



PARTNER. ADVISOR. CATALYST.

Actionable, strategic advice on IT, business, and regulatory issues in the financial services industry

The Broken Promise of Pay Anywhere, Anytime:

The Experience of the U.S. Cardholder Abroad

October 2009

TABLE OF CONTENTS

IMPACT POINTS 3

INTRODUCTION..... 4

WHAT DOES A U.S. CARD CARRYING TRAVELER LOOK LIKE? 5

PROBLEMS FACED, ACTIONS TAKEN. 13

 DETERRENTS FROM CARD USAGE ABROAD 14

 INCIDENCE OF CARD ISSUES ABROAD..... 18

 IMMEDIATE REACTION TO A CARD ISSUE ABROAD 22

 THE EMOTIONAL RESPONSE TO A CARD ISSUE ABROAD 25

 THE HANGOVER EFFECT OF A BAD CARD EXPERIENCE
 ABROAD 30

 BAD EXPERIENCES AND REVENUE LOSS 33

 DEMAND FOR TRAVELER SPECIFIC CARD PRODUCTS 36

 REACTIVE CHURNERS AND PASSIVE BOOMERS 38

CONCLUSION 51

RELATED AITE GROUP RESEARCH..... 54

Nick Holland
Judy Fishman
Gwenn Bezard

n holland@aitegroup.com
617.338.6022

101 Arch Street
Suite 501
Boston, MA 02110
Tel: 617.338.6050
Fax: 617.338.6078
info@aitegroup.com

IMPACT POINTS

- In September 2009 Aite Group conducted an online survey among 1,019 international travelers that reside in the United States. The purpose of the research was to determine the type of issues that they may have faced while traveling abroad, their reactions and consequent behavioral changes.
- Nearly half of U.S. cardholders visiting Western Europe, Asia Pacific, The Middle East or Central Europe in the last four years have experienced some form of problem using U.S. issued payment cards.
- Cash is the most commonly used form of payment mechanism for U.S. cardholders abroad.
- Two thirds of problems faced by U.S. cardholders abroad could be directly addressed by U.S. card issuers.
- Cardholders default to cash payments in most instances of an issue with card payments.
- Nearly two thirds of cardholders adjust payment behavior after a bad experience, directly resulting in lower usage of the problem card.
- An issue caused by a card being declined or due to incompatible card technology is treated far more seriously by cardholders than issues stemming from card acceptance, fees or merchant policies. A quarter of cardholders experiencing these types of problems will agree either somewhat or totally that the problem ruined or almost ruined their trip.
- We estimate that 9.7 million U.S. cardholders experienced issues with card payments abroad in 2008.
- Of these 9.7 million cardholders, 5.5 million would have spent on average an extra US\$712 per year on their cards had they not experienced issues.
- The U.S. card industry missed out on US\$3.9 billion in transactions as a result of these lost card payments abroad, and US\$447 million in revenues.

- Two thirds of cardholders that travel outside the U.S. would be interested in a product that made their experience using payment cards abroad more like that in the U.S. However, of this group, only a quarter would be prepared to pay “a reasonable fee” for special benefits and capabilities.

INTRODUCTION

In September 2009 Aite Group conducted an online survey among 1,019 U.S. resident cardholders. Consumers were qualified for participation in this research if they had traveled to a country other than Canada, the Caribbean or Mexico in the 2006 to 2009 period (although they may have traveled to these destinations also)¹. Tests of significance between subgroups of the sample were conducted at the 95% level of confidence.

The results indicate that the promise of ubiquitous acceptance of card payments wherever and whenever falls apart once a U.S. cardholder crosses the national border. If you happen to travel to the most popular destination for U.S. travelers — Western Europe — there is almost a 50% chance that you will have experienced some form of problem using a U.S. payment card in the last few years.

Fixing the majority of issues falls within the remit of U.S. card issuers in most instances and it is very much in their interests to do so...

- U.S. travelers are already card averse when traveling, choosing to pay with local currency almost twice as often as credit cards.
- If cardholders experience a problem using a U.S. issued card, the most likely course of action is to pay with the cash they have with them.
- The U.S. card industry missed out on US\$3.9 billion in transactions as a result of these lost card payments abroad, and US\$447 million in revenues.
- The hangover from a bad card experience abroad lasts, causing a decrease in usage of the 'problem' card both abroad and domestically on return to the United States. In fact, nearly two thirds of cardholders will change their payment behavior following a problem experienced with a card abroad in a way that will negatively affect usage of the problem card.

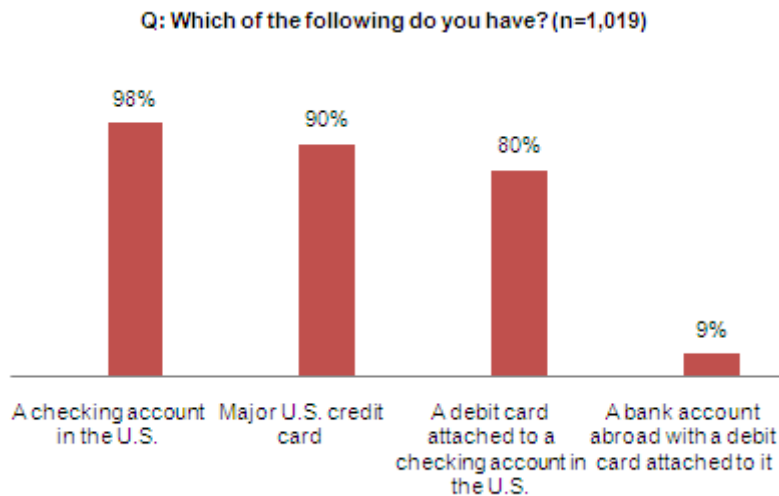
1. Cardholders that had only traveled to Canada, the Caribbean or Mexico were excluded since it was anticipated that their experience would have been much akin to that experienced in the U.S. due to the proximity to the United States and the number of U.S. visitors.

This final aspect of a bad experience, the carry over beyond the experience abroad may be the most damaging aspect for issuers. This reaction was even more pronounced among cardholders that expressed an interest in a product designed to alleviate some of the friction experienced using a U.S. payment card abroad. U.S. card issuers will have to work hard to court a reactionary and fickle audience, if that is indeed what they want to do.

WHAT DOES A U.S. CARD CARRYING TRAVELER LOOK LIKE?

All of the survey participants were screened for the ownership of at least one U.S. issued credit or debit card as well as having taken travel outside of the U.S. within the last four years. Virtually all interviewees has a U.S. based checking account, 90% had a major U.S. credit card (specified as Visa, MasterCard, American Express or Discover) and 80% had a debit card attached to a checking account in the U.S. Just 9% had a bank account abroad with a debit card attached to it (Figure 1).

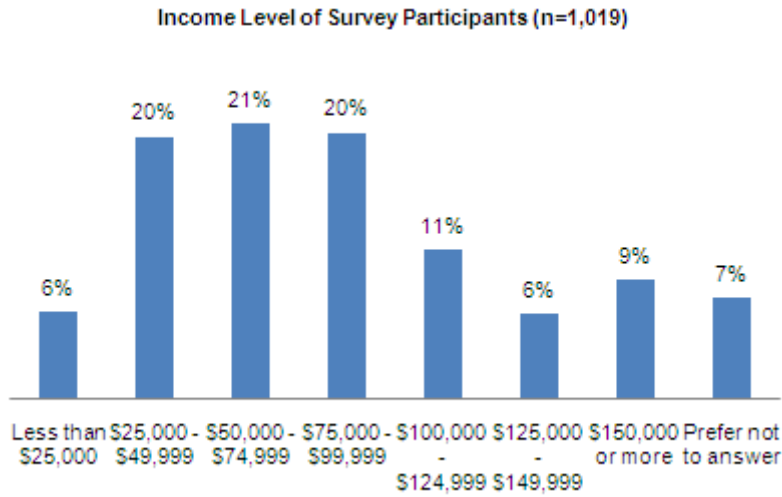
FIGURE 1: NINE OUT OF TEN U.S. TRAVELERS HAVE A CREDIT CARD



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

Card holding U.S. travelers are not necessarily affluent. Two thirds of participants had incomes of less than US\$100,000 per year, with just 9% stating that they had incomes of \$150,000 or more per year. Clearly, international travel is not just for the wealthy (Figure 2 on page 8).

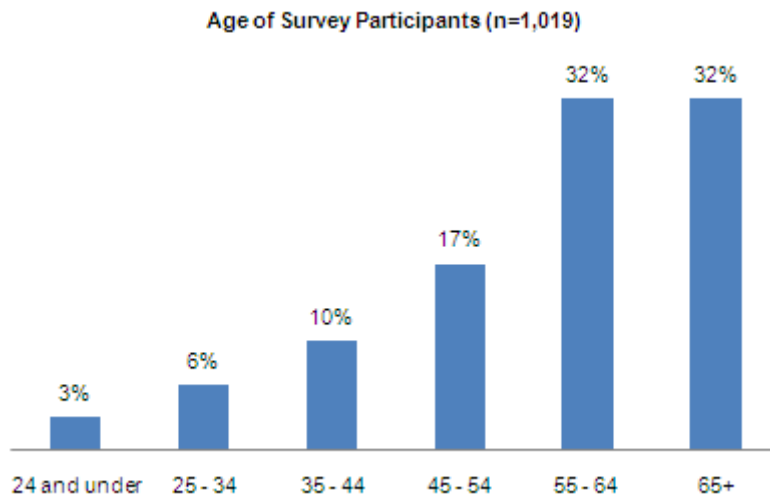
FIGURE 2: TWO THIRDS OF U.S. CARDHOLDERS THAT TRAVEL ABROAD EARN LESS THAN \$100,000 PER YEAR



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

The majority of participants in the survey were over 55 years of age indicating that international travelers are more likely to be retirees with time on their hands for excursions further afield. (Figure 3 on page 9).

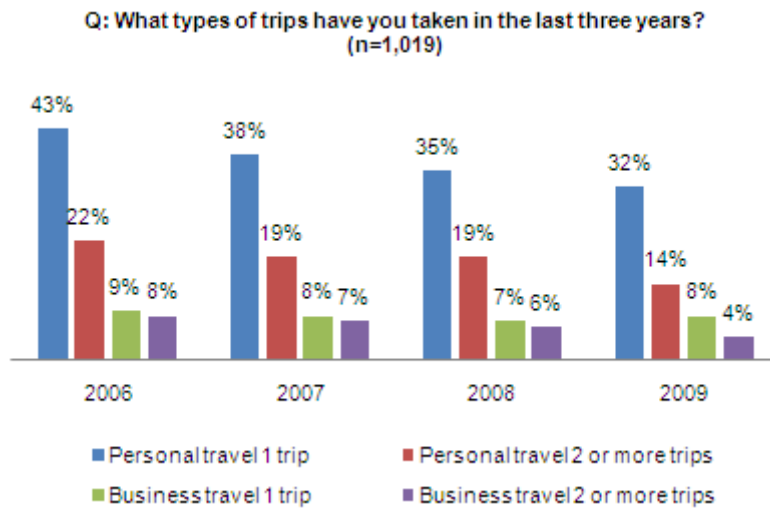
FIGURE 3: OVER TWO THIRDS OF U.S. CARDHOLDERS THAT TRAVEL ABROAD ARE 55 YEARS OF AGE OR OLDER



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

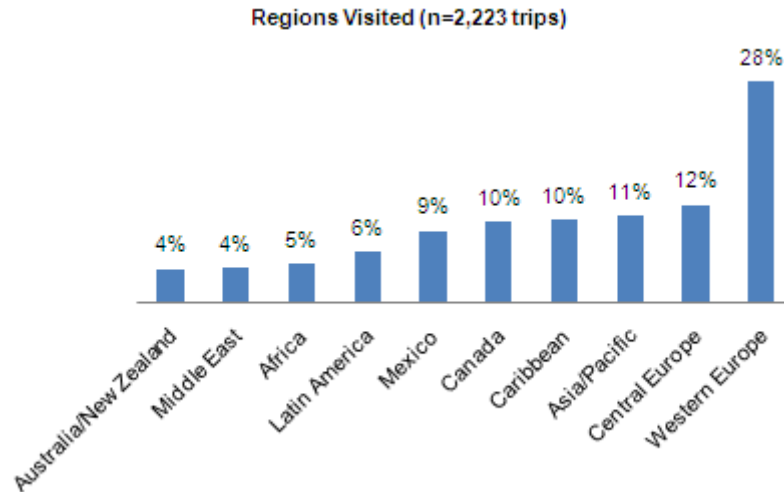
With recent economic conditions cramping the style of many Americans, it is not surprising that travel has decreased over the last four years. Cardholders taking one personal trip per year have decreased by over ten percentage points between 2006 to 2009. Cardholders taking two or more personal trips abroad per year have decreased even more, from 22% of cardholders in 2006 to just 14% in 2009. Business travel has been less impacted, but there is a discernible drop in the frequency of business trips per year. One business trip per year has remained relatively consistent, but curtailed budgets mean that two or more business trips per year have dropped from 8% of cardholders taking multiple international trips in 2006 to just 4% of cardholders in 2009 (Figure 4 on page 10).

FIGURE 4: THE RECESSION HAS IMPACTED THE FREQUENCY OF BOTH PERSONAL AND BUSINESS TRAVEL OVER THE LAST FOUR YEARS.



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

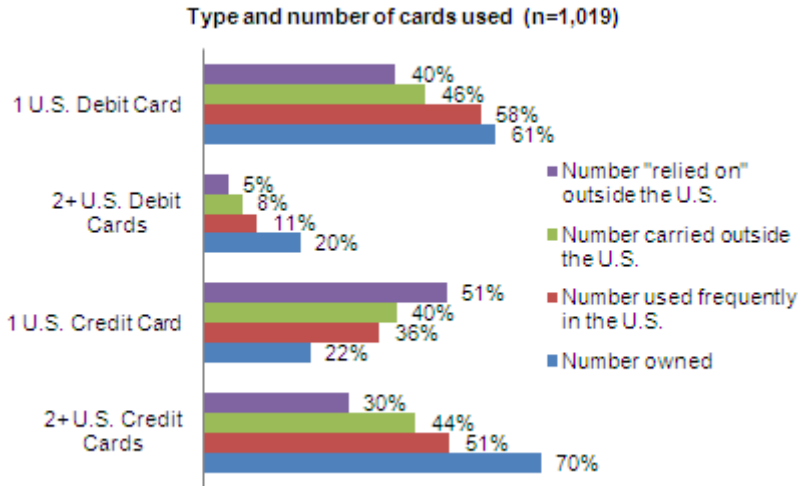
The most popular location for US cardholders traveling outside of the U.S. was, by a significant margin, Western Europe. Of cardholders surveyed, 28% had visited this region within the last four years, more than double that of any other region. While it may be expected that Canada and / or Mexico would be the most popular destinations for U.S. cardholders (and indeed they are), our methodology was to exclude cardholders that had only traveled to these regions since it is anticipated that their experience would have been much akin to that experienced in the U.S. due to the proximity to the United States and the number of U.S. visitors (Figure 5 on page 11).

FIGURE 5: WESTERN EUROPE IS THE MOST POPULAR DESTINATION FOR U.S. CARDHOLDERS

Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

While the majority of U.S. cardholders have 2 or more credit cards, they tend to rely on just one for travel outside of the United States. U.S. cardholders are far more likely to have just a single debit card, but a higher percentage of cardholders carry a debit card abroad compared to credit cards and is a relied on payment mechanism for 40% of U.S. travelers (Figure 6 on page 12).

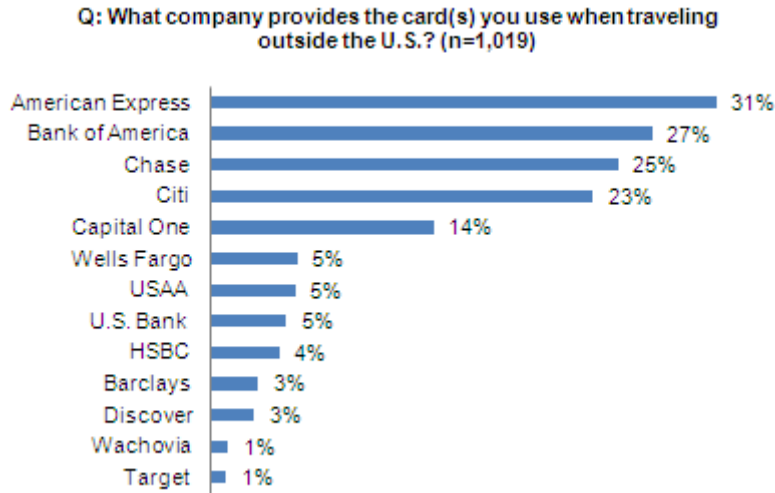
FIGURE 6: U.S. CARDHOLDERS TEND TO RELY ON A SINGLE CREDIT CARD OUTSIDE OF THE U.S.



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

Of major U.S. credit card issuers, American Express was the most popular issuer for U.S. cardholders traveling outside the United States. American Express has cultivated a significant reputation as a traveler oriented brand through their long standing history of offering travel related services. It is also a commonly issued card for corporate use. Following American Express, Bank of America, Chase and Citi issued cards were used by approximately a quarter of U.S. cardholding travelers (Figure 7 on page 13).

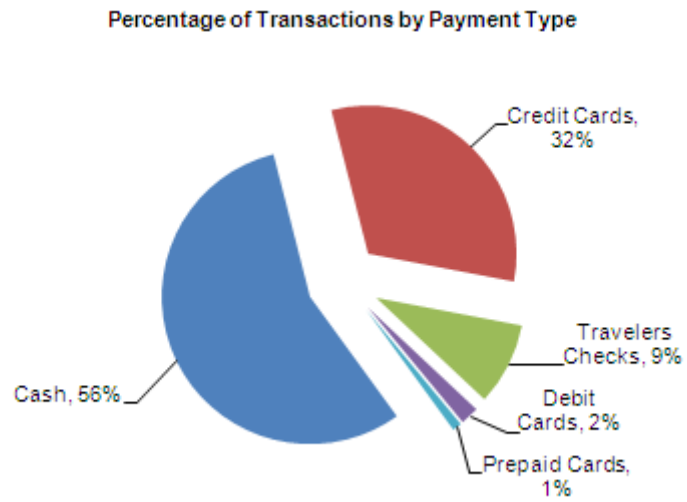
FIGURE 7: AMERICAN EXPRESS LEADS U.S. ISSUED CARDS USED ABROAD



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

While card payments remain popular for U.S. travelers abroad, they do not match the ease, ubiquity and frictionless acceptance of local currency. Of transactions made by U.S. cardholders abroad, 56% were cash payments for goods or services. All cards in aggregate represented 35% of transactions, with the vast majority (33%) being made by credit cards. Clearly, the reliance on cash for U.S. travelers abroad presents a sizeable opportunity for increased wallet share for card issuers and networks (Figure 8 on page 14).

FIGURE 8: CASH IS STILL KING AS THE MOST FREQUENTLY USED FORM OF PAYMENT WHEN TRAVELING

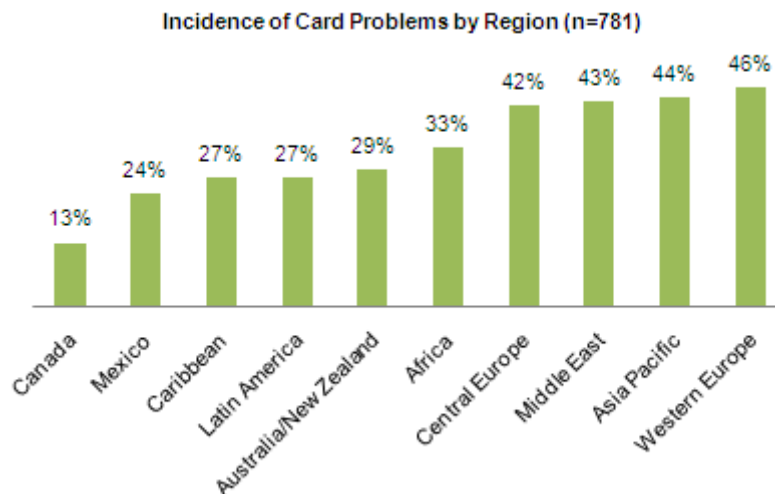


Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

PROBLEMS FACED, ACTIONS TAKEN

Rather alarmingly, if you are a cardholder that has visited Central Europe, the Middle East, Asia Pacific, or Western Europe within the last four years, there is almost a 50% chance that you will have experienced some form of problem using a U.S. payment card. Fewer problems occur with travel to Africa, Australia / New Zealand and Latin America, with the Caribbean, Mexico and Canada being the least likely regions where U.S. cardholders would experience problems using magnetic stripe payment cards. Given the proximity of the latter regions to the United States, it is understandable that there would be fewer problems for U.S. cardholders in, for example, Canada and Mexico (Figure 9 on page 15).

FIGURE 9: NEARLY HALF OF U.S. TRAVELERS TO WESTERN EUROPE HAVE EXPERIENCED A PROBLEM USING A U.S. PAYMENT CARD



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

Problems experienced by U.S. cardholders while traveling outside of the United States can be broadly placed under the ownership of one of four parties — the card issuer, the card network / acquirer, the merchant or the location being visited. We consider that card issuers have the capacity to control the majority of problems experienced by U.S. cardholders traveling outside of the U.S., whether the problem is to do with compatible card technologies and hardware, policy relating to fees, network intelligence or providing traveler oriented services to alleviate issues (Figure 10 on page 16).

FIGURE 10: CARD ISSUERS HAVE CONTROL OVER MOST OF THE PROBLEMS FACED BY U.S. CARDHOLDERS WHILE TRAVELING OUTSIDE THE U.S.^A

Issuer
After a transaction is declined, the card company or authorization center is contacted by phone but it does not resolve the problem
Fear of embarrassment of card being declined in public
Fear of theft of card information without my noticing (e.g., skimming)
Foreign exchange fees being charged by my credit card company
Other fees being charged by my credit card company for foreign transactions
The card does not work with foreign e-commerce websites
The transaction is declined by the card company because of their fraud concerns
The transaction is declined, the merchant is unable or unwilling to call the credit card company or authorization center to obtain an authorization
When I try to use my card, the transaction is declined unexpectedly
The merchant only accepts chip cards
I am unable to use cards because terminal does not accept magnetic stripe cards (also unattended kiosks, gas pumps, etc.)
I am unable to use card because clerk does not know how to run a magnetic stripe card or refuses to accept the card with magnetic stripe
Location
Fear of theft of card with violence (e.g., mugging, kidnapping to extort PIN)
Fear of theft of card without violence (e.g., pick pocketing, theft from hotel room)
Merchant
Fees being charged by the seller/merchant/company where I want to pay by card
Merchants requiring a minimum amount for credit card payments
Network
Outside the U.S. some locations do not accept my credit or debit cards

Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

- a. Primary stakeholder is attributed in the table. Other entities may have a role in the problem, but for the sake of clarity, attribution is to a single entity rather than apportioned.

DETERRENTS FROM CARD USAGE ABROAD

Survey participants were asked which of the factors outlined in Figure 10 deter them from card usage abroad. The greatest deterrent from card usage abroad are fees in the form of both foreign exchange fees and other fees charged by credit card companies for using a card for foreign transactions. Nearly half of respondents stated that foreign exchange fees were a deterrent from card usage and 39% stated that other fees for card usage for foreign transactions were a deterrent.

Lack of acceptance of cards was seen as a deterrent from usage by 35% of survey participants. This may be more of a direct barrier than a deterrent — if a card network does not have the same level of ubiquity abroad that cardholders are used to in the United States, then the cardholder is physically unable to use their card in

locations that do not accept the brand. This is less of an issue for Visa and MasterCard, both of which have a high level of global reach, but more U.S. specific card networks such as American Express and Discover may suffer more.

Merchant specific deterrents come in the form of fees or policies such as not allowing card transactions below a merchant set threshold. Of survey participants, 30% stated that fees charged by the seller or merchant were a deterrent from card usage while traveling. Merchants requiring a minimum amount for credit card transactions to be accepted was also seen as a deterrent from card usage by 26% of U.S. cardholders traveling outside the U.S.

Some deterrents from card usage are based on the fear of crime, whether physical attacks with violence such as mugging, physical attacks without violence such as pickpocketing or covert electronic attacks such as card skimming. Of participants, 26% stated that the fear of theft of card information without their knowledge was a deterrent from card usage abroad. This is on a par with the fear of theft of payment cards without violence (25%) and greater than the fear of theft of payment cards with violence (20%). One final form of fear as a deterrent from card usage — the fear of embarrassment of a card being declined in public. Of cardholders surveyed, 11% stated that this was a deterrent from card usage while traveling.

All of the above issues can be categorized as 'soft' problems — issues that could be resolved with changes in policy, strategic growth of card networks or education of merchants or cardholders. There are also a variety of 'hard' problems that are caused either by incompatibility between U.S. and foreign card hardware or from authorizing / processing performance resulting in unexpectedly declined card transactions. Hardware specific issues stem from the transition to EMV (Europay / MasterCard / Visa²) chip card technology outside of the United States. This standard requires credit and debit cards to interface with the point of purchase hardware (point of sale terminal, gas pump, vending machine, etc.) via a contact chip card chip. U.S. cards do not carry this technology and rely instead on the magnetic stripe on the back of the card. While countries outside of the United States are still accepting cards with a magnetic stripe, the bifurcation of technologies is meaning that some foreign point of purchase locations are becoming chip card specific, particularly at unattended locations such as gas pumps and vending machines. There is also the issue of merchants being less familiar with 'swiping' a card, with conceivably the staff at some retail locations having never performed this action.

Of survey participants, 15% stated that being unable to use cards because the card terminal was unable to accept magnetic stripe cards was a deterrent to card usage outside of the U.S and 11% specifically stated that the merchant only

2. Europay has since been merged with MasterCard, although the EMV acronym retains their presence.

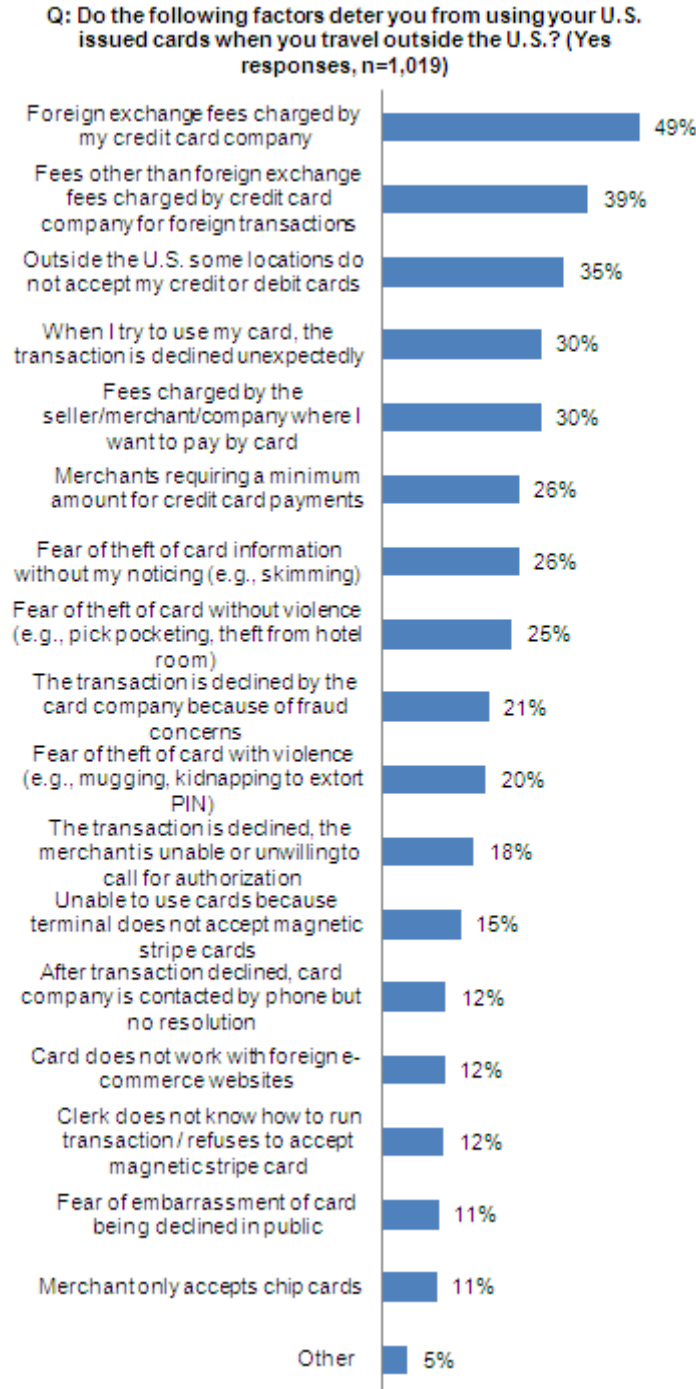
accepted chip cards as a deterrent from card usage. There are also 12% of cardholders that found that the merchant not knowing how to run a magnetic stripe transaction or refuses to accept a magnetic stripe card as a deterrent to card usage outside of the United States. While this could be categorized as a 'soft' problem resulting from a lack of awareness on the behalf of the merchant that magnetic stripe card remain a legitimate payment technology, this problem stems from the incompatibility of card and payment terminal.

There is also the problem of U.S. issued cards not working with foreign e-commerce websites. Of cardholders surveyed, 12% considered this to be a deterrent to card usage while traveling outside the U.S. While this is not likely to be an issue with the interface since it is unlikely that the transaction requires a physical connection to the computer to perform the transaction, it is likely to be derived from concerns over card fraud, given the high incidence of counterfeit card fraud using U.S. card numbers.

Of cardholders surveyed, 30% stated that transactions being declined unexpectedly are a deterrent from using a U.S. payment card while outside the U.S. Further, cardholders having transactions declined specifically due to fraud concerns are a deterrent from card usage for 21% of cardholders traveling outside the U.S.

Following transaction declination, the cardholder or merchant's next course of action is often to contact the authorization center or the card issuer directly in an attempt to resolve the situation. In some instances, the merchant is unwilling to perform this action, and this is stated as a deterrent from card usage by 18% of cardholders traveling outside of the United States. Further, when a call is made, it may not rectify the problem, and this is stated as a deterrent from card usage by 12% of U.S. cardholders traveling outside the United States (Figure 11 on page 19).

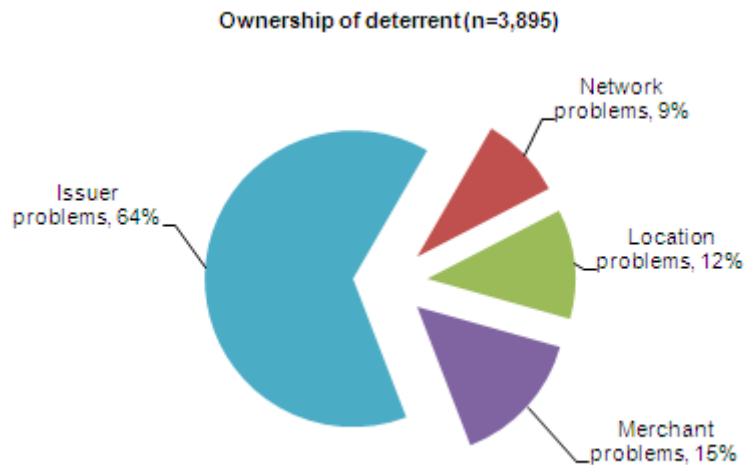
FIGURE 11: FEES RANK HIGHEST AS DETERRENENTS FROM USING U.S. ISSUED CARDS WHILE TRAVELING



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

A total count of problems that deter cardholders from using U.S. issued cards while traveling shows that card issuers are responsible for 64% of these problems. Clearly, card issuers can make a significant impact on the experience of cardholders while traveling if they wish to do so, far more than any other stakeholder (Figure 12).

FIGURE 12: OVER TWO THIRDS OF PROBLEMS THAT DETER CARD USAGE ABROAD ARE OWNED BY CARD ISSUERS



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

INCIDENCE OF CARD ISSUES ABROAD

While factors deterring card usage abroad are important to be aware of, greater weight can be given to actual incidents experienced by U.S. cardholders while traveling.

Foreign exchange fees and other fees charged by card issuers were the most commonly experienced issue for U.S. cardholders traveling outside of the United States. Although these may be considered a necessary element of traveling (converting U.S. dollars to local currency would also incur a fee charged by the converting party), it is seen as a deterrent to using U.S. issued cards while traveling as seen in Figure 11 on page 19. Of survey participants, two thirds have incurred foreign exchange fees as a result of using a U.S. card outside of the United States and 47% have incurred other non-foreign exchange fees while using a U.S. issued card outside of the United States.

Card acceptance outside of the United States is an issue for nearly half of U.S. cardholders traveling abroad. Of cardholders surveyed, 40% stated that they had

sometimes experienced a problem with card acceptance, with 4% stating that they had experienced this issue often.

Merchant owned issues such as the requirement for a minimum amount for processing card transactions and fees charged by the merchant were cited as issues by 37% and 34% of cardholders respectively. Of cardholders surveyed, 6% stated that they were often charged fees by sellers, merchants or companies for card transactions outside of the United States. This issue may be worth further scrutiny by card issuers and networks. Just what fees are they assessing and why?

Fear of card theft, card data theft or just the plain fear of embarrassment from a card transaction being declined in public are experiences that U.S. cardholders have had while traveling outside the U.S. Fear of card theft without violence such as pickpocketing or theft from a hotel room is the most common form of card related fear for U.S. travelers, with 16% of cardholders stating that they have felt this way. Fear of card data theft ranks closely — 15% of cardholders stated that they had experienced fear of their card details being stolen without their knowledge while traveling abroad. The fear of embarrassment from a card being declined in public and the fear of card theft with violence such as a mugging have been experienced by 12% and 11% of cardholders respectively.

Card incompatibility issues between U.S. and foreign points of payment have been experienced by a number of U.S. cardholders traveling abroad. The inability to use a card because a payment device does not accept magnetic stripe transactions has been an issue for 16% of U.S. cardholders abroad. Inability to use a card specifically because the point of payment only accepts chip cards has been experienced by 11% of cardholders while traveling outside the United States. Further, 12% of cardholders have stated that they have been unable to use a card because the clerk either does not know how to run a magnetic stripe transaction, or refuses to do so.

Unexpected transaction declination has been experienced by a quarter of U.S. cardholders abroad, with 23% having cards declined specifically due to fraud concerns. The next step of resolution — calling the card issuer or authorization center is not always successful. Of cardholders surveyed, 18% stated that once the card was declined, the merchant was unwilling or unable to call for authorization, while 10% of cardholders stated that the card company or authorization center was called, but failed to resolve the issue (Figure 13 on page 22).

FIGURE 13: A QUARTER OF U.S. CARDHOLDERS HAVE EXPERIENCED AN UNEXPECTED CARD DECLINATION WHILE TRAVELING OUTSIDE THE UNITED STATES.

Q: Have you experienced any of these factors when you have traveled outside the U.S.? (n=625)

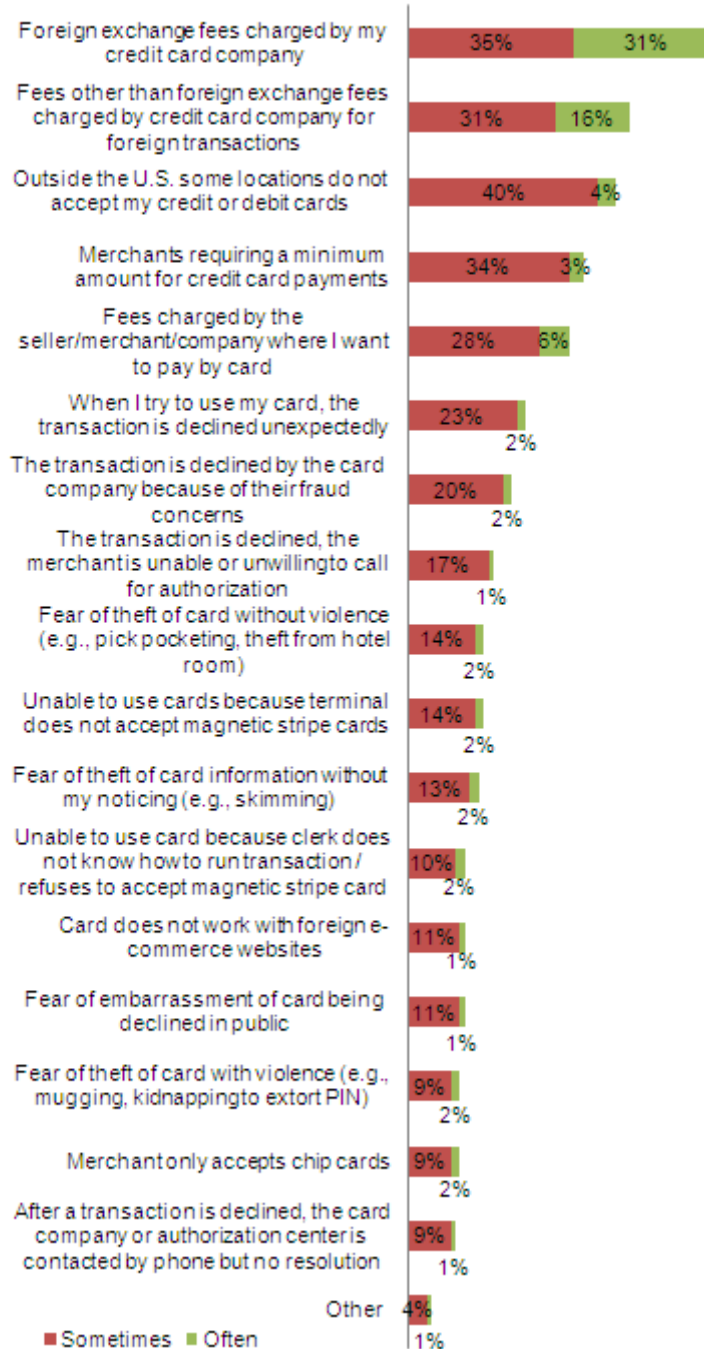
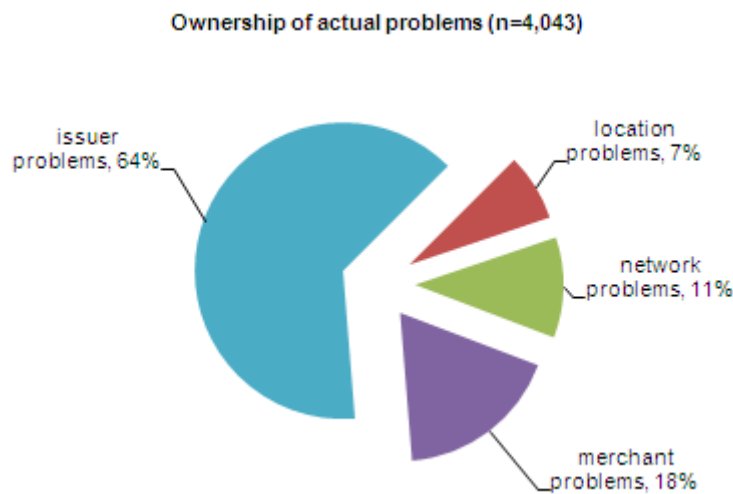


FIGURE 13: A QUARTER OF U.S. CARDHOLDERS HAVE EXPERIENCED AN UNEXPECTED CARD DECLINATION WHILE TRAVELING OUTSIDE THE UNITED STATES.

Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

As with deterrents from card usage abroad, actual experiences of problems by cardholders are primarily under the control of card issuers. Over 4,000 distinct incidents were recorded in the survey, of which 64% were under the direct control of card issuers (Figure 14).

FIGURE 14: CARD ISSUERS HAVE MAJORITY CONTROL OF PROBLEMS EXPERIENCED BY U.S. CARDHOLDERS ABROAD

Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

IMMEDIATE REACTION TO A CARD ISSUE ABROAD

The most common response to an issue with a card transaction being made abroad is for the cardholder to pay with the cash that they have on them. Of survey participants, 61% stated that this is their course of action. If they do not have cash on them to cover the cost of the payment, 24% of cardholders will visit an ATM to access and pay with cash. Further, 15% will borrow cash from a friend, family member or colleague.

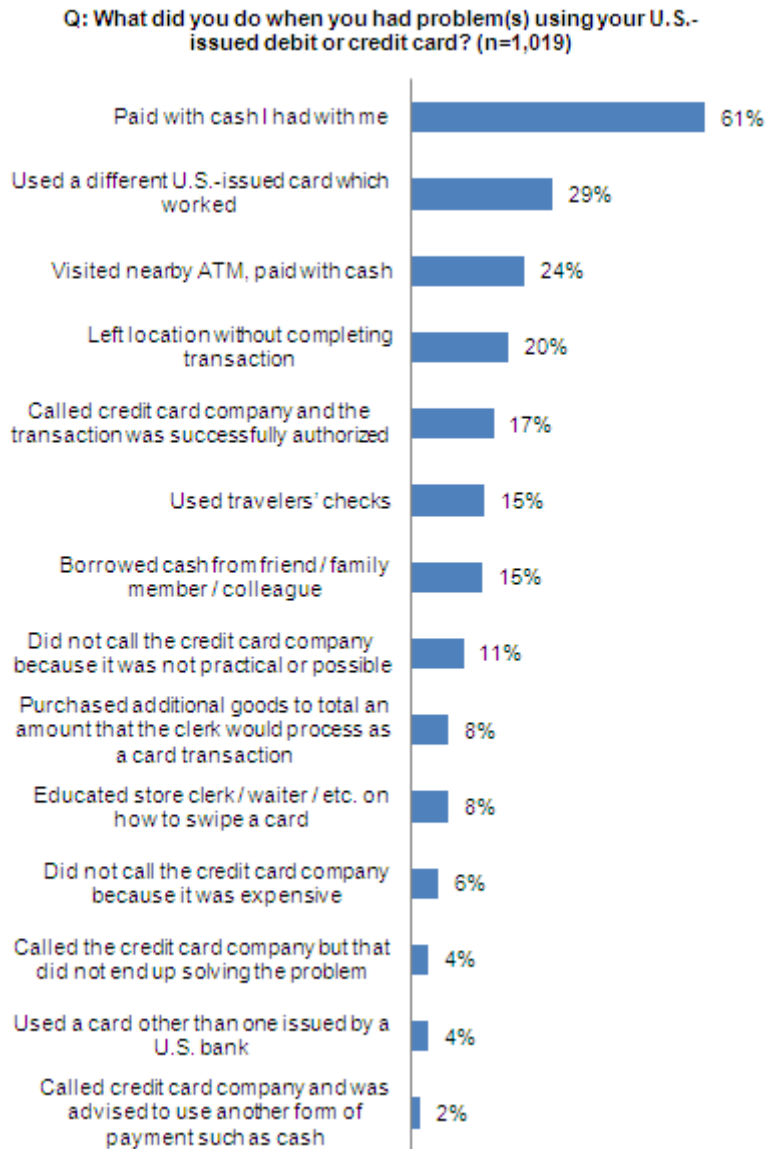
While defaulting to cash that the cardholder has on them at the time of the card related issue is the most likely response when faced with an issue using a U.S. payment card abroad, the second most popular response is for the cardholder to use a different U.S. issued card that works. Of cardholders surveyed, 29% choose this response to a card related problem. Cardholders may also have a card that is not issued in the U.S. and choose to use this in 4% of incidents. Cardholders may

also revert to using travelers checks if a card transaction becomes problematic — 15% of cardholders choose this response when a card payment abroad goes awry.

When a card is declined, the option to call the card company or authorization center may or may not be possible. Of cardholders that have experienced a problem with a card transaction abroad, 17% call their card issuer to resolve the problem and the transaction is successfully authorized, 4% call their card issuer and the problem is not resolved and 2% call their card issuer and are advised by the issuer to use another form of payment such as cash for the transaction. In other instances, the card company or authorization center cannot be called — 11% of cardholders could not call because it was not practical or possible to do so and 6% did not call for authorization because it was too expensive.

There are also some other choices for cardholders when faced with payment card issues abroad — when merchants require a specific payment threshold to be met for a card transaction to take place, 8% of cardholders purchase additional goods to total an amount that the merchant will process as a card transaction. Cardholders may also attempt to educate the merchant how to process a magnetic stripe card if they are not familiar with the technology — 8% of cardholders take this course of action when faced with a merchant that is reluctant to process a magnetic stripe card payment. Finally, the cardholder may have no other recourse when faced with an issue with a U.S. issued payment card other than to just leave the merchant location. Of cardholders surveyed, 20% elect to leave the location without completing the transaction (Figure 15 on page 25).

FIGURE 15: CARDHOLDER’S MOST COMMON RESPONSE TO AN ISSUE WITH CARD PAYMENTS ABROAD IS TO USE AVAILABLE CASH.



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

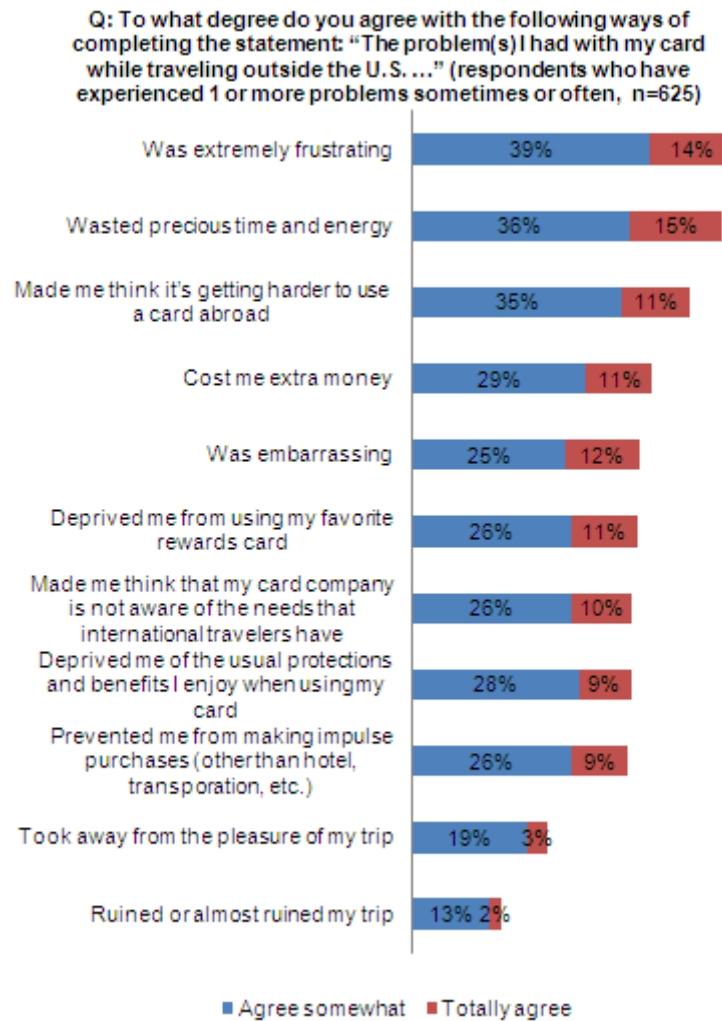
THE EMOTIONAL RESPONSE TO A CARD ISSUE ABROAD

Cardholders were asked their level of agreement with a number of statements describing how they felt after they experienced an issue or issues with card payments while traveling. More than half of survey participants agreed that the experience was extremely frustrating. Separately, more than half of survey participants stated that the problem(s) wasted precious time and energy.

Over a third of cardholders that had experienced problems using a U.S. payment card while traveling found that the experience made them think that it's getting harder to use a card abroad, cost them extra money, deprived them from using their favorite rewards card and found the experience embarrassing.

At the more extreme end of statements, 22% of cardholders went as far as agreeing that the issue they experienced with their U.S. payment card took away from the pleasure of their trip and 15% of participants that had a problem or problems went as far as to state that the issue ruined or nearly ruined their trip (Figure 16).

FIGURE 16: MORE THAN HALF OF CARDHOLDERS THAT HAVE AN ISSUE FIND IT “EXTREMELY FRUSTRATING”



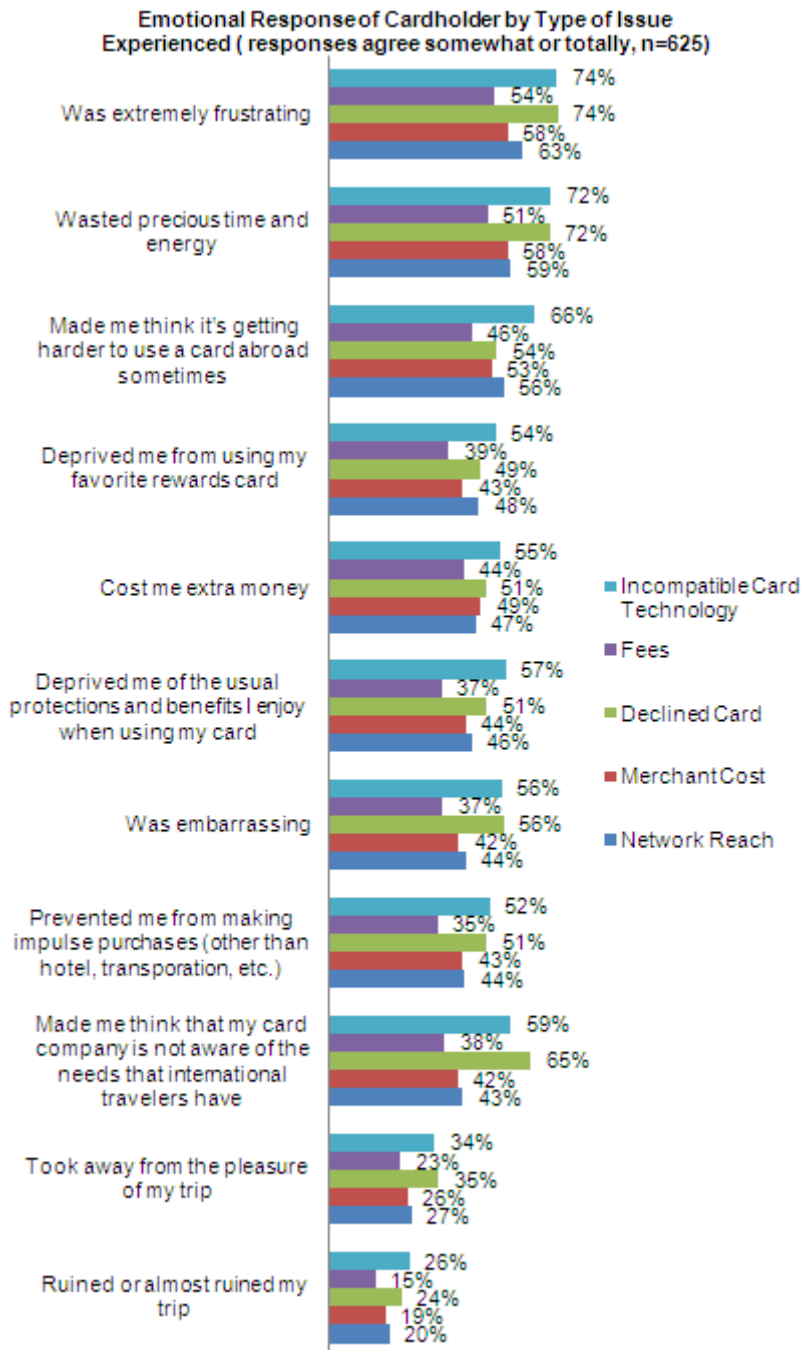
Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

Further examination of the types of issues faced and the emotional response of cardholders to the incident provides a more nuanced view of what causes the greatest levels of cardholder dissatisfaction. In all categories, cardholders that had experienced a ‘hard’ problem caused by incompatible card technologies (inability to use a U.S. issued magnetic stripe card) or card declination had a greater level of agreement with statements about the negativity of their experience than cardholders that had experienced ‘soft’ problems such as network reach, additional merchant costs or fees. Three quarters of cardholders experiencing a ‘hard’ issue considered it to be extremely frustrating and wasted precious time and energy.

Over half of cardholders experiencing a 'hard' issue found that it cost them extra money, deprived them of the use of a favorite rewards card as well as the usual protections and benefits they receive using the card and were prevented from making impulse purchases.

Issues caused by a declined card or incompatible card technology had the most stark difference from 'soft' issues in the areas of embarrassment and antipathy towards the card issuer. Of cardholders experiencing 'hard' issues, 56% found the problem to be embarrassing — a 12 to 19 percentage point difference from a 'soft' issue. Similarly, 59% of cardholders experiencing an issue with incompatible card technology and 65% of cardholders experiencing a declined card thought that their card company is not aware of the needs that international travelers have — as much as a 27 percentage point difference from a 'soft' issue experience. Over a third of cardholders experiencing an issue with incompatible card technology stated that it too away from the pleasure of their trip, and approximately a quarter agreed either somewhat or totally that the experience had ruined or almost ruined their trip.

FIGURE 17: INCOMPATIBLE CARD TECHNOLOGY AND DECLINED CARDS CAUSE THE GREATEST LEVEL OF CUSTOMER FRUSTRATION

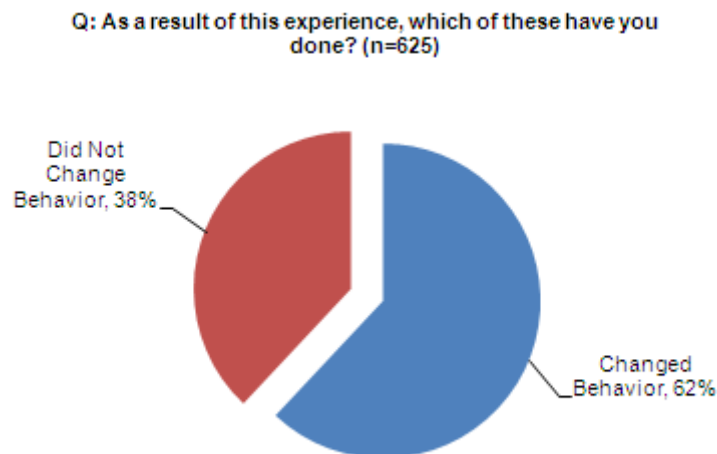


Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

THE HANGOVER EFFECT OF A BAD CARD EXPERIENCE ABROAD

The follow-on effect of a negative experience with a U.S. issued payment card is not to be underestimated — 62% of cardholders that had an issue stated that it changed their behavior (Figure 18).

FIGURE 18: 62% OF CARDHOLDERS CHANGE THEIR BEHAVIOR FOLLOWING AN ISSUE WITH A PAYMENT CARD IN A WAY THAT NEGATIVELY IMPACTS THE “PROBLEM” CARD



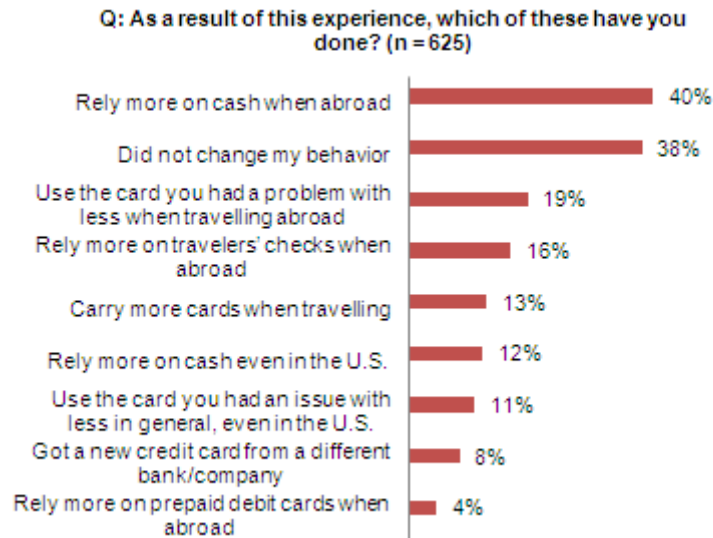
Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

Not only do cardholders default quickly to cash at the actual time of the incident, 40% stated that they now rely more on cash when abroad, with 12% stating that they rely more on cash, even in the U.S. Other payment vehicles are also relied on more after an issue with a U.S. payment card while traveling — 16% of participants stated that they rely more on travelers checks when abroad, and 4% stated that they rely more on prepaid cards when abroad.

The card or cards that are seen as responsible for causing the issue receive what could be described as “bottom-of-wallet” treatment. Of cardholders surveyed that experienced a problem or problems using U.S. issued cards abroad, 19% stated that they use the card that they had a problem with less when traveling abroad. Further, 11% stated that they use the card they had an issue with less in general,

even in the U.S and 8% of cardholders went as far as getting a new credit card from a different bank or company (Figure 19).

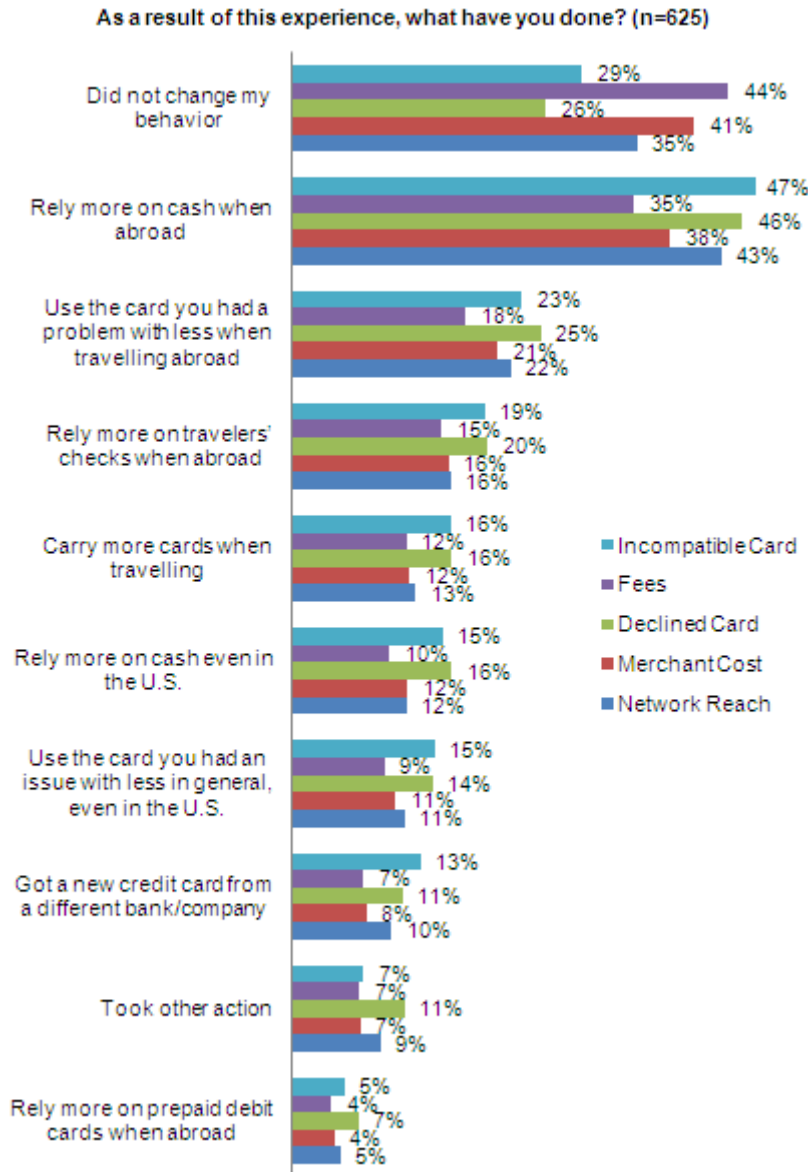
FIGURE 19: ISSUES WITH CARD PAYMENTS WHILE TRAVELING HAVE REPERCUSSIONS AFTER THE TRIP HAS ENDED.



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

As with the degree of emotional response to an issue using a payment card abroad, a far greater response to the event occurs with cardholders that have a problem caused by 'hard' problems (incompatible card technology, declined card) compared to 'soft' problems (fees, merchant cost, network reach). A problem due to incompatible card technology will change the behavior of 71% of cardholders, while a problem due to a declined card will change the behavior of 74% of cardholders. A 'hard' problem makes nearly half of cardholders rely more on cash when abroad and will make nearly a quarter of cardholders use the problem card less abroad. A 'hard' problem will also reduce use of the problem card back in the U.S. more than a 'soft' problem and will cause an increase in reliance of cash back home compared to a 'soft' problem.

FIGURE 20: ISSUES WITH CARD PAYMENTS WHILE TRAVELING HAVE REPERCUSSIONS AFTER THE TRIP HAS ENDED.

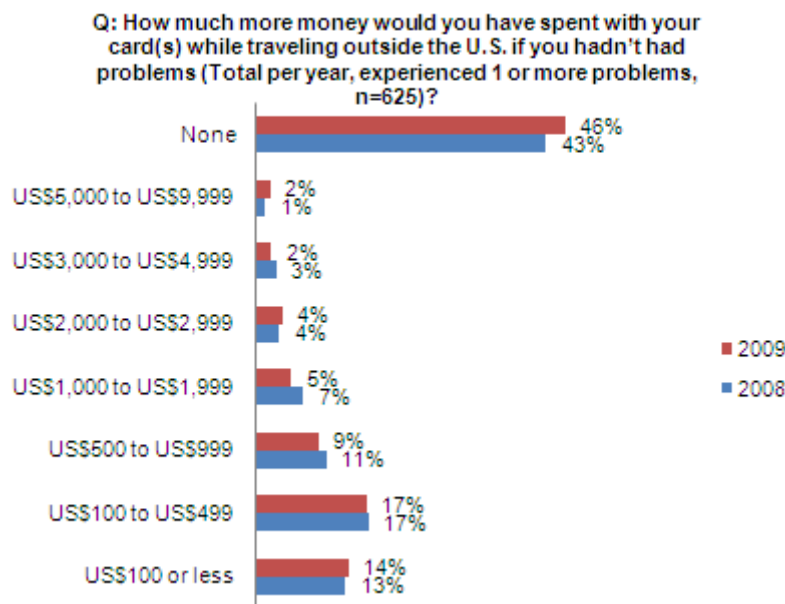


Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

BAD EXPERIENCES AND REVENUE LOSS

Cardholders were asked how much more they would have spend per year had they not had an issue with their payment card in 2008 and / or 2009. While nearly half would not have spent any more on their cards, the majority would have. Of cardholders surveyed, 17% would have spent between US\$100 and US\$499 in 2008 and / or 2009. Approximately 10% would have spent an extra US\$500 to US\$999 and between 5% and 7% would have spent an additional US\$1000 to US\$1999 had they not had an issue with their card(s) (Figure 21).

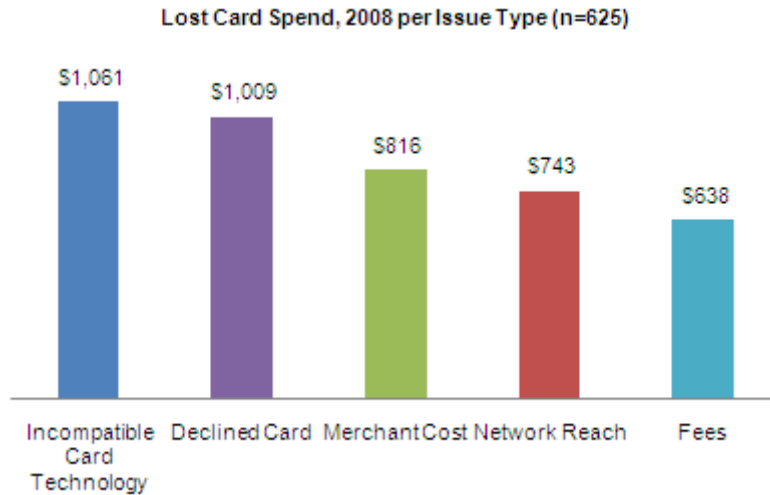
FIGURE 21: THE MAJORITY OF CARDHOLDERS WOULD HAVE SPENT MORE ON THEIR CARDS HAD THEY NOT EXPERIENCED AN ISSUE



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

Lost transactions vary in size depending on the type of issue experienced. Transaction declination and issues caused by incompatible card technologies result in a greater loss in spend that issues such as fees, merchant costs and network reach. In 2008, problems caused by incompatible card technologies resulted in the greatest amount of lost spend per cardholder, on average US\$1061 per year. Declined card problems resulted in a similar amount of lost transactions — on average, US\$1009 per cardholder per year (Figure 22 on page 34).

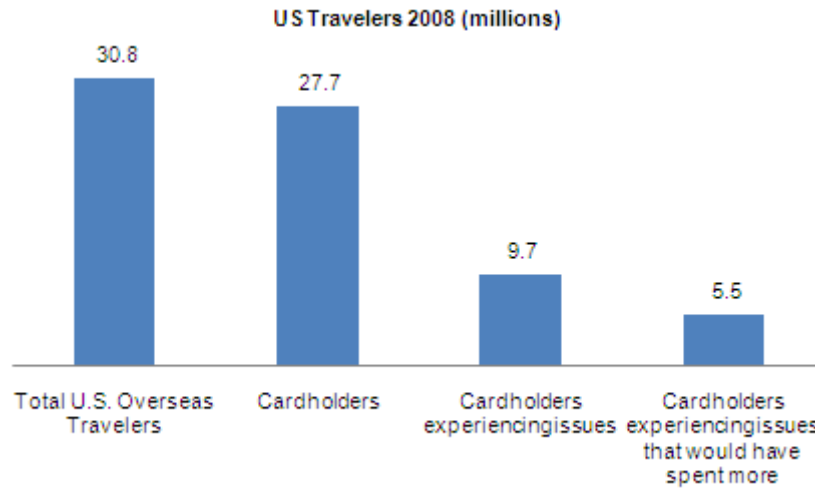
FIGURE 22: INCOMPATIBLE CARD TECHNOLOGY ISSUES CAUSE THE GREATEST AVERAGE VALUE OF LOST TRANSACTION CHARGES.



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

The average amount that would have been spent in 2008 had there not been a problem with card(s) was US\$712.00 per cardholder. Extrapolating out the number of cardholders that had a problem using traveler data from the U.S. Department of Commerce, we calculate that approximately 5.5 million cardholders would have spent more on their cards had they not had problems. Taking the average amount of lost spend (US\$712.00), this equates to nearly US\$4 billion in missed card transactions (Figure 23 on page 35).

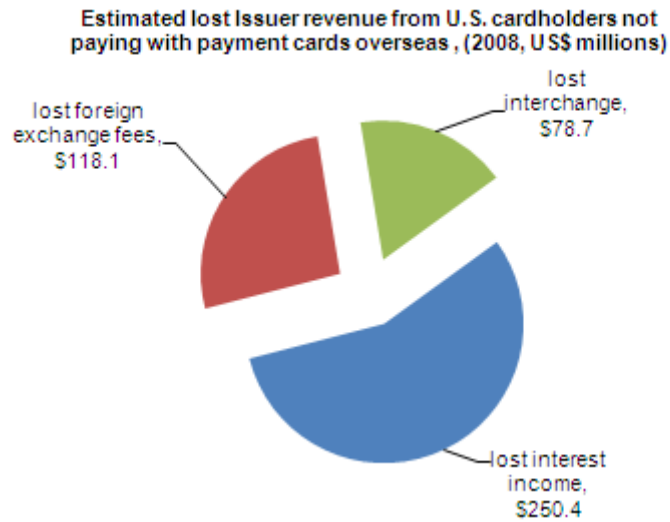
FIGURE 23: OVER 5 MILLION U.S. CARDHOLDERS WOULD HAVE SPENT MORE ON THEIR CARD(S) HAD THEY NOT EXPERIENCED ISSUES IN 2008.



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009, U.S. Department of Commerce

The lost transactions have a direct impact on card industry revenue — of the US\$4 billion in lost card transactions, the industry missed out on an estimated US\$118 million in foreign exchange fees, US\$79 million in interchange fees and US\$250 million in interest income, a total of US\$447 million in lost revenue (Figure 24 on page 36).

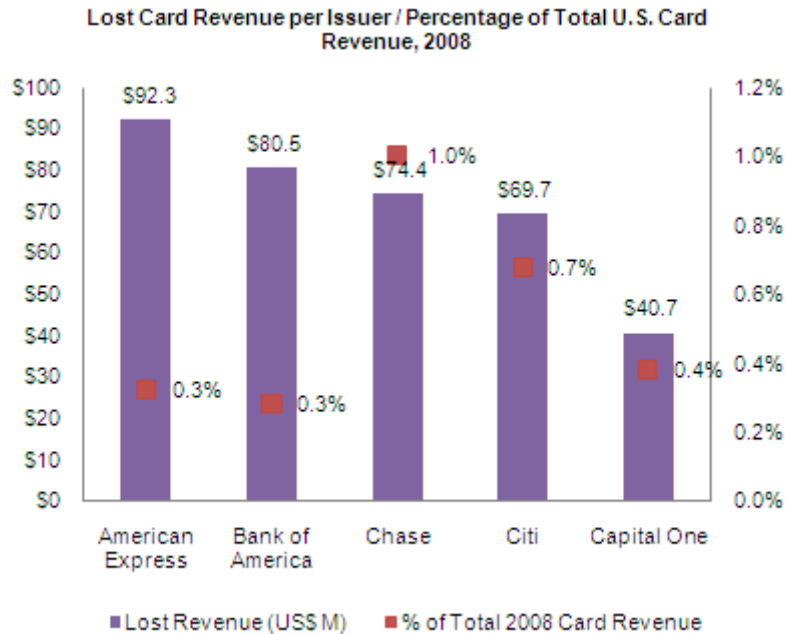
FIGURE 24: LOST CARD TRANSACTIONS FROM CARD PROBLEMS ABROAD EQUATE TO US\$447 MILLION IN LOST REVENUE



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

Apportioning out the US\$447 million that is lost, we assume the 80:20 rule to apply to the cardholder data — that the top 5 cards used overseas are responsible for 80% of card usage overseas and would therefore have jointly lost US\$358 million in 2008 from cardholders not using their cards while traveling — as much as 1% of total U.S. card business revenues (Figure 25 on page 37).

FIGURE 25: LOST CARD REVENUE FROM CARD PROBLEMS ABROAD COULD BE AS MUCH AS 1% OF TOTAL U.S. CARD REVENUES FOR ISSUERS

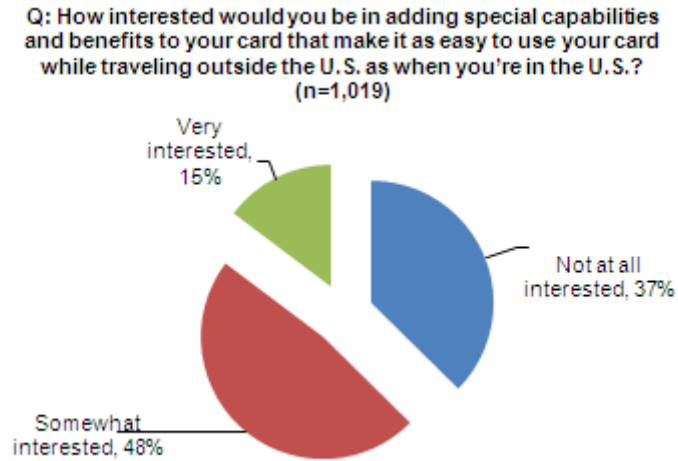


Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

DEMAND FOR TRAVELER SPECIFIC CARD PRODUCTS

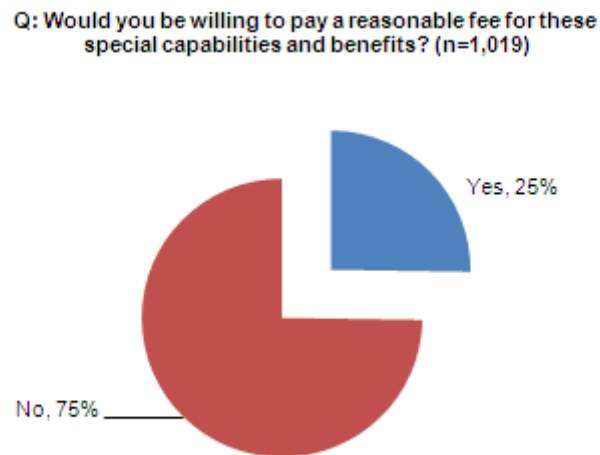
Survey participants were asked how interested they would be in adding special capabilities and benefits to their card that would make it as easy to use their card outside the U.S. as when they are in the U.S. The majority of cardholders were interested in such a product — 48% were somewhat interested and 15% were very interested (Figure 26 on page 38). A quarter of cardholders would be prepared to pay a reasonable fee for such a service from their card issuer (Figure 27 on page 38)

FIGURE 26: THE MAJORITY OF U.S. CARDHOLDERS TRAVELING OUTSIDE THE U.S. ARE INTERESTED IN A CARD THAT IS AS EASY TO USE OUTSIDE THE U.S. AS WHEN IN THE U.S.



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

FIGURE 27: A QUARTER OF CARDHOLDERS INTERESTED IN SPECIAL CAPABILITIES AND BENEFITS WOULD BE WILLING TO PAY FOR THEM

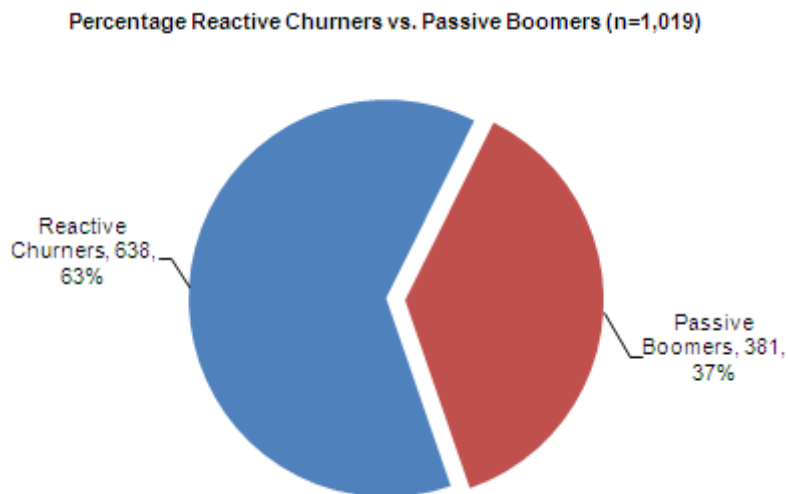


Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

REACTIVE CHURNERS AND PASSIVE BOOMERS

Two distinct groups of cardholders were outlined in the last section — those that are interested in a product that would make using a card abroad as easy as in the United States, and those that are not. Based on demographic and behavioral data, we shall name the cardholders that are interested in such a product “Reactive Churners” and those that are not “Passive Boomers”. Reactive Churners account for 63% of the cardholders that participated in the survey (Figure 28)

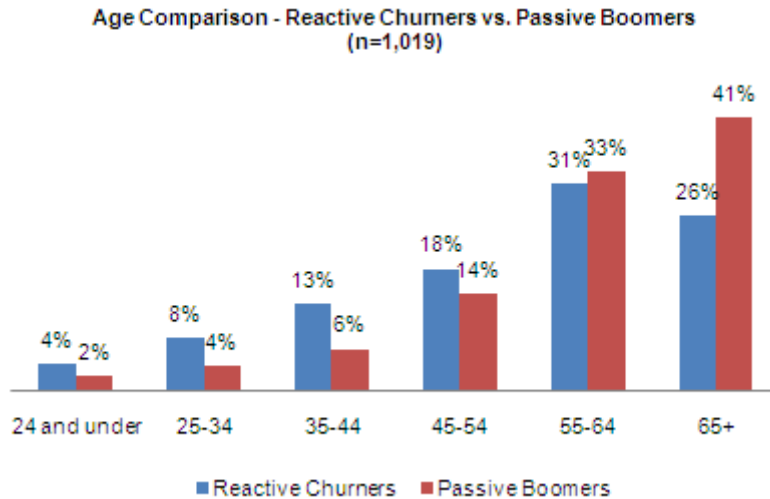
FIGURE 28: REACTIVE CHURNERS ACCOUNT FOR ALMOST TWO THIRDS OF U.S. CARDHOLDERS TRAVELING ABROAD



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

Reactive Churners are more likely to be younger than Passive Boomers — while the greatest number of cardholders for both groups fall into the 55+ years of age categories, Reactive Churners have a greater spread of younger cardholders compared to Passive Boomers, where three quarters of cardholders are 55 year of age or older, hence the “Boomer” name (Figure 29 on page 40).

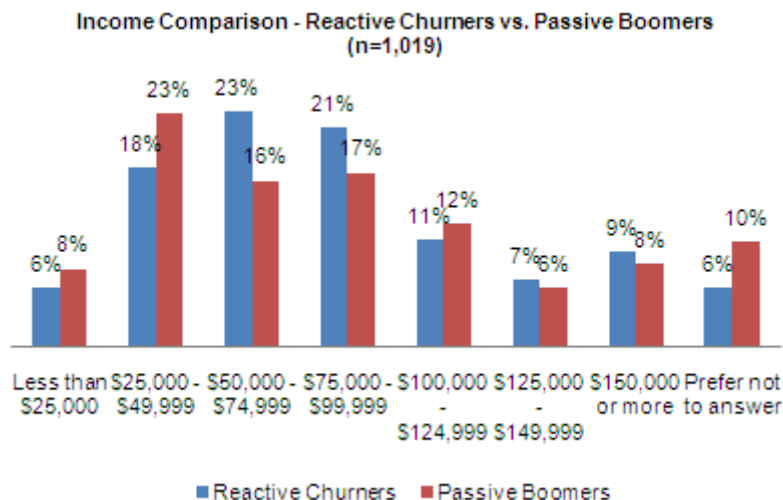
FIGURE 29: REACTIVE CHURNERS TREND YOUNGER THAN PASSIVE BOOMERS



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

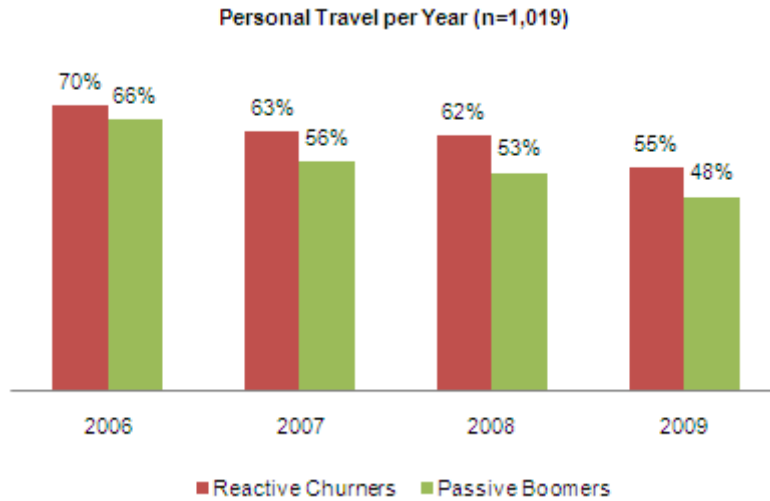
Reactive Churners are also slightly more affluent than Passive Boomers, and take both more personal and business travel per year — currently nearly twice as much business travel (Figure 30, Figure 31 on page 41, Figure 32 on page 41).

FIGURE 30: REACTIVE CHURNERS EARN SLIGHTLY MORE THAN PASSIVE BOOMERS



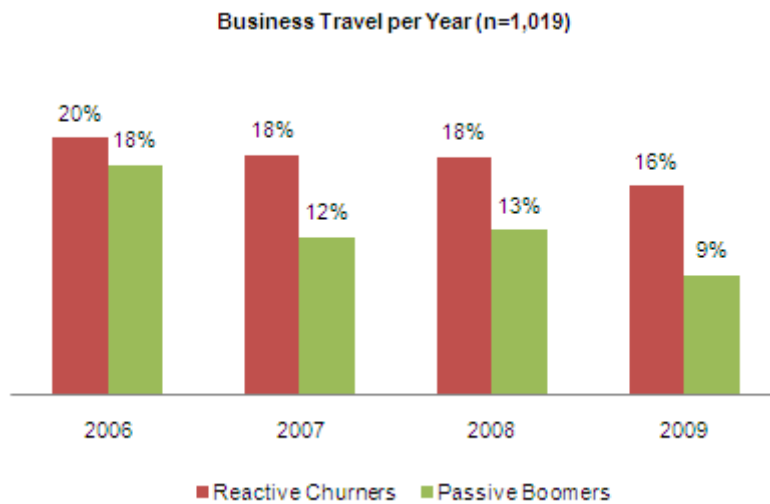
Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

FIGURE 31: REACTIVE CHURNERS TAKE MORE PERSONAL TRIPS THAN PASSIVE BOOMERS



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

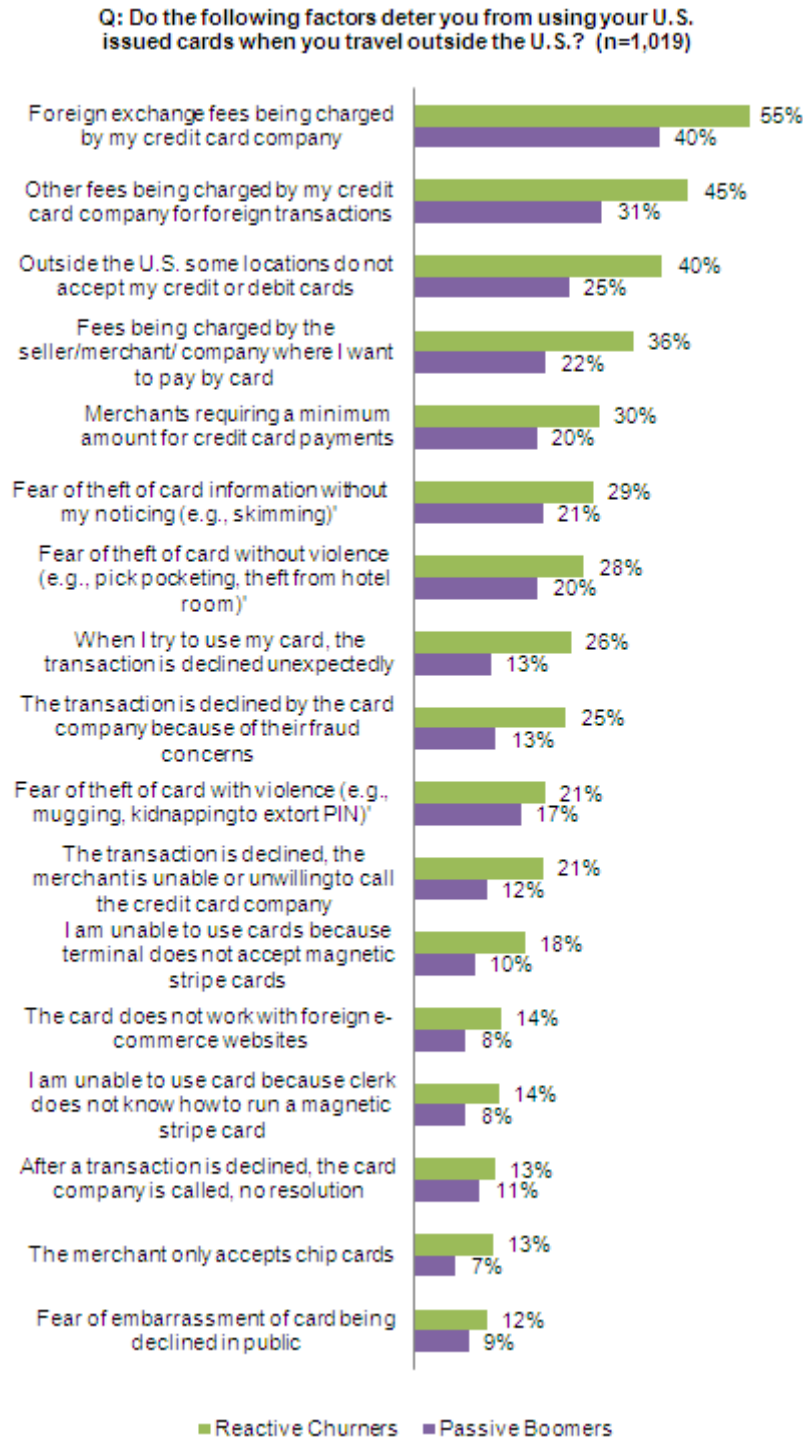
FIGURE 32: REACTIVE CHURNERS ARE ALMOST TWICE AS LIKELY AS PASSIVE BOOMERS TO TAKE BUSINESS TRIPS CURRENTLY



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

Reactive Churners are, in every way, more likely to be deterred from card usage by issues than Passive Boomers. For example, 55% of Reactive Churners are deterred from card usage due to foreign exchange fees, compared to just 40% of Passive Boomers. Twice as many Reactive Churners are deterred from using their cards abroad due to unexpected card declination compared to Passive Boomers. This justifies the “Reactive” component of their moniker — they are simply more reactive to issues and threats than their more “Passive” counterparts (Figure 33 on page 43).

FIGURE 33: REACTIVE CHURNERS ARE MORE DETERRED FROM CARD USE THAN PASSIVE BOOMERS



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

Reactive Churners are also more likely to have experienced a problem using a card abroad than Passive Boomers. This may stem from the greater number of trips that they take, meaning a greater likelihood of experiencing an issue. They may also be taking trips to more far-flung destinations where the likelihood of experiencing an issue related to a U.S. payment card is increased — their higher income level may justify such trip. Certainly, more than half of Reactive Churners have experienced card acceptance issues, almost double that of Passive Boomers. They have also had much greater exposure to issues that cause the greatest degree of irritation to cardholders — card declination and incompatible card technology, typically twice as often as Passive Boomers (Figure 34 on page 45).

FIGURE 34: REACTIVE CHURNERS ARE TWICE AS LIKELY TO HAVE EXPERIENCED CARD DECLINATION ISSUES COMPARED TO PASSIVE BOOMERS

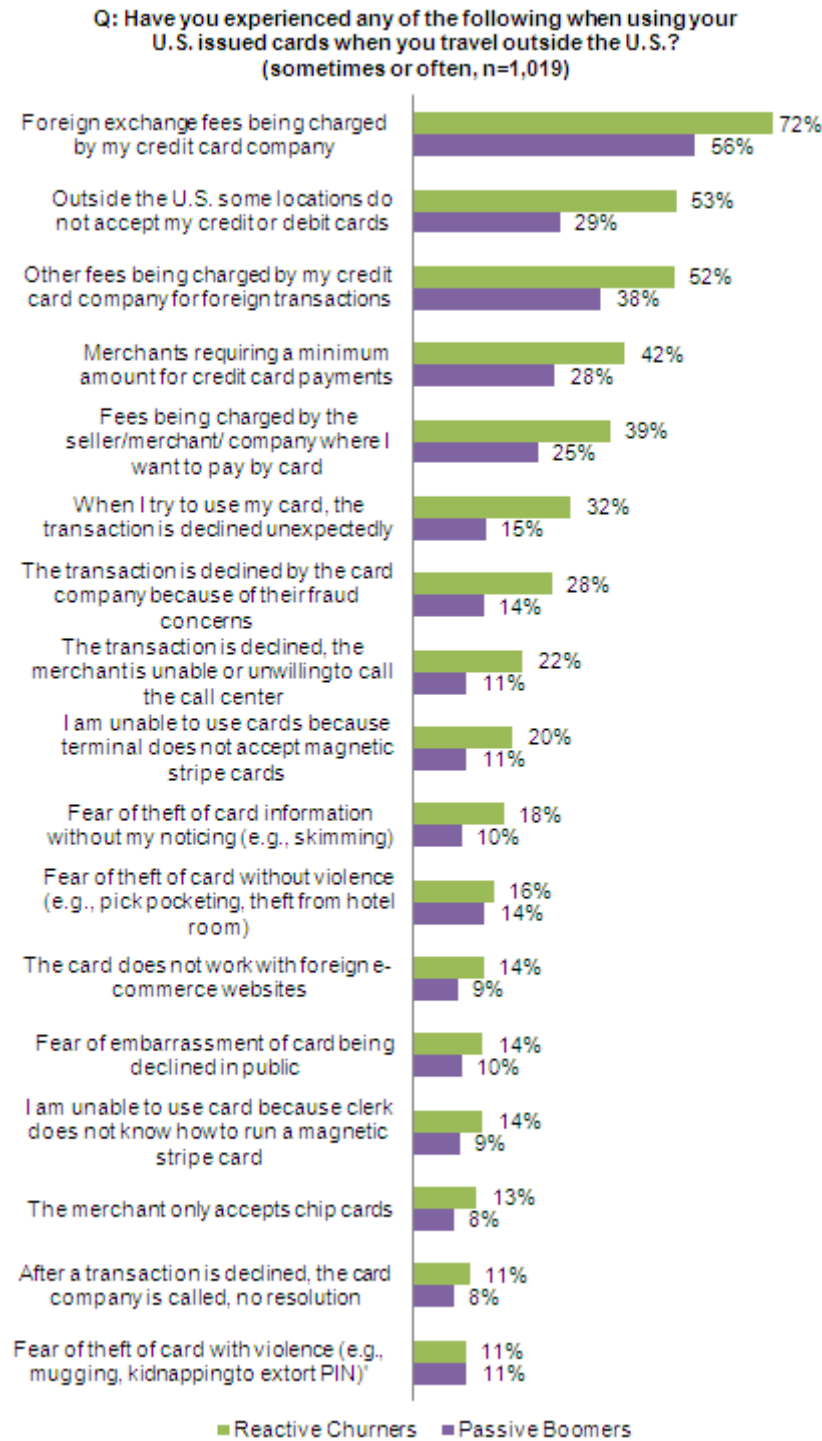
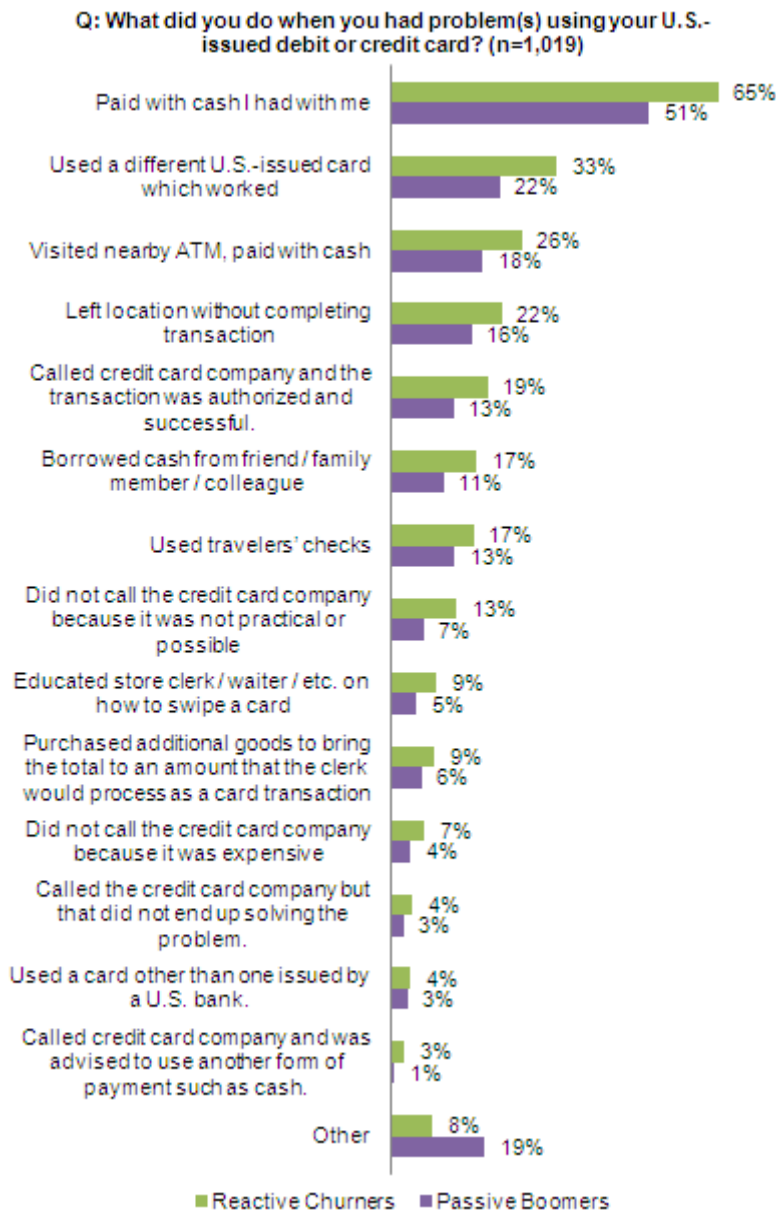


FIGURE 34: REACTIVE CHURNERS ARE TWICE AS LIKELY TO HAVE EXPERIENCED CARD DECLINATION ISSUES COMPARED TO PASSIVE BOOMERS

Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

In the immediate aftermath of a card related problem, Reactive Churners and Passive Boomers both resort to the cash they have on them. The difference being that just over half of Passive Boomers resort to cash, while over two thirds of Reactive Churners take this action. In fact, as seen with the behavior of Reactive Churners overall, their response is more dynamic than Passive Boomers in every instance (Figure 35 on page 47).

FIGURE 35: OVER TWO THIRDS OF REACTIVE CHURNERS PAY WITH THE CASH THEY CARRY WHEN A CARD RELATED ISSUE OCCURS ABROAD

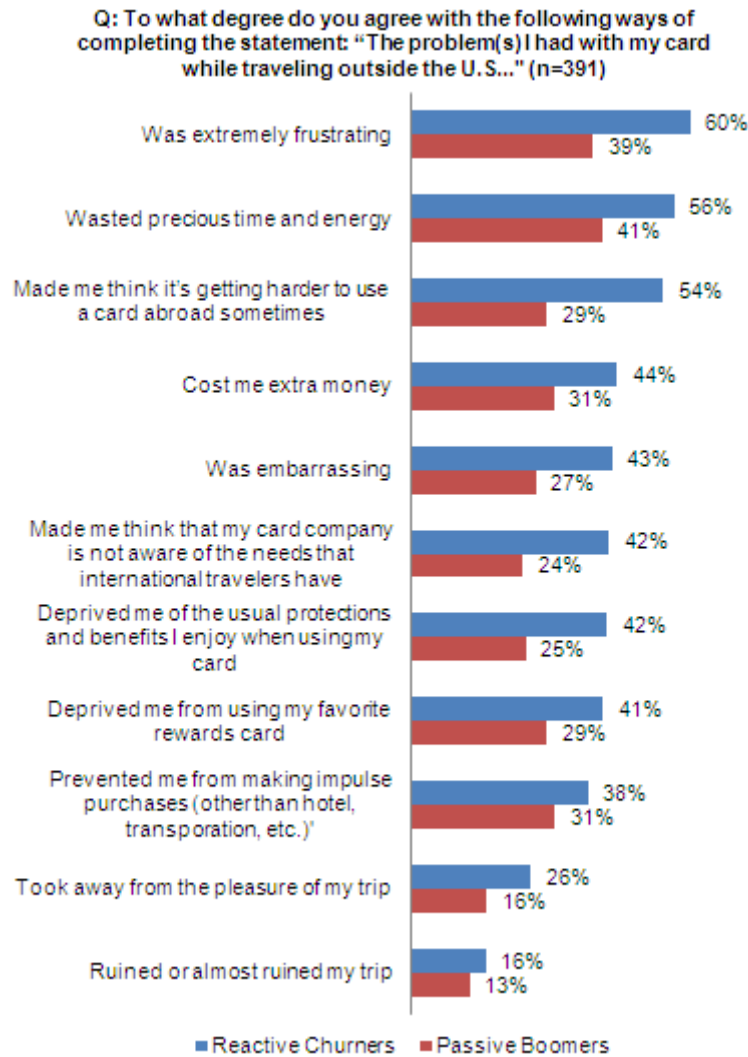


Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

The emotional response of Reactive Churners to issues with payment cards while traveling outside the United States are far more pronounced than that of Passive Boomers. Over half of Reactive Churners consider that card issues while traveling

are extremely frustrating, wasted precious time and energy and make them think that it is getting harder to use a card abroad sometimes. Nearly half of Reactive Churners found that the experience cost them extra money and was embarrassing. Over a quarter stated that it took away from the pleasure of their trip and 16% stated that it somewhat or totally ruined their trip (Figure 36).

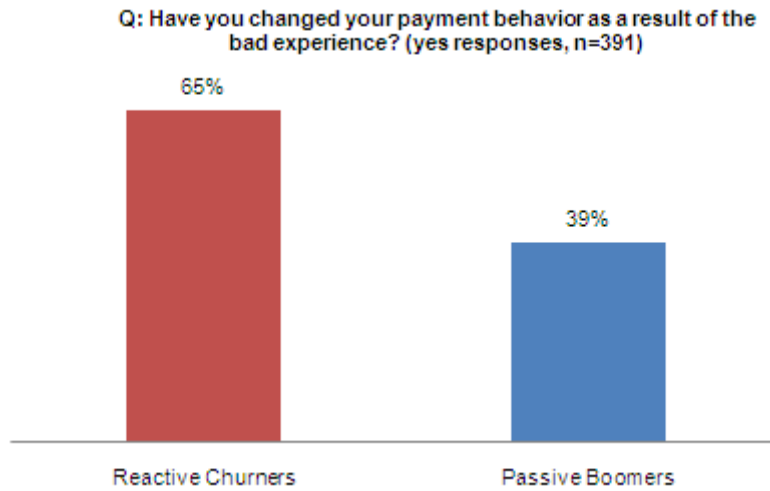
FIGURE 36: THE EMOTIONAL RESPONSE OF REACTIVE CHURNERS TO ISSUES EXPERIENCED WITH CARD PAYMENTS ABROAD IS GREATER THAN PASSIVE BOOMERS



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

As further evidence of the dynamic nature of Reactive Churners, over two thirds change their behavior as a result of the negative experience(s) that they have had making a card payment outside of the U.S., compared with 39% of Passive Boomers (Figure 37).

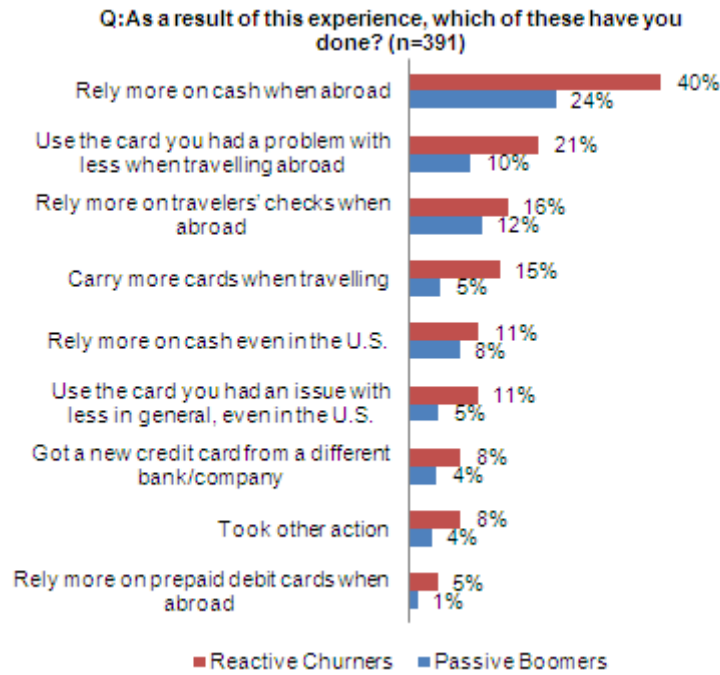
FIGURE 37: OVER TWO THIRDS OF REACTIVE CHURNERS CHANGE THEIR BEHAVIOR DUE TO ISSUES USING PAYMENT CARDS ABROAD



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S. Between 2006 and 2009

The most common behavioral change for Reactive Churners is to increasingly rely on cash for payment transactions abroad — 40% of this group of cardholders take this action, compared with just 24% of Passive Boomers. They are also more likely than Passive Boomers to rely more on other forms of payment such as travelers checks abroad, rely on cash more, even in the United States and use the problem card less, both outside the U.S. and domestically. Reactive Churners are twice as likely as Passive Boomers to get a new credit card from another company as a result of a card problem abroad (Figure 38 on page 50).

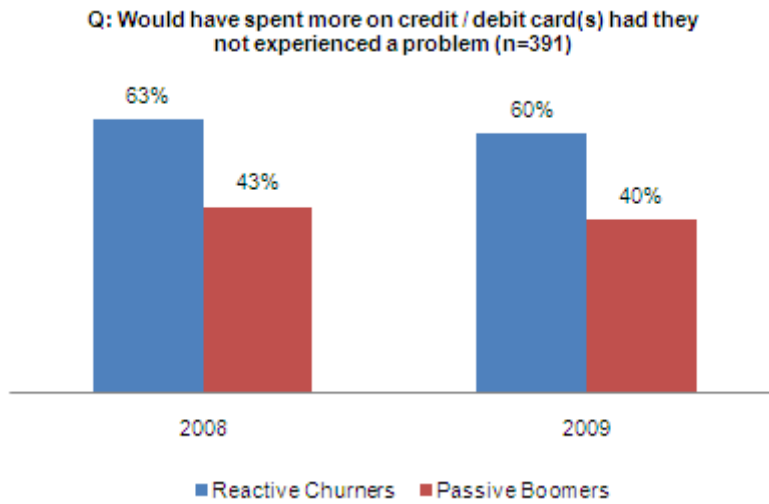
FIGURE 38: OVER A THIRD OF REACTIVE CHURNERS RELY MORE ON CASH ABROAD AS A RESULT OF EXPERIENCING A CARD PAYMENT ISSUE ABROAD



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

Finally, the majority of Reactive Churners would have spent more on their payment card(s) while abroad had they not experienced a problem, both in 2008 and in 2009 (Figure 39 on page 51).

FIGURE 39: THE MAJORITY OF REACTIVE CHURNERS WOULD HAVE SPENT MORE ON PAYMENT CARDS WHILE ABROAD HAD THEY NOT EXPERIENCED A PROBLEM



Source: Aite Group Survey of 1,019 U.S. Cardholders Traveling Outside the U.S Between 2006 and 2009

CONCLUSION

The responsibility for the majority of negative issues experienced by U.S. cardholders abroad lies squarely at the door of U.S. card issuers - they own 64% of deterrents and actual experiences of card problems dealt with by cardholders while abroad. The question is - what do they want to do about it, if anything?

If the case for change is purely revenue generation, then the argument for fixing these issues is weak. With only 15% of traveling cardholders indicating that they would be willing to pay a reasonable fee for their card to behave as seamlessly outside the U.S. as domestically, revenue generation is not guaranteed. Further, these cardholders fit the "Reactive Churner" profile, meaning high expectations and a propensity to switch to cash or an alternate card should a problem still arise. Retention costs for this particular type of cardholder may exceed any fees that they are willing to pay for the service.

The loss of an estimated US\$447 million in revenues to the U.S. card industry resulting from problems using payment cards abroad may however get the attention of U.S. card issuers, particularly if the problem is as large as 1% of U.S. card revenues. However, the size of the problem is not limited entirely to lost revenues from abroad card transactions. In fact, this may be the tip of the iceberg...

A bad experience stigmatizes the problem card, pushing it to "bottom-of-wallet", both when traveling and when back home. With a wallet full of alternatives, why would a cardholder risk getting their fingers burnt a second time? This, we believe, is the real issue - the emotional response to a negative card experience and the likelihood of the experience impacting future card usage patterns.

RECOMMENDATIONS TO CARD ISSUERS:

Regional Focus: The most popular travel destination is the one where the greatest percentage of card issues arise - Western Europe. There are many ways that problems could be addressed by focusing on the specific differences between the U.S. and Western Europe, and as the most popular destination, this would deal with the lion's share of U.S. cardholding travelers.

Can problems be tracked down to specific destinations and these be focused on? Are problems metropolitan or rural? In Paris or London? Further analysis of cardholder experiences in this region may be necessary to determine what the issue are and where.

As a region that is developed, it may also be that cardholders have an expectation that their card usage experience will replicate that of the U.S. Could cardholders pre-notify issuers of their travel plans so that they are prepared and equipped with the payment tools for their trip?

Technology Focus: Card declination and incompatible card technology related issues are the two types of problem that cause the greatest negative response from cardholders:

A card being declined implies that at least the first part of the transaction, the physical swiping of the payment card, has occurred successfully. While various issues along the processing value chain may have occurred, the issuer may have some control over the sensitivity of systems pertaining to fraud mitigation. Predetermination of travel plans, either overtly by the cardholder providing the information, or covertly by the issuer collecting further data points relating to the activity of the cardholder could reduce the likelihood of a false positive and consequent cardholder distress.

Incompatible card technology issues can be directly attributed to the widening gulf between U.S. card technology (magnetic stripe) and almost the entire rest of the world (chip card). This bifurcation will become increasingly pronounced over time as the both the physical card reader and the employee trained to perform the transaction at the point of purchase have decreased exposure to magnetic stripe cards. For U.S. card issuers, the only solution to this problem is to provide EMV chip cards to cardholders traveling abroad.

Cardholder Focus: The true cost of a cardholder's negative experience abroad may be many multiples higher than the transactions that could not occur on their trip. Consumers with a bad experience are an articulate group — while a person with a good customer service experience will tell on average three people, a person with a bad customer service experience will tell an average of fourteen people³.

The carry-over from a negative card experience is not to be underestimated, particularly if the problem is as unacceptable in the eyes of the cardholders as a declined transaction or card that cannot be used abroad — the research shows that they will use their problem card less and their vocalization of the issues experience could well dissuade others. We suggest that issuers strongly consider the overall value proposition for the U.S. cardholder that travels abroad, with a holistic package of products and services to meet their needs from a customer service and technology perspective. There is a clear opportunity for a U.S. card issuer to take the initiative and become the go-to brand for U.S. travelers today.

3. Mercantile Systems, Inc.

RELATED AITE GROUP RESEARCH

Engaging Gen Y: Cultivating a New Generation of Banking Customers. September 2009.

Card Data Security: In Search of a Technology Solution. July 2009.

Making Hay While The Rain Pours: Information Security Expert Perspectives on Financial Services. June 2009.

The Card Industry - Between a Rock and a Hard Place. June 2009.

The Mobile Transactions Landscape: Mapping New Territory. May 2009.

Fraud Management at Retail Banks and Credit Unions: The Vendor Landscape. April 2009.

Fraud Management at U.S. Retail Banks and Credit Unions: An Ever Moving Target. March 2009

Credit Card Rewards: Why Issuers Should Compete on Service. December 2008.

Overcoming Challenges in Credit Card Issuing. November 2008.

The Road to Contactless Mobile Payments: Current Mobile Financial Service Usage Paving the Way? October 2008.