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***A Tried and Tested SEPA Solution for European Banks***

*Remarks To:*

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Ladies and Gentlemen ... good afternoon. It is a pleasure to be a part of this event ... especially this year, the 20<sup>th</sup> anniversary of CARTES' inception.

It's also a pleasure for me to address this particular audience. As the technologists and business leaders of the financial services industry, you understand better than any other group the urgency and potential value of the work before us — the work of establishing an effective model for our Single Euro(pean) Payments Area.

You are the experts who ultimately will make SEPA — and its corresponding vision of a powerful, frictionless European economy — a reality for all of the institutions represented here today ... and for the broader world that awaits the results of your work beyond this hall.

My interest in the success of our common endeavour also stems from my personal history. As a student in Manchester in the UK, I often visited Paris on holiday. My trips always required a special stop at the bank, where I would change my Pounds for Francs. This history is completely familiar to all of us here today. As Europeans, we all faced such inconveniences each time we travelled from our home to a neighbouring country back then.

Later, when I was a young pharmacist newly graduated from Manchester University, I was employed by Boots the Chemists in London. The frustration I experienced there as a retailer left an indelible impression. I refer to that experience as the “horrors of cash.”

Nothing is more frustrating for a retailer than customers who are eager to buy what you are selling, but have the wrong currency. I encountered this daily.

Back in those Dark Ages, all of us at one time or another found ourselves in the position of the retailer or the consumer, facing complexities that impeded even the simplest of transactions. Those complexities cost us time, and cost our European nations millions in lost value.

Today, many Europeans are no longer challenged by the complexities of so many currencies. We have entered the Information Age. We have electronic payments. But we do, however, still find ourselves worrying in advance of leaving home whether the POS terminal at our destination will accept our debit cards.

In fact, we find ourselves in a situation that can be more frustrating than having to change pounds to francs — because it is completely and utterly unnecessary.

In the debit universe, we are nearly recreating the analogue world of notes and coins. Why? Because our debit payment systems and platforms lack interoperability. We are encumbered with multiple standards. At a recent meeting here in Paris, a CIO from a major bank told me about an extremely frustrating experience.

He said, “If you’re visiting France from elsewhere in Europe, and you try to buy petrol on a Sunday, you may be in for a surprise. It’s likely that the pumps are self-service and unstaffed, and there is the possibility that your debit card may not be accepted.” The scenario he described is the consequence of differing standards and no common acceptance between two countries’ domestic debit schemes.

An automotive analogy is quite appropriate for our situation. We Europeans find ourselves in a frustrating situation. We’re like someone who has been accustomed to hitching his wagon to a couple of donkeys ... but then buys a Ferrari. Unfortunately, instead of making use of that 500 horsepower engine, he has simply hitched the Ferrari to those same old donkeys ... and he’s disappointed because he experiences no improvement in performance.

The magnitude of wasted potential is staggering, and can be blamed on the remaining friction of commerce in our payments system. Technologists understand, perhaps better than anyone, the costs and restricting effects of that friction.

- You understand it because of the delays and difficulties you experience in trying to absorb requests from your business for new products ... new features ... and more functionality.
- You understand it because of the frustration you experience in trying to deliver those requests and get innovations to market faster than is now possible.
- You understand it because you have seen the cost of doing business remain unnecessarily high, while you’re expected to keep costs flat.
- You understand it because of the complications presented by multiple connections to payment networks — due to multiple standards — every time your institution wishes to expand... by opening a branch in another country, or by offering a new service or capability.
- Those of you who work for Pan-European banks understand it because of your struggles with cross-border consolidation of issuing and acquiring platforms. The desire for efficiency is central to technologists.

As you grapple with these challenges, you are likely to be asking a key question of your organization: How can we use technology to grow our business, especially internationally, with the fewest connections?

Many financial institutions are seeking a one-stop shop. They need productivity, not complications. So the last thing they want is different standards and different processes. You deserve better than that ...because multiple connections — due to multiple standards and the lack of interoperability — are costing you money!

In fact, your institution is carrying a double burden. You are shouldering the cost of different standards and suboptimal functioning ... because you cannot exploit

economies of scale ... And you are paying dearly every time you attempt something new and innovative.

Every time you launch a new initiative, or branch, or service, you have to build around the non-interoperability of legacy payment systems. Time and again, you must deal with the same costly inefficiencies. That is what I mean by friction of commerce. It is precisely that friction that the framers of SEPA are determined to eliminate. They have visualized a more customer-friendly and profitable payments industry ... and a more competitive Europe.

You understand first-hand that friction of commerce continues to restrict the choices of our consumers ... impede the growth of our financial institutions ... and slow the economic velocity of the entire continent. These personal experiences compel us to urge the industry to adopt SEPA solutions that will deliver the highest levels of simplicity and interoperability.

As technologists, we must urge our industry to reengineer and develop standards that facilitate security ... reliability ... and the rapid movement of electronic payments across national and international borders. That is why I have come to talk with you about SEPA ... and the critical choices that we all face regarding its implementation.

This afternoon I wish to explore with you four considerations that will drive your decisions.

- First, I will pose several pragmatic questions I urge you to ask of your institutions and your industry, the answers to which will clearly define your ability to serve your customers most efficiently.
- The second consideration comprises the choices that your institutions face in providing customers with a SEPA-compliant card service.
- Third is MasterCard Europe's long heritage of working closely with your institutions to develop the region's payments industry ... a heritage that represents the foundation of our SEPA delivery plan...
- And fourth, the competitive advantages your institutions will enjoy by adopting a solution that can take you anywhere you want to go, thanks to global connectivity... connectivity delivering unique functionality through local customisation ... providing cost savings through significant economies of scale ... as well as flexibility and agility to help you implement your business strategies.

This is a defining moment for our industry. Banks are now developing their plans for SEPA, based on the SEPA Cards Framework that has been agreed by the European Payments Council. The outcome of this process will determine the competitive strength — and the profitability — of your institutions.

So, first ... let's consider the questions that you may wish to ask, as a means of clarifying the options your institutions face at this defining moment.

- Why should European banks pay for *two* payments schemes — a domestic AND an international scheme — when in other markets a single framework manages both domestic and international processing?
- Why should Europe waste precious time, energy and money trying to merge or federate non-interoperable systems?
- Why should Europe spend billions *more* than other markets on its payments network?
- Why should Europe pay for a new pan-European brand, when these already exist?
- Why should European banks contend with the complications presented by multiple, non-interoperable connections to payment networks ... when a single connection would streamline operations and enhance your competitive position?
- And last, why should Europe wait for a card service that meets the SEPA Cards Framework, when one is available immediately in all major respects?

MasterCard Europe stands as an able partner, ready immediately to provide cost-efficient, global, uniquely customisable and flexible answers to these questions.

Let's turn next to the choices that your institutions face in providing customers with a SEPA-compliant card service ... and the principles that are guiding those choices.

The industry is advancing toward implementation. After months of deliberation, the banking community is focusing on three guiding principles...

- Cardholders must have a consistent experience at the point-of-sale and ATM ...
- Card services must have equal market access and treatment, allowing effective cross-border competition along the entire value chain ...
- And the infrastructure should make European business more competitive through cost reduction and greater productivity.

MasterCard Europe has been a driving force in modernising European payments, and supports developing a card system that will generate value for banks, merchants, consumers and the wider European economy. We have been a driving force in providing banks a single connection with which to simplify operations and increase productivity.

We support SEPA because it will allow us to unhitch those two donkeys from our Ferrari, so we can at last fully utilise the 500 horsepower engine ... and remove the friction from European commerce.

We already know that the inefficiency of cash has a negative financial impact on Europe's economy, reducing total EU GDP by an estimated 0.6%. The cost of using cash translates into €50 billion euros for consumers, banks and merchants. The inefficiency of the current patchwork quilt of debit schemes has a price tag as well, in the form of lost value, restricted consumer spending, and missed opportunities for banks' profitable growth.

Removing that inefficiency involves *choice* — choice on the part of your institutions, as you select the way you wish to provide customers with a SEPA-compliant card service. Essentially, banks have three choices:

- The first choice is to opt for a new scheme. Think of this as the “euro-super-infrastructure” choice, under which banks federate or merge their existing domestic schemes.
- The second choice is to co-brand with an existing Europe-wide debit product — such as Maestro — perhaps with a view to later full migration.
- The third choice is to migrate immediately — as many already have done — to an existing international debit solution, such as that provided by Maestro.

The first option — the euro-super-infrastructure choice — would sell our industry short. Why? Because we have a unique window of opportunity to reshape card payments. If we fail to capitalize on it, we do ourselves a huge disservice now, and also create problems for the future. Federating or merging non-interoperable systems is extremely costly and offers limited economies of scale.

The industry would face significant delays in achieving SEPA. Just consider the massive effort it would take to agree on and implement new, common solutions across Europe. This may indeed happen as economic factors drive consolidation, but it is a long way from the optimal solution to delivering SEPA. The resulting multi-country implementation would be a “one size fits all” compromise ... with all the negative characteristics of a “super utility” — big, slow, costly, inflexible — at a time when Europe is trying to create leaner, more competitive business structures to compete globally. This solution would freeze Europe's banks in the past, while other global markets seize the competitive advantage.

Even more fundamentally, a federation only works if every country joins in. If the patchwork quilt of national platforms didn't cover all euro countries, we would emerge with a SEPA solution that delivered a consistent cardholder experience only in *some* countries. Can you imagine trying to explain *this* complication to your cardholders?

Banks need to focus on products and solutions — *not* infrastructure. Unless agreements could be reached with existing global brands or networks, a federated or merged solution would not be accepted outside Europe. Under this scenario, customers would end up with fewer payment options ... and Europeans would continue to use cash.

How does such a solution help a bank seize global opportunities beyond Europe? How does it even help a bank that enjoys a strong domestic card franchise, but faces increasing cost pressures as all aspects of banking become more competitive?

Next, let's look at banks' second option — co-branding with an existing Europe-wide debit product. Co-branding with an international card solution such as Maestro does represent a workable option ... and it leaves the door open for later full migration. As you know, such a solution is already being implemented successfully throughout Europe, internationalizing currently domestic-only debit schemes. It works, and it affords a perfect bridge to full migration into an international scheme — but you do still need to fund and support two schemes in the interim.

The best option — the most effective and efficient way to implement SEPA for debit cards — is the third choice ... migrating immediately to an existing pan-European debit scheme with global interoperability. This option will leverage existing infrastructures and investments. It will bring innovative solutions — and an improved competitive position — to the European market in an extremely short time. Given the delivery schedule for SEPA, time to market is of the essence.

Again, I invite you to seek an answer to this key question: Why should European banks waste precious time, energy and money reinventing their payments network — resources that *could* be invested in innovation to improve their profitability — when a superior, SEPA-ready card service already exists? That question frames the choice that European banks face in defining their future.

Now, let's look at how MasterCard Europe's long heritage and deep roots in this market equip us to provide a SEPA-compliant solution. Today, when Europeans are asked for their preferred debit card, they will pull out a Maestro-branded card 70% of the time.

The MasterCard Europe payments platform is already in place, tested and preferred. Long before SEPA was even articulated by that name, MasterCard Europe was working with European financial institutions to build a pan-European payments platform through Maestro, in alignment with SEPA's goals.

Our vision is a Europe in which payments can be made by anyone, anywhere, at anytime. This is a promise that MasterCard Europe makes to European cardholders, merchants and financial institutions ...and this is what our European staff deliver every day.

I am proud to say that our roots go very deep in Europe. More than 30 years ago, the predecessor to MasterCard Europe was known as eurocheque International. Our eurocheque-guaranteed cheque product made cashless pan-European payments possible back in 1972. As such, we were the pioneer and architect of Europe-wide payment instruments ... long before the single currency was implemented. The

eurocheque offering was expanded in the 1980s through the introduction of our eurocheque ATM cash access network.

And in 1993, to decrease the use of both cash and cheques, and to drive greater value into the system, MasterCard and the European banking community developed Maestro, our highly secure, global point-of-sale debit card. Maestro remains a solution developed *in* Europe, *by* European banks, *for* European needs. European banks trust MasterCard Europe to deliver secure, convenient cross-border payment solutions to replace cash. MasterCard Europe is guided by the MasterCard Europe Board, composed only of European banks. This governance structure will continue to define the future of MasterCard in Europe. MasterCard Europe's deep heritage and responsive governance structure represent the foundation of our SEPA plan. Let's turn now to the elements of that plan.

With the establishment of the SEPA Framework, Europe's banks are now able to begin moving toward a SEPA-compliant solution. By leveraging our existing platform, MasterCard Europe is ready to help banks achieve SEPA compliance as quickly as they wish. MasterCard Europe already has a tangible and deliverable SEPA implementation plan in place covering products, acceptance, processing, pricing, business model and governance — a plan that we are confident is SEPA Cards Framework-compliant.

To support Europe's banks, we have set out a concrete and actionable implementation guide that defines detailed steps for banks — at whatever stage they are — that we believe will deliver SEPA compliance for them. When I say we are ready with our SEPA solution — we truly *are* ready. Let me share several areas that give testimony to that assertion.

MasterCard Europe offers a portfolio of debit products and brands to support banks' individual business strategies ... products that already enjoy wide acceptance. Maestro is our primary debit brand. Its focused, debit positioning ... its unique set of existing secure features ... and the fact that it already co-resides alongside national debit brands on the majority of debit cards in Europe allows for a pragmatic migration path to SEPA.

Debit MasterCard, which leverages the high global acceptance of the MasterCard brand, will continue to be fully supported, in line with specific bank or market needs as, for example, in France, Spain, and Sweden. All our debit products provide cutting-edge security features. They feature Chip and PIN, including support for online PIN, and, with the on-going deployment of EMV terminals, fully support a highly secure environment for SEPA.

That means banks can continue to make their individual brand and product choices in support of their individual business strategies. Maestro already provides both domestic and international switching, clearing and settlement services in 13 countries of the EU / EFTA. We are capable of offering SEPA-wide switching services at limited expense to all other remaining issuers and acquirers — leveraging existing technical connections.

To achieve a consistent cardholder experience across SEPA by 2008, merchants that accept only domestic debit transactions will need to be upgraded to accept Maestro and

other SEPA-compliant schemes. MasterCard Europe uniquely has the experience in migrating local-use-only debit acceptance locations to Maestro. Take, for example, the recent upgrade of over 600,000 merchant locations from Switch-only to Maestro in the UK over a period of just two years. Of course, Maestro is already accepted at some 85% of existing debit locations in the 29 countries of the EU and EFTA, leaving just a minority of locations requiring upgrade.

This means that merchants and consumers will be able to access the benefits of SEPA more widely and more quickly with Maestro than through any other existing scheme or proposal. MasterCard is offering its existing authorisation, clearing and settlement services as a pan-SEPA platform.

Our platform can link all European issuing and acquiring service providers, the vast majority of which already have connections to MasterCard. In this way, we can be a true enabler for Europe's banks. They can continue to leverage their chosen national issuer and acquirer processors — or indeed, virtually any card processor worldwide, given our global reach — whilst still benefiting from MasterCard switching.

MasterCard Europe's processing platform was the first in Europe to be updated with fast, reliable, scalable hardware and a suite of applications that deliver new levels of performance and business intelligence – the fruits of an investment of over 75 million euro.

It is the industry's only truly globally integrated platform, yet it is highly customizable for Europe, allowing it to be regionally sensitive and locally efficient. The platform is continuously evolving to offer new products and other enhancements, whilst development costs are shared by banks worldwide — a real example of “economies of scale.”

Already, all European Maestro authorisation and settlement is performed across MasterCard's distributed European processing network. In the SEPA environment, this will give European customers continuing confidence in MasterCard Europe's processing reliability. And this will allow banks to leverage existing investments without the need to reinvent the wheel to accommodate SEPA.

The platform offers a single interface to the power and efficiencies offered only by a globally-integrated model. At the same time, as I described with our success in the UK, we can support the migration from national-only formats to international ones. In other words, a bank can tap into a truly global system through a single relationship, a single format, a single point of delivery, and a single contact.

MasterCard takes the concept of efficiency and delivers it several ways: through a favourable operating model, a single interface, and use of common procedures for all MasterCard brands and national (including on-us) and international transactions, as well as for issuer and acquirer traffic.

Given the significant economies of scale which can be delivered by MasterCard's processing platform, MasterCard Europe will roll-out SEPA pricing that applies the same fees for national and SEPA-wide transactions. This will provide substantial and material cost savings, compared to prices currently applied to cross border *only* transactions. This also will ensure that our pricing is as competitive as even the most efficient current national-only processing systems.

By implementing harmonized pricing for both national and cross-border transactions within SEPA, we will assist European banks in delivering consistent value propositions for their cardholder and merchant customers, who will themselves experience harmonized pricing over time. This is, of course, a key objective of SEPA.

Building on our successful, tried and tested governance model in Europe, the maintenance of an empowered MasterCard Europe Board, composed only of European banks, the Board will continue to define the future of the MasterCard franchise in Europe. This fully supports — and is consistent with — SEPA. Furthermore, there will also be a dedicated SEPA debit sub-committee to provide critical advice to the European Board.

That is an overview of our SEPA plan. It reflects the proven, tested solution — and the powerful competitive advantage — we provide to European banks every day. Our decades of investment in Europe have resulted in our superior, global technology platform — one that is truly global, with uniform standards for speed, reliability and security, for every market in the world ... and with economies of scale that free our customers to invest their resources in innovation instead of infrastructure.

Through a single connection, MasterCard Europe takes our customers wherever they want to go. Whether it is a geographic journey across country borders and around the world ... Or a highly customised programme to strengthen relationships with individual consumers ... MasterCard can take you there.

This breadth of geography and depth of consumer relationships are possible when banks do their business through MasterCard Europe. Our transaction switching capability is a proven and tested avenue for our customers to improve the profitability of their card businesses.

Swiss banks have chosen to partner with MasterCard to gain flexibility and reliability through the migration of all domestic processing on MasterCard and Maestro-branded cards to MasterCard Europe's international platform. Migration programmes are under way in two more key European markets — the UK and Switzerland.

Under these programmes, more than two billion previously domestic-only debit branded transactions are migrating to Maestro. MasterCard Europe was trusted by the UK banks when they decided to migrate not only their highly successful Switch brand ... but also their processing infrastructure.

Over the past 12 years, we have enabled borderless payments across Europe that no other scheme or solution can rival. Our track record proves we are the right partner to help Europe's banks achieve SEPA. But where does this track record actually make a difference? In the *profitability* of our banks and their merchants.

The UK migration to Maestro produced a 40% increase in Pan-European debit card usage by UK cardholders during 2004 — more than *double* the growth of the rest of Europe. Maestro proved good for the UK banks ... and good for the European economy.

Building on the tried and tested Maestro product features, we are swiftly moving to the next stage of aggressive cash replacement through new initiatives to drive greater debit transaction volume and profitability for our customers.

Our contactless *PayPass* technology is opening up exciting new frontiers. By simply tapping their *PayPass* card on a specially-equipped terminal, cardholders can make fast, no-hassle purchases at fast-food outlets, supermarkets, public transport, European motorway tollways, and other venues where speed is of the essence. The secret? A radio frequency chip in the terminal completes the transaction ... and benefits accrue to cardholders and merchants alike.

This type of evolution has been accelerating, as technology and standards such as EMV chip become widespread, allowing MasterCard Europe and its banks to develop new functionality and open new acceptance locations to Maestro. As you may know, MasterCard Europe will be piloting the first truly borderless euro purse scheme, leveraging existing EMV "pre-authorized" technology, on our Maestro and MasterCard cards from 2006.

MasterCard Europe is uniquely positioned to replace what are virtually electronic Francs, Guilders and Marks still in circulation, given that they are issued under national use-only purse schemes. And by expanding the reach of our Maestro and MasterCard products into purse, we can save our banks the time, cost and hassle of needing to design, launch, and maintain such a euro-wide product.

MasterCard Europe is also making fundamental improvements in our ability to help banks get to market faster with their unique payment innovations, through the MasterCard Accelerated Release Plan.

Whether you have a new card promotion, a new rewards programme or a desire to customise your relationship with merchants or manufacturers ... we will be able to help by releasing new software updates every quarter, that are customised for each organisation. These new initiatives and enhancements will stimulate cardholder usage, whilst dramatically reducing transaction costs — in other words, speeding revenues and profits for banks.

These are examples of what can be achieved with a SEPA partner committed to pushing the frontiers of card payment into new territory ... focused on the future —

*your* future — because we've already built a robust, powerful and flexible infrastructure. The strengths of MasterCard Europe, combined with our heritage as the architects of cross-border European payments, explain our track record of mutually beneficial accomplishments in Europe.

In closing, let me summarise the value we offer to Europe's banks. Not only is MasterCard Europe's implementation approach flexible — we believe it is also the most efficient and the most obvious one for the job in hand.

Clear and tangible economic benefits will result from adopting our existing debit card products, processing platforms and extensive acceptance network. A number of countries are already showing the way by adopting Maestro as a domestic debit scheme ...for example, Austria, Poland, Hungary, the Czech Republic, Switzerland and the UK. As others follow the same migration path, they make the eventual transition to a SEPA debit card solution all the easier. As I speak, there are already more than 250 million Maestro and more than 30 million debit MasterCard cardholders in Europe.

We shall continue to strengthen the brand ... develop further product enhancements in support of SEPA ...promote the use of debit cards ...and increase our customers' profitability.

Bankers are known to be a pragmatic lot. The approach I have outlined is indeed pragmatic. Consider this: There is no need to issue new SEPA cards. Banks may simply migrate over time to our brands as their shared SEPA acceptance brands. There is no need to start a new SEPA merchant network. Maestro is already accepted at more than 4.7 million outlets — that's 85% of current debit card-accepting merchants.

There is no need to develop a new SEPA-processing network. Banks may simply leverage the existing technical connections and message formats. There is no need to build a new SEPA brand for a SEPA-only solution. The Maestro and MasterCard brands are already established and highly recognised. There is no need to create a new SEPA scheme. MasterCard Europe's debit products can continue to coexist with national schemes.

In short, the pragmatic approach of MasterCard Europe's proposition enables individual countries or banks to implement SEPA in the most cost effective way, from any starting point. SEPA is designed to increase the velocity of European economies, and the growth of financial institutions. Reducing the friction of commerce — fully utilising that powerful European economic engine — will help Europe deliver on the promise of a powerful regional economy.

I have focused today on SEPA's broad, pan-European benefits. But its benefits will be personal, as well. The choices that your institutions are about to make regarding SEPA will have great impact on your work — and on your ability to be *effective* in your work.

You are the technologists of our financial institutions. The ultimate benefits of SEPA will be reflected in your accomplishments. After all, you are the experts who are expected to deliver speed, flexibility, security and connectivity for your institutions. You are required to make all of the pieces fit. You are required to help your banks gain market share ... cross borders ... and establish deeper relationships with merchants and consumers.

If you are granted the right capabilities — the global connectivity ... the local customisation ... the flexible approach to new business tactics... and a SEPA-compliant payment network — you will be equipped to accomplish more than ever before. You will be able to bring higher levels of convenience and value to consumers ... with greater cost-effectiveness for your institutions.

MasterCard Europe stands ready — right now — to help you make this happen.