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Good morning. It's a pleasure to talk with you today ... the managers and leaders whose decisions will chart the future course of our industry.

The New Era in Payments: Are You Ready? That's the title of my remarks today. It's also my message...my warning...and my call to action.

The new era in payments is coming...And I am here to respectfully suggest that our industry may not be ready. I know ... In the program, it says, "By the end of this session, you'll know if your organization is ready for the new era."

But there is no reason to keep you in suspense. New eras do not typically dawn on a business landscape that is ready and waiting for them. They do not show us the courtesy of waiting until we are ready for them.

The major telecommunications companies weren't ready for the Internet. But when the forces of technology ... research ... and funding ... converged with consumer demand, the Internet arrived ... and exploded in popularity. And today, the big phone companies are scrambling to compete with the lean cost structure of Internet-based phone service. The Postal Service was not ready for e-mail. The airlines were not ready for crude oil reaching \$70 per barrel.

The financial services industry may not be ready for the New Era in Payments ... but the new era is dawning, ready or not.

And it's riding in on the backs of three powerful trends:

- One, the inexorable shift to electronic forms of payment...
- Two, the pervasive effects of globalization, and...
- Three, the innovations in technology that have the power to change the way we as consumers will shop ... travel ... conduct business ... solve problems ... and even think.

We're going to talk about those trends today ... why they herald the New Era in Payments ... and the three opportunities available to financial services companies who wish to play the new game ... by new rules ... and succeed.

Our story begins with those three major trends. Let's take a look, starting with the inexorable shift to electronic forms of payment. This shift may be inexorable ... but it has been a long time coming.

After nearly three millennia, after the transistor, the integrated circuit, and the Internet, cash still represents two-thirds of all global payments, and remains the most unacknowledged anachronism in the modern world.

Cash - it no longer makes sense. It made sense for shopkeepers and tradesmen in the Middle Ages. It made sense for family-run businesses on Main Street in the mid-20th century. But it has outlived its value.

I am speaking quite literally. The United States Mint announced last month that producing a penny - now costs more than a penny. A penny and a half, to be precise. And that price tag for the penny does not even include the cost of shipping ... transacting ... counting ... and securing it.

Twice a year, Intel Corporation holds a forum for the world's developers of digital products. This spring's forum opened with a video of little children. The kids in the video are perhaps 5 years old, and they are reciting technologies that they supposedly remember — the way you and I might reminisce about typewriter ribbons or dial telephones — as if these technologies have passed from common usage during their brief lifetimes.

They say things like: "I remember when you had to have a computer to get email," and... "I remember putting film in a camera," and "I remember dial-up Internet service." Then, a child looks straight into the camera and says: "I remember paying cash!" Ladies and gentlemen, that is why the demise of cash is inexorable.

Checks, too, are rapidly on their way to historical oblivion, giving way to electronic payments. Consumers — and merchants — want convenience. They want enhanced services. They want increased control. They want personalized rewards. Have you seen any enhanced services from the new ten-dollar bill? Noticed any higher levels of control in those shiny new quarters?

Nor have I. But I have seen tremendous opportunities for enhanced services, increased personal control, convenience and personalized rewards in the practice of electronic payments—and so have rank-and-file consumers.

The second trend reshaping the payments industry is the pervasive effects of globalization. We all continually read headlines about this forceful trend that is changing the shape of the payments landscape. Experts tell us that by 2050, China, India and Japan will represent more than half of the world's GDP. As noteworthy as this news may seem ... I posit that in fact, there is nothing new about it at all. Look back 250 years and we see that in the 1800s China, India and Japan accounted for more than half of the world's income. Then came the Industrial Revolution.

The industrialization of the West created immense wealth that swung the balance of economic power away from Asia. The world experienced a revolution in physical logistics. Thanks to the railroad and the steam ship, an individual tradesman might sell his physical goods anywhere within the British Empire.

Today, we are experiencing a revolution in information logistics. Thanks to the Internet, an individual can now sell his services — particularly his intellectual services ... anywhere in the world.

This is why we can now rely upon software developers, stock analysts, and x-ray technicians from halfway around the world. Suddenly, millions more people are able to participate in the Information Economy. What does this mean for the financial services industry?

It means that by 2050, world GDP may reach \$135 trillion as wealth grows faster than population. By 2050, India, China and Japan may once again account for more than half of the global income. By 2050, that growth could result in — brace yourselves — 4.5 trillion payment transactions annually. How many of those payments will be card transactions? That, my friends, will be up to you.

Today, the west is dominant. Soon — according to economic forecasts — dominance may shift back to Asia. Which is an extremely powerful reason for us to look beyond our geographical borders. So, we are experiencing not a new, un-heard-of, economic shift but another swing of a continually recurring cycle. The timing of this cycle should create a real sense of urgency for our industry.

I'm certain that many of us are familiar with *The World is Flat*, by Tom Friedman. As Mr. Friedman traveled all over the world he kept hearing the same phrase from every business executive he met. The recurring phrase was: Just in the last couple of years ... As in: Just in the last couple of years ... we started doing things I never would have thought possible.

The reason was always the same: The globalization of commerce. Commerce is by inclination borderless. Commerce, by nature, yearns to be as frictionless as water ... crossing global borders unencumbered by technological or regulatory constraints.

The world, which increasingly demands frictionless commerce, can learn from the United States in this regard. The open payments model in the U.S. will be replicated over time in major economies throughout Europe — and possibly the world. No longer will banks be hamstrung in international markets by limited, inflexible, interbank processors, which treat every bank the same. The result?

A new flexibility that will enable incoming banks — especially U.S. banks expanding globally — to accomplish extraordinary things. Key among those accomplishments will be to bring new capabilities to new markets, and to unleash waves of pent-up economic energy and entrepreneurship.

But what if your organization does not — at present — plan to expand into global markets? Even if your present strategy calls for retaining your focus on North America and you have no plans to outsource portions of your business to the world, globalization may come looking for you. Yes — I am indeed raising the alarm: Innovative global competitors are at the gates. These competitors will challenge your institutions on both cost and innovation.

Just in the last couple of years, one of the largest banks in India opened branches in Belgium, Russia and New York. But of even more interest than these brick-and-mortar operations, I suggest, is its virtual operation, online. Its Canadian subsidiary has launched an online banking service. Because of its low cost structure, it is able to pay more on deposits. Visit the website, and you will find an Internet banking operation with services to rival any actual banking operation in any world capital. Not only does this bank offer savings accounts, bill payment and debit card services but it also will be happy to recharge your prepaid mobile phone online.

Just in the last couple of years, an aggressive and innovative South African company recently moved its headquarters to the United States. This company provides wages and benefits payments via secure smart card technology to the unbanked in developing nations. So why should it be of concern to you? It recently announced its interest in — and I quote from its website — business opportunities across the Americas.”

So, your organization may or may not wish to put global expansion on your list of future strategies to consider. But you most certainly should prepare to defend your customer base from low-cost, aggressive global competitors who — I assure you — are right now making plans that threaten to disrupt your business model.

Let’s look at the third trend that heralds the New Era in Payments: Technological innovations. Today, startling innovations in technology are rolling like thunder through our industry, and I’m pleased that MasterCard is in the forefront of virtually every breakthrough. Three factors are driving innovation ...

- First, consumers are demanding simplicity and security. And beyond that — they also are demanding a positive experience at the point of sale.
- Second, new competitors are continuing to enter the market and threaten disintermediation of traditional business lines.
- And third, emerging technologies are changing the economics of many business models, and opening the door to exciting new services.

A positive experience at the point of sale — what does that mean to consumers? It can mean personalized rewards, it can mean expanded choice, and it always means speed and convenience.

Consumers and merchants are demanding simplicity across all channels ... which means the payment experience must be consistent, easy to understand, and quickly executed.

Just in the last couple of years, the industry’s response to these demands is evident in the range of new capabilities that are making their way to market. The advent of contactless payments using radio frequency technology is changing not just the transaction — it is changing the consumer’s experience.

No longer must they count out change, or hand over their payment cards, for small-ticket items like a magazine or a cup of coffee. With MasterCard PayPass, they simply tap and go. PayPass isn’t limited to retail purchases. Sports fans use PayPass at many major football, baseball and golf venues. MasterCard and our partners are conducting trials with the vending industry and with public transit programs. New Yorkers dashing to work on the subway will be able to enjoy a more streamlined commute, thanks to PayPass. Seven million PayPass cards and key fobs are already being used at 30,000 merchant locations, in 10 countries around the world. Why the popularity? Research indicates that contactless payments can shave two-thirds off of the time required to pay with cash.

What other innovations are coming? Mobile payments technology is here. As you know, consumers love their cell phones. Already, consumers in several international markets can use their cell phones as payment cards. It’s being tested in the United States, with MasterCard leading the way. Soon, you and your merchants will be able to provide consumers with personalized offers via text message, on-the-spot.

Just imagine, the consumer pulls into the parking lot of an electronics store ...

And receives a text message offer on a popular product and an annual membership. Your offer promotes not just a one-time transaction, but an ongoing relationship.

The potential of the mobile payments market is actually staggering when you analyze the penetration of mobile phone usage in China, and also in Brazil, India and Japan. In Europe our research estimates that contactless payments technology — as in mobile payments — could boost personal payments over the next nine years by some 14%. In other words, banks could be looking at an additional 18 billion transactions.

Take those three trends: The inexorable shift to electronic forms of payment; the pervasive effects of globalization; and the technological innovations, and you are facing a New Era in Payments.

You may also be facing tremendous new pressures on your business, and your profit margins. In this New Era of Payments growth will not come from offering more of the same products to the same potential customers in the same markets.

You have three opportunities to increase the likelihood of future growth. You can:

- Innovate in your existing markets...
- Expand into new segments of your traditional markets, and...
- Make the leap into global markets.

Innovating in your existing markets means responding to consumer demands. But as you know, it's not that simple. Consumers demand free checking — so most banks offer it. Consumers demand free online banking and bill payment — so most banks offer that, too. The same is true with extended hours, and any number of other improvements. Unfortunately all of these improvements in value and convenience have not led to more consumer loyalty.

When your point of differentiation is quickly imitated by every competitor in the market ... it just as quickly becomes nothing more than “table stakes” — simply your price of admission to the game. But the right technological innovations, supplied by the right payments partner, can help you create a sustainable position in your market. And it will be unique, because it will be tailored specifically to your institution's strategy for growth.

Consider this. In your payments business, the actual transaction — the swipe of a single payment card — is becoming less and less important to you as a stand-alone revenue source. Instead, the true value for your business lies in the innovation, intelligence and flexibility around that transaction.

At MasterCard, our technology — together with our data-mining intelligence — help one transaction lead to the next for you — and the next, and the next — building higher and higher levels of loyalty from your customers. Here is how it works.

First, you mine the intelligence. Then, you build the relationships. MasterCard's Commerce Intelligence program provides you with deep insights into the habits of extraordinarily valuable groups of consumers — what we call “Purchase Clusters.”

I'm talking about affluent families with children, road warriors, owners of vacation homes, pet lovers, computer geeks — and 26 other unique types of households that are ready to respond to the right customized offer from you and your merchants.

We integrate what we know about these unique consumer groups with MasterCard's advanced analytics to give you everything you need to know about how and where to capture market share. That insight can break the code for your business by showing you what it is that consumers want and where those consumers are to be found. Once you have the intelligence you are ready to build the relationship. That's the purpose of our Commerce Coalition program.

We call it a "coalition," because the program brings together the issuer, synergistic merchants, and cardholders to create that most elusive of all marketing endeavors ... the differentiated offer to specific cardholder segments based on actual cardholder activity. Not theory. Not guess-work. Actual activity by cardholders available to you only from MasterCard's globally integrated platform. These coalition offers build loyal relationships. And loyal relationships produce recurring transactions by enhancing the cardholder's experience. A family doesn't simply rent a video, they enjoy a membership that provides for unlimited rentals and no late fees. That is how MasterCard uses innovation to help you give your customers what they want.

Now, let's step back and consider the question more broadly. What do consumers want that can lead to profitable innovation for your business? Perhaps it's easier to consider what consumers do not want. They do not want to wait. Not in lines, not for an internet connection, not for change.

They do not want to endure exasperating difficulties in the payment process, be it fumbling for a pen, or searching for their checkbook, or forgetting their password or PIN, or standing in a check-out line and going through an entire transaction, only to learn that their prepaid gift card is \$2 short of covering the bill. Consumers want simplicity across all channels and a payment experience that is consistent, easy to understand, quickly executed, and secure. To provide this consumer experience you need a payments partner that stands at the center of commerce ready to help you take your business into the New Era of Payments.

By itself, a global payments network is simply the means to transport data and connect the players. What is critical, though, is what you can do with the data and those connections. What applications can set your organization apart from your competitors.

If technology is serving your goals — and not the other way around — it will help you improve the performance of your portfolios. How? By enabling improved card activation and usage; by building targeted relationships with your most important customers and partners; by helping you exploit the opportunities that offer the greatest potential for revenue gain. Let me show you how we help you exploit those opportunities.

To innovate within your existing markets, you need to respond to consumer demands for simplicity. That means providing customized, data-driven loyalty programs that do not further complicate consumers' lives.

That's why MasterCard developed — our Retail Automated Promotions product. RAP is a data-driven, measurable program that builds usage and revenue by posting rewards directly to consumers' accounts. The good news? No coupons to clip, no rebate forms to mail.

To innovate within your existing markets, you require a payments partner that embraces its responsibility to provide you with detailed, swift and accurate information about the marketplace. MasterCard responds with our immense Data Warehouse that turns streaming data into actionable intelligence.

What kind of speed should you demand?

Recently we worked with one of our partners to construct and launch a technology-based RAP solution that moved from an initial discussion to implementation with remarkable speed. The total timeline? 60 days. The result? A 37% lift in consumer spending in the targeted category.

As the use of cash and checks decline consumers are turning to debit cards. In fact, this year may prove to be the turning point in which the number of debit transactions overtakes credit card transactions.

Other segments also offer exciting growth. These include the Hispanic and other ethnic segments, affluent consumers, private label, government-to-government payments, small business programs, and large corporate programs, just to name a few. A knowledgeable payments partner can work with you to devise customized programs to reach the market segments with strongest growth potential for your business.

The final opportunity for financial institutions in the New Era of Payments lies in going global. Right now, we are facing an extremely fragmented global payments market. This is a snapshot of what is. For future growth, you may wish to look at what is likely to be.

Just look at the differential growth rates of electronic payments between the United States Europe, and Asia. MasterCard is adept at the entire range of global initiatives — from assisting an individual bank's expansion into select international markets to assisting an entire nation — as we did for the U.K., by migrating 1.5 billion previously domestic-only debit transactions to our Maestro brand. Seizing any of these opportunities requires collaboration with an innovative payments partner.

Imagine working with a partner that helps you pilot innovative, breakthrough payment technologies without having to make substantial changes to your own infrastructure. Imagine turning to this partner in payments innovation to make quicker adjustments with more customizable processes and faster system releases.

Imagine collaborating with constellations of merchants as in MasterCard's Commerce Coalitions, coalitions that drive consumer spending, unmatched loyalty and preference across groups of consumers.

And then, imagine all of that on a global level, driven by common, standardized technology platforms, interfaces and processes, brought to you by one dedicated account team and one committed technology team. With MasterCard, you have one conversation and you are on your way.

We are the payments company that offers you single-point global connections, attractive economies of global scale, and local customization and flexibility. That explains why the majority of MasterCard's business is from outside the United States.

With the right partnership, you are ready for the New Era in Payments. Almost. I say “almost” because we’ve only addressed your needs to grow and prosper according to new rules on a new playing field. I invite you to join me in thinking beyond that laudable goal.

If I may quote Mr. Friedman again, let me take you to the closing pages of his book, *The World is Flat*, and an innocent-looking sentence in which he relates a simple idea. It reads like this:

“We need to think more seriously than ever about how we encourage people to focus on productive outcomes that advance and unite civilization.”

I would like to add one word to that goal - commerce. We are here to advance commerce. By advancing commerce, we will link people, ideas, organizations, technology, products and intelligence, and value will flow to all participants in the value chain.

How does MasterCard help you advance commerce? Through the innovative use of technology. Because technology is the primal force that facilitates innovation in any industry.

Innovative payments solutions — enabled by the right global payments partner, and launched by visionary organizations like your own — have the power to change the world. I am not overstating your role. Financial institutions have long provided the economic fuel that powers our nation’s vitality, innovation and wealth. Your organizations have played an essential role in the betterment of America and American lives.

At this point, you may feel inclined to confess that — in fact — your operation’s primary focus has been not on creating a better world but on meeting the needs of your customers and increasing your profit margins. That is certainly true. But you cannot deny the positive impact that has resulted.

Today, by extending the availability of credit to virtually all Americans in all income brackets you are providing the impetus for continual, inexorable, economic growth.

We have explored the options available to financial institutions that wish to prepare for the New Era in Payments. I encourage you to engage your organizations in a dialogue about the strategies that will best serve your business interests, and as a result, will serve the broader interests of consumers, merchants, our nation, and the world.

Imagine improving your revenues by tapping into the largest underserved market in the world — the world’s 4 billion unbanked consumers — by offering prepaid or smart cards to pay wages and benefits? Remember that at least one upstart company — both visionary and profitable — is providing precisely these services. And, by the way, that company — Net1 UEPS — is now listed on the NASDAQ and valued at \$1 billion.

Imagine a new revenue stream for your payments business based on serving hospitals, insurance companies and physicians’ offices by assisting with claims processing, eligibility confirmation and transfer of funds to healthcare service providers.

Your business could boost its profit margins, while at the same time helping to streamline and reduce costs for the U.S. healthcare system.

Imagine helping to create frictionless commerce, for a world in which transactions and intelligence speed across interoperable systems on a global platform enabling innovative new services and loosening the brake on the economic velocity of all nations?

These are the productive outcomes that sustain and advance our economy and bind nations together from the individual consumer to the world — which also promise to build your business. These are the achievements possible in The New Era of Payments. This is what we are here for.

MasterCard has the technology, the products, the services, the expertise, and the global reach to enable these outcomes. But only you, the leaders of this industry are in the position to bring these benefits to your customers— the merchants, and the economies that need them. Only you can decide.

MasterCard stands ready at the center of commerce to help your business enter the New Era of Payments.