$0.379
Transaction Fees & Purchase Volume Assessments <sup>2</sup>	(\$0.038)	(\$0.103)
Fraud Losses <sup>3</sup>	(\$0.004)	(\$0.047)
In-House Support <sup>4</sup>	(\$0.005)	(\$0.020)
<b>Net Income - Adjusted</b>	<b>\$0.299</b>	<b>\$0.209</b>

- 1 VisaCheck Interchange projected for PIN transactions at published VisaCheck rates; cash back excluded.
- 2 NYCE fees are POS switch, completion fee, cash back and risk management fees. VisaCheck transaction fees & assessments from Visa Billing manual; includes processing guarantee, auth fees.
- 3 Sources: Visa 4Q2009 reported fraud loss rate was 11.65 bps. ABA Survey Results on DDA Fraud Trends, 2009 reported 2008 losses that as 11.9 bps for community banks, 9.1 bps for mid-sized and 7.7 bps for regional. 2010 Debit Issuer Study (Pulse): PIN POS fraud losses 1.0 bps.
- 4 More support required for chargebacks, exceptions, fraud related queries, customer service, estimated at Sig:PIN ratio of 4:1.

# NYCE IS TRULY A NATIONWIDE NETWORK

A light gray map of the United States, including Alaska and Hawaii, serves as the background. Six green, rounded rectangular callouts are overlaid on the map, each containing a statistic about the NYCE network. The callouts are positioned as follows: one at the top center, one on the left side, one on the right side, one on the left side below the first, one on the right side below the first, and one at the bottom center.

**NYCE has FI Participants  
in all 50 States**

**89 million cardholders  
with NYCE access**

**NYCE is the “Network of  
Choice” in 47 States**

**2 Million POS locations,  
located across the United States**

**More than 360,000 ATMs,  
located in every state**

**1,800 Billers**

# UBIQUITOUS MERCHANT ACCESS

SINGLE NETWORK RELATIONSHIP WILL ACCESS ALL



Building relationships. Strengthening credit unions.

INVOLVE2011 | CSCU  
CARD SERVICES FOR CREDIT UNIONS

# Interchange Strategy

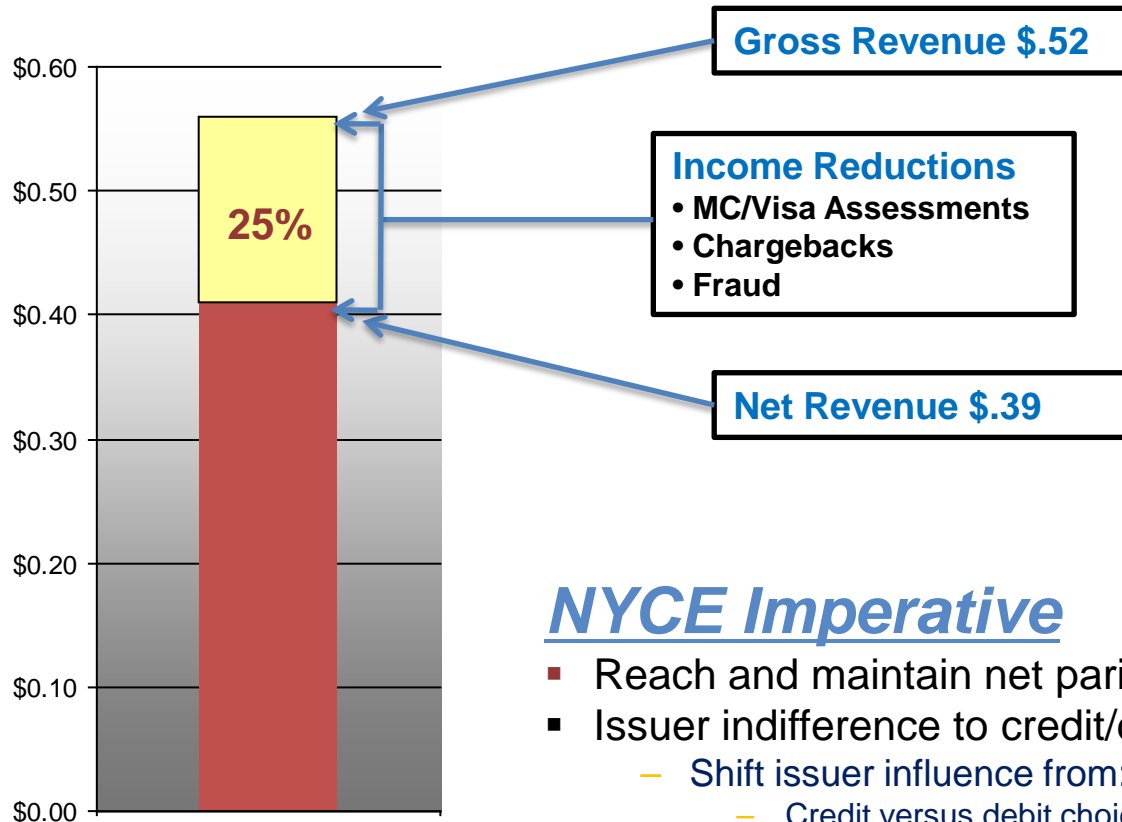


# NYCE ATM INTERCHANGE

Rate Category	NYCE	"S" Network	"P" Network	"C" Network	"PL" Network
FI On-Premise	\$0.38	\$0.46	\$0.50	\$0.50	\$0.50
FI Off-Premise	\$0.50	\$0.54	\$0.50	\$0.50	\$0.50
ISO Tier 1	\$0.50	\$0.54	\$0.50	\$0.50	\$0.50
ISO Tier 2	\$0.50	\$0.54	\$0.50	\$0.50	\$0.40
Blended Average Range Based on ATM Usage Patterns	\$0.44 - \$0.48	\$0.50 - \$0.52	\$0.50	\$0.50	\$0.46 - \$0.48

# SIGNATURE DEBIT

## CLOSING THE INTERCHANGE GAP

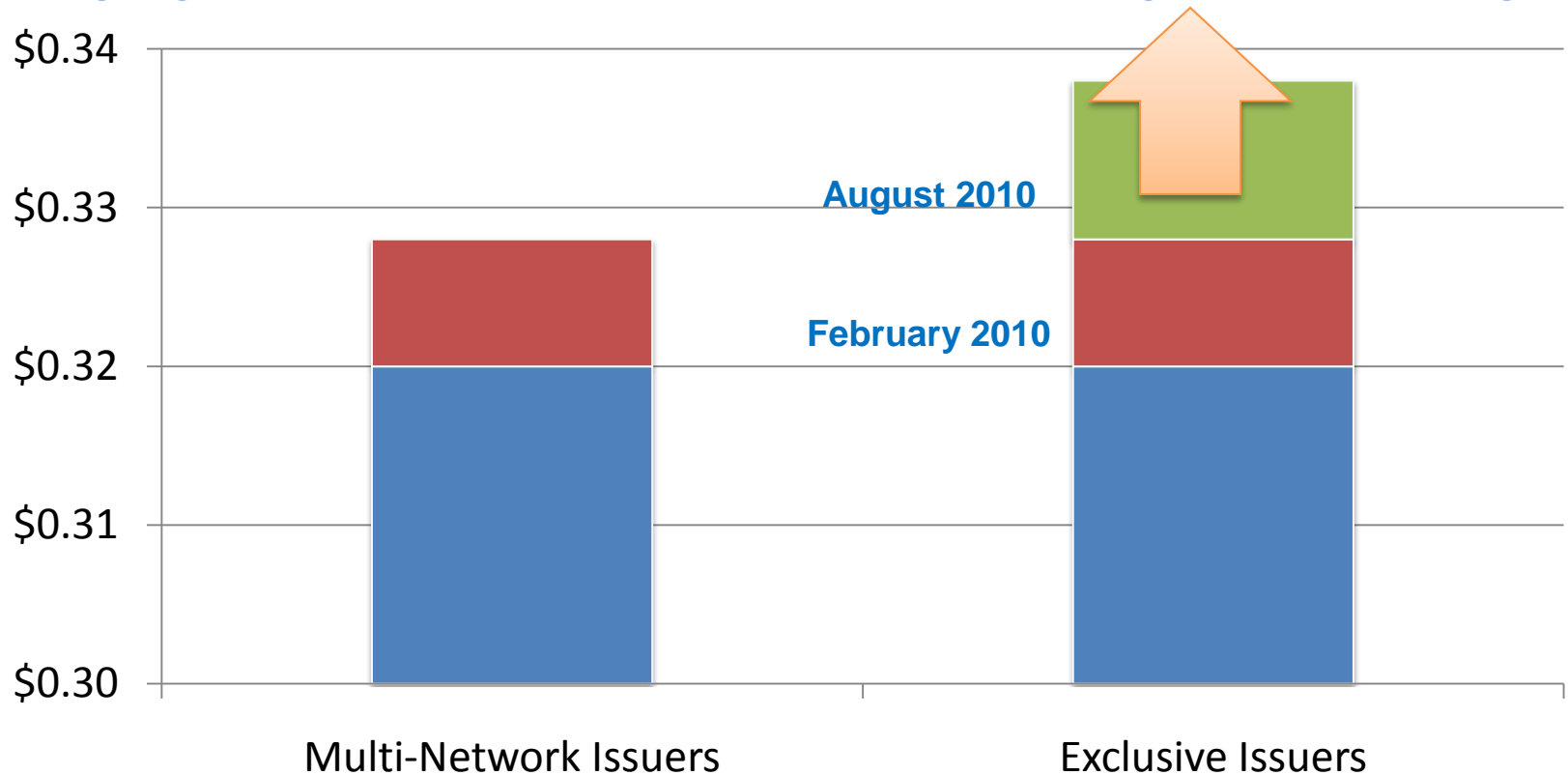


### NYCE Imperative

- Reach and maintain net parity with signature debit
- Issuer indifference to credit/debit choice
  - Shift issuer influence from:
    - Credit versus debit choice
  - To
    - Simple card utilization

# NYCE PIONEERS ISSUER INTERCHANGE SEGMENTATION

- Segregate contracted exclusive issuers for higher interchange



# HISTORY OF MARKET LEADERSHIP IN POS

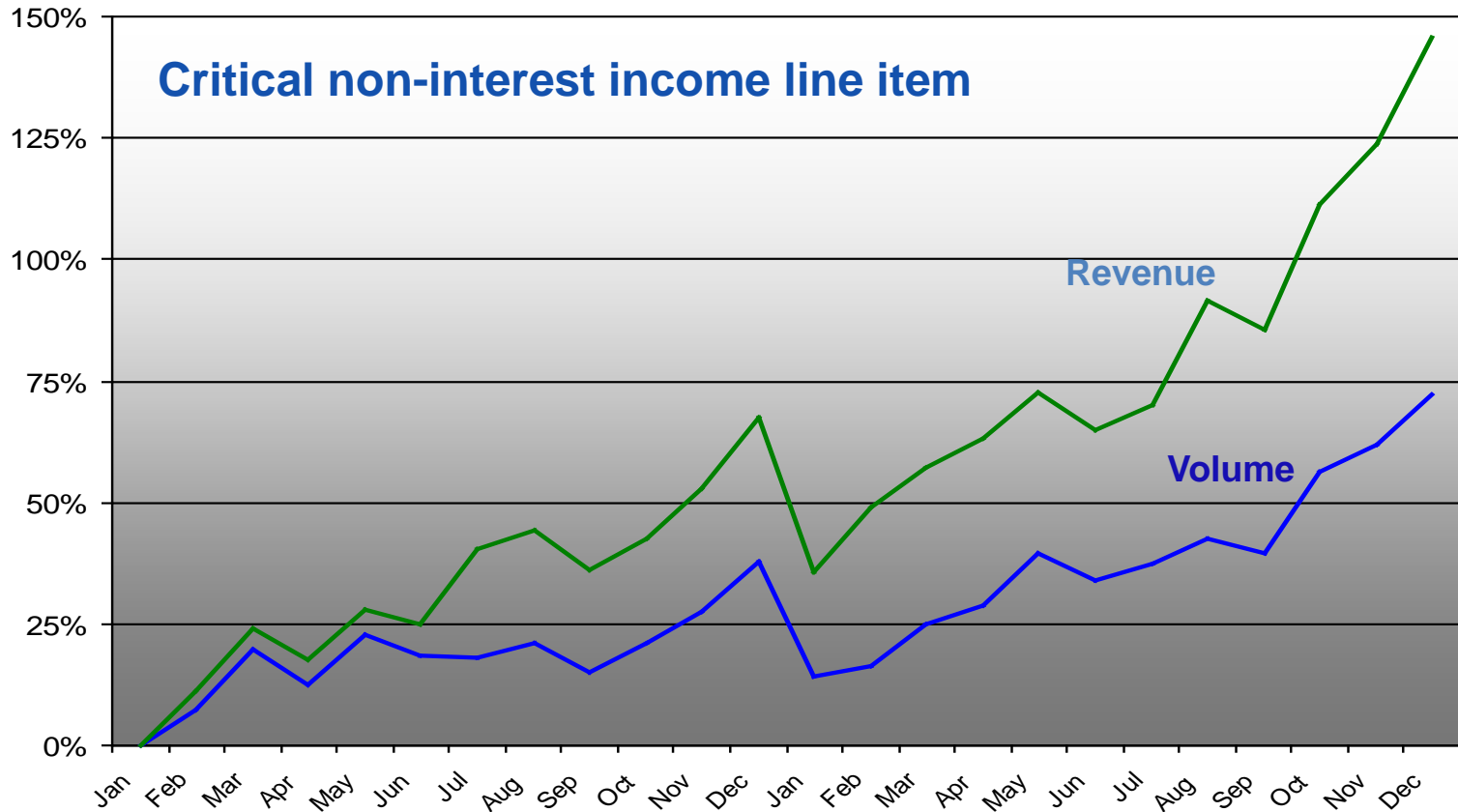
NYCE POS interchange increased 36% within 19 months; 45-50% increase for Exclusive Participants since June of 2008

- January 2009: 12% increase
  - All segments and tiers increased
- July 2009: 8% increase
  - Cap eliminated on tier 3 non-supermarket segment
- January 2010: 6% increase
  - Separate petroleum segment
  - Interchange minimums in each tier lead the industry
  - Remove cap on Telecom pin-less bill pay transactions
  - First PIN POS network to introduce issuer interchange segmentation
- August 2010: 10% increase
  - Increased Premier benefit according to merchant segments and tiers



# NYCE POS INTERCHANGE GROWTH OUTPACES VOLUME

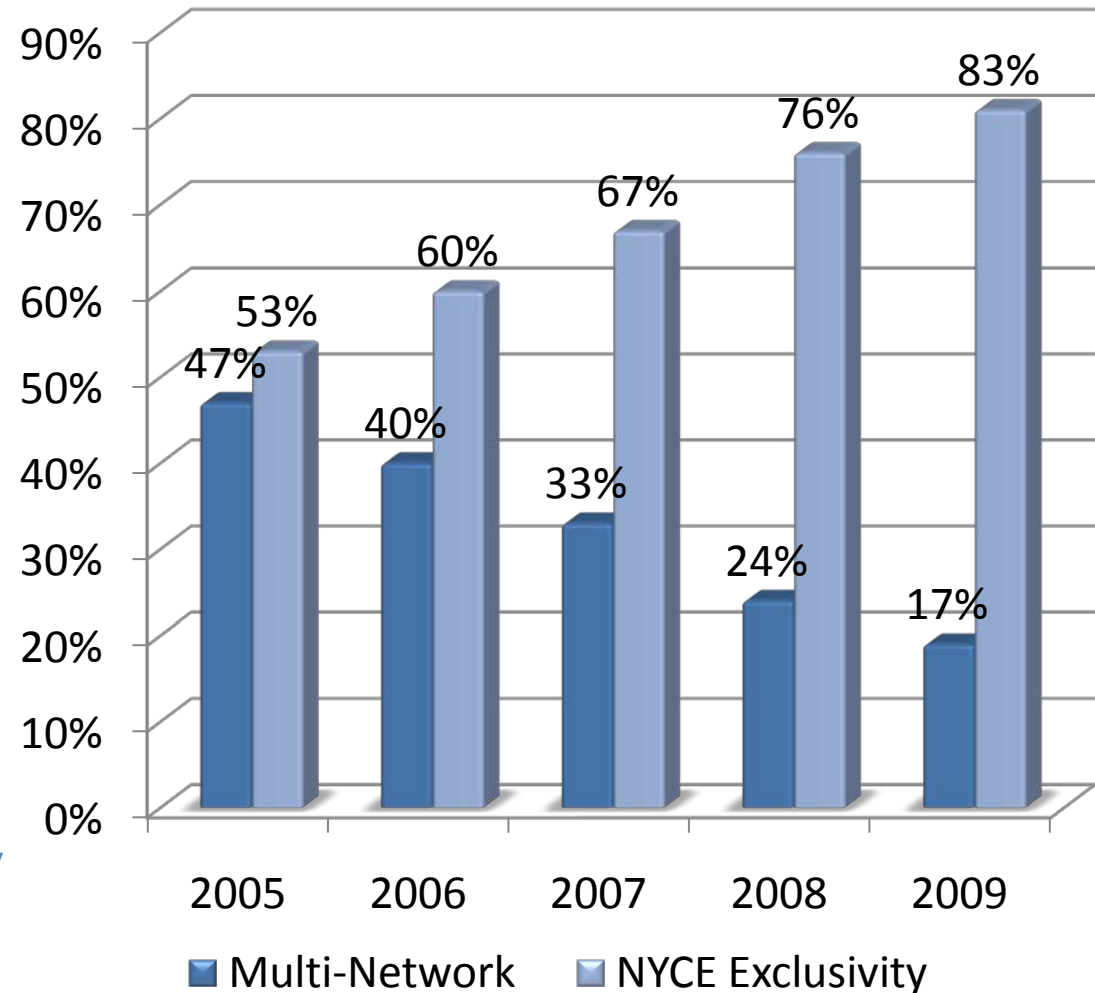
## DOUBLE THE GROWTH RATE



# NYCE AS A SOLE ACCESS CHANNEL

## Merchant Value thru Exclusive Access

- Issuers increasingly consolidating PIN based debit solely with NYCE
  - Eliminating all merchant discretion in transaction routing
  - Ensuring delivery of higher NYCE interchange
- Unique access not available through any other channel



# SUMMARY

- NYCE PIN is net income positive to Signature Debit
  - Top line NYCE PIN interchange rates have risen significantly in recent years
  - Cash back at POS lifts POS Interchange
  - NYCE PIN costs low compared to Signature fees, assessments, fraud and back office support
- NYCE Portfolio of PIN transactions is net income positive to Signature Debit

# EASE OF IMPLEMENTATION

## Implementation

## All Options

### Quick and Easy Integration

Add NYCE via your existing EFT processor in three to five weeks

X

No conversion or implementation efforts for your staff

X

Existing debit cards do not need to be reissued

X

NYCE brand included on new and reissued cards

X

ATM signage does not need to change - simply add a free NYCE decal

X

### No Customer Impact

No disruption to consumers experience

X

Cards work the same as they do today

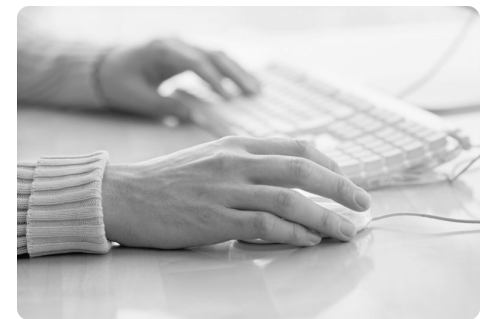
X

Your ATMs continue to accept cards the same way as they do today

X

# STAFFING AND SERVICE COMMITMENT

- The Client Services staff consists of experienced professionals with over 20 years of industry and 13 years of NYCE experience
- Each client is assigned a dedicated representative to help build strong long term relationships
- Each customer is also assigned a dedicated back-up CSR to further ensure service continuity
- NYCE's CSR training program is continuous and includes internal & external classes, supported by Training, Product, Network Services and other departments
- Each CSR's competency is evaluated to assess training needs and monitor performance
- We strive to respond to calls and emails within two hours



# BENEFITS SUMMARY



- Consistent and competitive POS interchange value
- Superior NYCE customer service
- Innovative Network products and services:
  - NYCE Mobile Financial Services
  - Direct (PINless) Bill Payment
  - Complete Fraud / Risk Mitigation Solutions
- Nationwide coverage for convenient POS and ATM access
- 100% merchant coverage!
- Peace of mind and security in knowing NYCE has provided quality service to over 3,000 clients for over 26 Years
- ZERO disruption to the cardholder experience

# Questions ?

## Thank you!

