

Introduction to Bankcard Basics

Global Vision Group

August 2006

Contents

Topic	Slide
Background	3-4
The Players	5
Transaction Authorization and Settlement	6-8
Types of Card Products & Competition	9-10
Credit Decision Process and Direct Mail Solicitation Cycle	12-18
Ongoing Account Monitoring	19
Risk Control	20
Global Vision Group Expertise & Contact	21-22

Background

- What is a bankcard?
 - A tool which allows customers to conveniently access a line of credit (credit bankcard), a deposit account (debit bankcard) or prepaid / stored value account (prepaid bankcard) to obtain cash and purchase goods at a wide variety of merchants
 - Bankcards may be issued by a bank, S&L, credit union or other financial institutions (hereafter referred to as banks)
 - Bankcards typically bear the logo of a payment network such as Visa and may include several payment networks on the back
- This presentation focuses on credit bankcards. What are they?
 - A credit bankcard accesses a bank line of credit to obtain cash and purchase goods
 - It allows the cardholder to pay in full or carry a balance, also called “revolving” credit
- How does it differ from a charge card?
 - A charge card, such as an American Express green card, requires the cardholder to repay the full balance at each billing cycle

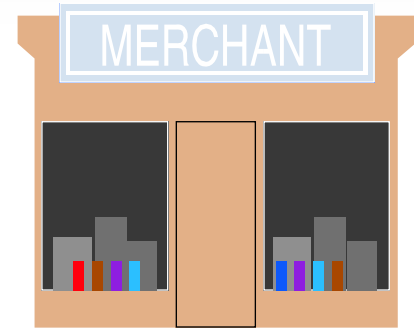
Background (cont'd)

- What role do the banks play?
 - As card issuers, banks sign up, lend money to, and service accounts for cardholders
 - As transaction acquirers, banks sign up merchants to accept bankcards and provide funds for the value of the transaction
- What are payment brands such as Visa?
 - Visa and MasterCard are separate, competing associations operated as branded joint ventures with member banks (over 20,000 each worldwide)
 - American Express and others are wholly-owned firms with their own banks; they can issue cards and acquire transactions directly
 - Payment brands play some or all of the following roles:
 - Provide global brand acceptance, marketing and advertising support
 - Operate payment networks
 - Authorize (approve) transactions
 - Provide information for cardholder billing
 - Move funds from the cardholder's bank to the merchant's bank
 - Establish rules for banks and other payment companies to follow
 - Develop new products (debit, chip, commercial)

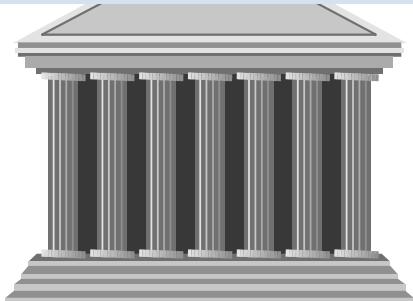
The Players and Their Roles



- Convenient Buying
- Safe and Flexible Access to Funds/Credit
- Increased Sales
- Guaranteed Payment
- Safety & Convenience



CARDHOLDER BANK

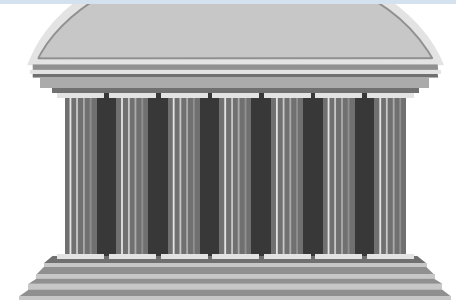


- Provides Products
- Extends Credit
- Provides Access
- Delivers Customer Service



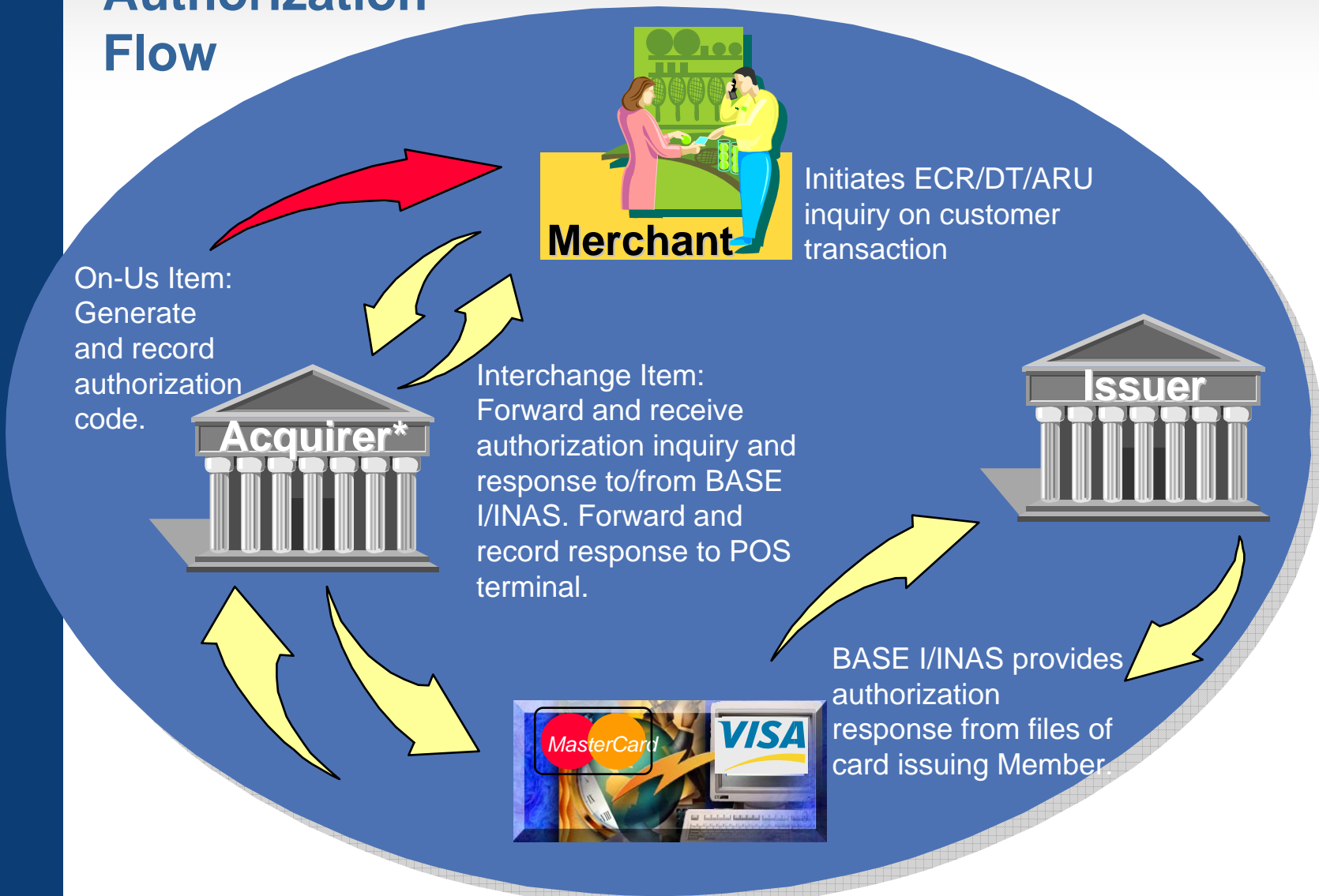
- Establish Bank Rules
- Develop Products
- Provide Network
- Settle Transactions
- Brand Recognition

MERCHANT BANK



- Signs Merchants
- Services Merchants

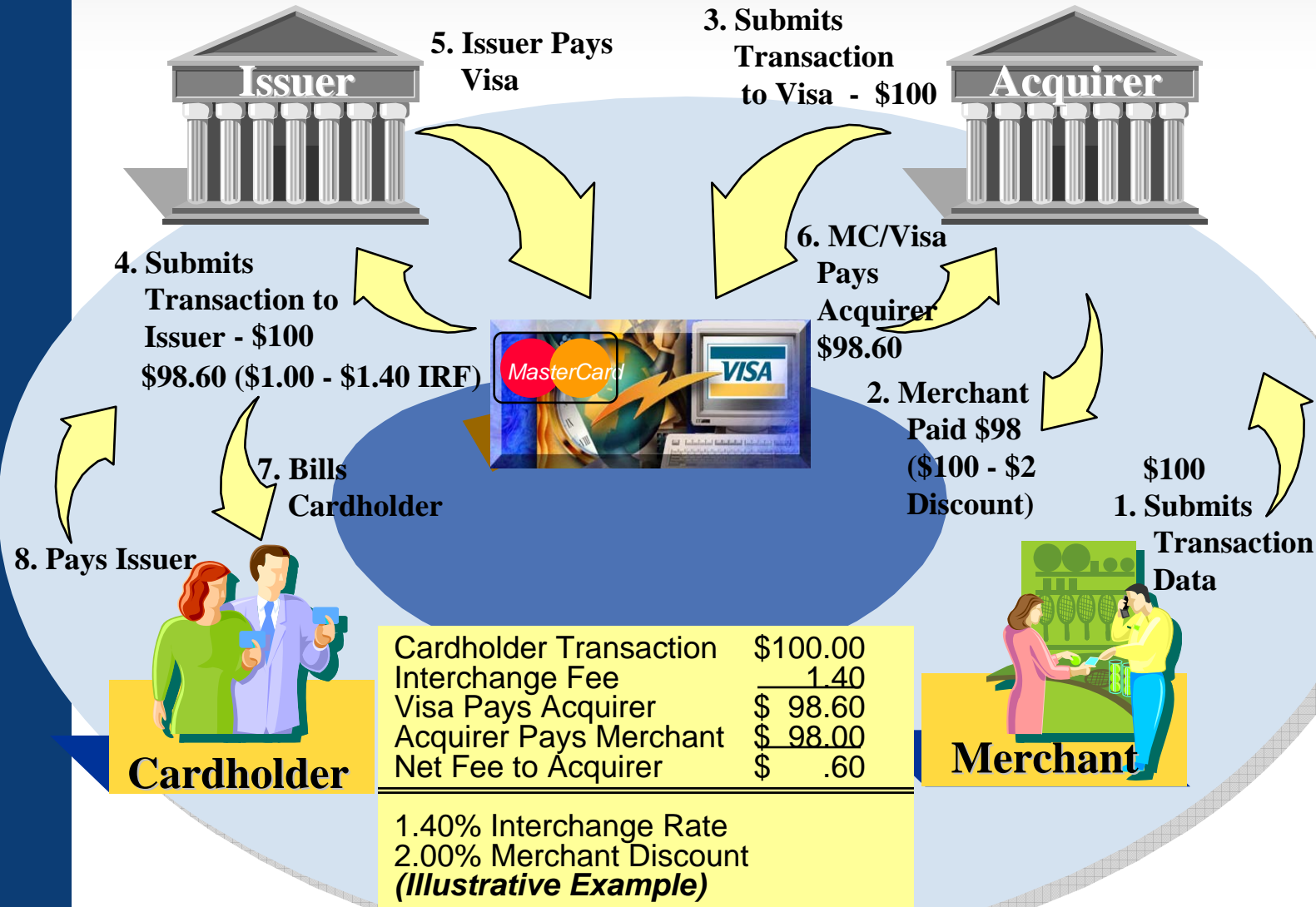
Authorization Flow



*Authorization may also be provided by a third-party processor

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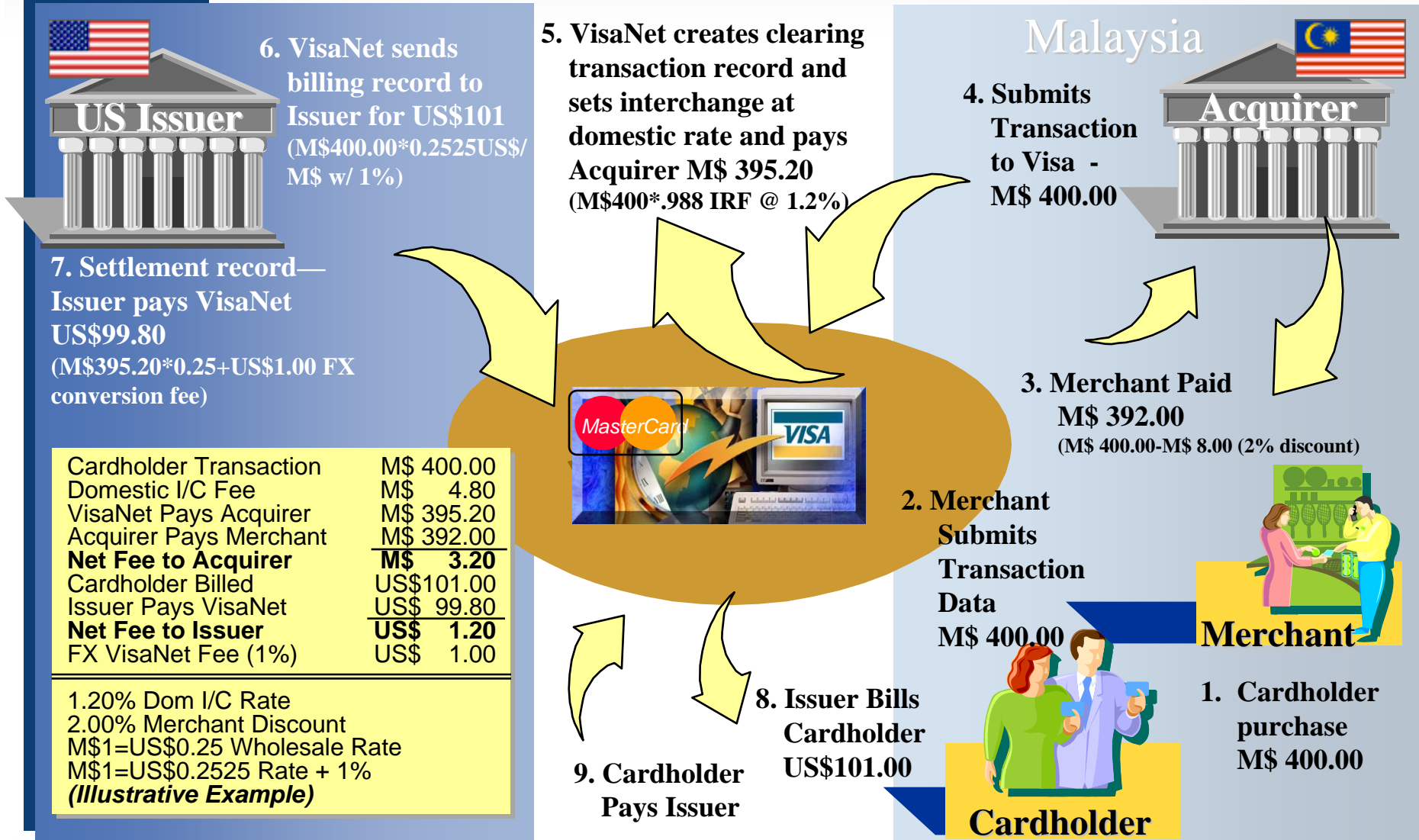
Settlement Flow



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International Settlement Flow

Example: US Issuer, Cross-border Transaction in Malaysia, Cardholder Billing in US\$, Issuer Settles in US\$



7. Settlement record—
Issuer pays VisaNet
US\$99.80
 (M\$395.20*0.25+US\$1.00 FX
 conversion fee)

Cardholder Transaction	M\$ 400.00
Domestic I/C Fee	M\$ 4.80
VisaNet Pays Acquirer	M\$ 395.20
Acquirer Pays Merchant	M\$ 392.00
Net Fee to Acquirer	M\$ 3.20
Cardholder Billed	US\$101.00
Issuer Pays VisaNet	US\$ 99.80
Net Fee to Issuer	US\$ 1.20
FX VisaNet Fee (1%)	US\$ 1.00

1.20% Dom I/C Rate
 2.00% Merchant Discount
 M\$1=US\$0.25 Wholesale Rate
 M\$1=US\$0.2525 Rate + 1%
(Illustrative Example)

5. VisaNet creates clearing
transaction record and
sets interchange at
domestic rate and pays
Acquirer M\$ 395.20
 (M\$400*.988 IRF @ 1.2%)



4. Submits
Transaction
to Visa -
M\$ 400.00

3. Merchant Paid
M\$ 392.00
 (M\$ 400.00-M\$ 8.00 (2% discount))



2. Merchant
Submits
Transaction
Data
M\$ 400.00

1. Cardholder
purchase
M\$ 400.00



8. Issuer Bills
Cardholder
US\$101.00

9. Cardholder
Pays Issuer

Types of Card Products

- Revolving credit, non-revolving credit or charge-card, off-line debit and on-line ATM products
- Balance transfer programs
- High-end products such as Visa Signature, MasterCard World, Amex Blue, Platinum, etc.
- Sub-prime products for those with poor or limited credit history
- Loyalty and co-branded products, including air mile (United/BankOne), hotel (Marriott Visa), automobile (GM MasterCard, Mercedes Visa), retailer (Target Visa), internet and financial services (Etrade Visa)
- Other card features, including smart/chip, stored value, gift etc.

Competition

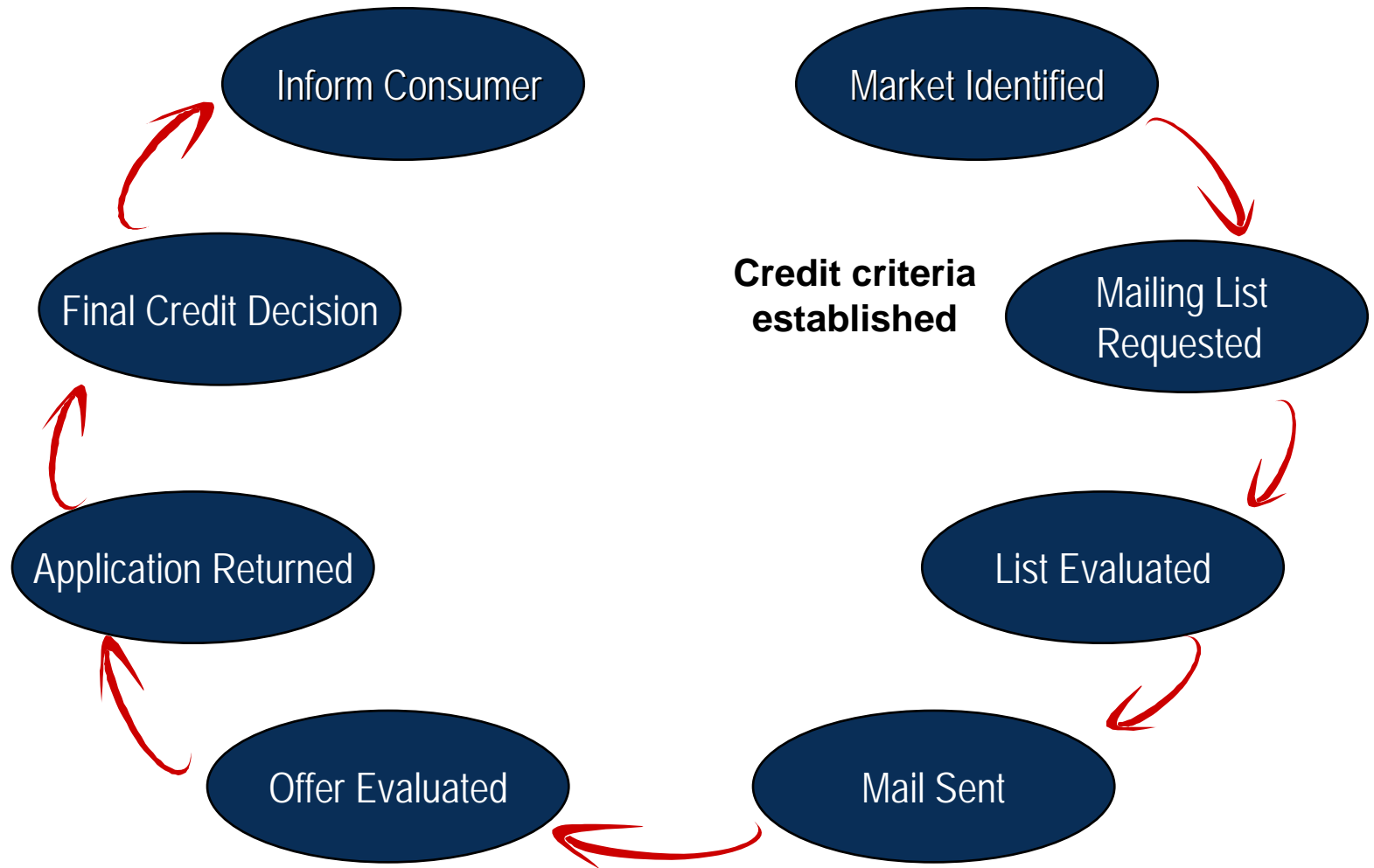
- What competes with bankcards?
 - Other forms of payment (cash, checks predominate)
 - Other types of loans
 - Other general purpose credit card companies
 - AMEX Optima, Blue Chip Card
 - Discover, JCB
 - Charge Cards (AMEX green card, Diners Club)
 - Private label cards (accepted at a single merchant)

Key Steps to Bank Credit Card Issuance

Credit Decision Process

- How do banks make their credit decisions when issuing bankcards?
 - Most issuers use “credit scoring models”
 - These models are based on a statistical correlation between individual consumer characteristics and the likelihood that the consumer will repay their debts
 - The associations do not dictate, suggest or influence issuers with their credit decisions
 - Each issuer determines for itself how best to assess credit risk
 - Each issuer strives to develop more sophisticated risk assessment techniques which will reduce credit losses and thereby provide a competitive edge

Account Setup Process: Direct Mail Solicitation Cycle

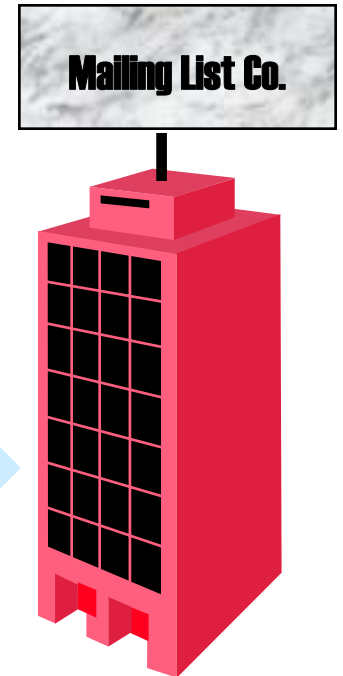


Direct Mail Solicitation Cycle: Market Identification & List Request

*Successful Campaigns Require Coordination
Among Key Functional Areas*

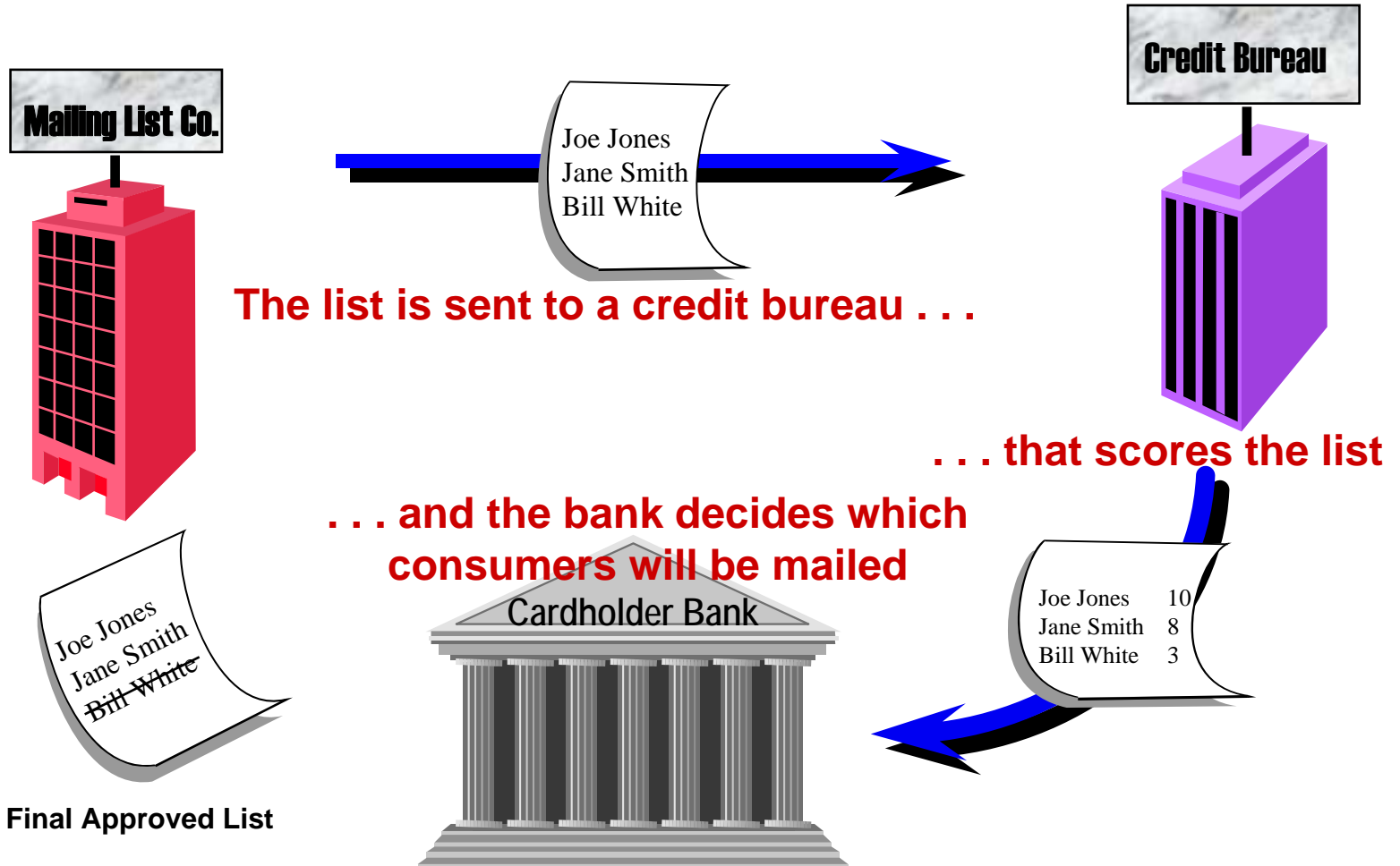


A bank assesses a market it wants to target . . .



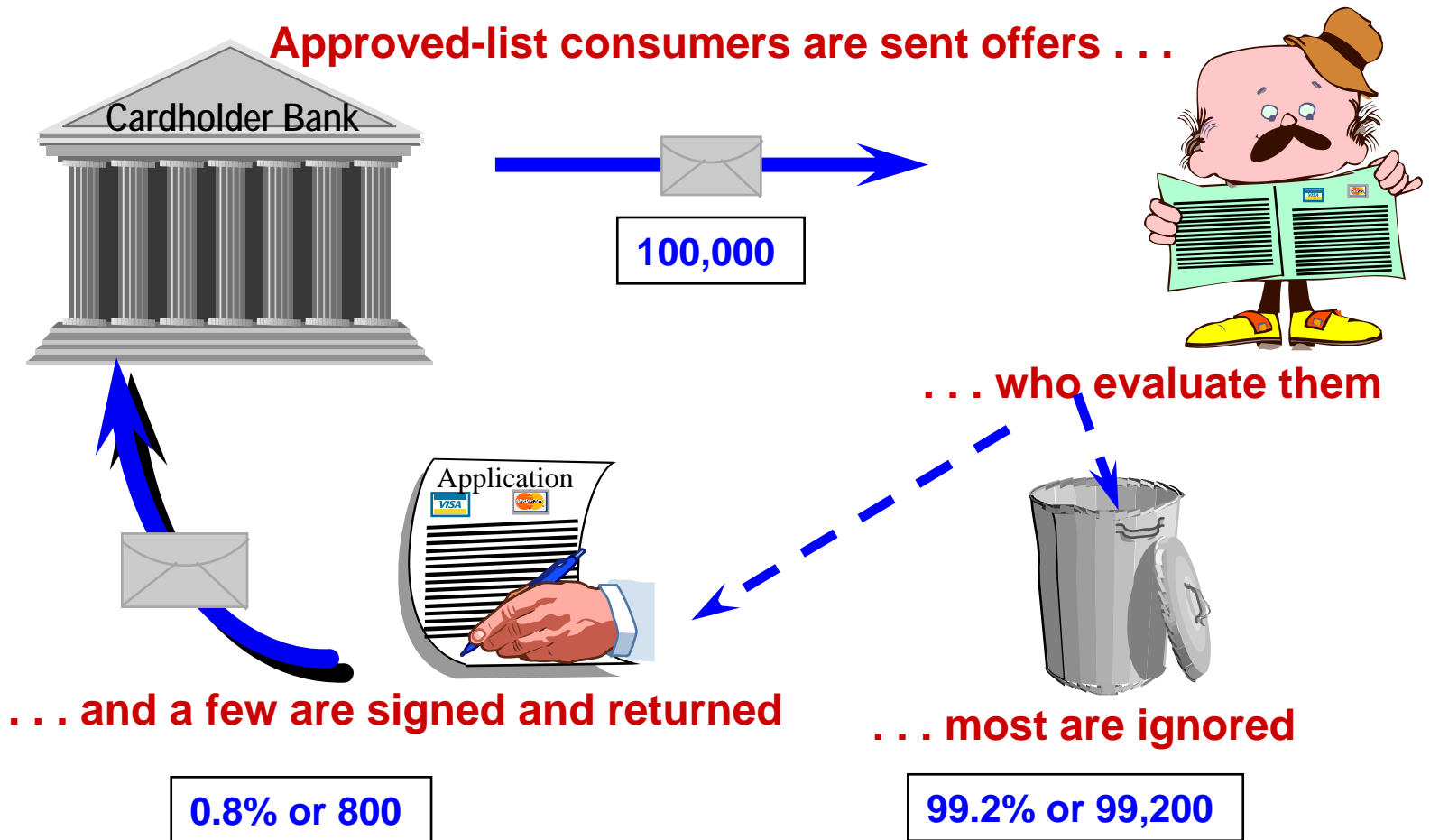
. . . and requests a list

Direct Mail Solicitation Cycle: List Generation / Evaluation

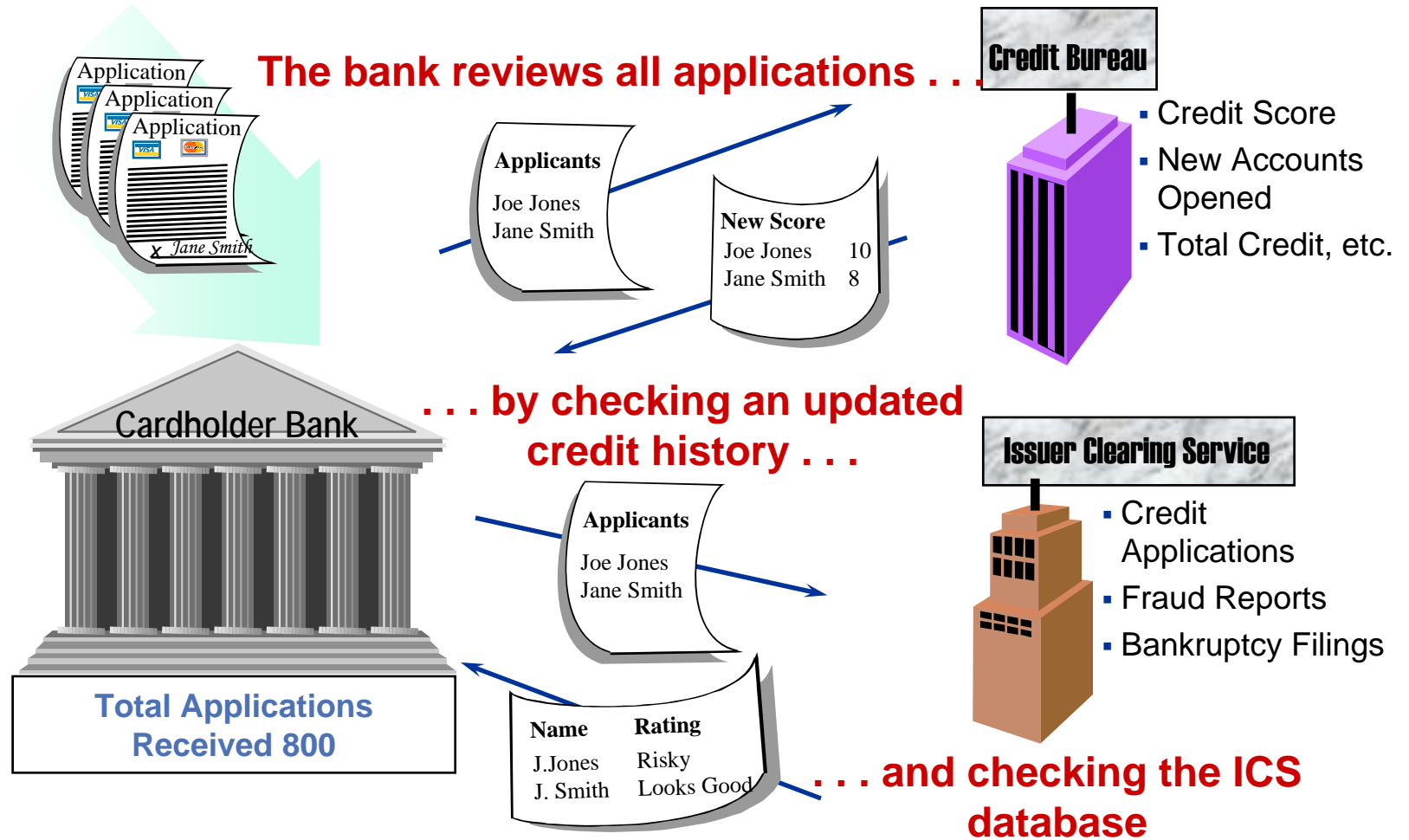


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Direct Mail Solicitation Cycle: Mail is Sent and Evaluated

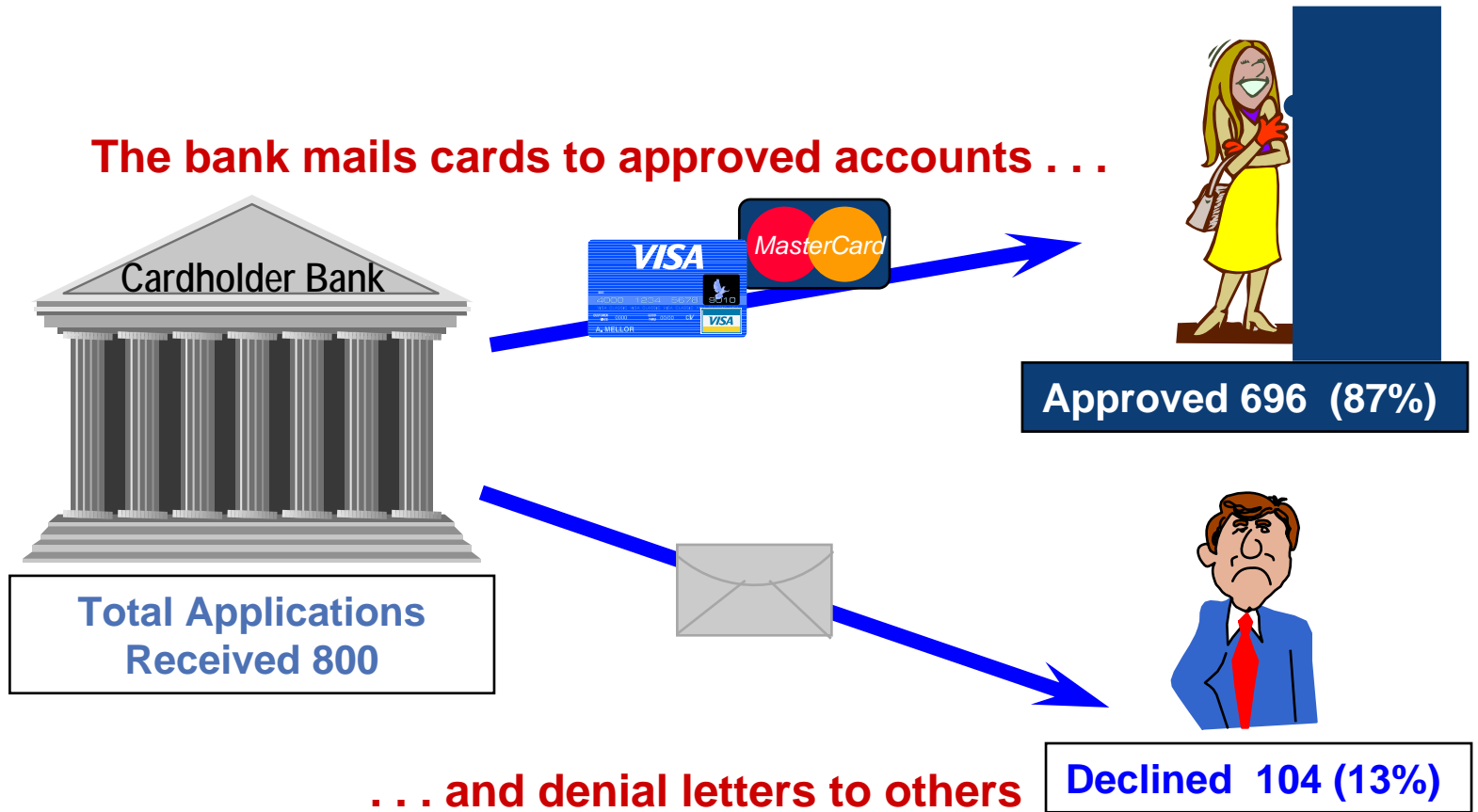


Direct Mail Solicitation Cycle: Final Credit Decision



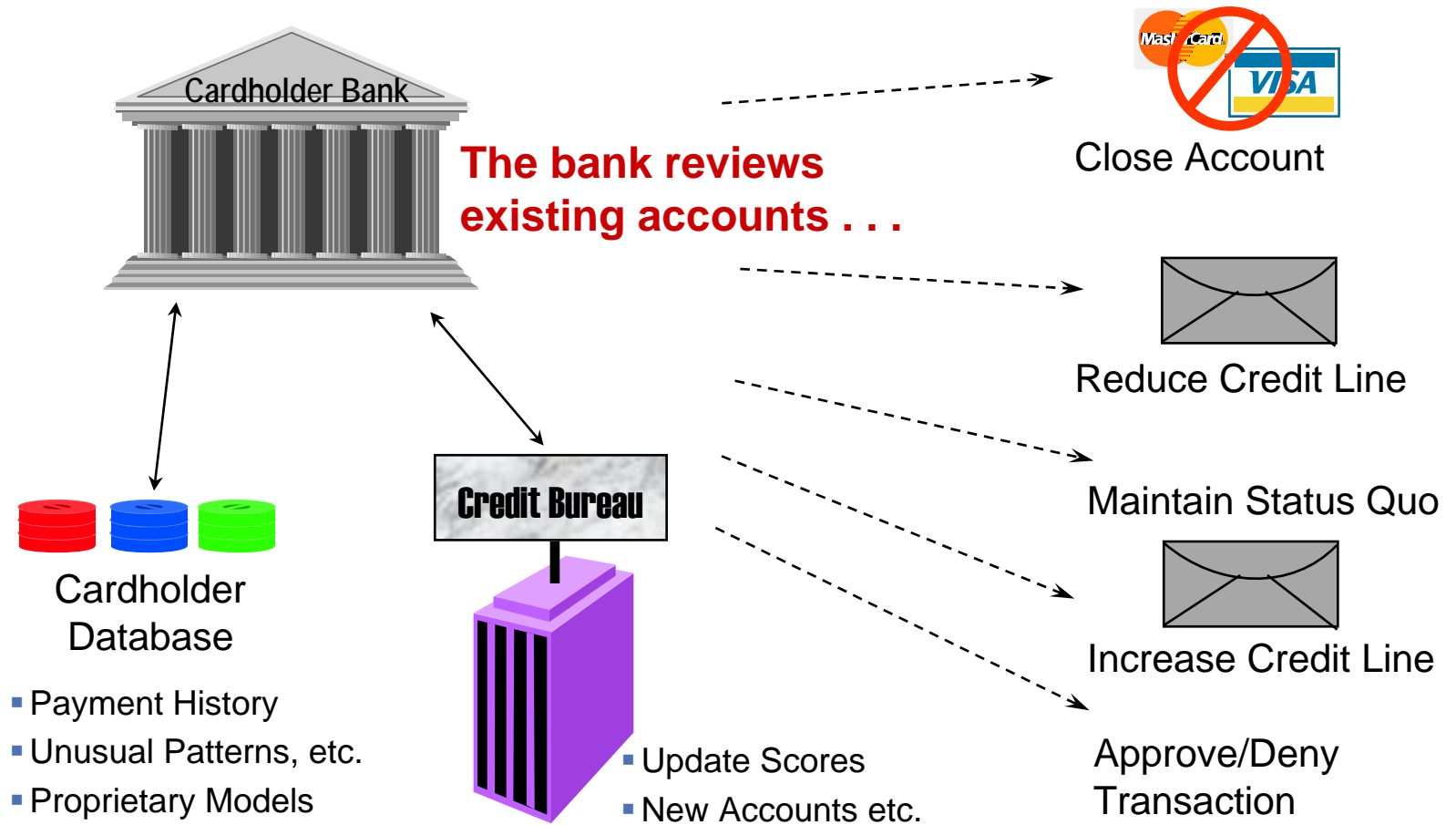
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Direct Mail Solicitation Cycle: Informing The Consumer



Ongoing Account Monitoring

... and takes appropriate action



Risk Control

- How do issuers control risk after the card has been issued?
 - Issuers monitor cardholders' performance
 - They routinely review and analyze credit bureau reports
 - They use proprietary bankruptcy models to identify potential bankruptcy problems
 - They also use proprietary models to help predict and manage fraudulent activity on accounts
 - Almost all transactions are subject to an authorization process
 - This on-going monitoring process allows the issuers to manage credit limits, authorizations, fraud, and card re-issuance

Global Vision Group Capabilities

We can:

- Create training modules for your marketing, credit policy, operations & risk management functions.
- Re-engineer your operations and employee knowledge base through improved database and process enhancements.
- Empower your Customer Service Representatives (CSRs) by using CRM-based and customer life-cycle portfolio management techniques.
- Design testing and metric reporting processes for ongoing process improvement and staff productivity enhancements.
- Design and develop benchmarking studies, profitability models, and risk mitigation programs.

For Further Information

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