



Europay, Client and Partner

Presented to BT International Account Management

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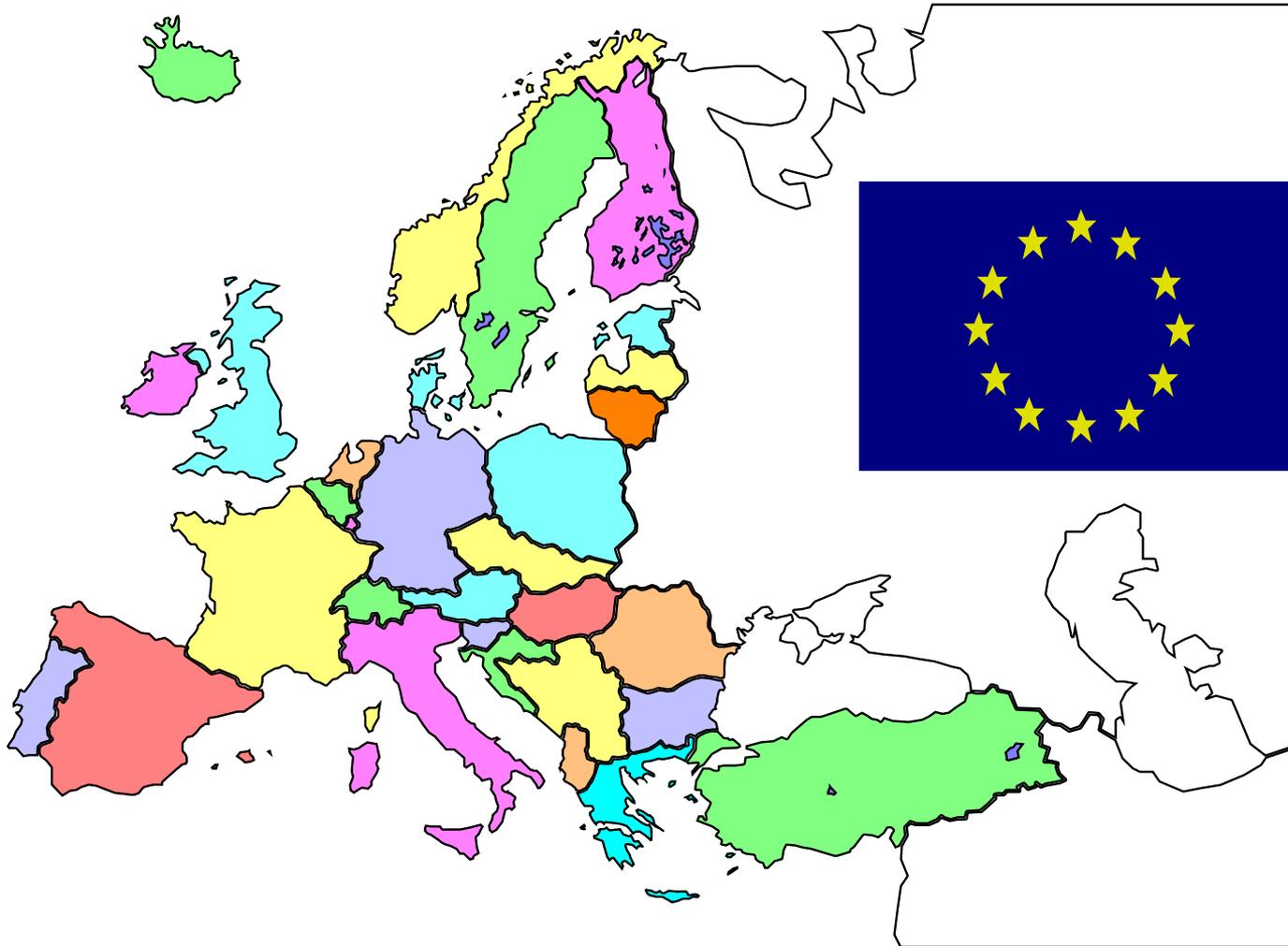
Day One June 3rd 1998



Agenda- Day One

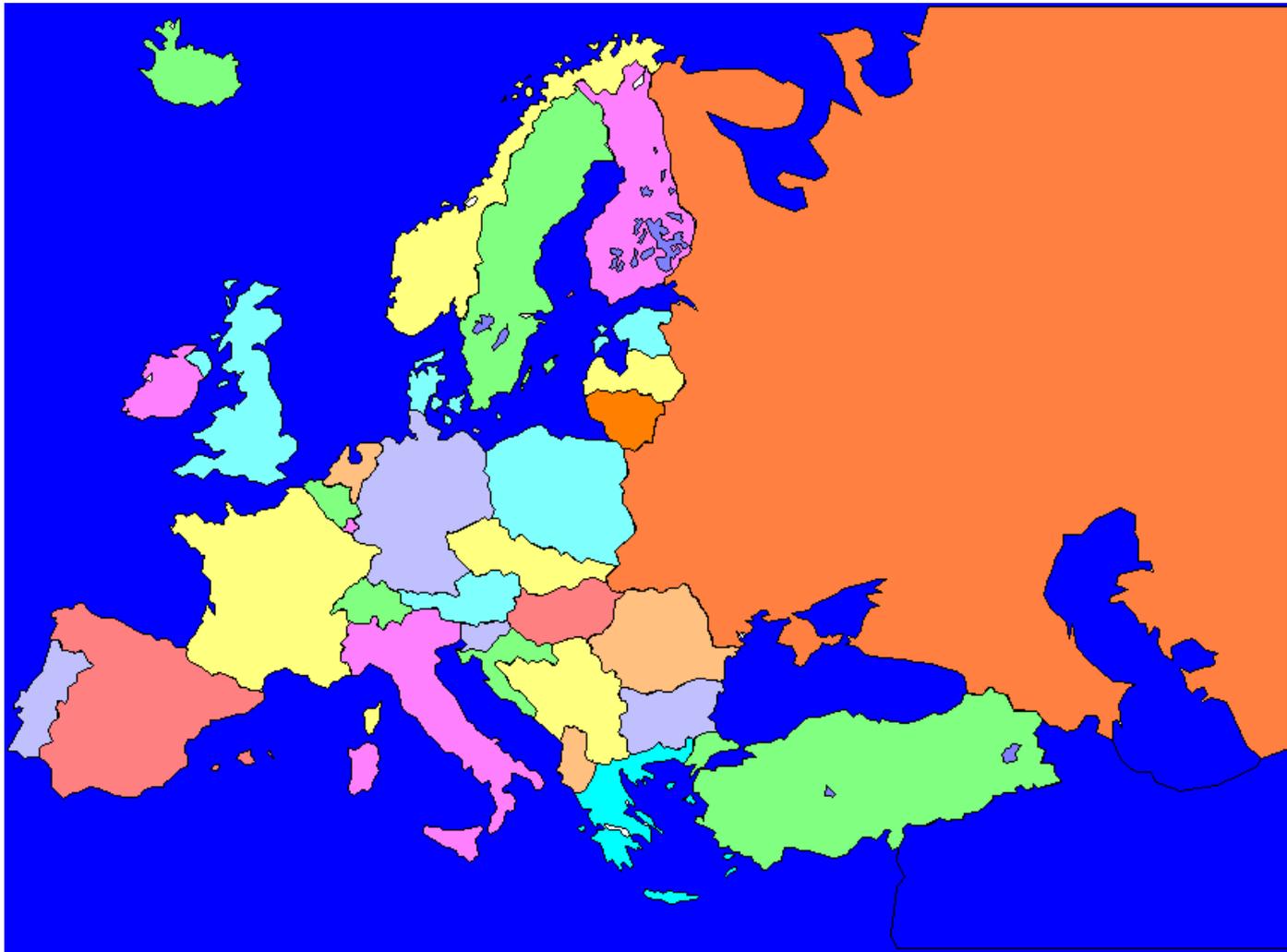
- Introduction to Payment Systems
- Definitions
- Today's Means of Payment
- Europay the Company
- Europay's Payment Technology
- Europay Governance

The European Union Forging One Market Place



The Europay Region

Iceland to Vladivostok & Israel





Retail Banking & Payment Systems Prepare for the Future

- Cost of bricks and mortar require banks to rethink their consumer relationship
- The banks “position of trust” is in question
- Automation of payment mechanisms continues to improve their accounting processes - the core of banking
- Physical notes and coins burden the growth of convenience shopping and electronic commerce

Fortress Europe Is a Domestic Myth

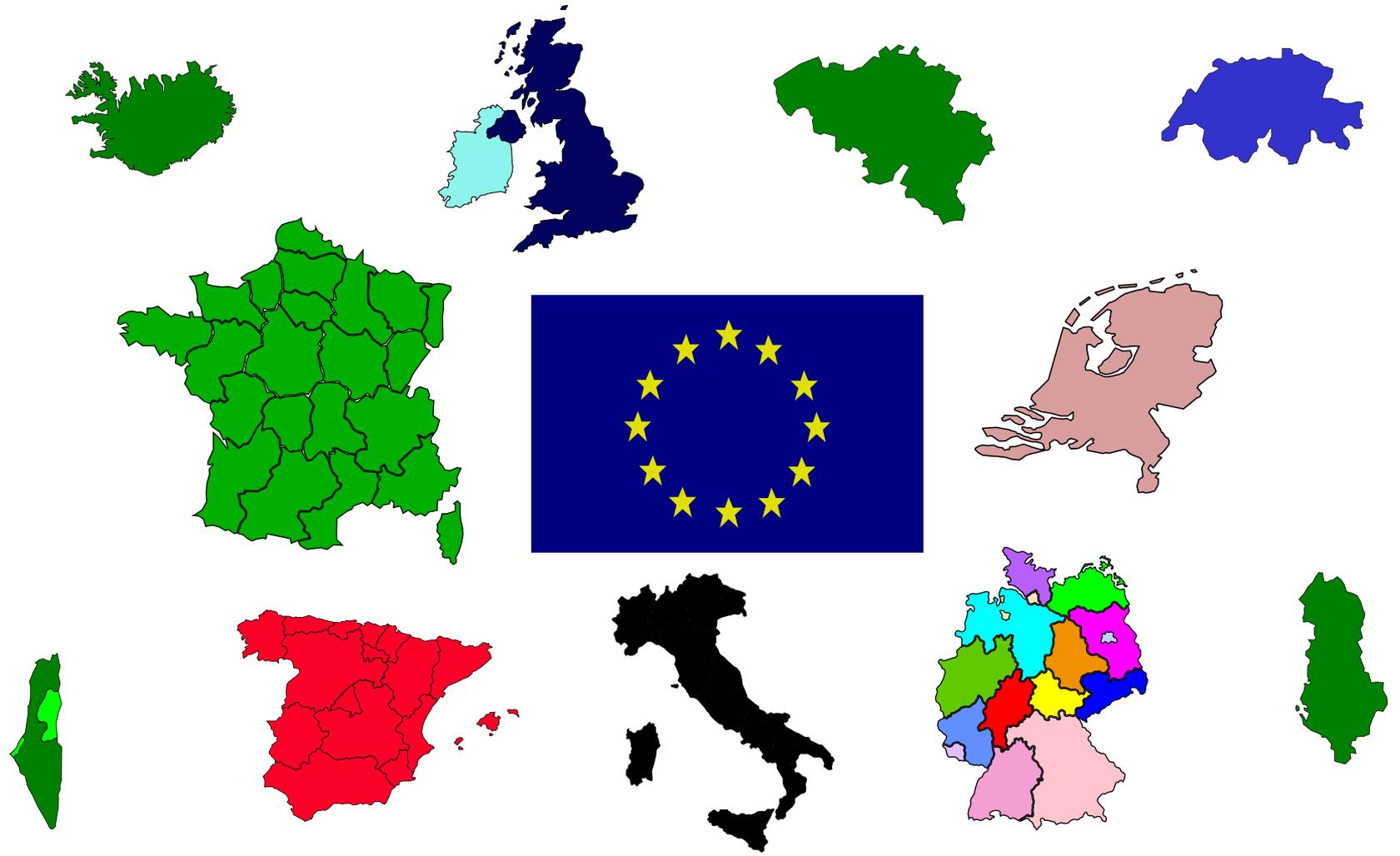
- The Summer Sun Is on Java
- The Winter Slopes Are in the Alps
- Consumer Electronics Are Manufactured in Korea
- Chile and Australia Don't Have Phylloxera
- Carrying More Than One Currency Is a Way of Life for Many
- Speaking One Culture Does Not Work on the Internet
- Globalization Will Happen Whatever Others May Say



Europe is a Global Microcosm

	Population Millions	GDP B US\$	Per Capita in 000	Lines per 100
Greece	10.4	74	7.1	48
Portugal	9.8	75	7.2	35
Spain	39.6	479	12.2	37
Ireland	3.5	46	12.8	35
Finland	5.1	82	16.2	55
UK	58.1	943	16.3	49
Italy	57.2	992	17.1	43
Netherlands	15.4	307	20.1	51
Belgium	10.1	207	20.5	45
Germany	81.1	1712	21.2	48
Sweden	8.7	186	21.4	68
France	57.7	1252	21.7	55
Iceland	0.3	6	22.2	56
Austria	7.9	181	22.9	47
Norway	4.3	103	24.0	55
Luxembourg	0.4	10	25.4	55
Denmark	5.2	136	26.2	60
Switzerland	7.1	234	33.6	60
	381.9	7026	19.3	50
USA	260.5	6343	24.6	60

Yet Still Fearfully Federalist and Independent





The Continent is Sometimes Focused on Socialist Ideals

- Four Basic Types of Banks Exist
 - Private Banks Tiny or Global
 - Savings Banks Provincial
 - Co-operative Banks Socialistic
 - Post Banks PTT Origins
- Equal
and Then Again
Structurally Restricted



Today's Payment Architecture

- Cash

- Notes & coins minted by the central bank

- Deposit or Saving

- Monetary value accounted for by a financial institution

- Debt

- Moneys borrowed from a financial institution

- Line of Credit

- Credit granted to an individual where a recognized Bank provides a promise of payment

- Credit Card

- A card which extends a line of credit that a Merchant recognizes

- Debit Card

- A card which deducts moneys directly from the deposit account that a merchant recognizes



Electronic Payments

- Cost Efficiency as a Focus
 - Payment systems are a mechanism
 - Electronic payments are cost effective
 - International dominate the field of payments
 - Domestic volume > 95% of transactions



Payments Can Be Segmented

• Pay Before

- Travelers Checks
- Stored Value Cards

Pay Now

- Cash
- Debit Cards
- Cheque
- Electronic Money

• Pay Later

- Line of Credit
- Credit Cards
- Store Cards

**Branding is an Issue of Control, and
Someone's Business Rational**



Today's Means of Payment

•Credit Instruments

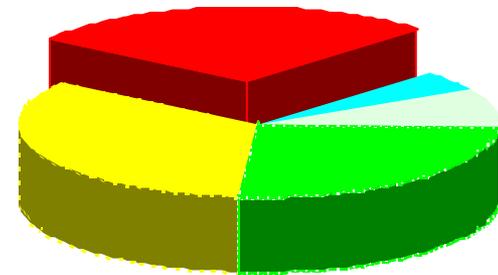
- Cash
- Credit Cards
- Charge Cards
- Community Cards
- Subscriptions

•Debit Instruments

- Cash
- Debit Cards
- Cheque
- Giro
- Direct Debit Mandates

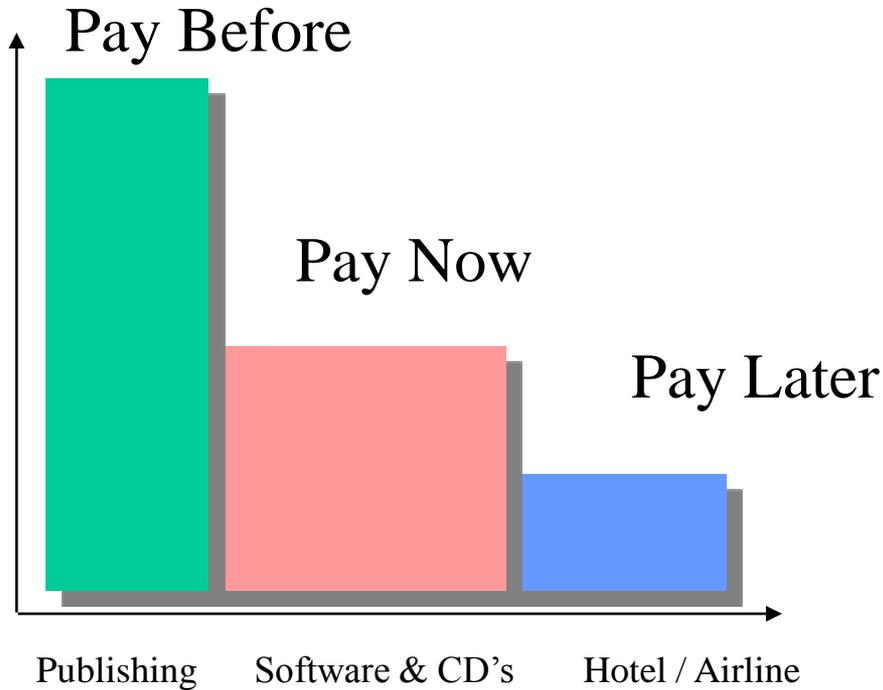
pa *pa* A Payment Mechanism To Meet Every Consumer's Need

- Anonymous
 - Cash
- Accounted
 - Credit card
 - Debit card
 - Checks
 - Giros
 - Direct debits
 - Standing orders
- Co-exist today



The Consumer's Payment Profile

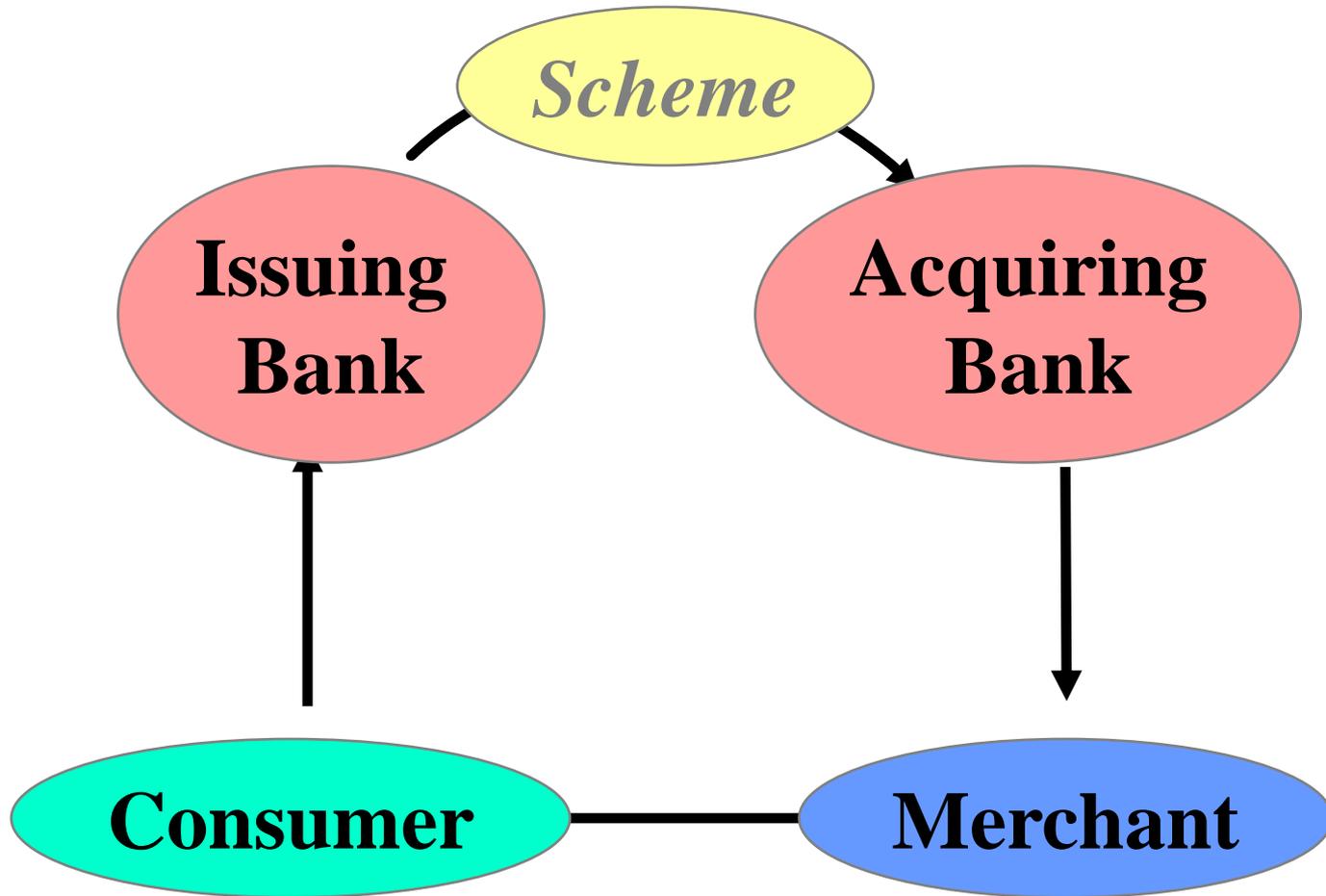
Volume of transactions



Transaction value / type

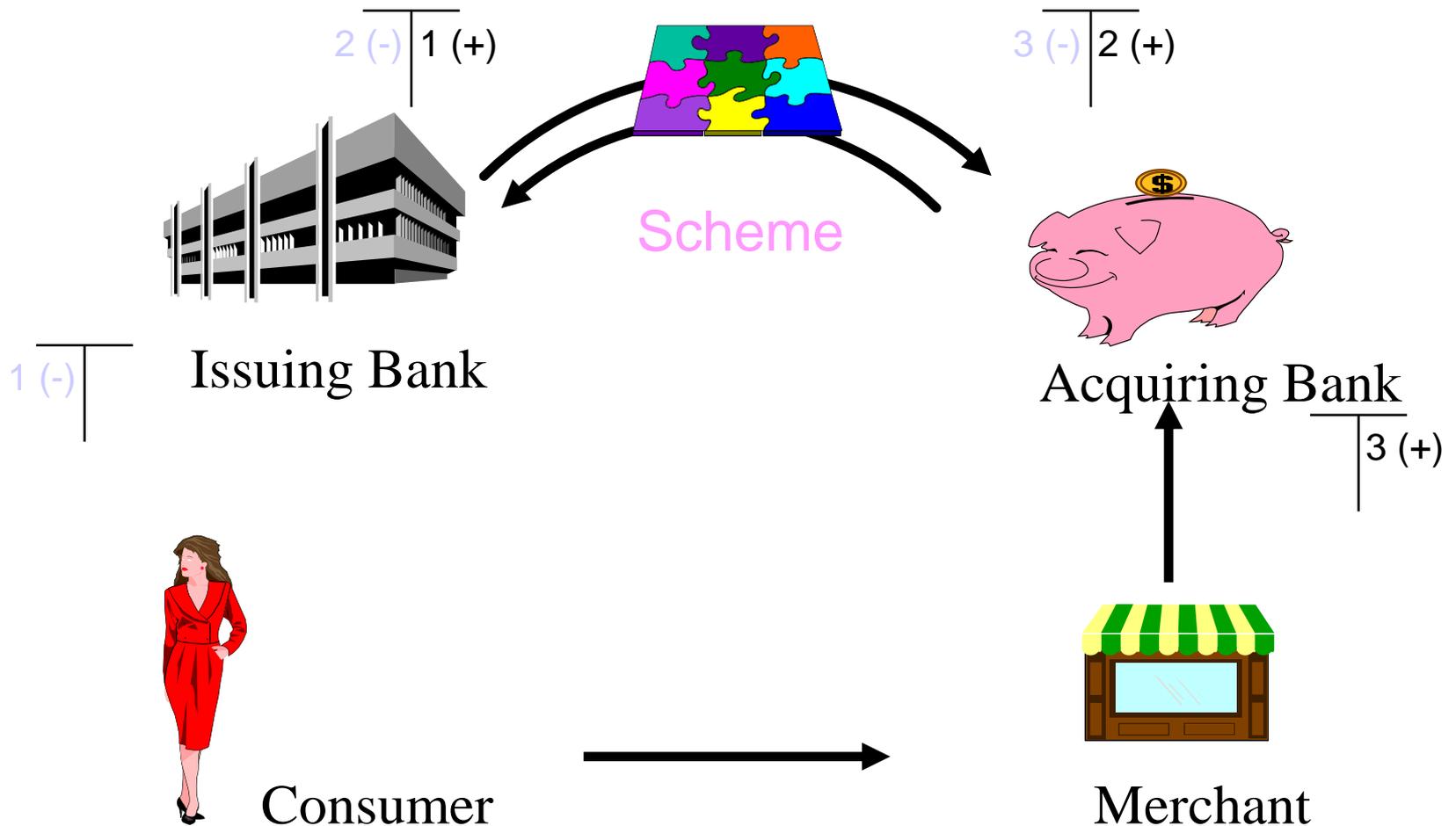


Account Based Architecture

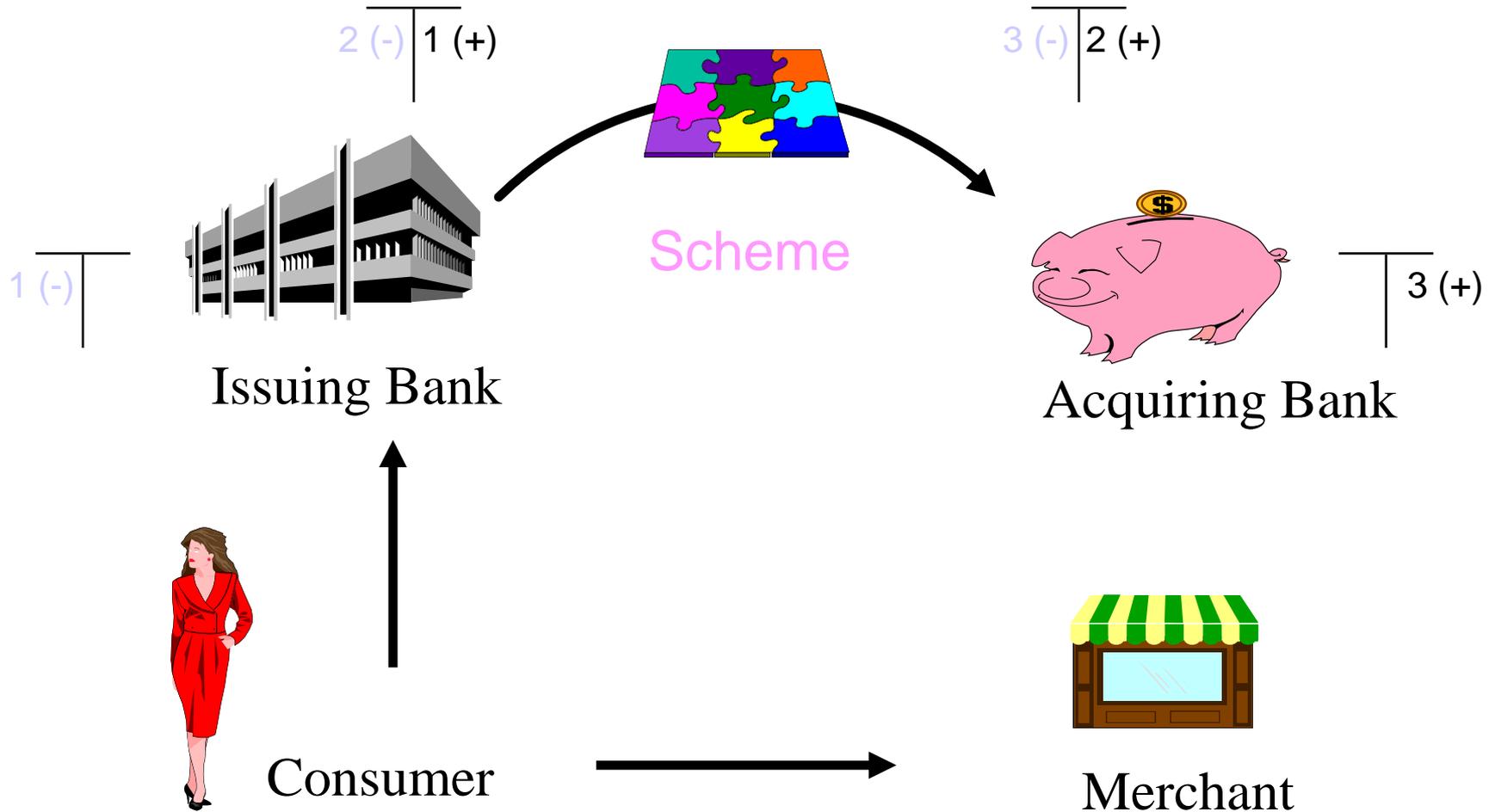


Cheques

A Mechanism for Two Party Payment

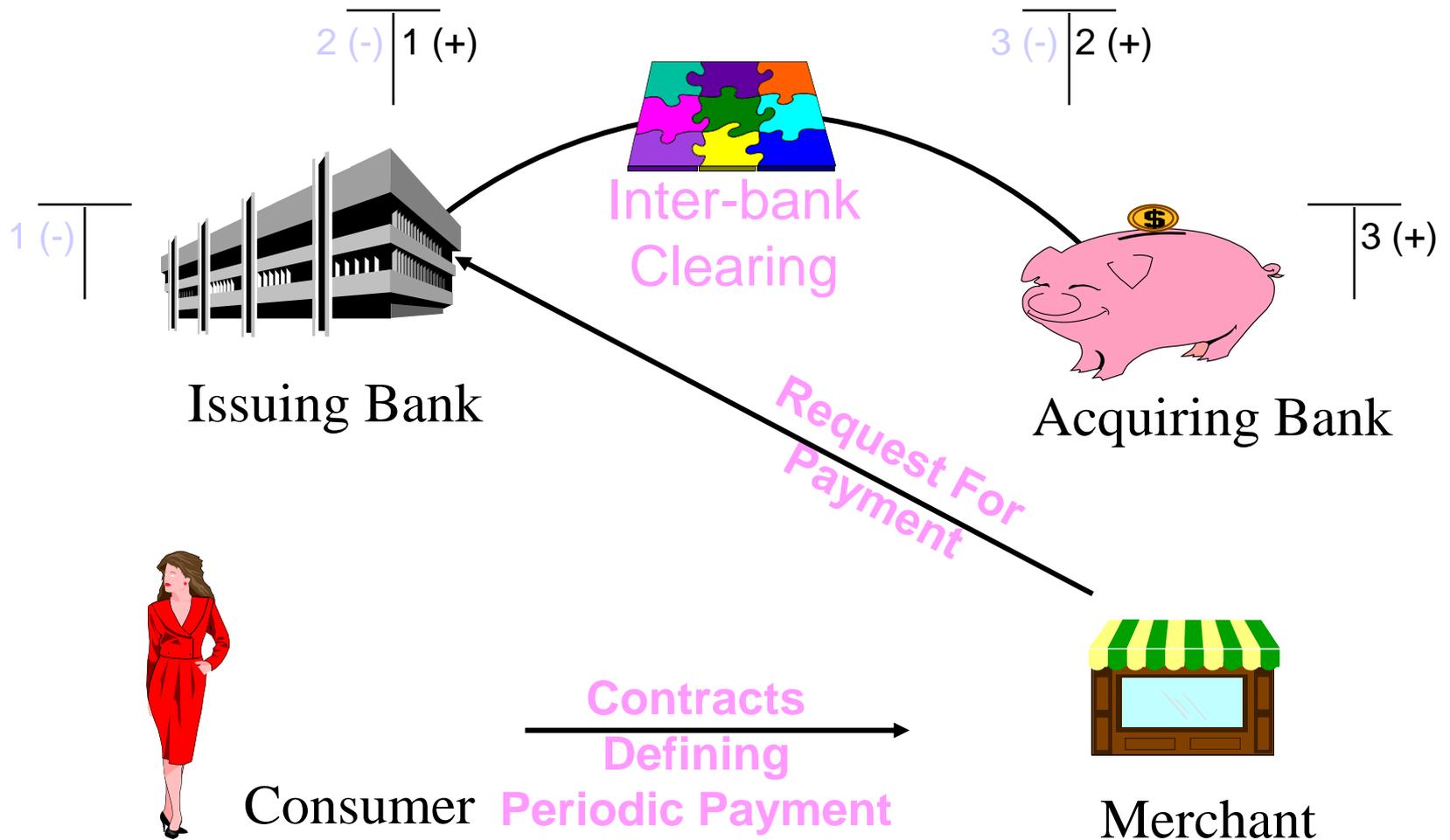


Direct Debit Mandates Built to Facilitate Merchant Payment



Cleared Payment Systems

Giro Payment



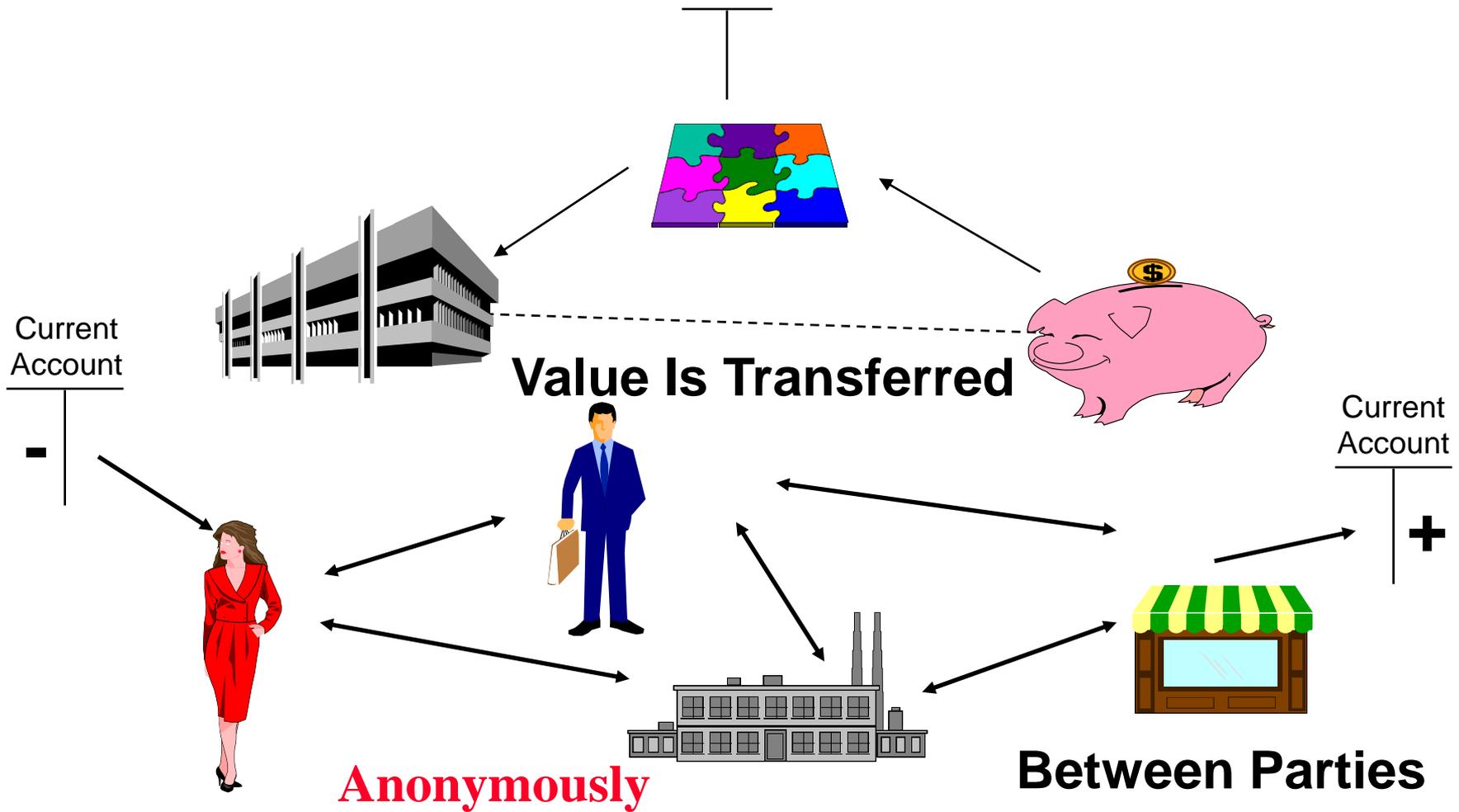
Cleared Payment Systems Are Global





Cash Payments

Anonymous, Trusted and At Your Own Risk



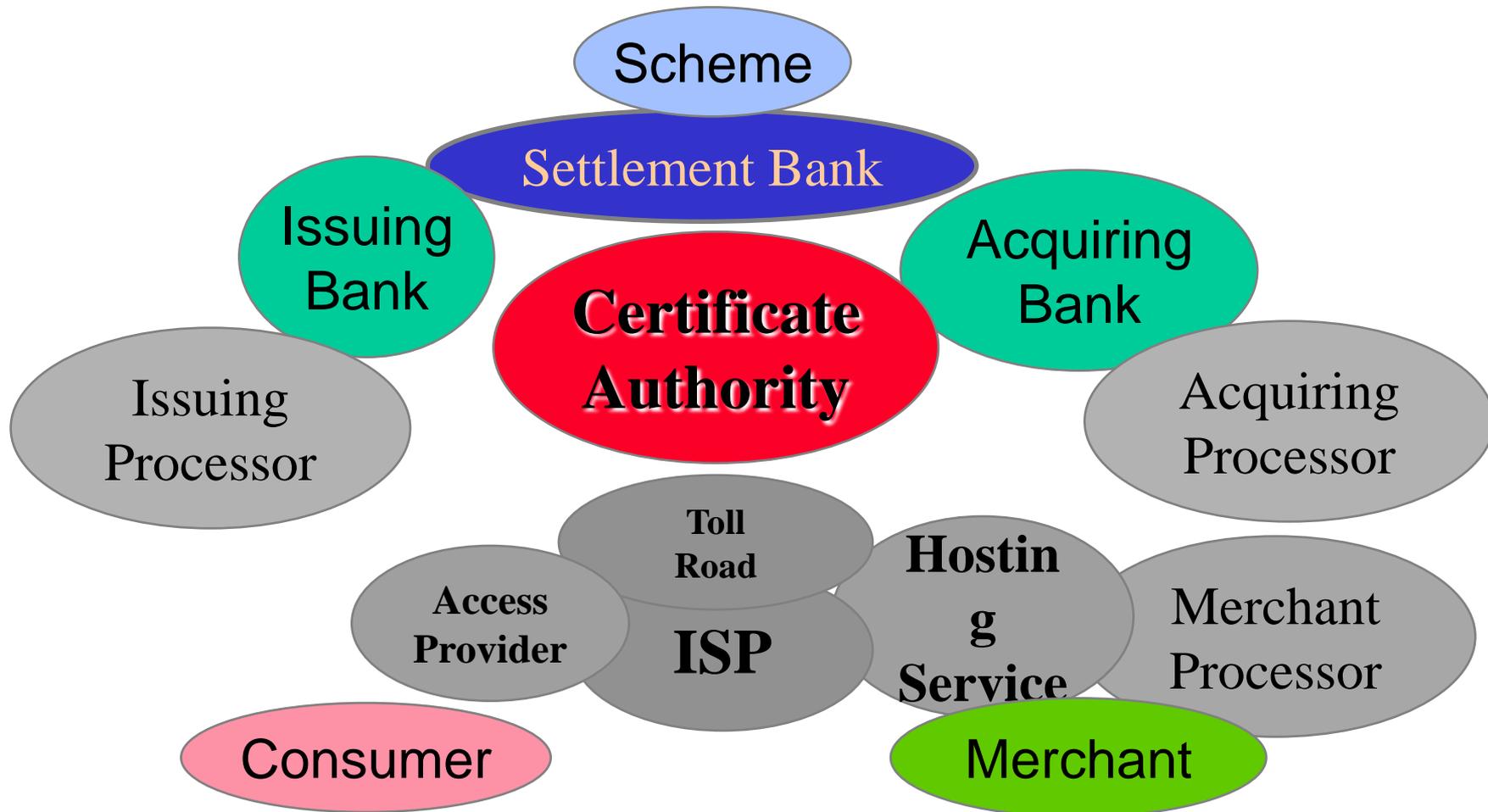


Electronic Purse Cards

In Europe there was a concerted effort to introduce smart cards to capture of low value transactions without the cost of clearing and printing details on client statements

Who Knows if they are a success yet?

Additional Actors In the Game



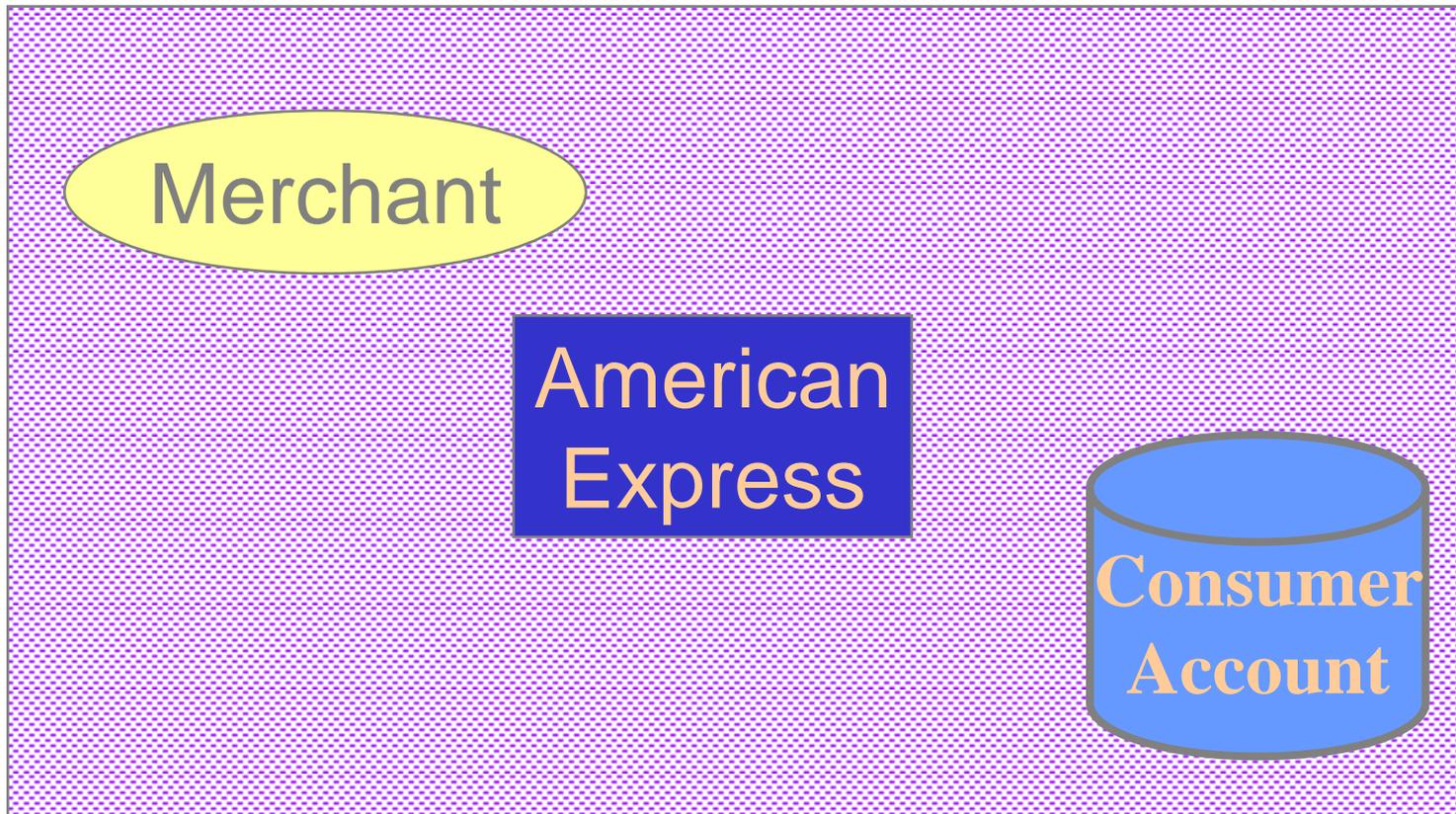
The American Express Model

Closed Loop for Efficiency

2 (+)

2 (-) 1 (+)

1 (-)



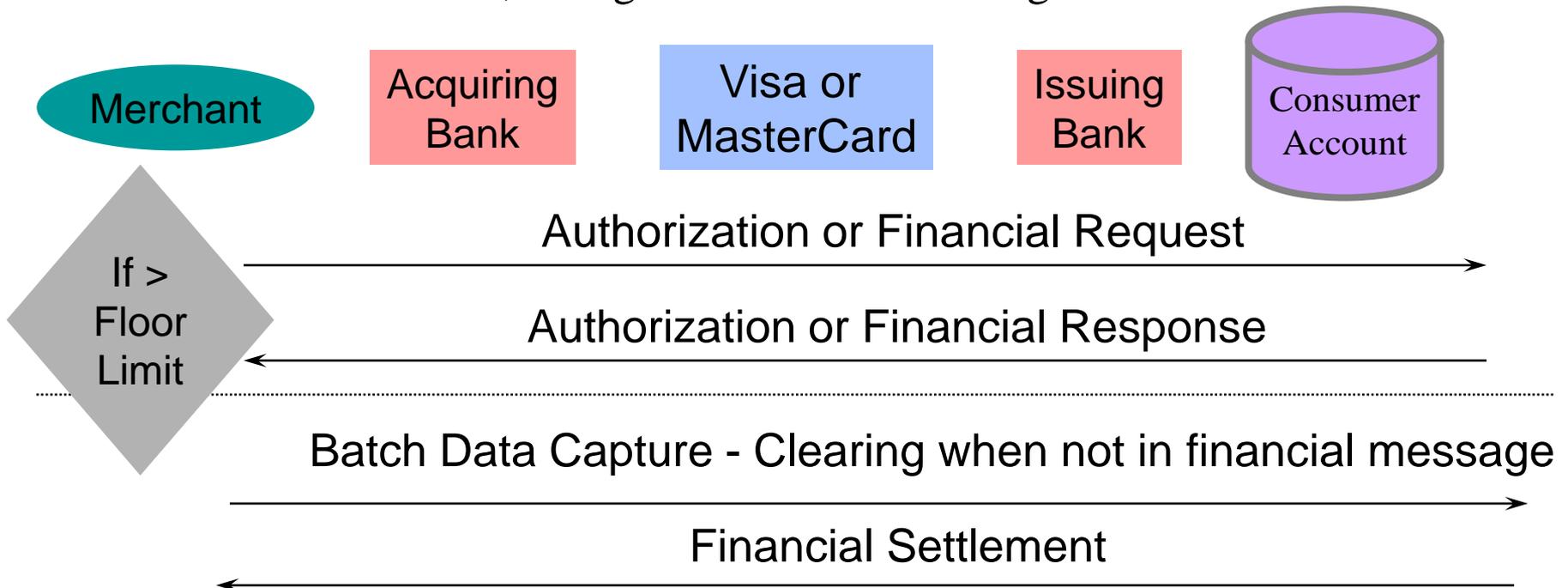


Merchant Discount

A Tool for Bank Profitability

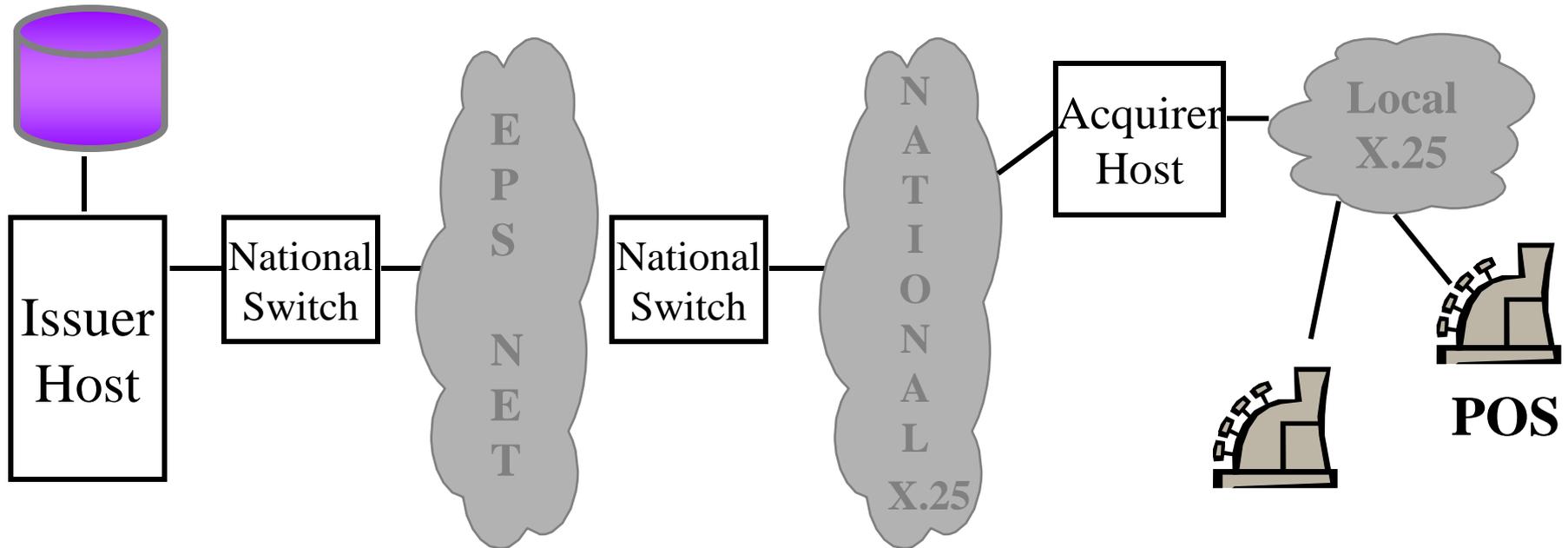
- International Reference Interchange Rates Are Set by MasterCard & Visa
- Domestic Rates Are Established As a Function of Competition in Acquiring
- Credit Card Rates Include the Issuing Banks Cost to Carry Consumer Debt
- Electronic Purse Fees Are Being Established Now

- International standards for payment card transactions messaging standard
- These transaction processing system generically support
 - Authorization, Clearing, Settlement, Interchange, Referrals, Retrievals, Charge Backs Fraud Management



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Authorization Based on ISO 8583



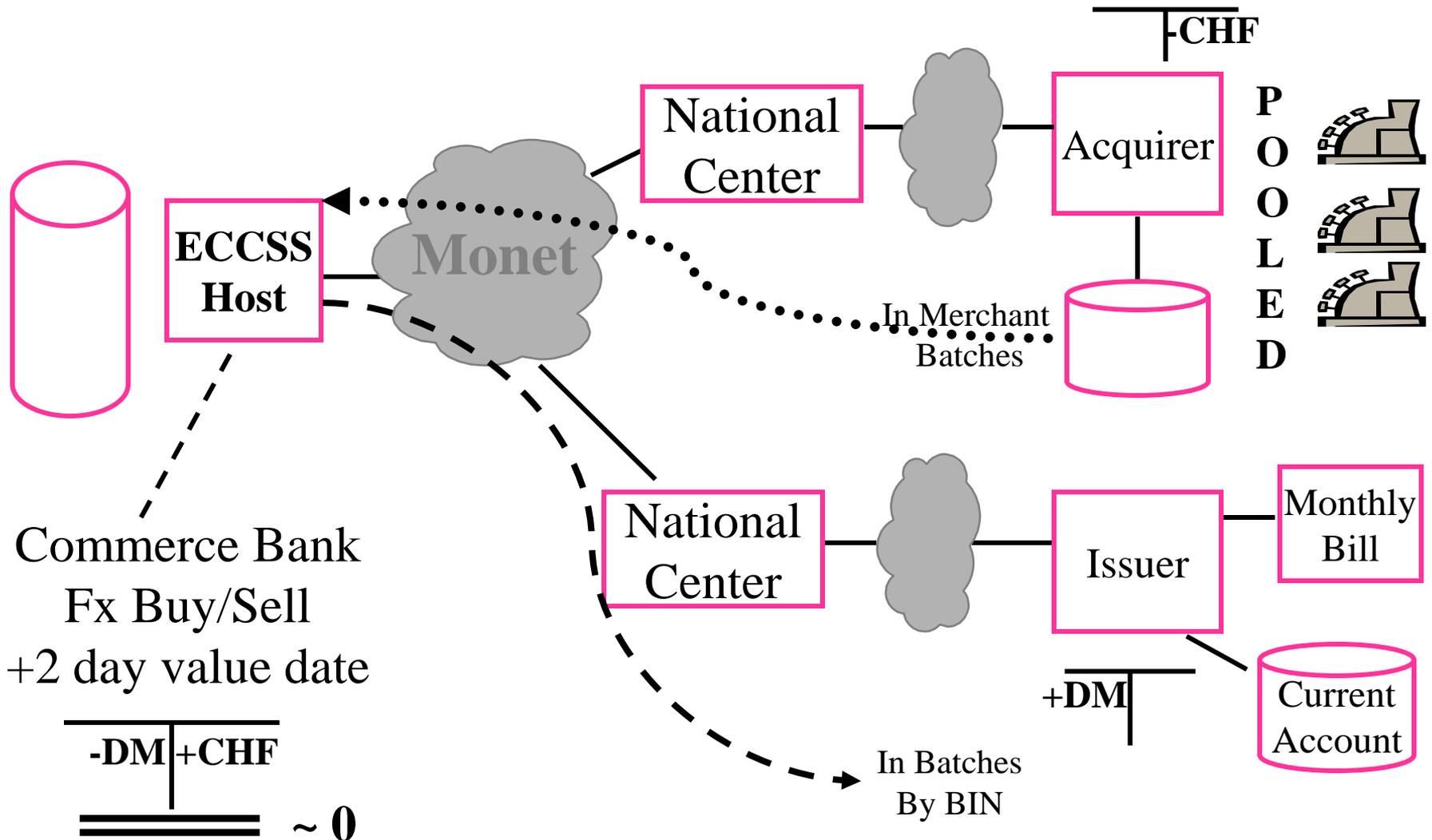
National Protocol	V5 Protocol	National Protocol	Acquirer Protocol
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Authorization Request (1100)

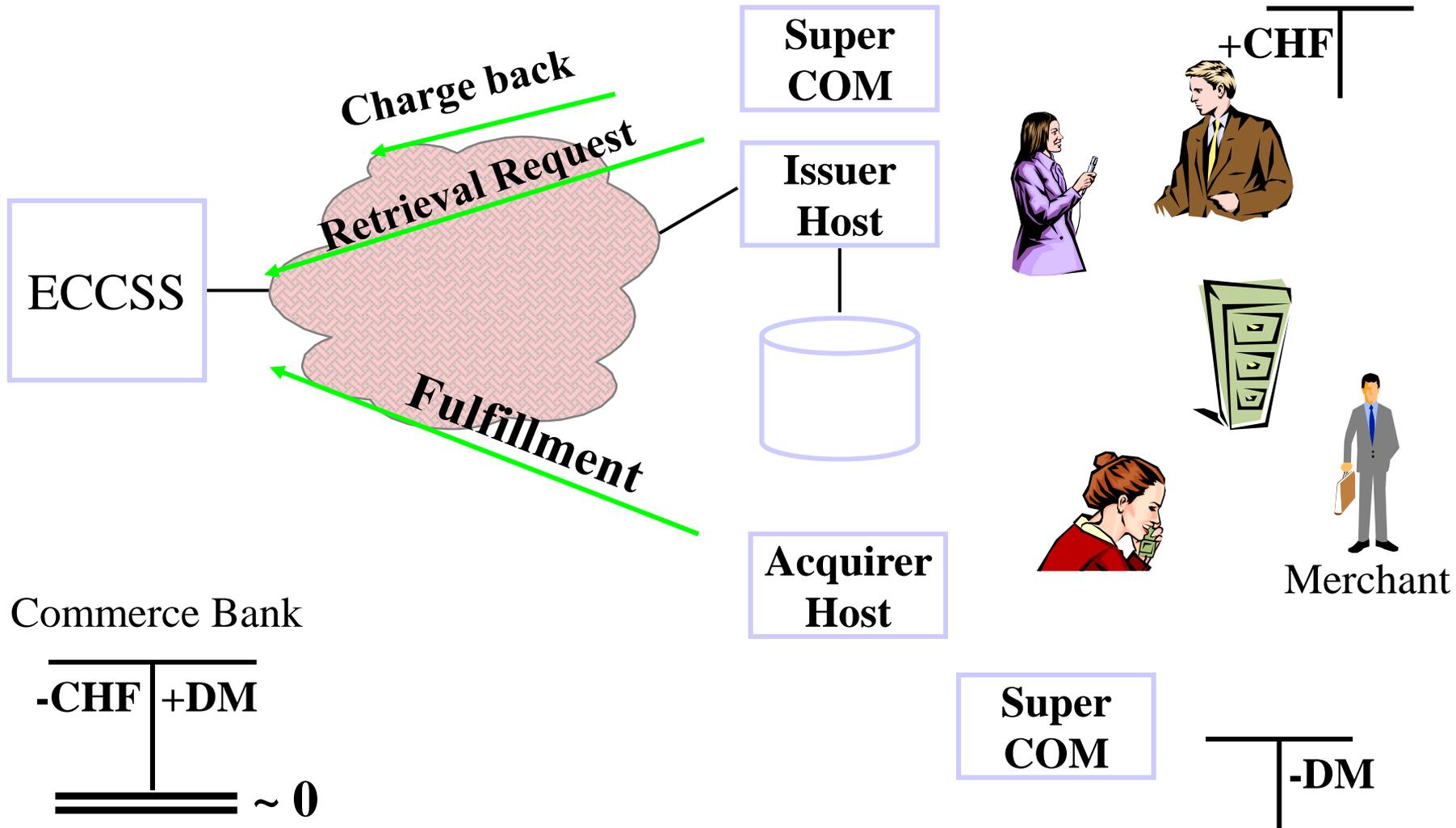


Authorization Response (1110)





Charge Back Processing



- Today the Merchant Authenticates the Card and the Cardholder Visually
- Today the consumer personally authenticates the merchant and the goods on display
- On the Internet This Capability Must Be Replicated Given That Both Parties Are Only Addresses in the Ether
- The Consumer Wants a Guarantee That the Good Will Be Delivered
- The Merchant Wants a Guarantee of Payment