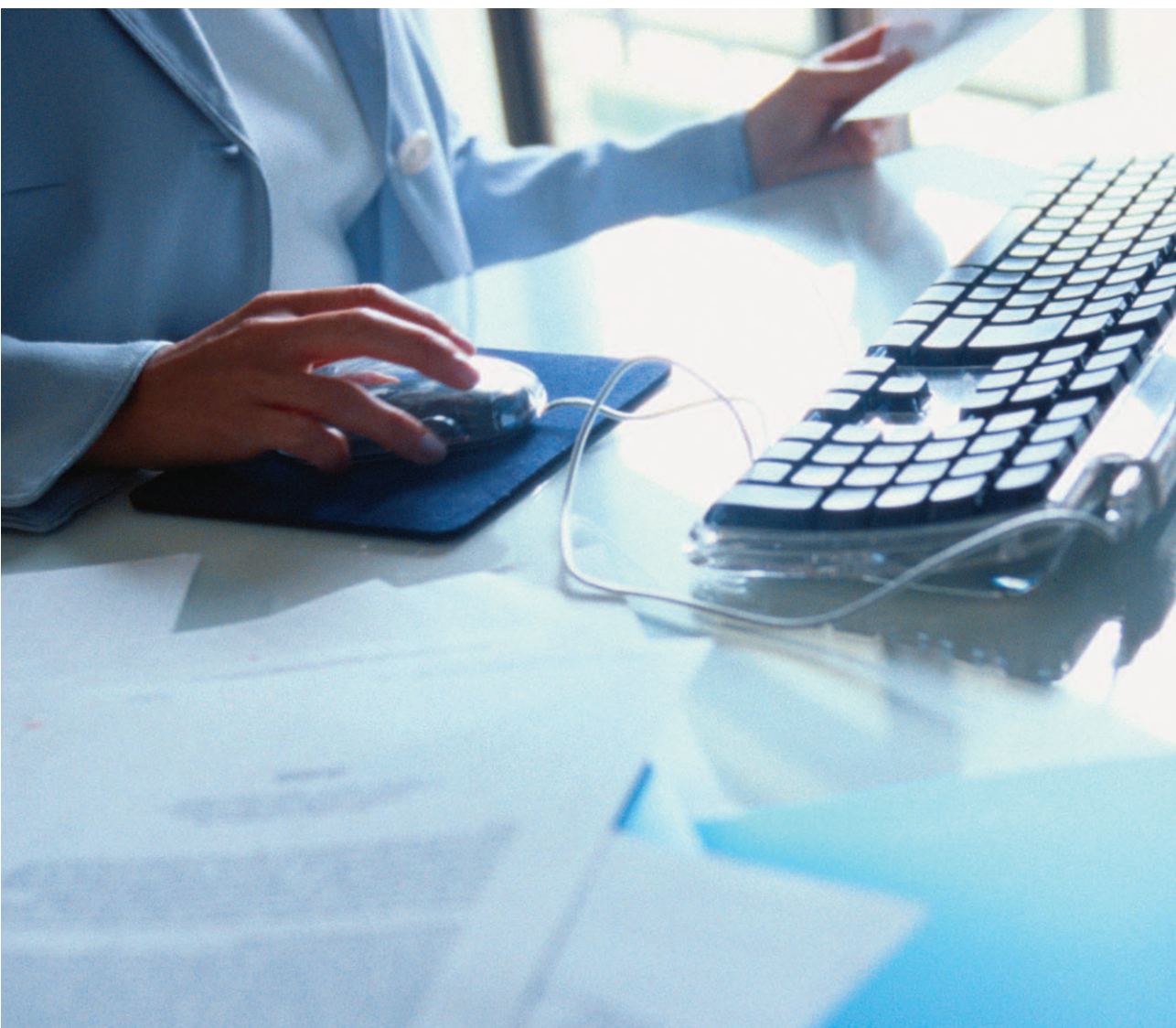




MasterCard
Worldwide

Revealing Attitudes on Recurring Payments

2005 consumer research to benefit the service industries



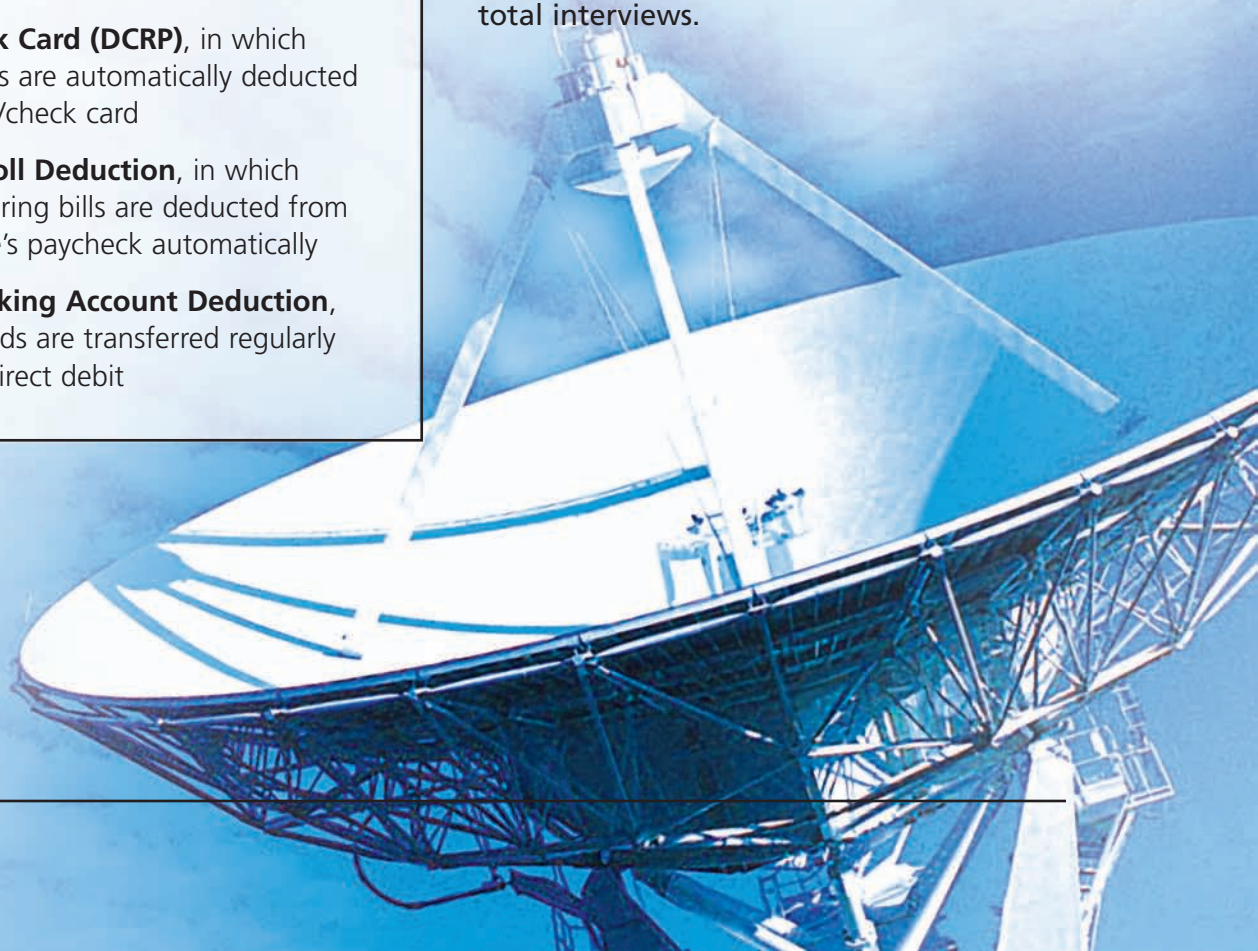
A recurring payment (RP) is an arrangement where a consumer authorizes a merchant or service provider to bill against a specific account at predetermined periods (such as monthly or quarterly). The recurring payment amount can be fixed or can fluctuate from one payment to another. The recurring payment agreement can exist indefinitely.

Currently, there are several ways to use recurring payments:

- **Credit Card (CCRP)**, in which recurring bills are automatically charged to a credit card
- **Debit/Check Card (DCRP)**, in which recurring bills are automatically deducted from a debit/check card
- **Direct Payroll Deduction**, in which regular recurring bills are deducted from an employee's paycheck automatically
- **Direct Checking Account Deduction**, in which funds are transferred regularly by ACH or direct debit

Research Methodology

An independent research firm, on behalf of MasterCard International, conducted a total of 762 in-person interviews May 25 through June 5, 2005. Respondents were either credit card or debit/check card owners, or owned both, between the ages of 21–64, who had most or all of the bill paying responsibility in their households. They were sampled from 25 geographically dispersed U.S. markets, and were divided evenly among the sexes. Of the 762 interviewees, 282 were CCRP users, 225 were DCRP users (88 respondents made recurring payments by both credit and debit cards), 70 used another method of recurring payment, and 273 were non-users of any recurring payment method. The research results have a sampling error of ± 3 percentage points at the 95% confidence level based on 762 total interviews.



background:

why we did the research, why you need to know

Recurring Payments Benefit Service Providers with Increased Revenue and Boosted Loyalty

Virtually every consumer has a recurring bill.

Every time a consumer decides to have a bill paid regularly and automatically, the service provider benefits.

- **Payment Assurance** Payments are made in full and on time. No repeat billing, no collections, no problems.
- **Better Cash Flow** Settlement is fast and easy.
- **Increased Customer Loyalty and Retention** When customers enjoy the ease and convenience of paying bills automatically, they may be less likely to inconvenience themselves by seeking alternative service providers.* Providers enjoy improved customer relationships that offer numerous ways for them to boost new and incremental revenue streams.

With a commitment to helping service providers capitalize on new opportunities and emerging trends, MasterCard International has been conducting research on recurring payments since 1997, completing our latest survey in June 2005.

Since the research was previously completed in 2003, debit card usage appears to have grown significantly. To better understand the unique attitudes and behavior of debit cardholders, this is the second survey MasterCard has conducted to segment both debit and credit cardholders.

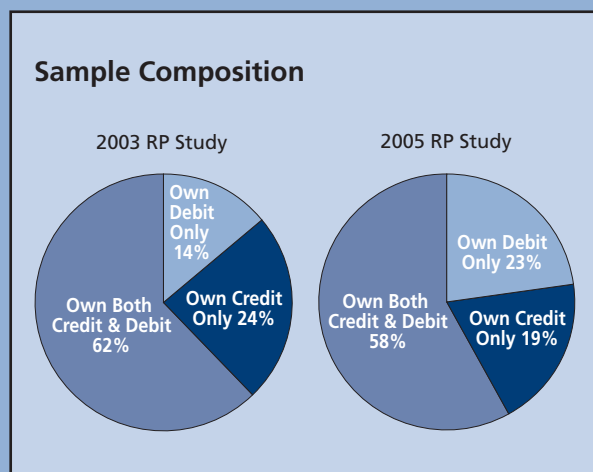
Recurring payments have become well entrenched in the marketplace, with two-thirds of our surveyed consumers (67%) now paying bills automatically. This trend is compounded by the fact that check writing among our sample is down 6% since consumers were last surveyed in 2003.

Cardholders are still attracted to the ease and convenience of automatic bill payment, though for debit/check card users the financial ease and security is growing increasingly important.

Many payment card owners surveyed say they would consider switching service providers if they were offered an automatic bill payment option on their card.*

The growth in this payment method represents a tremendous opportunity for service providers. By providing unique insight into the ever-changing attitudes and behavior of today's consumer, this research demonstrates clearly that motivating customers to use the CCRP/DCRP option could boost customer loyalty and fuel revenue.

*All other factors being equal.





trend:

fewer checks, more automatic payments

How Recurring Bills Are Paid

Two-thirds of households in our survey report using some type of automatic bill payment. And the method by which they pay these bills is changing.

In the years since our 2003 research, a growing number of households surveyed have enjoyed the benefits of using automatic payments, with DCRP growing 19%. Check writing, though still prominent, is declining, down 6% from 2003 as of June 2005. As the benefits of automatic bill payment linked to a payment card become apparent to users, CCRP/DCRP gains ground as a payment option.

Convenience, the relief of knowing bills are paid on time, without worry, a savings on postage and late fees, and the potential to earn rewards points all motivate consumer usage, and point toward growing future use of this payment option.

Recurring bill payment linked to a **credit card (CCRP)** continues to be the most common type of autopay, currently used by 38% of all surveyed consumers. Those who use CCRPs also report using it for a growing number of their bills, up 8% since the 2003 study.

Automatic **debit card payments (DCRPs)** have grown noticeably. Nearly one-third of our surveyed households (31%) are using debit/check cards to pay recurring bills, up 19% since 2003.

Our results suggest that not only are more consumers using CCRP/DCRP, but the number of times they use these payment options is also on the rise.

Automatic bill payment users participating in our research average 4.4 automatic charges or deductions regardless of the payment method used, more than half (52%) of their total recurring bills. The number of bills they pay in this manner is also on the rise, up 42% in the past five years.

As consumers pay more of their bills automatically, other forms of bill payment are likely to decline. In 2000, automatic bill payers paid an average of 4.4 bills by check; they now pay an average of 2.4 by check.

In short

Customers seem to be paying more of their recurring bills automatically, and linking them to credit and debit cards.

How Most Recurring Bills Are Paid						
	Recurring Bill Payment By Type					
	Total Random		CCRP Users		DCRP Users	
	2003	2005	2003	2005	2003	2005
Base: Total	(757)	(762)	(280)	(282)	(195)	(225)
	%	%	%	%	%	%
Write check	68	64	54	51	55	41
Any Auto RP (Net)	67	67	100	100	100	100
CCRP	37	38	100	100	44	39
Checking RP	27	24	30	31	46	38
DCRP	26	31	31	31	100	100
Paycheck RP	18	9	20	13	27	15
Online RP	11	14	16	19	23	25
Pay cash	28	32	20	22	23	24
Use debit/check card	13	17	11	12	21	18
Use credit card	12	12	15	16	10	8
Pay by phone	9	13	11	9	15	11
Internet/Web site	4	8	5	7	7	5
Online Banking	4	4	8	5	6	2
Electronic Check	NA	5	NA	4	NA	3

opportunity:

the trend continues

Card-based Recurring Payments A Win-Win for Consumers and Merchants

Results indicate that there is an opportunity for further growth in automatic bill payment linked to credit and debit cards.

- Nearly half (47%) of participating credit card owners say they would consider adopting or using additional CCRPs.
- More than half (53%) of the surveyed debit/check card owners feel similarly about DCRPs.
- Among the surveyed households reporting some type of automatic bill payment, the number of bills paid automatically has increased significantly over the past five years, up 42% to 4.4 bills per household.
- **Nearly half of the total sample said they would consider moving their business to new service providers if the CCRP or DCRP options were offered, with all other factors being equal.**

Consumers Stated They Benefit from Convenience, Stress Relief, and Cost-Savings.

Consumers using recurring payments appear to be attracted to its convenience features. They are also responding to the relief that comes from knowing bills are paid, and paid on time, without worry. Additionally, our surveyed users cited savings on postage and late fees, in addition to rewards points offered by many card issuers, as benefits of using CCRP/DCRP.

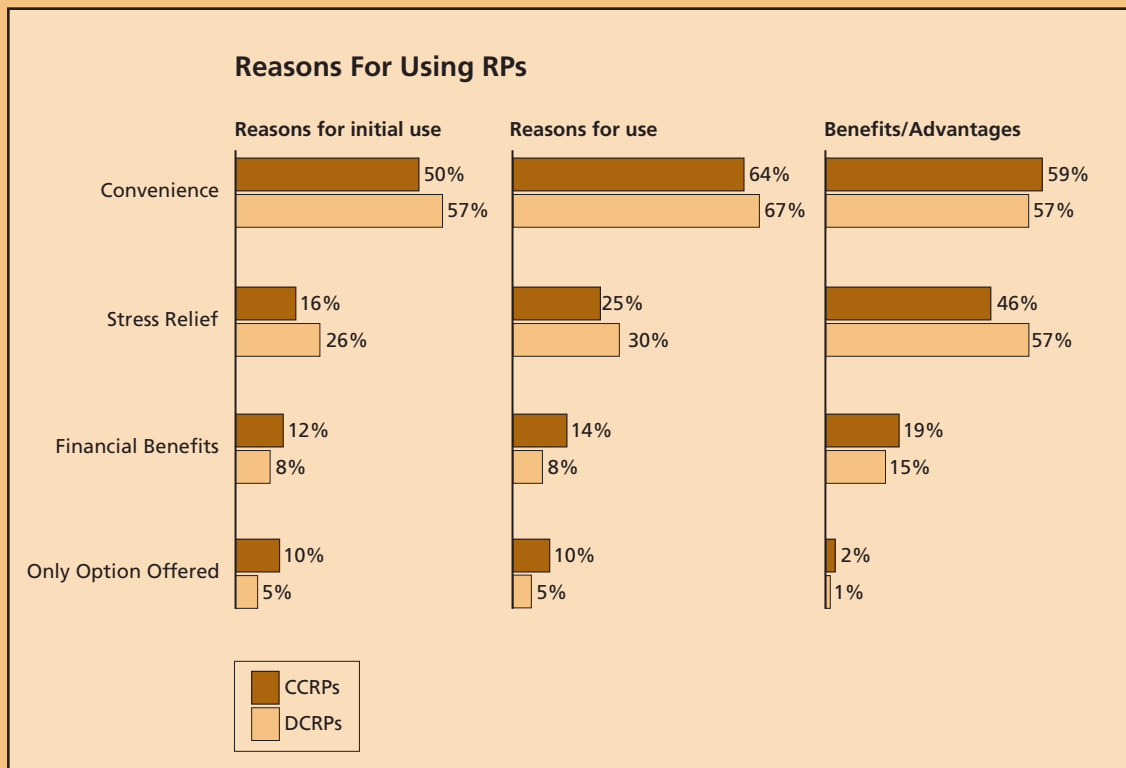
Service Providers Could Benefit from Enhanced Loyalty and Increased Profits.

While many consumers appear to be attracted to automatic bill payment because of these benefits, even more appear to find them appealing once they are using CCRP/DCRP.

So much so, that many would change service providers in order to reap these benefits, all other factors being equal. Clearly, offering the automatic bill payment option can be used as a tool to attract and retain customers. And when more customers pay more bills automatically, merchants benefit from guaranteed payments, improved cash flow, and potentially incremental revenues.

In short

When your customers reap the benefits of paying their bills automatically, you could benefit from increased loyalty and retention, guaranteed payment, and improved cash flow. With CCRP/DCRP, everybody wins.



capitalize:

awareness and education will broaden acceptance

Research Reveals Clear Path To Realizing Benefits

Results suggest that as consumers become aware of the recurring payment option and its advantages, usage increases and service providers benefit.

RP Knowledge	Total	Any RP	
		Users	Non-RP Users
Base: Total Card Owners	(762)	(489)	(273)
	%	%	%
Extremely/Very Knowledgeable	46	53	34
Extremely knowledgeable	16	19	11
Very knowledgeable	30	34	22
Somewhat Knowledgeable	36	37	34
Not Very/Not At All Knowledgeable	18	10	32
Not very knowledgeable	12	8	19
Not at all knowledgeable	6	2	13

Most payment card owners surveyed are aware of the recurring payment option, but there is a need for further education to increase CCRP/DCRP usage.

Additionally, while 88% of surveyed credit card owners and 76% of debit/check card owners know of the CCRP and DCRP option (respectively), nearly 40% of them do not use it or appear to fully realize the extent of its availability, and less than one half of all bill payers say they are extremely or very knowledgeable about them.

The number one source of first awareness for CCRP users is advertising/promotions (24%), while banks/financial institutions are the main source for DCRP users—an astounding 47%. Beyond that, word of mouth and service providers are the next two most popular ways that CCRP and DCRP users first learn about recurring payments.

Source of First Awareness

	CCRP		DCRP	
	Total	Users	Total	Users
Base: RP Aware	(582)	(245)	(529)	(194)
	%	%	%	%
Ads/Promos* (Net)	23	24	16	12
Bill/statement insert	10	9	7	5
Print/Radio/TV ads	7	8	6	3
Direct mail	6	7	4	4
Banks/other financial institutions	20	17	42	47
Service Providers	14	17	12	12
Word of mouth	17	15	18	15
Online	6	9	5	7
Credit card company	14	14	2	1

*no "source" mentioned.

Some respondents indicate a reluctance to consider or use CCRP/DCRP. Among these, non-users cite: a preference for controlling payments on their own via other payment methods such as cash, check, and payroll deductions; a concern about the accuracy of variable charges; and a desire to avoid high interest charges (for CCRP). These concerns would appear to be addressed and somewhat remedied when certain bills such as telephone and cable/satellite, are sent in paper format prior to automatic payments.

Bills of a consistent amount (as opposed to those of varying amounts) are perceived to be more appropriate for CCRP/DCRP, as are smaller bills (those under \$100).

Marketing and promoting CCRP/DCRP offers service providers an excellent opportunity to win new customers, as growing numbers of surveyed cardholders say they would switch to a new provider if RP was offered and all else was equal.

In short

Most customers know about recurring payments, but few are actually aware of its benefits, and even fewer appear to realize which of their own bills they can pay automatically. Boosting awareness, offering incentives, and sending paper statements are three ways to potentially increase usage and benefit from the resulting customer satisfaction and loyalty.

RP Consideration	CCRP		DCRP	
	Credit Owners (590) %	CCRP Users (282) %	Debit Owners (615) %	DCRP Users (225) %
Base: Own Card				
Very/Somewhat Appropriate:				
Consistent bills	65	80	76	89
Varying bills	45	57	52	61
Under \$20	51	65	60	65
\$21-\$50	56	71	69	79
\$51-\$100	54	68	66	80
\$101-\$500	46	56	55	71
More than \$500	39	48	44	60
Very important to have itemized statement	72	69	70	64
Statement Preference:				
Paper (via USPS)	71	66	70	69
Electronic (via email)	22	27	22	24
No preference	7	7	8	8

telephone industry specifics:

how telephone users respond to CCRP and DCRP

Modest RP Conversion With Attractive Future Potential

The Telephone industry represents one of the strongest opportunities for both CCRP and DCRP.

Demographics

Our survey suggests that this market is best represented by those who are more likely to be employed full time. Those positive to CCRP are also better educated with higher household incomes, while those positive to DCRP tend to be younger.

Attitude

More than half of participating telephone bill payers said they like the convenience that automatic payment represents. Fifty-one percent of these telephone bill payers cited convenience as a main advantage for using CCRP, while 49% cited convenience as a reason for using DCRP.

The relief of knowing that bills will be paid, and paid on time, without having to worry about it also appeals to our surveyed telephone bill payers, with 45% citing it as a reason for using CCRP and 52% citing it as a reason for using DCRP.

For those uncomfortable about paying telephone bills automatically, a concern about the accuracy of the bill appears to be an obstacle to using CCRP/DCRP. This barrier may be reduced if bills are provided prior to an automatic payment and respondents indicate a preference for paper bills.

Approximately half of all bill payers surveyed are now paying their telephone bills automatically. With 42% of the participating telephone customers now writing checks, this form of payment is not the dominant method it was two years ago. In fact, the use of checks to pay telephone bills has declined 26% when compared to our last survey in 2003. Conversely, the use of CCRP/DCRP has increased. Twenty-five percent of surveyed credit card owners and another 20% of debit card owners currently pay their telephone bills with CCRP and DCRP, respectively. And an additional 30% of the surveyed credit cardholders and 35% of debit cardholders say they would consider it if offered.

Since the majority of Americans (86%) pay a recurring telephone bill, this represents an opportunity to attract competitive business: 32% of all respondents said they would switch to a new telephone service provider if recurring payments were offered (all other factors being equal).

In short

Nearly one-third of all surveyed telephone subscribers indicated they would consider switching to a new service provider for the convenience and stress relief of CCRP or DCRP, all other factors being equal. Promoting the option with bundling and other customer communications, and addressing the issue of accuracy by sending an itemized paper bill prior to the automatic payment, could serve to attract this huge potential market.

Telephone Industry				
	Telephone (Net) (653) %	Wireless Telephone (491) %	Local Telephone (468) %	Long Distance Telephone (307) %
Base: Pay Recurring Bill				
CCRP Opportunity	55	48	39	34
Currently use CCRP for telephone	25	23	13	10
Additional % would consider	30	25	26	23
DCRP Opportunity	55	46	46	44
Currently use DCRP for telephone	20	17	15	17
Additional % would consider	35	29	31	26
Other Current Practices:				
Check	42	30	46	48
Cash	13	11	8	5
Debit/check card manually	9	8	6	5
Pay-by-phone	8	7	5	5
Checking account RP	8	5	6	7
Online banking	6	5	4	5
Credit card manually	5	4	3	3

insurance industry specifics:

a picture of your market

A Leader in DCRP Usage and a Prime Target Going Forward

While different segments of the Insurance industry present different opportunities, survey results suggest that this industry generates strong interest, penetration, and possibility.

Demographics

The survey results suggest that likely candidates for conversion to CCRP are somewhat better educated. Additionally, those most positive to DCRP appear to be younger.

Attitude

Surveyed customers most receptive to paying their insurance bills automatically with a payment card are those positive to using payment cards in general. Forty-five percent of CCRP users and 46% of DCRP users do so because of convenience. Stress relief is another important benefit. Thirty-eight percent of CCRP users and 47% of DCRP users appreciate the relief of knowing that their bills will be paid, and paid on time, without having to worry about it.



Together with the Telephone industry, no other industry presents a greater opportunity for DCRP than the Insurance industry. And the research indicates only the Telephone industry tops Insurance in terms of CCRP opportunity. Not only are there a large number of recurring bills in this sector, but results suggest CCRP/DCRP penetration has been relatively strong, and interest remains high. This is particularly true for DCRP, with a 37% consideration among surveyed non-users.

Based on our survey, currently, 52% of life insurance bills are paid automatically, as are 42% of auto insurance bills. Home owners insurance is paid automatically 34% of the time. At the same time, only 18% of surveyed credit card owners and another 19% of surveyed debit card owners use their cards for recurring payment of insurance bills. With check writing continuing to decline as a payment method (20% decline since 2003), the opportunity to convert current credit card/debit card owners to RP still appears to be very positive. In fact, Insurance tops our industry list in terms of

incremental CCRP opportunity (33%), and is second only to Utilities in incremental DCRP opportunity.

Our research indicates that though CCRP penetration is currently higher in the Auto and Life Insurance segments, the opportunity among consumers is substantial across all segments.

The opportunity among debit card owners is even greater—with penetration apparently strongest in the Life Insurance segment.

In short

Less than half of surveyed insurance bill payers are aware of the availability of CCRP/DCRP in this industry. Add the prevalence of insurance bills paid on a regular basis, and the Insurance sector seems to represent one of the strongest opportunities for conversion. Making payment card owners and current customers aware of the availability and benefits of CCRP/DCRP is an attractive proposition in this industry.

Insurance Industry				
	Insurance (Net) (544) %	Life Insurance (194) %	Auto Insurance (511) %	Home Owners Insurance (188) %
Base: Pay Recurring Bill				
CCRP Opportunity	51	39	45	34
Currently use CCRP for insurance	18	14	16	9
Additional % would consider	33	25	29	25
DCRP Opportunity	56	51	49	39
Currently use DCRP for insurance	19	19	16	14
Additional % would consider	37	32	33	25
Other Current Practices:				
Check	48	37	44	51
Checking account RP	11	12	8	9
Online banking	5	3	4	6
Paycheck RP	5	7	2	2
Cash	5	3	5	–
Debit/check card manually	5	3	4	1

cable/satellite tv industry specifics:

how your market views recurring payments

A Growing Industry Produces Growing Opportunity

Research suggests that, with relatively low net awareness and an increasingly strong interest, this industry has a good opportunity to boost credit card/debit card conversion over the next few years.

Demographics

Research indicates that those most likely to consider these efforts are employed full time. In addition, those positive to DCRP are also younger.

Attitude

Attracting CCRP/DCRP users means boosting awareness and focusing on the ease and convenience of use, and the relieved stress that results from not worrying about paying bills, or paying them on time. Nearly 60% of CCRP users/potential users believe that credit cards make record keeping easier, and 72% prefer carrying plastic to cash.

Currently, 20% of surveyed RP users pay their Cable or Satellite TV bill by credit card, and 18% participate in automatic payment programs with their debit/check cards. Interestingly, however, net awareness of the RP opportunity appears to be relatively low for this industry (only 42% are aware of the CCRP option and 39% of DCRP). And 29% of those participating in our research indicated that they would consider a CCRP program for their Cable and Satellite TV bills, while 33% would consider participating in DCRP.

Of particular note to Cable and Satellite TV providers is the fact that 33% of the surveyed customers said they would switch providers if RPs were offered, all other factors being equal.

No other industry surveyed generates this much openness to a change of providers because of billing opportunities.

In short

More surveyed consumers in this industry than in any other say they would attempt to switch providers if a recurring payment option were offered (all other factors being equal). In this growing marketplace, this poses a real opportunity for service providers to retain their customer base by offering RP.

Cable/Satellite TV Industry	
Base: Pay Recurring Bill	Cable/Satellite TV (515) %
CCRP Opportunity	49
Currently use CCRP for cable/satellite TV	20
Additional % would consider	29
DCRP Opportunity	51
Currently use DCRP for cable/satellite TV	18
Additional % would consider	33
Other Current Practices:	
Check	43
Cash	7
Checking RP	6
Debit/check card manually	5

utilities industry specifics:

boosting awareness and motivating usage

Small Penetration and Awareness Create Big Opportunity

While over three-quarters of Americans pay a recurring Utility bill, only 37% of those researched were aware of the CCRP opportunity in the Utilities industry, and 45% know they can pay their Utility bills with DCRP.

Demographics

Research indicates that these customers are more likely to be younger. They are also more likely to rent than own. Those more likely to be employed are also positive to using both CCRP and DCRP for Utility services.

Attitude

Those who currently use or would consider using CCRP/DCRP for their Utility bills consider themselves savvy money managers. Eighty-two percent of CCRP users and 74% of DCRP users enjoy managing their money. Surveyed Utility customers also view credit cards as a convenient tool (86% for CCRP users).

With a 78% rate of occurrence of recurring Utility bills and CCRP and DCRP penetration of 14% and 16% respectively, the opportunity to convert Utility customers to automatic bill payment by payment card is substantial. Coupled with the level of high interest in the CCRP/DCRP options (29% of surveyed respondents would consider CCRP; 38% for DCRP), research would suggest that this audience would respond favorably to a provider that offered these options.

More than one in four (30%) participating Utilities customers would consider switching to a different service provider if the RP option were offered and all else was equal. Therefore, making CCRP/DCRP readily available could be an effective marketing tool for providers looking to increase customer satisfaction.

In short

Research suggests that those positive to CCRP/DCRP for Utility services are clearly more committed to payment cards in general. They are savvy money managers, have a greater affinity to payment cards, and appreciate the convenience associated with credit card and debit cards. Offering a CCRP/DCRP option to your customers could help increase customer satisfaction.

Utilities Industry	
Base: Pay Recurring Bill	Utilities (592) %
CCRP Opportunity	43
Currently use CCRP for utilities	14
Additional % would consider	29
DCRP Opportunity	54
Currently use DCRP for utilities	16
Additional % would consider	38
Other Current Practices:	
Check	52
Cash	10
Checking account RP	7
Online banking	6
Debit/check card manually	6
Pay-by-phone	5

what the ongoing research suggests:

There is an opportunity for further growth in paying recurring bills using credit or debit cards.

After Nine Years of Research, Some Facts Remain the Same

Comparing the results of our 2005 research to our previous studies, several trends and opportunities emerge:

Comparison of research results over 9 years				
	1997 %	2000 %	2003 %	2005 %
How do consumers pay recurring bills?				
Write checks	93	74	68	64
Use any automatic payment method	36	69	67	67
Use automatic checking account debit (ACH)	17	25	27	24
Use automatic credit card payments (CCRP)	11	37	37	38
Use automatic debit card payments (DCRP)	–	–	26	31
What motivates recurring payment by credit card use?				
Convenience	42	53	66	64
Required by service provider	35	11	10	10
What motivates recurring payment by debit card use?				
Convenience	–	–	63	67
Required by service provider	–	–	5	5
What makes consumers resistant to credit card use?				
Don't want to lose control	31	22	12	17
Don't want to pay interest	23	19	19	16
What makes consumers resistant to debit card use?				
Don't want to lose control	–	–	12	28
What percentage of consumers will switch service providers for recurring payment by credit card?				
Will switch service providers with all else equal	24	55	41	45
What percentage of consumers will switch service providers for recurring payment by debit card?				
Will switch service providers with all else equal	–	–	44	47

Note: Applicable Base differ by question.

Linking Automatic Payments to a Payment Card Is a Growing Trend

- For the first time, automatic payments have surpassed check writing as the dominant form of payment.
- While the proportion of surveyed households with automatic bill payments has remained relatively unchanged, the number of bills being paid automatically in those households has increased significantly.
- Automatic payments linked to a credit card continue to be the most common type of autopay, and those who use CCRP pay more of their bills in this way.
- Based on survey results, automatic debit card payments appear to have grown noticeably since 2000, reflecting more widespread use of debit/check cards in the marketplace.

RPs Linked to Payment Cards Deliver Consistent, Relevant Benefits to End Users

- Throughout the years of our research, surveyed consumers continue to be attracted to the convenience of paying bills automatically with a payment card. This convenience, coupled with not needing to worry about paying bills on time, motivates continued use for a majority of these consumers, with nearly two-thirds of credit card users describing it as a reason to pay bills automatically.
- On the other hand, reasons for participants not considering CCRPs include a desire to remain in control of payments, and a concern for accuracy, which may be relieved by merchants who precede automatic payments with paper bills.

In comparing research conducted over the previous years, it should be noted that our methodologies have changed. In 1997, information was garnered through a mix of focus groups and telephone interviews. In the 2000 study, only personal interviews were used. In 2003 and 2005, in-person interviews were conducted with distinct groups of CCRP and DCRP owners/users.

While methodologies have changed, certain trends remain significant.

- Surveyed consumers appreciate the benefits of RP and exhibit enhanced loyalty and a preference for those service providers that offer the CCRP/DCRP opportunity.
- Educating consumers about the opportunities to use CCRP/DCRP for their monthly payments would appear to be critical since 46% of our surveyed group would consider switching service providers to take advantage of automatic payments, all other factors being equal.
- Non-user participants still have concerns about the accuracy or variability of charges, high interest charges (CCRP only), and a preference to control their own payments, but itemized paper statements help to increase acceptance of RPs.

There's still work to be done to further enhance recurring payment receptivity, but the chance to make it work for both service providers and consumers appears to be greater than ever.

