

*MasterCard
International*



Corporate Products Interchange Analysis

A Competitive Response

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Background

- At MasterCard's June Board meeting a unique Corporate Products interchange structure was adopted which...
 - Incented issuers by establishing a 1.75% non-face to face rate
 - incented acquirers/merchants by 10bps/20bps to capture/pass level II/III P-card data
 - incented acquirers/merchants by establishing a large ticket rate of .75% + \$30 which declines with transactions > \$3,000
 - Established a Fleet Card rate @ 1.75%

Background (cont'd)

- These actions were forecasted to result in a blended interchange rate relatively equal to the Visa rate
- In October Visa announced a similar structure but with greatly enhanced issuer/acquirer incentives...
 - 1.93% + \$.06 – All Corporate Products/all transactions (no data present)
 - Consumer rates – Data present (tax/tax & code)
- The result is a (14 bps) Purchasing Card and (11 bps) Business/Corporate Card disadvantage when assuming 30%/15% of enhanced data is present

Background (cont'd)

- In addition Visa recently extended their Corporate Products assessment waivers which places MasterCard issuers at a further disadvantage, e.g.
 - 4Q96 - 3Q97 100% waiver - Visa
 - 4Q96 - 3Q97 75% waiver - MasterCard
- Visa is heavily marketing their high interchange rates to key issuers (FCC/NBD, Citibank, et al)
- We must respond accordingly to protect our investment/future in the business

Recommendation

- Increase the 1.75% non face to face rate to 1.95%
- Increase the acquirer/merchant enhanced level II/III data incentive from 10bps/20bps to 15bps/30bps
- Increase the large ticket rate calculation from .75% + \$30 to .75% + \$36 to achieve an effective rate of 1.95% @ \$3,000.
- Effect a 20bps hold back/give back to acquirers/merchants for Fleet transactions to maintain the 1.75% Fleet rate.

Result - Blended Rate Comparison

	<u>MC</u>	<u>Visa</u>	<u>+/-</u>
• Purchasing Card			
– @1.75%, 1.65%, 1.55%	1.72%	1.86%	(.14%)
– @1.95%, 1.80%, 1.65%	1.85%	1.86%	(.01%)
• Business/Corporate Card			
– @1.75%	1.85%	1.96%	(.11%)
– @1.95%	1.89%	1.96%	(.07%)

note: statistics verified by PS & D.

Conclusions

- Adoption of recommended rate structure will minimize Visa's ability to convert MasterCard only Purchasing Card issuers and protect our market share at dual issuers.
- Face to face merchants will be advantaged
- Non face to face merchants will be slightly disadvantaged when tax & code are present
- The BusinessCard portfolio is still at some risk given the 7bps differential.
- Corporate Card issuers should be neutral since our T&E rate is slightly above the Visa rate