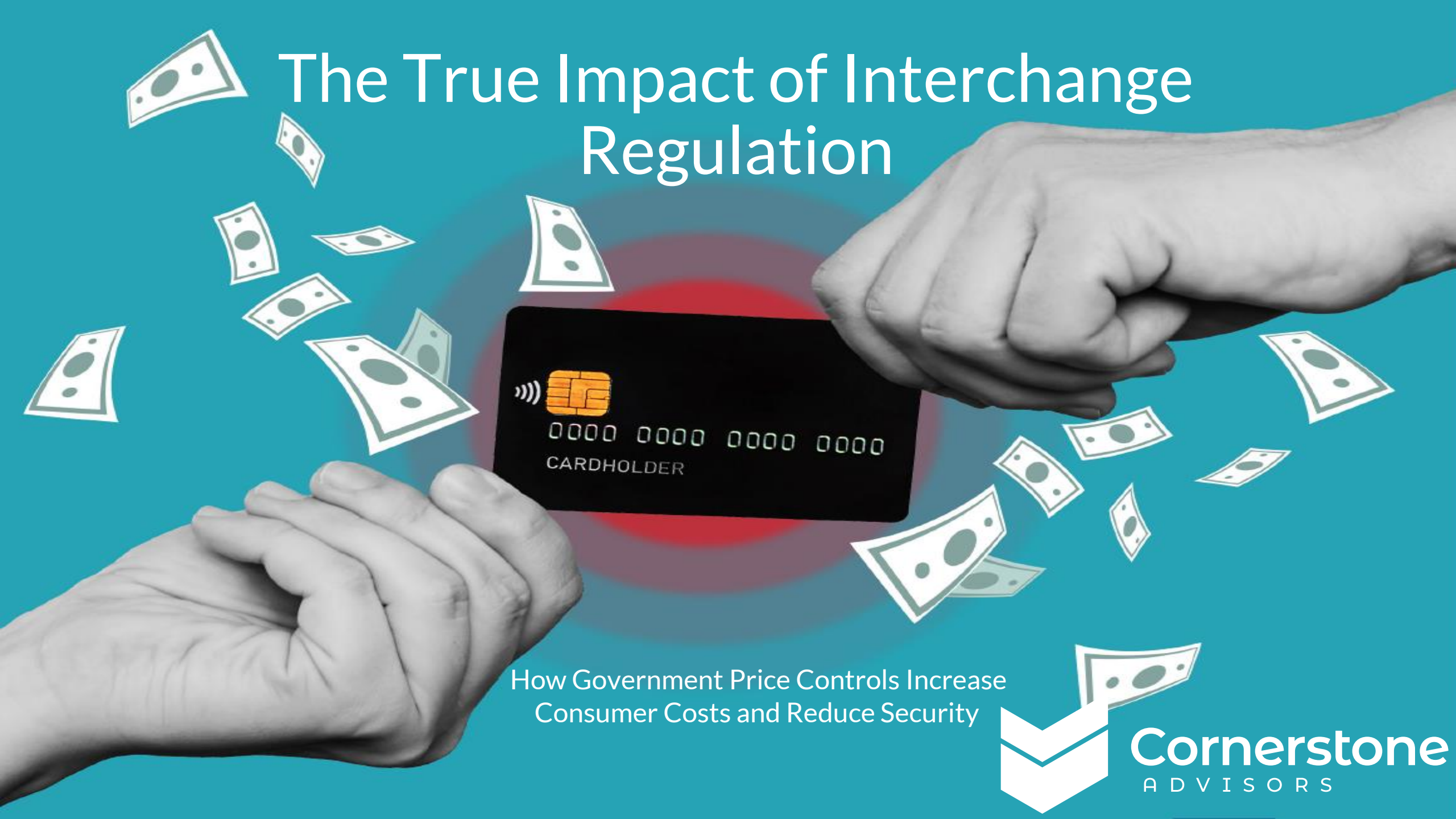


The True Impact of Interchange Regulation



How Government Price Controls Increase
Consumer Costs and Reduce Security



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The Impact of Additional Payment Networks

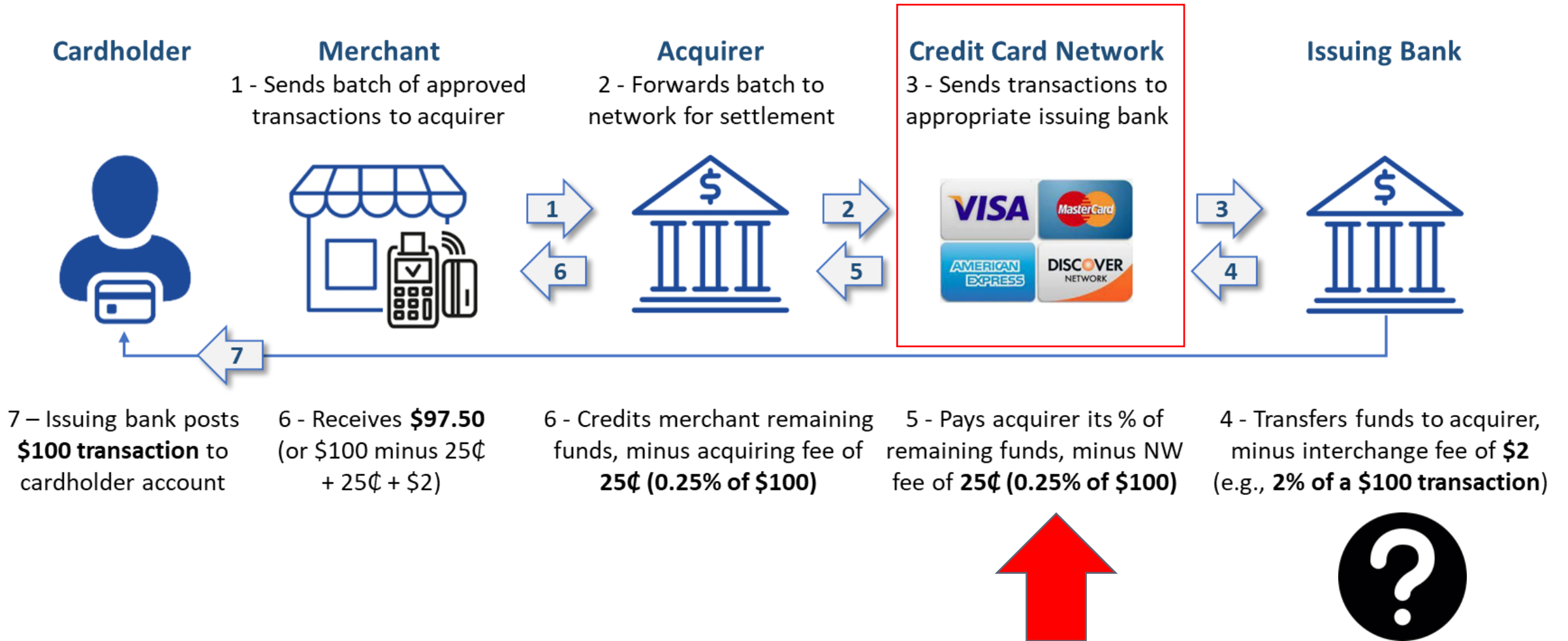


Potholes on the Payment Highways?

- Durbin 1.0: Led to more competition and reduction debit interchange revenue for all issuers
 - Most single message networks process more exempt transactions than covered transactions
 - CP Debit: Benefited from PIN numbers and EMV to limit fraud losses (dodged a few potholes)
 - CNP Debit: July 1, 2023: How many CNP payments will move to single message networks? (84% of debit fraud is CNP)
- Investments in innovation and technology are not equal across networks today.
 - *CP debit traffic has allowed alternate networks to invest at a level aligned to the type of transactions processed (less fraud, less investment)*
- No safe harbor from asset thresholds
 - Single-message debit interchange decreased by 29% for exempt institutions

- All issuers will likely see reduced interchange revenue regardless of asset size
- Robust technology innovation across networks is unlikely and increased management for issuers costs (from fraud protection to chargebacks)

Where Would the CCCA Impact the Interchange Fee Formula?



Unintended Consequences in a Linked Economy

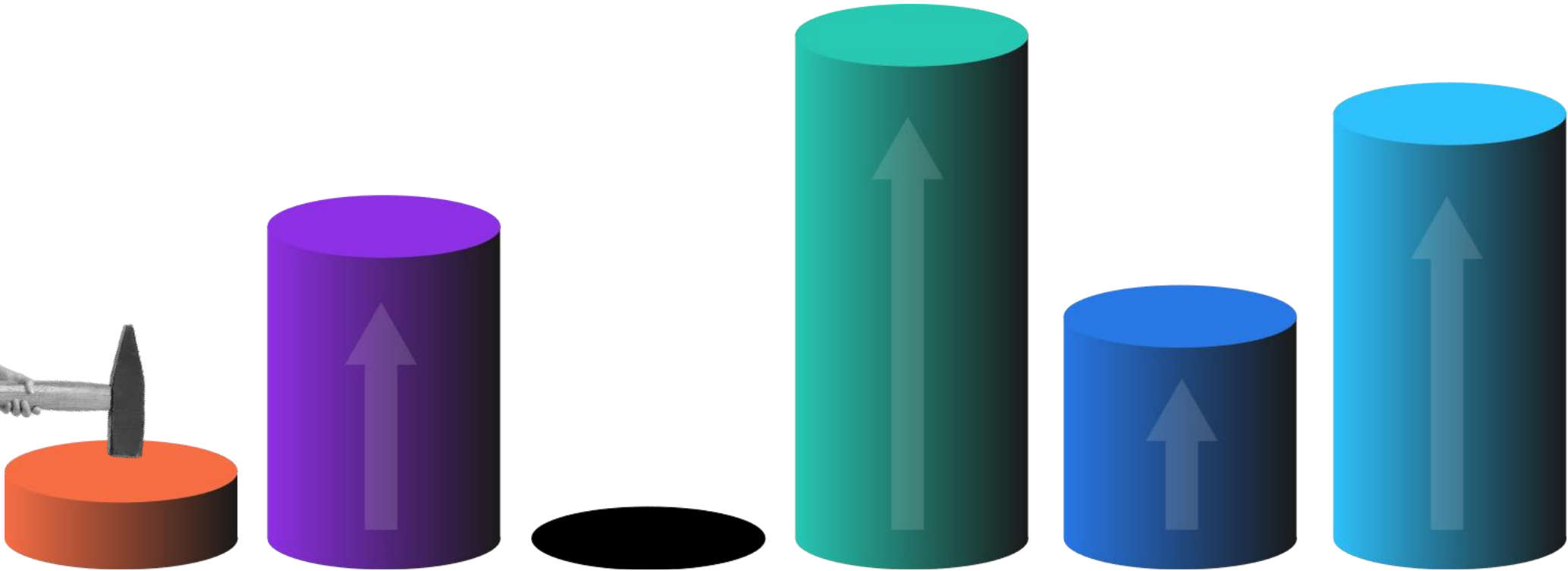


Consumers, Merchants and Banking Services – It Is All Connected

- Debit interchange revenue decline led to higher minimum balances and monthly maintenance fees (predominately at commercial banks)
- Where debit reward programs existed, they were eliminated
- Investment in services funded by interchange led to reductions in services (i.e., branch closures) or increased reliance on other fees (overdraft for larger banks). Impact to local communities.
- Yet, consumers never saw the savings within merchants and smaller ticket size merchants saw interchange rates increase

- Most credit card customers are single-service, there are few options to grow revenue with these customers beyond fees and expense reduction (few or no rewards).
- Downward pressure will result in consumer impacts such as higher interest rates, fees, and tighter risk policies impacting the availability of credit. It could lead to reduced spending.

Regulatory Whack-A-Mole 2.0



Durbin 1.0

Debit Interchange

Monthly Maintenance Fee

Free Checking (Gone)

Minimum Balance for Free Checking

Impact on the Underbanked

Negative Impact on Communities

Durbin 2.0

Credit Interchange

Annual Fees

Rewards (Gone or limited)

Risk, fraud, and credit tightening

Tighten Credit Availability

Negative Impact on Communities & Merchants

Pass Through Savings (or no savings)



Merchants Will Not Share Savings – It Makes No Economic Sense to Them

- Evidence from Durbin 1.0 was only 1% of merchants passed savings to customers
- Evidence from Australia demonstrates the same behavior
- Even in highly competitive categories (gasoline), merchants did not pass on savings
- The savings are too small on a single item to force a competitive change in the marketplace
- Merchants continue to surcharge for debit and credit card payments at many small businesses (4 in 10 small businesses)

- Small business surveyed are unlikely share savings if interchange rates were lower.
- Consider the following: The average consumer would save less than one-half of one percent of the total purchase price for a fill-up at the gas station *assuming* the station-owner passed along 100% of the savings that would accrue from these government price controls.

Fraud – A Growing Cost of Business

Fraud is a Shared Responsibility

- Card-Not-Present fraud is growing faster than payment growth. CNP transactions are critical to merchant sales, but few merchants take the steps to guard against fraud.
- Merchant investment
 - Growth of CNP purchase options (*merchants are investing here with sales capabilities*)
 - Limited investment in purchase protections such as 3D secure for CNP transactions
- The true cost of fraud is not measured accurately by the Federal Reserve. It omits the overhead cost of case management and fraud detection.

- A fragmented payment system results in a fragmented fraud detection ecosystem
- CCA would promote the growth of payment networks without requiring a standard for fraud protection or ensuring equitable chargeback policies amongst all networks

Visa Advanced Authorization

Provides global issuers with a sophisticated in-flight risk scoring, for more targeted and better-informed authorization decisions.



Simple-to-use risk score

Provides a real-time risk score to help identify good and bad transactions across VisaNet



Global insights from VisaNet

Harnesses Visa's global data and perspective of fraud



Holistic customer views

Uses a 2 year data profile of account history



Visa AI platform

Utilizes cloud-based fraud risk models using best-in-class machine learning technology

How Visa Advanced Authorization helps

\$26B

of annual fraud prevented¹

500+

unique attributes evaluated per transaction in about a millisecond²

25+

years of AI experience

Economies of Scale



When it comes to fraud a fragmented pipe of data creates enormous challenges



The Cost of Business



Understanding That Payments are a Part of the Cost of Running a Business

- The value of card-based payments: customer convenience & choice, cashflow benefits, no credit risk or collections, no administration of a credit program, fraud detection services, etc...
- The cost of cash as a payment method far exceeds the cost of interchange (9.1% on average)
- Merchants are accelerating the growth of self-service and digital channels which are dependent on card payments and a robust CNP payment system.
 - 38% of grocery checkout lanes are now self-service
 - Merchants are expanding order ahead and delivery services which are CNP transactions
 - Visa reports CNP volume (excluding travel) grew 30%+ in Q2 2021 (55% increase over 2019)

- The availability of credit card programs have facilitated spending at big box merchants. Many retailers even offer card based, sub-prime lending such as Home Depot (it is crucial to their business)
- Loyalty programs (i.e., airlines) are often tied to credit card rewards - at risk of extinction



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Thank You