

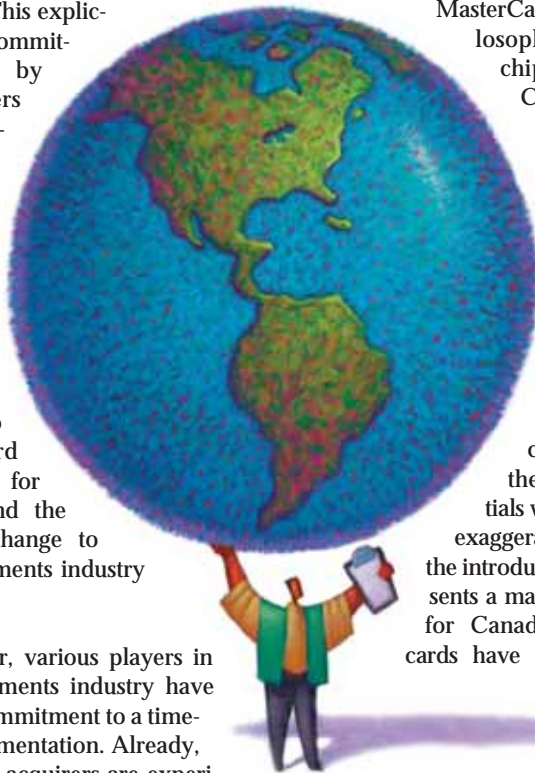
CHIP IN CANADA

MIGRATION IN OUR NATION – LEADING THE CHARGE TO CHANGE THE WAY WE TAKE CARE OF BUSINESS.

MASTERCARD CANADA RECENTLY announced that 12 of its card issuers will be working with MasterCard and five leading acquirers to introduce chip-enabled MasterCard payment cards in Canada by 2010. This explicit and proactive commitment to chip by MasterCard issuers and industry acquirers is unprecedented in the Canadian market, and brings significant momentum to the transition to chip technology. With these 17 commitments to date, MasterCard has set the stage for chip migration and the most important change to the Canadian payments industry since its inception.

Over the past year, various players in the Canadian payments industry have confirmed their commitment to a timeline for chip implementation. Already, several issuers and acquirers are experimenting with chip and have gained useful knowledge and perspective on how chip technology will affect their business. Many

of these organizations are committed to a large-scale deployment of chip-enabled cards and chip-ready payment terminals by the end of the decade.



MasterCard Canada's philosophy for bringing chip to market in Canada is to work with issuers and acquirers to facilitate their planning for chip; in addition, each organization has to manage the chip migration in the context of their individual business case and identify the business potentials within it. It's not an exaggeration to say that the introduction of chip represents a massive business shift for Canadian issuers. New cards have to be introduced, systems need to be adjusted to handle the different way chip carries information and, of course, a major cardholder communication effort will be needed. But

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MasterCard issuers committed to introduce chip by 2010:

- ATB Financial
- BMO Bank of Montreal
- Canadian Tire Bank
- Capital One Canada
- Citibank Canada
- Credit Union Electronic Transaction Services (CUETS)
- GE Money Canada
- HSBC Bank Canada
- MBNA Canada
- National Bank of Canada
- People's Trust Company
- President's Choice Bank

Canadian acquirers committed to introduce chip by 2010:

- First Data Loan Company
- Global Payments Inc.
- Moneris Solutions Corporation
- Chase Paymentech Solutions
- Unified Network Payment Solutions

chip also means the creation of an extraordinary new business opportunity.

To date, much of the focus on chip globally – and in Canada – has been as a fraud and security solution. Chip cards are rightly seen as capable of providing greater security and better protection against fraud. However, chip migration is a technological transition that offers much more than just a means for fraud prevention.

Chip migration offers a whole new platform for developing a new generation of competitive strategies.

The implementation of chip is more than a technology upgrade. Chip migration offers a whole new platform for developing a new generation of competitive strategies. Blindsided by the narrow perspective of fraud prevention, an organization risks missing a strategic opportunity to build the technological foundation for competing successfully in the 21st century.

The chip card is a new platform to develop more differentiated products and offer more value-added services in dealing with cardholders. It fundamentally alters the competitive landscape – changing cardholders' behaviour from one of selecting cards based on basic features (rates, fees, rewards) to one of seeking values: service options and product capabilities that can be customized to one's lifestyle needs.

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The 4 Cs – Tapping the Potential of Chip

The implementation of chip means capacity, capability, customization, and co-operation.

Capacity:

refers to the chip's ability to carry larger applications. Issuers and acquirers need to examine their current business model and identify where they have been limited by the capacity of the magnetic stripe.

Capability:

greater capacity means the chip has more capability. It can run applications that interact in a more sophisticated fashion with the point-of-sale. Has thinking been limited to date because of the current card capacity? Evaluate customer programs that currently run off the card, that is, through manual or separate systems. With chip, those programs may now be able to sit on the card. And if that is the case, can they be tied in with other existing card programs?

Customization:

card-based programs can be highly customized to the issuer and the merchant; they can also be built to handle individual customers or customer segments in a specific manner. The potential to tap into existing CRM (customer relationship management) efforts also exists.

MasterCard's chip solution suite, MasterCard OneSmart™, gives merchants, acquirers, and issuers everything they need to migrate to and manage chip-based programs. MasterCard's OneSmart bundles together all components necessary – card applications, card readers, system software, and business processes – to leverage the business opportunity of chip. OneSmart packages include: customer acquisition; customer retention; card activation and usage; loyalty; innovation such as OneSmart PayPass™ which combines both contact and contactless interfaces on one chip; new delivery channels, and more.

Co-operation:

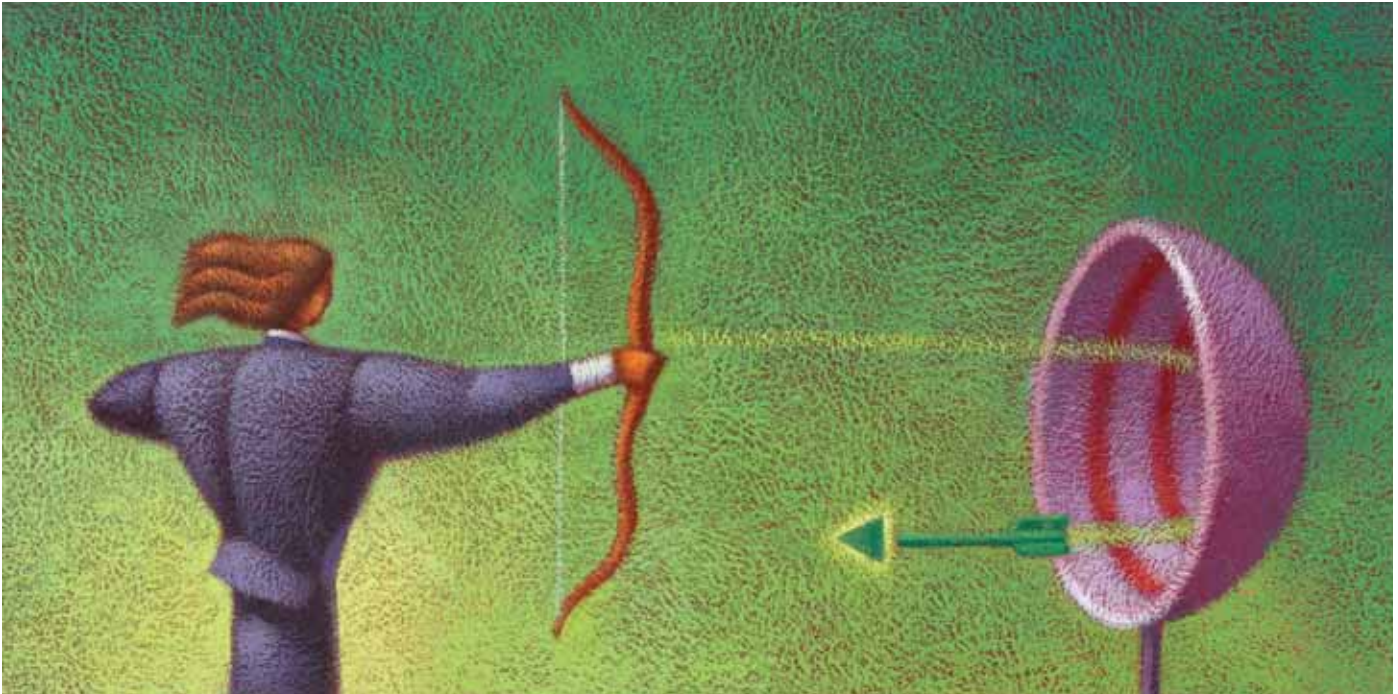
the migration to chip is not happening in a MasterCard vacuum. This is a change impacting multiple payment platforms simultaneously. In order to make the transition cleanly and cost effectively, there has to be a co-operative effort. The shared EMV chip platform is part of that co-operation, but not the only part.

MasterCard has extensive global experience in the planning and implementation of chip programs. MasterCard's Chip Centre of Excellence, based in Brussels, Belgium, is the fulcrum of a global network of expertise and experience. MasterCard can help organizations identify the business opportunities in chip and plot a business strategy to integrate chip, when and how it makes most sense for the business objectives.

Globally, MasterCard leads in the implementation of chip cards worldwide, with more than 248 million chip cards in active use, significantly more than any other payments organization. This experience is now being applied in the Canadian market to ensure the payments industry is in the right position to capture the benefits of chip technology.

As of September 2005, there were more than 1,500 completed and active MasterCard chip projects globally, representing an 80% growth from 2004.

CHIP IN CANADA



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CHIP IN ACTION

Here are a few examples of how the chip card delivers:

Serving the premium customer – It is an uphill task to provide ever more differentiated services to premium customers. For many of these consumers, pricing is just one of the multitude of factors they consider.

Increasingly, they need more tailored service packages that dovetail with their lifestyle needs. Chip cards have the capability to carry such packages.

Loyalty programs – Chip cards offer the potential for designing a whole new generation of loyalty programs that are both convenient and instantaneous to cardholders. For example,

reward points will not be redeemed through complicated and time-consuming procedures as they usually are today, but will be benefits that

cardholders receive immediately upon using the card for payment. A cardholder could choose, on the spot, to use certain reward points for a free home delivery when making a purchase.

Cardholders could be given wide-ranging choices to accrue benefits to different loyalty programs, consolidating them, or switching them from one program to another. All these make a “cardholder-centric” loyalty pro-

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gram possible, which in turn greatly enhances the relationship between the issuing bank and the customer.

Chip cards put the cardholder in the centre of the decision-making process, acting like the cardholder’s own bank manager in his/her wallet by having built-in authorization logic. The chip card could inform the cardholder about the costs and benefits of different payment options in every purchase decision that the consumer is contemplating, and provides clear indication of the spending power minute-to-minute.

The move to chip is not only the right decision, it’s the right time for card issuers and other payments industry organizations to consider how to leverage chip technology to enhance their business. MasterCard is providing cutting-edge, customized hands-on support and extensive expertise to assist in a smooth transition, with the philosophy of ‘do it once, do it right’.