

2006 PAYMENT TRENDS SUMMARY



VISA PAYMENT PANEL STUDY

VISA USA RESEARCH SERVICES

VISA PAYMENT PANEL STUDY

2006 Payment Trends Summary

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Glossary of Terms

“General Purpose Credit (GPC) cards” include Visa credit, MasterCard credit, American Express (including Optima and charge cards) and Discover cards

“Debit cards” include Visa check cards and MasterCard debit cards; unless otherwise indicated, data includes both offline and PIN-based transactions

“ATM Cards” include ATM and debit cards with no Visa or MasterCard logos, which can be used to make purchases at point of sale

“Payment Cards” refer to all credit, charge, debit and ATM cards

“Co-branded credit cards” are cards that are issued by a financial institution or bank, in partnership with a company/organization

“Rewards cards” are credit cards that offer rewards to cardholders for making purchases with the cards

“Plastic” includes general purpose credit cards, debit cards, ATM cards, private label cards and prepaid cards

“Cash” refers to cash transactions of \$5 or more

“Checks” refers to check transactions of \$5 or more

“Consumers” refers to adults, aged 18 or older, with household incomes of \$10,000 or more, who own at least one payment card

“Usage” refers to the usage of a payment method to make a purchase at least once in the past month

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Background and Introduction

Unlike the consumer packaged goods industry, the payments industry does not have the infrastructure nor the systems necessary to measure consumer behavior comprehensively and reliably. In the 1980s, consistent with its drive to innovate, lead and provide expert strategic consulting to its members, Visa sought to build a system that would serve as the common-fact base on how consumers pay for goods and services.

The Visa Payment Panel Study was developed by Visa, with the input of various members, to better understand the consumer payments environment and the reasonably available markets for different payment products and services. The study monitors consumer usage of ALL payment methods in a wide variety of merchant categories. It is this comprehensive, robust ongoing measurement that makes the Panel study both unique and extremely valuable to its users.

By quantifying how and where consumers spend their money, the study analyzes the performance of competing credit/charge card products, debit/check card products, and all other new and traditional payment methods; tests the efficacy of past business decisions and identifies marketplace challenges and growth opportunities for the future. Visa and its members use this information to plan, develop and execute product development, portfolio management and marketing strategies.

Specifically Visa has used Panel data analyses and insights in conjunction with other market intelligence and custom research to inform several of its business strategies. Panel study analyses were instrumental input to Visa's consumer credit strategy, differentiating product offerings on the basis of rewards and service across the full spectrum of current and potential customer segments. Analyses of who, where and how payments of less than \$25 are made fed Visa's small ticket strategy. And, the Panel study was critical to the formulation of Visa's approach to debit, focusing relevant strategies on different user segments based on their payment-related needs and spending habits.

Explanations of the sampling plan, methodology and notes for interpreting study results follow.

Research Methodology

The Visa Payment Panel Study was developed to monitor consumer usage of all payment methods within approximately 100 merchant categories. Piloted and launched in 1990, the study's objectives and methodology were created with input from Visa-issuing member banks.

The study uses a panel of respondents maintained by a major, independent global research firm, TNS. From TNS's nationally representative panel of 475,000 households, three panels of individuals are recruited to participate in the Visa Payment Panel Study.

The study is administered in English and in order to participate, panelists are required to be 18 years of age or older, have at least \$10K in annual household income and own at least one payment card.

Each panelist participates in the study by tracking their monthly expenditure in a diary for one month in each quarter. Results are aggregated and reported by quarter.

Respondents are asked to record the following transactions over the course of a month:

- Transactions of any dollar amount on payment cards – credit, charge, ATM, debit and prepaid
- Transactions of \$5 or higher for all other payment methods, including food stamps!

Respondents are asked not to include rent/mortgage payments, credit/charge card bill payments, taxes and loan payments.

For each transaction, the date, merchant category, amount and payment method are recorded. The panelist also records whether a transaction was made over the Internet, and in the case of debit cards, whether a PIN was used when making the purchase.

Accompanying the monthly diary is a separate questionnaire in which participants record any changes in their demographics and any activity involving the opening and/or closing of card accounts. They also record all card-related information, including any revolving balances.

The Panel study delivers ending samples of approximately 1,600 individuals each month, or 4,800 each quarter, demographically and geographically balanced to be representative of the U.S. population aged 18 or older, with a household income of \$10K or more, who own at least one plastic payment card.

Notes for Interpreting Study Results

The following notes should be considered when interpreting study results:

- The diary and surveys are administered in English.
- Panelists are asked to record only those purchases/payments they make personally (this study does not report on total household expenditure).
- Cash withdrawals are not recorded by panelists; therefore, share data for credit cards does not include cash advances; and for debit cards, does not include cash back obtained with purchases at point of sale.
- Business expenditures not paid by the panelist personally (e.g., supplies, equipment, travel and entertainment transactions via “ghost” corporate accounts) are not included in the study.
- Numbers in charts and tables may not add due to rounding or due to the reporting of selected results only.

Summary

The results of the 2005 Visa Payment Panel Study yielded several important trends, such as: the continued decline in use of paper payment methods; overall increased use of plastic payment methods; and the consistent upward trend in growth of GPC cards and debit cards, both overall and in many merchant categories. Other trends worth noting include the steady rise in “heavy” debit card users, continued increase in the ownership and usage of credit cards offering rewards, as well as the increased use of plastic for bill payments. Below is a brief summary of these trends.

Plastic on the Rise Since the start of the new millennium, the incidence of consumers using plastic to pay for goods and services has risen by 12 percentage points, reaching 90 percent in 2005. Conversely, the incidence of cash and check usage has steadily declined from levels that were higher than plastic to levels that are now significantly lower.

Combined GPC and debit/ATM card share of consumer spending grew from 19 percent in 1995 to 50 percent in 2005, while paper share fell from 74 percent to 51 percent over the same time period.

Plastic Bill Payments Increase In 2005, the share of consumers who used a plastic payment method to pay bills was more than twice that of five years ago. Both debit and credit cards experienced strong growth during this period.

GPC Cards Still Strong The share of overall spending by consumers charged to GPC cards has grown steadily each successive year since 1998, reaching 25 percent in 2005. Some of the most notable increases occurred at grocery stores, gas stations and quick-service restaurants.

Debit Cards Reach New High In 2005, debit card ownership and usage reached record highs, climbing from 60 percent in 1997 to 78 percent on ownership, and from 29 percent in 1997 to 66 percent on usage. Starting at one percent share of consumer spending in 1995, debit card use has displayed year-over-year growth, culminating in a 15 percent share of spend and surpassing cash in 2005.

Heavy Debit User Segment Expands Representing only 13 percent of all debit cardholders in 2000, the heavy user segment – comprised of debit cardholders who used their cards more than 18 times in the past month – has expanded every year and now represents 24 percent of the debit customer base. In 2005, the heavy debit user segment accounted for 60 percent of total debit card spend.

The light user and non-user segments represented 50 percent of cardholders in 2005, down from 62 percent in 2000.

Rewards Cards Maintain Momentum Credit cards that offer consumers rewards for using them have proliferated, and the use of rewards cards has grown dramatically in recent years. While only one in five credit cards rewarded customers for their loyalty in 2001, every other credit card earned customers rewards in 2005.

Trends in Consumer Spending

Per Capita Spend and Growth

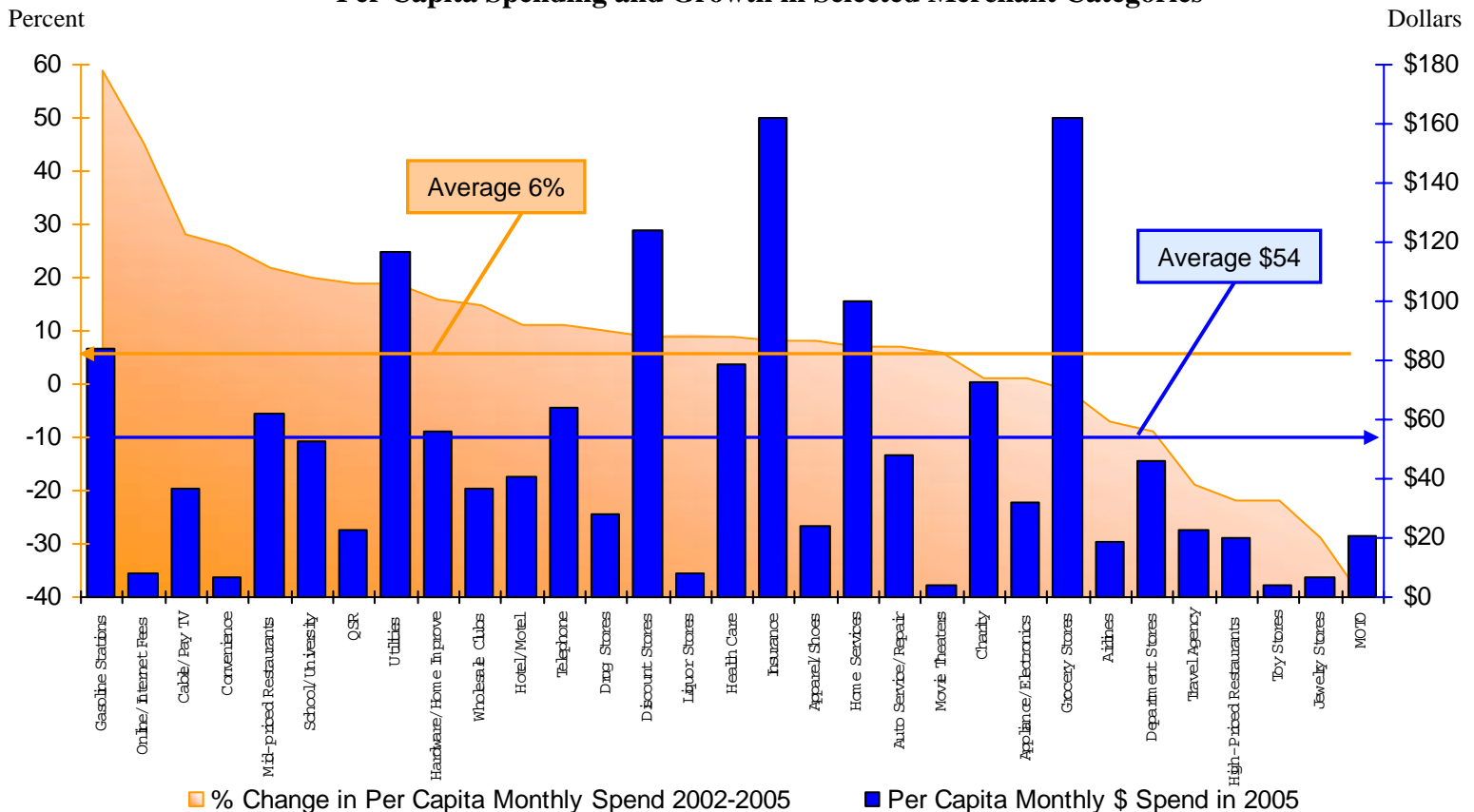
Gas Prices Fueled Highest Growth; Staple Items Still Largest Expense

Per capita growth can be explained by many factors. Two important sources of growth are: an increase in the amount spent within the merchant category and a net increase of new entrants into the category, i.e., a net increase in people making purchases within the category.

From 2002 to 2005, the largest growth in per capita spending occurred at gas stations. This growth was fueled by the 2005 increases in the price of gasoline. Utilities, insurance, discount and grocery stores, all categories providing staple household goods and services, showed the highest per capita spend in 2005. An apparent shift in spend occurred from traditional grocery stores to mass merchandisers and wholesale clubs, illustrated by above average per capita growth in spending at the latter and a slight decline at the former.

A shift from eating home-cooked meals to dining out, eating on the run or eating take-out at home is evidenced by the significant increase in spend at mid-priced restaurants and quick-service restaurants (QSRs). Growth in spend at these restaurants is attributable in part to an increase in the number of people frequenting these types of restaurants. Other categories experiencing growth due to increases in customers included ISPs and wholesale clubs.

Per Capita Spending and Growth in Selected Merchant Categories



Trends in Payment Method Usage

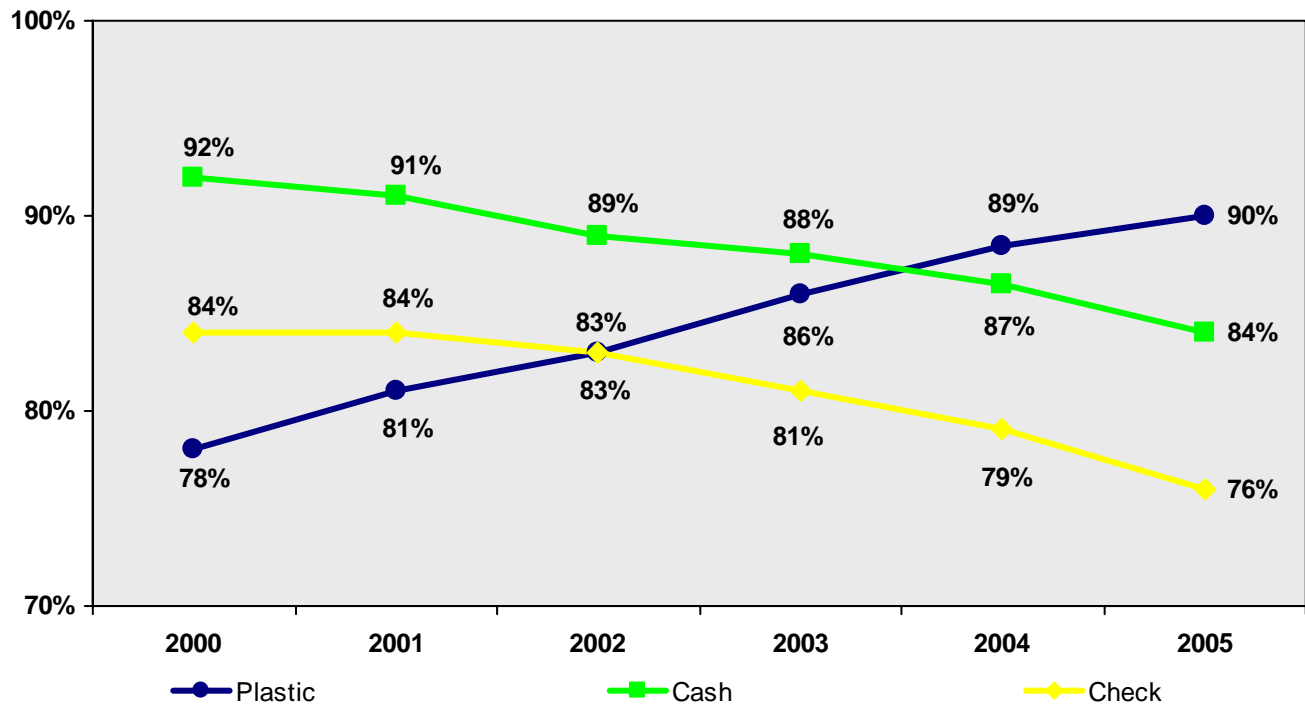
Incidence of Payment Method Usage

Plastic Extends Lead

In 2004, for the first time, the incidence of consumers using plastic exceeded that of cash. In 2005, plastic extended its lead, reaching a new high of 90 percent. From 2000 to 2005, plastic rose 12 points, as check and cash dropped 8 points each.

The growth in the incidence of plastic usage over the past five years reflects the shift in consumers' perceptions of both plastic and paper payment methods.

Incidence of Monthly Payment Method Usage



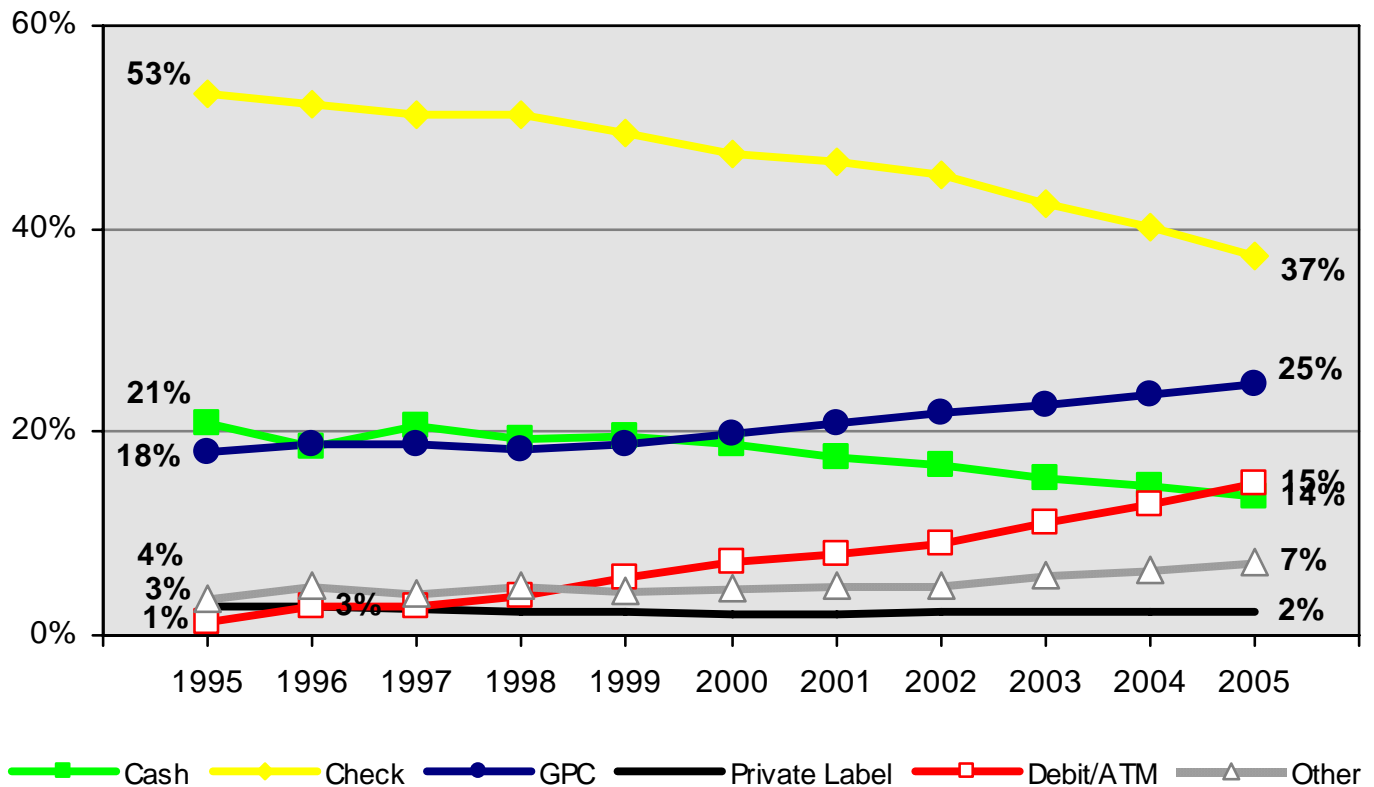
Payment Method Share of Total Dollar Volume

Debit and GPC Card Shares Continue to Grow

In 2005, check spending dropped for the fourth consecutive year, continuing its long downward trend, and reaching a new low of 37 percent.

Since 1995, consumer confidence in general purpose plastic payment methods has grown considerably, as indicated by the 21 point increase in share of spend and the corresponding 23 point decrease in paper (cash and check) usage.

Payment Method Share of Total Dollar Volume
- All Merchant Categories -



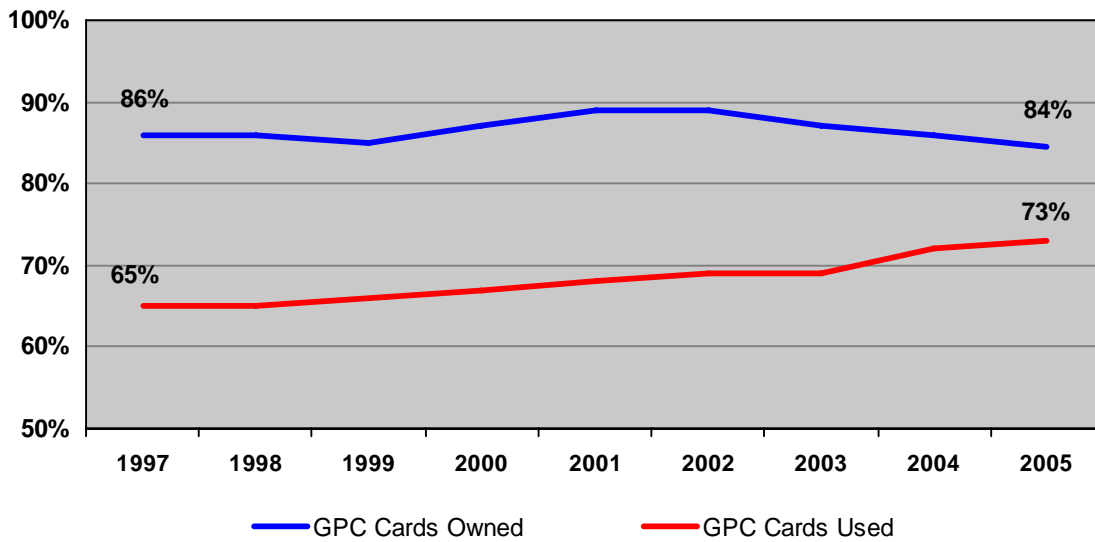
Explanation of Growth in GPC Card Usage

GPC Usage Among Owners Increases

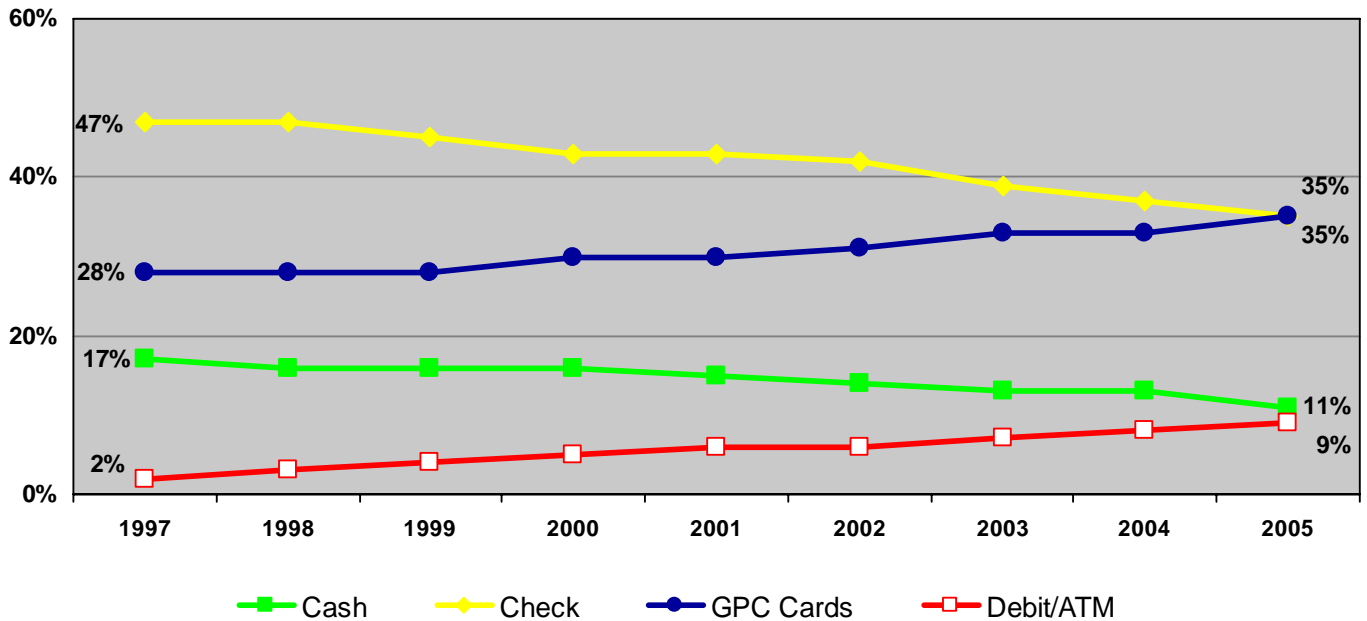
During 2005, GPC card usage reached its highest level with almost three-quarters of owners actually using their cards in the past month. GPC card users placed a larger share of their total spend on credit cards, which now equals their check usage.

Additionally, GPC card users also increased their use of debit cards, resulting in a share of spend that almost matches share of spend on cash. Credit card users clearly are maximizing their use of plastic over paper.

Consumers Who Own and Use GPC Cards



Payment Method Share of Spending Among GPC Card Users



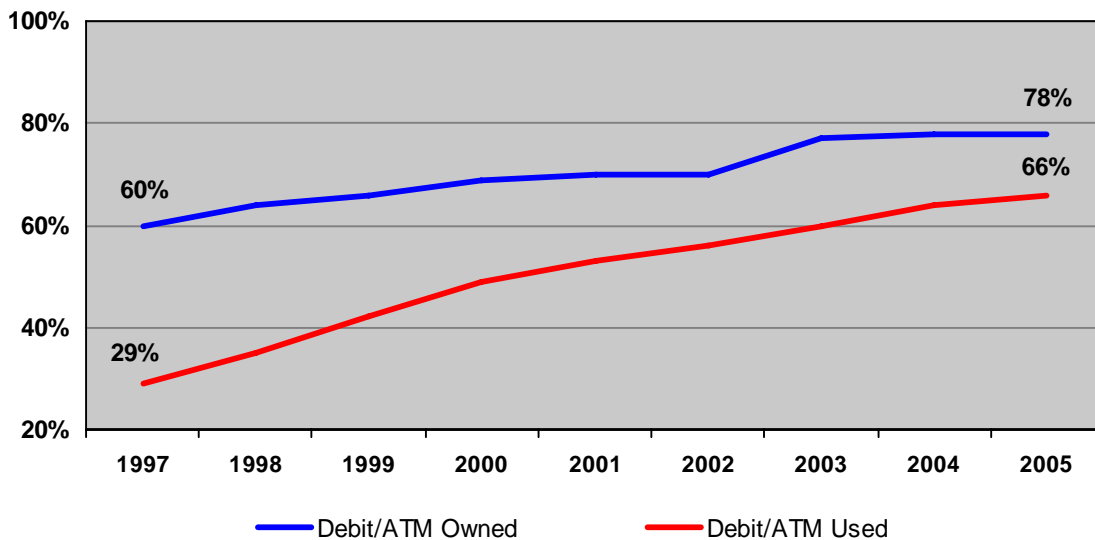
Explanation of Growth in Debit Card Usage

Debit Ownership, Usage and Spend All Up Significantly

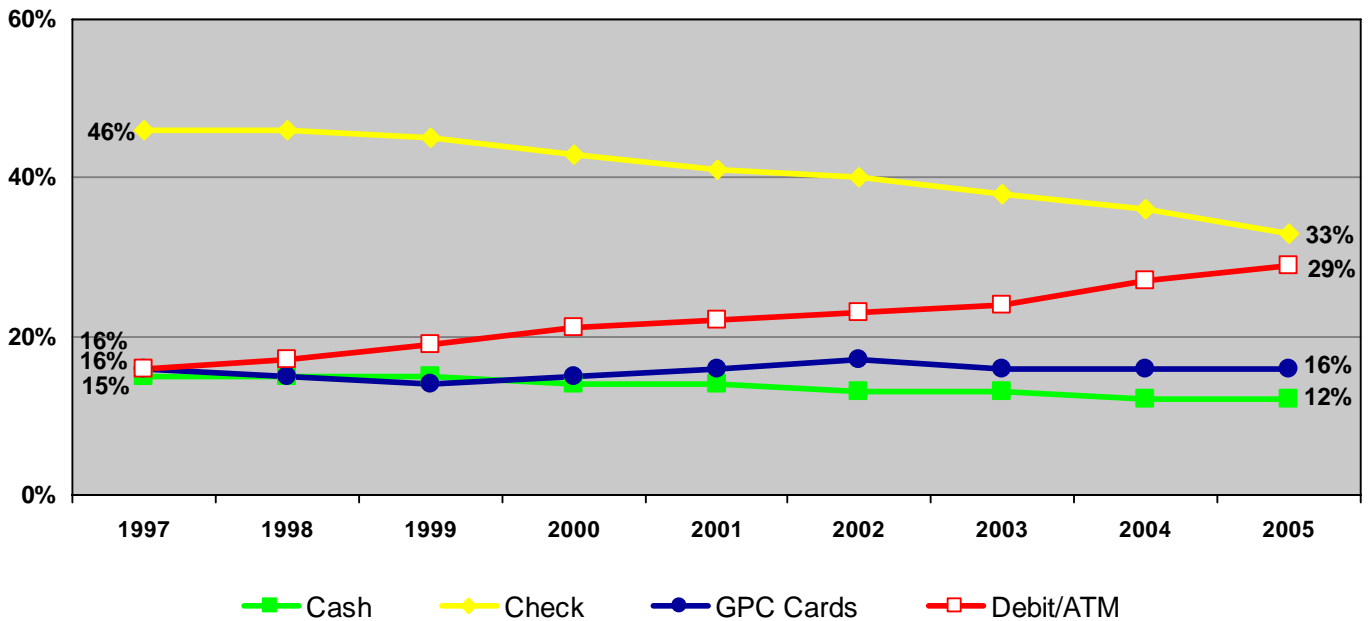
During 2005, debit card ownership, usage and spend reached the highest levels recorded since the Panel's inception. Almost four-fifths reported owning a debit card, and almost two-thirds reported using one. Debit card users' loyalty to debit is demonstrated by the increasing share of their spend placed on debit cards. Debit continues to close the gap with checks and is now only 4 percentage points behind.

Despite their loyalty to debit cards, debit users have not reduced their use of GPC cards, such that spend share has remained constant over the past decade.

Consumers Who Own and Use Debit/ATM Cards



Payment Method Share Of Spending Among Debit/ATM Card Users



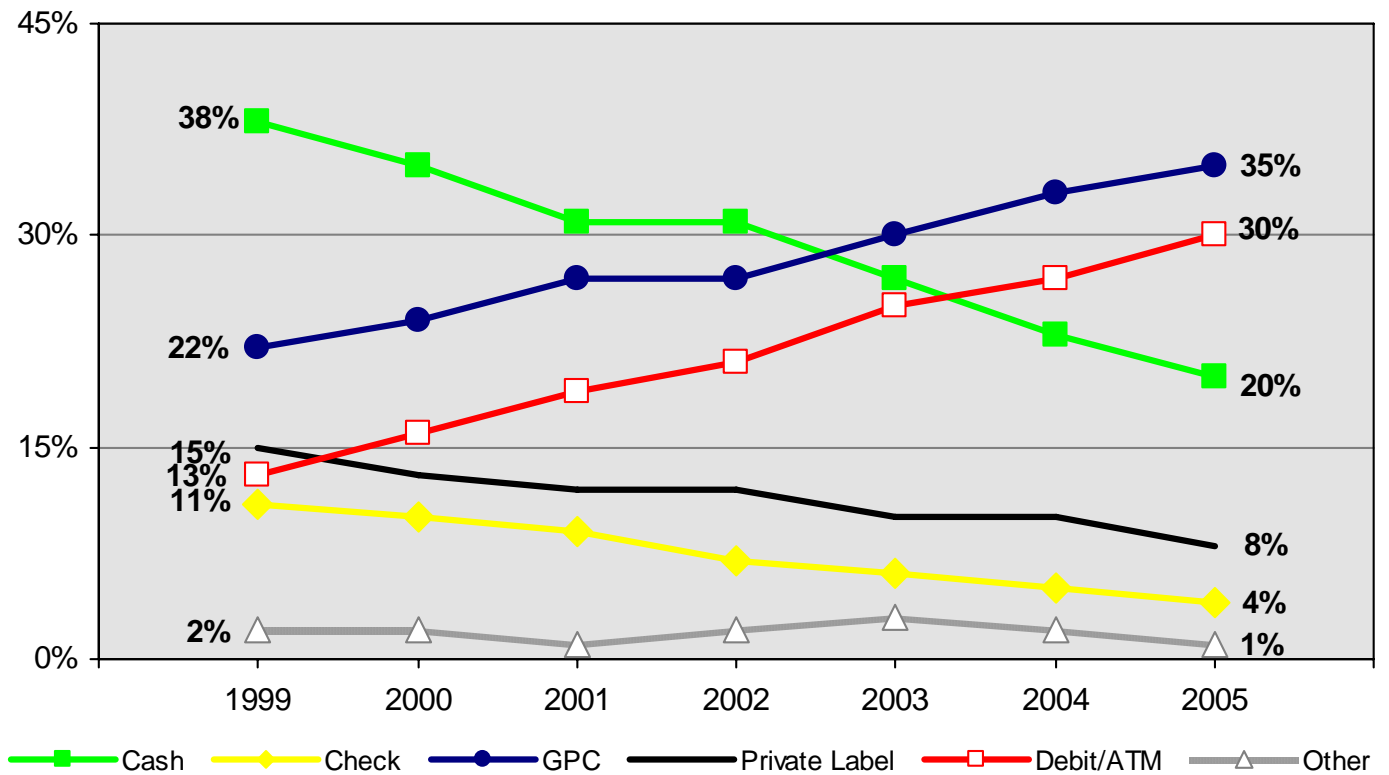
Trends in Payment Method Usage by Merchant Category

Payment Method Share of Dollar Volume at Gas Stations

Debit and GPC Card Usage Increase Significantly

The convenience of “pay-at-the-pump” using payment cards is evidenced by the continued growth in use of general purpose plastic at gas stations. In 2003, general purpose credit cards overtook cash as the preferred way to pay at gas stations. In 2004, debit cards surpassed cash as well. Both forms of plastic continued their growth into 2005. Consumer use of private label gas cards has declined steadily since 1999.

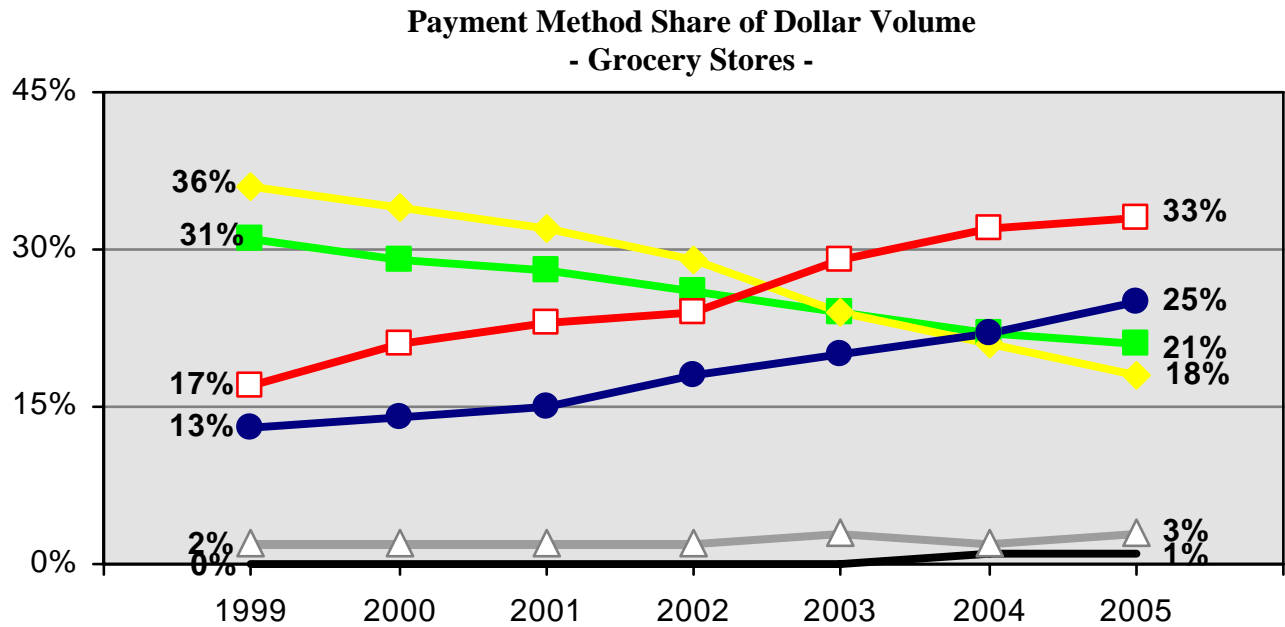
Payment Method Share of Dollar Volume
- Gas Stations -



Payment Method Share of Dollar Volume at Grocery/Discount Stores

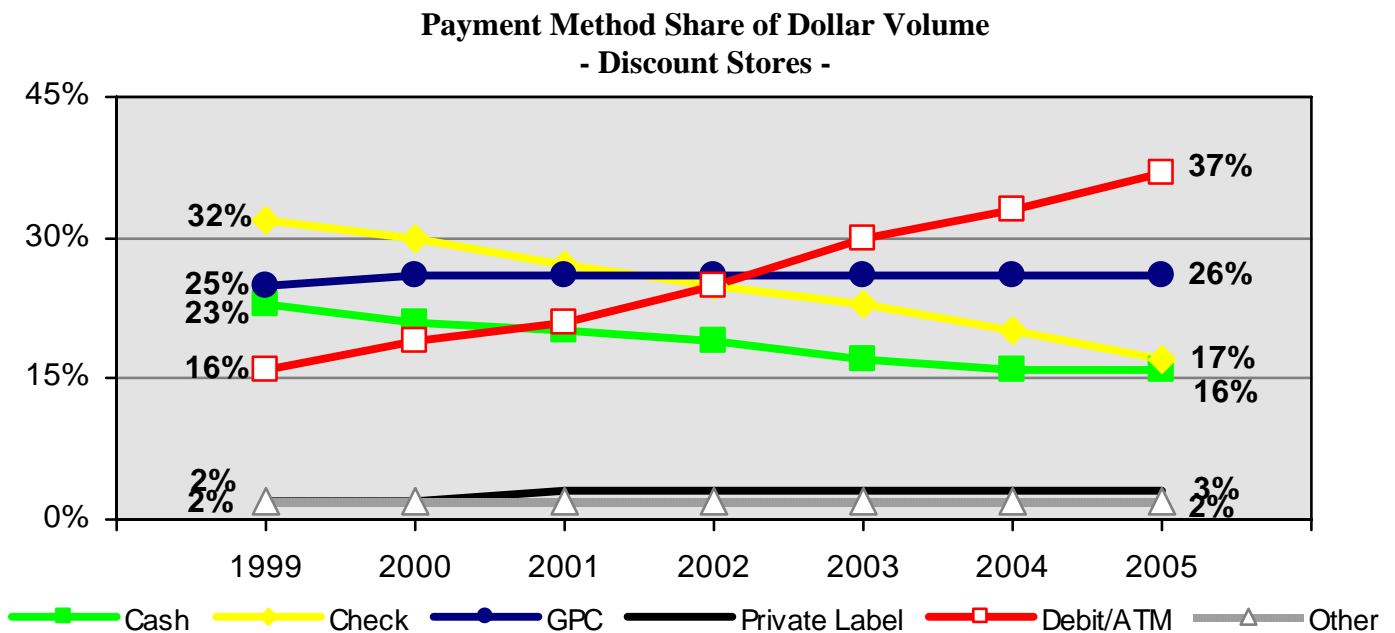
Debit Doubles in Six Years and Leads Share of Spend

Debit card usage has grown dramatically over the past six years, displacing both paper payment methods. In 2005, GPC cards surpassed cash and check shares too. Consumers are likely to continue their use of these cards for their convenience and rewards.



Debit More Than Doubles at Expense of Checks

Debit is the card of choice at discount stores, with more than \$1 out of every \$3 charged to a debit card. Check and cash usage have both declined while GPC card share has remained level.

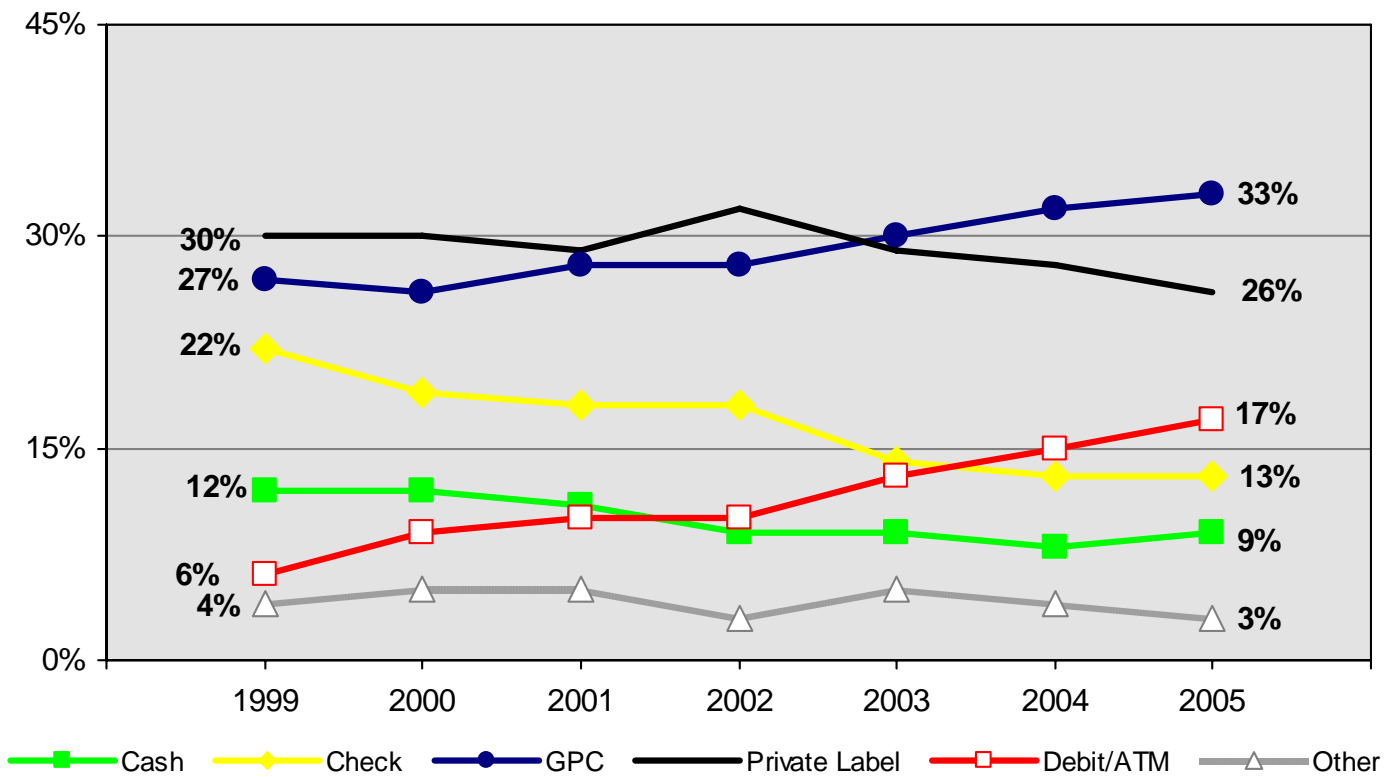


Payment Method Share of Dollar Volume at Department Stores

GPC Cards Widen Gap With Store Cards

In 2003, for the first time, GPC card share of spending surpassed that of private label store cards. GPC card usage has benefited from the conversion of some large-store card programs to co-branded general purpose cards. Nevertheless, private label card usage – principally by women – is still high, with more than \$1 in \$4 charged to these cards.

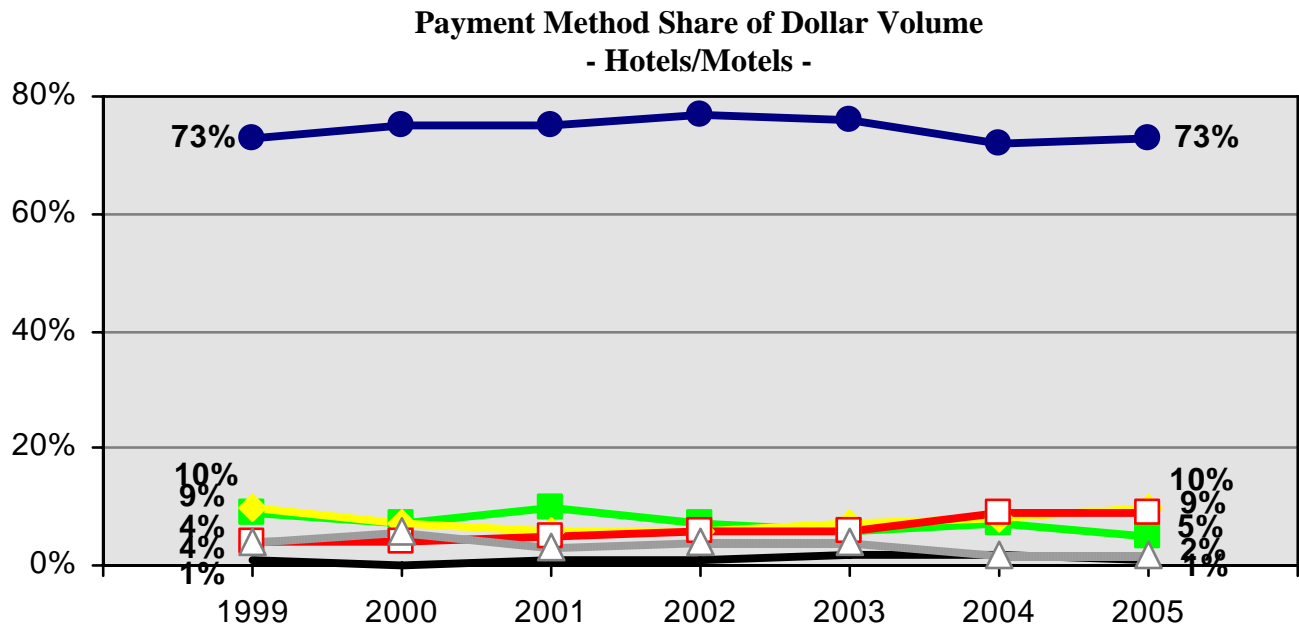
**Payment Method Share of Dollar Volume
- Department Stores -**



Payment Method Share of Volume at Hotels/High-Priced Restaurants

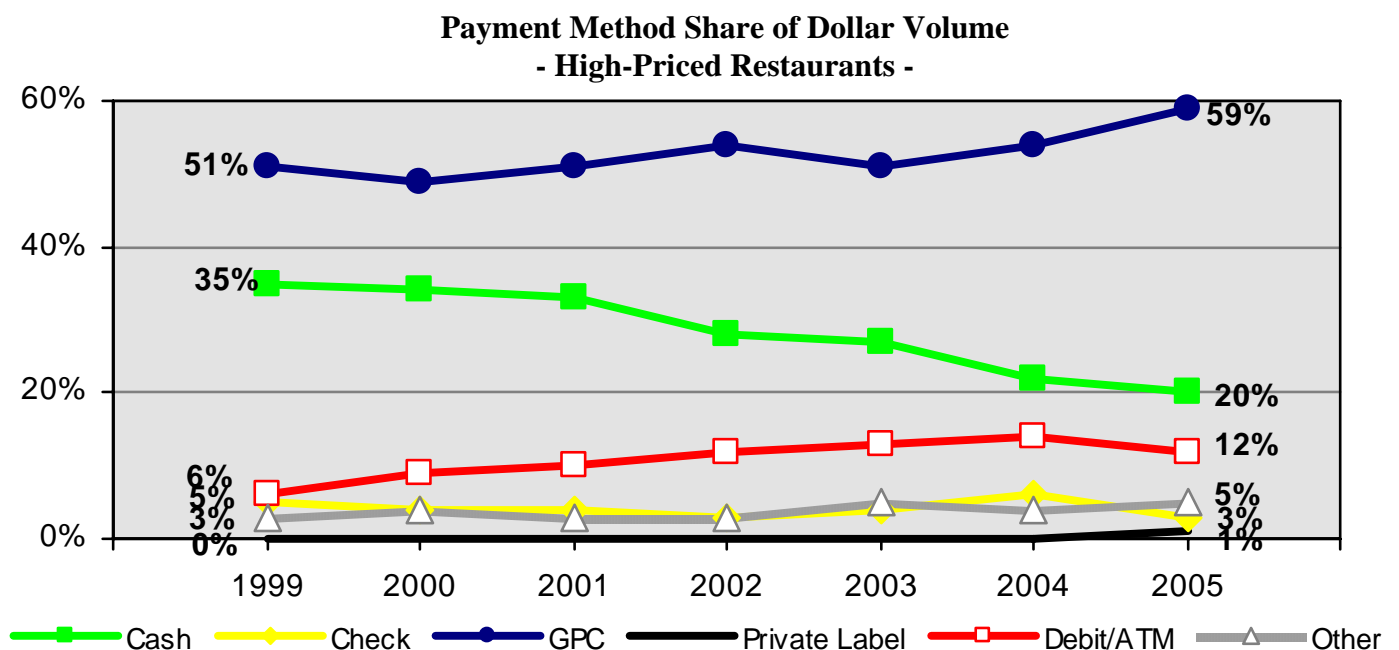
Very Little Change, GPC Cards Lead

Credit cards clearly are the most popular form of payment at lodging establishments. GPC card share of spend at hotels and motels has remained virtually unchanged over the past six years.



Higher Average Ticket Size Settled With GPC Cards

At fine dining restaurants with higher ticket sizes, consumers are increasingly using their credit cards for their convenience and to get the purchase rewards often associated with using these cards. Debit usage has risen too while cash usage has continued to decline.

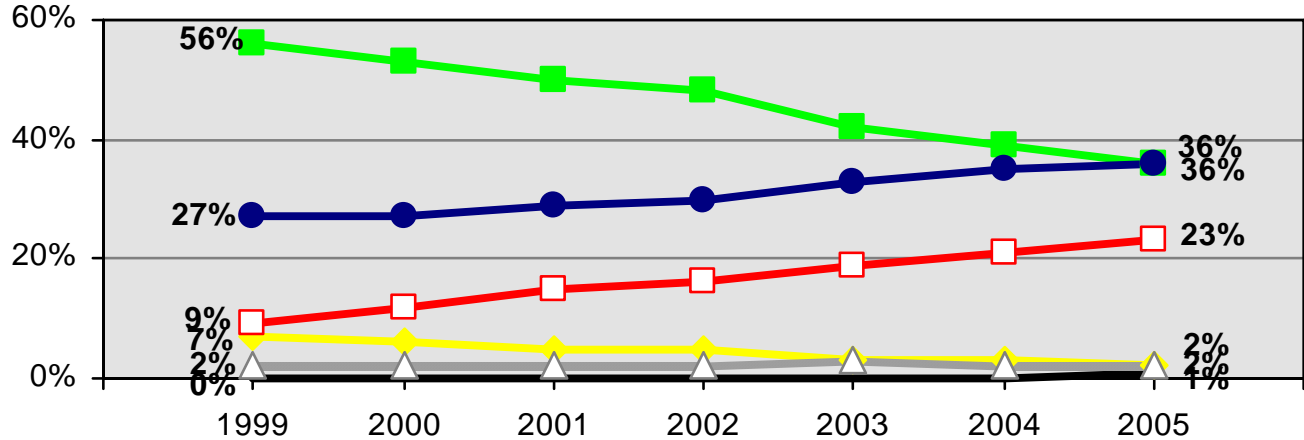


Payment Method Share of Volume at Mid-Priced Restaurants/QSRs

GPC Cards Catch and Match Cash

Despite lower ticket sizes than found at white-cloth dining establishments, cash usage has continued to fall while GPC and debit card usage has risen. A trend analysis of people dining at mid-priced restaurants shows that more and more people are choosing to eat at these types of restaurants.

**Payment Method Share of Dollar Volume
- Mid-Priced Restaurants -**

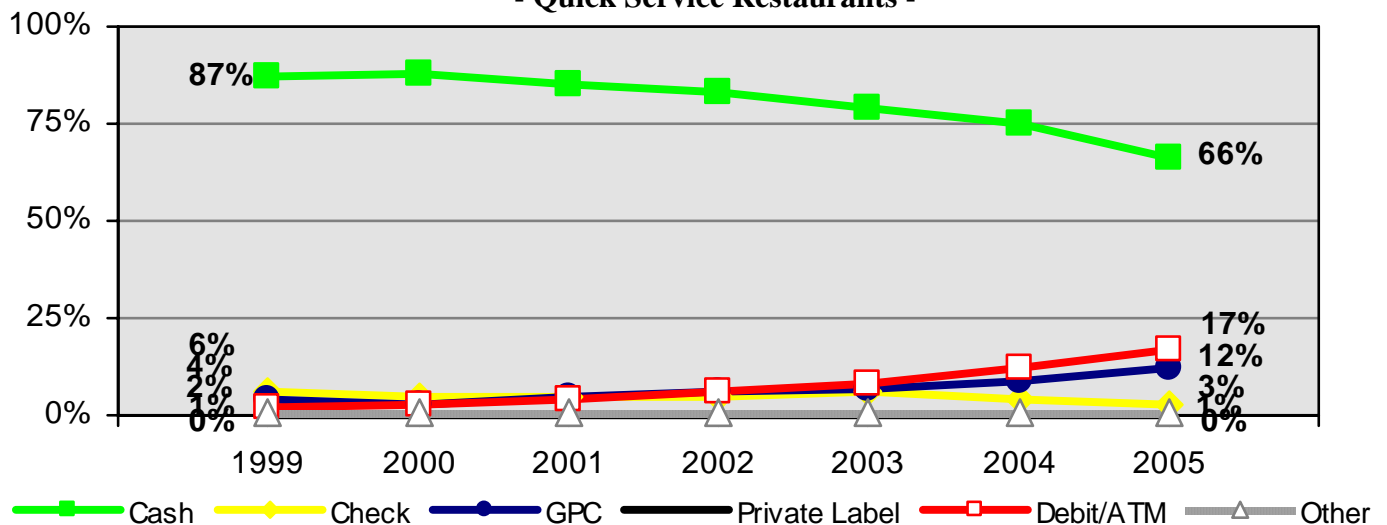


Card Usage Responds to Increased Acceptance

As acceptance at fast food outlets has expanded, so too has the use of credit and debit cards. Cash remains the primary payment method for low-ticket fast food, but the benefits of increased speed and convenience created by “swipe-and-go” transactions and “contactless” technology, plus expanded acceptance, will likely drive the continued and increased use of payment cards at QSRs.

The overall category appears to be growing too; QSRs are among the top 10 merchant categories in terms of net increase in the number of people making purchases at that type of merchant.

**Payment Method Share of Dollar Volume
- Quick Service Restaurants -**

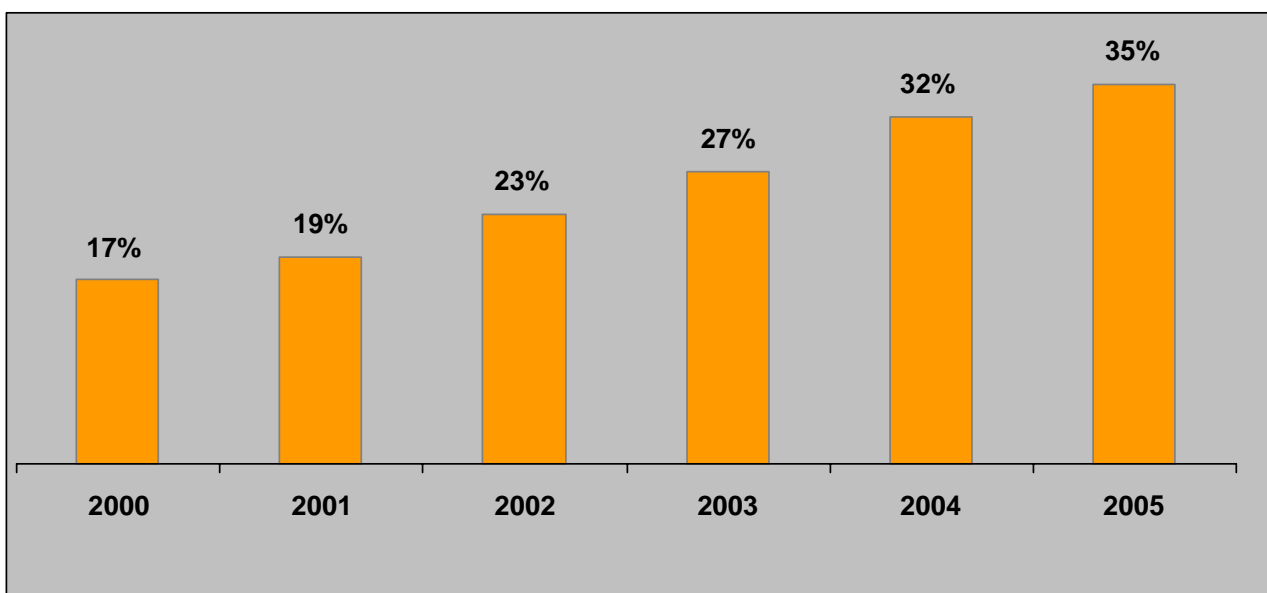


Bill Payments Made With Plastic

Use of Plastic to Pay Bills Increases

In 2005, more than one-third of consumers used plastic to pay at least one bill in the previous month. Checks still command a significant lead in bill payment, but the convenience and benefits of card use are influencing a change in consumers' payment behavior.

Consumers Who Made a Bill Payment With Plastic



Trends in Debit Usage Segments

Debit Card Users – Heavy, Medium and Light

Heavy User Segment Continues to Expand

Definitions:

Heavy Users – Used debit card 19+ times in past month

Medium Users – Used debit card 7 to 18 times in past month

Light Users – Used debit card 1 to 6 times in past month

Non-Users – Own, but did not use debit card in past month

The percent of debit cardholders who are heavy debit users grew 11 points and the segment nearly doubled in size from 2000 to 2005, as light users and non-users declined dramatically (by 5 points and 7 points, respectively). The percent of medium debit users remained stable as light users moved into the medium user segment, and medium users moved out and into the heavy user segment.

In 2005, heavy and medium debit card users accounted for half of all debit cardholders, fully closing the gap on light and non-users. The increased ease and convenience of using debit cards has contributed to the growth in use at merchant categories that had not previously been open to debit cards.

Debit User Segments

	2000	2001	2002	2003	2004	2005
Total Cards	100%	100%	100%	100%	100%	100%
Heavy Users	13%	14%	16%	17%	21%	24%
Medium Users	25%	27%	28%	28%	27%	27%
Light Users	27%	26%	25%	24%	23%	22%
Non-Users	35%	33%	31%	31%	29%	28%

Profile of Debit User Segments

Demographic Differences Exist Between Users and Non-Users

Heavy debit card users represented one of the smallest segments of debit cardholders but accounted for most of the debit card dollars – by a wide margin.

Compared to debit non-users, debit users are more likely to be younger, employed, women with children. Debit usage is inversely proportional to age and directly proportional to the presence of children: as debit card usage rises, the age profile of the user gets younger, and there are more likely to be children in the home.

Spending* and Demographics Comparison by Card User Group

Spending	Total Debit Cardholders	Heavy Users	Medium Users	Light Users	Non-Users
Share of Debit Cardholders	100%	24%	27%	22%	28%
Share of Debit Card Spending	100%	60%	31%	9%	0%
Average Debit Card Ticket Size	\$41	\$38	\$44	\$55	NA
Average # of Debit Card Transactions	10.0	30.6	12.0	3.2	NA
Demographics					
% Female	52%	53%	56%	54%	49%
Average Age	41	38	40	42	51
Average HH Income	\$67k	\$65k	\$62k	\$63k	\$70k
% Married	63%	68%	59%	58%	64%
% With Children (under 18)	35%	51%	40%	33%	29%
% Employed Full-Time	61%	67%	63%	56%	55%

* Debit card spending includes signature and PIN-based transactions

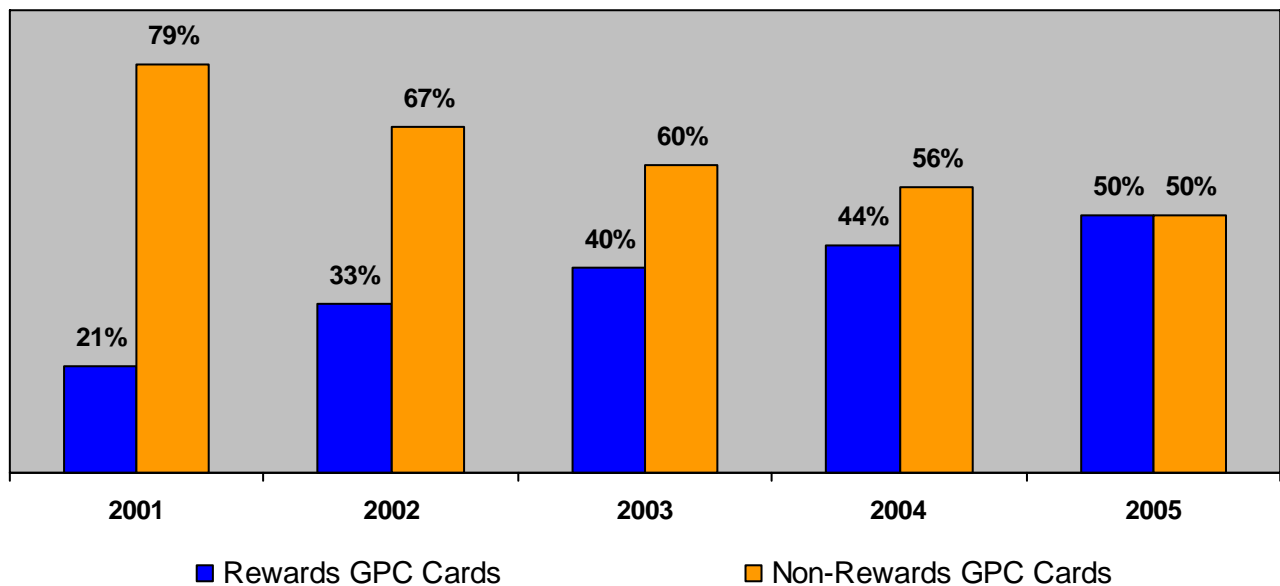
Trends in Rewards Card Usage

Rewards Cards and Non-Rewards Cards

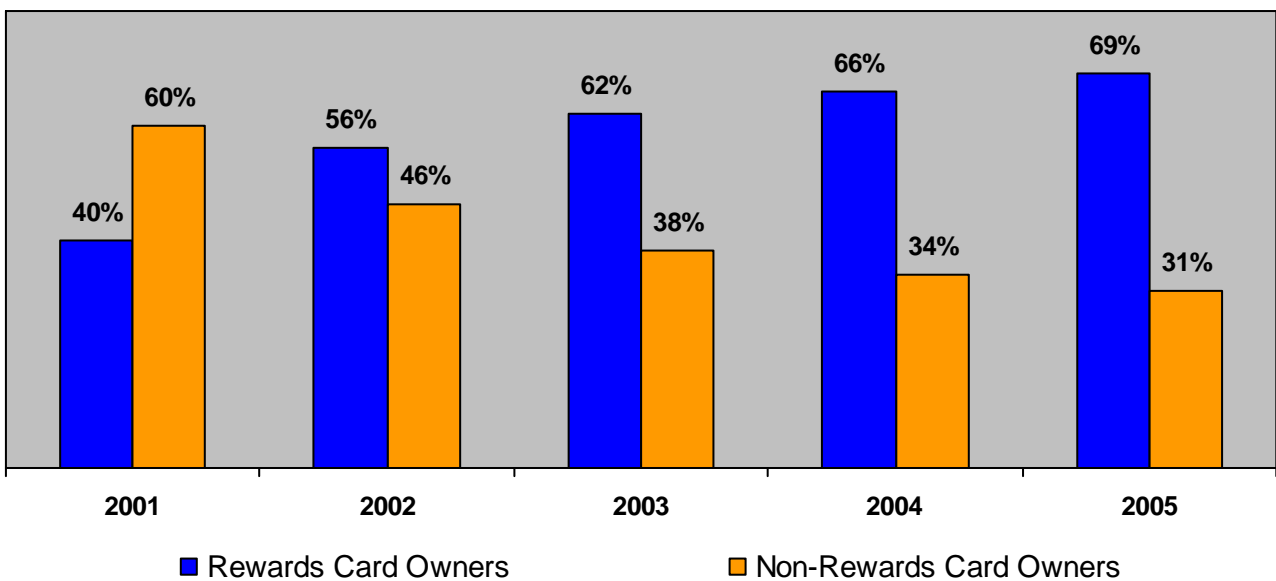
Rewards Cards Reach All Time High

The share of GPC cards with rewards has increased dramatically in recent years. In 2005, the share was more than double what it was in 2001. In the past, most rewards cards were co-branded in nature; however, most of the growth in rewards cards in recent years has been due to the addition of rewards programs to many non-co-branded cards.

Share of GPC Cards



Share of GPC Cardholders

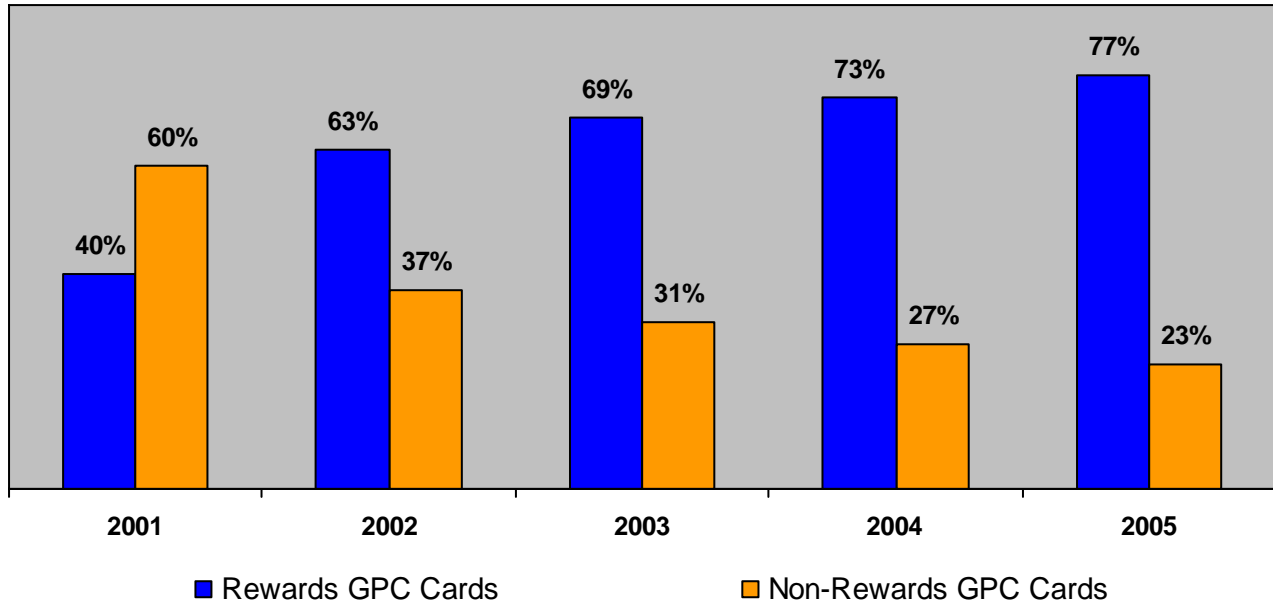


Rewards Card Spend and Transactions

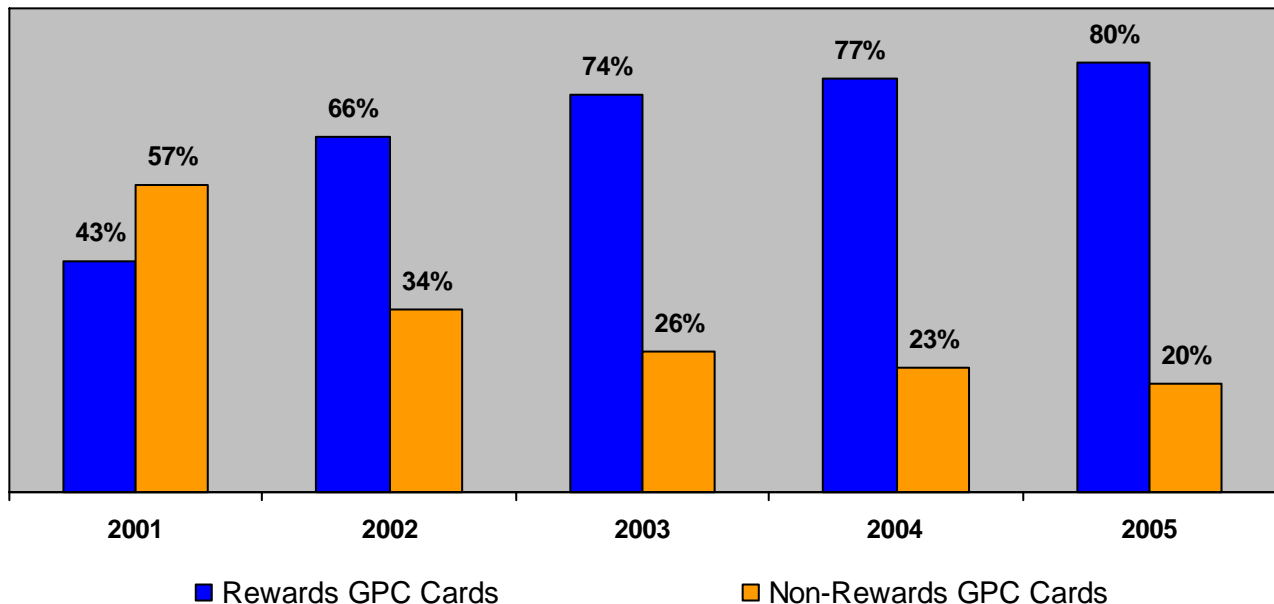
Rewards Card Spending Continues to Increase

In 2005, usage of rewards cards expanded further as rewards cards captured more than three-quarters of total GPC card dollars and four-fifths of GPC card transactions.

Share of GPC Card Dollars



Share of GPC Card Transactions



VISA PAYMENT PANEL STUDY

2006 Payment Trends Summary

Conclusions

The Visa Payment Panel Study is one-of-a-kind – the only comprehensive, ongoing measurement system in the payment industry. Visa's investment in the study has paid dividends by yielding effective product development and marketing strategies, successful new products, and useful insights into members' portfolio management and CRM strategies and tactics.

Panel data has been used to guide Visa's business and product strategies since the early 90s and is proving its worth by showing the success of those strategies in the new millennium.

- Cash and checks were identified as a primary source of volume early on, and Visa's check card strategy emphasizing the convenience of debit to access ready funds, resulted in phenomenal year-over-year growth in debit card usage.
- Payments made with rewards cards showed more diverse card usage, higher spend, and different needs for the affluent and growing near-affluent segments of the population. Visa's consumer credit strategy, focused on rewards and services relevant to each segment, was launched, and growth in both traditional rewards and Visa Signature card products has been significant. Further, the Panel study has been a key element of Visa's broad knowledge of marketing and product development in the co-brand space.

The Visa Payment Panel Study will continue to serve Visa and its customers with reliable strategic intelligence, marketplace opportunities and measurement of the efficacy of past decisions to inform future ones.