

The Principals of Credit Cards Business

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Note-

The data used in this presentation is indicative to explain the concepts of Card Business and may not be accurate.



What is this session about?



Credit Card business

Lending on Cards & Unsecured Lending

Cards market in Taiwan & Asia

What is Cards business?

P&L Dynamics of Cards Business?

What are the Key Functions in Cards Business?

What about kind of skills & people needed in this business?

Consumer Credit Products



	SECURED	UNSECURED
Open End	<p>Allows the use of property to secure an open-ended line of credit and enables the borrower to tap the line whenever desired and to repay it over time.</p>	<p>Open-ended credit in the form of a credit card is the most flexible type of consumer credit. Once the line is approved, the cardmember can choose when and how much to use it.</p>
Closed End	<p>Usually a small down payment, has a signed contract spelling out schedule of payments, is secured by collateral and has a specific start and end date.</p>	<p>Same as Secured Closed-End except credit is granted on the strength of the borrower's credit-worthiness alone and does not include collateral.</p>

Cards Industry in Taiwan

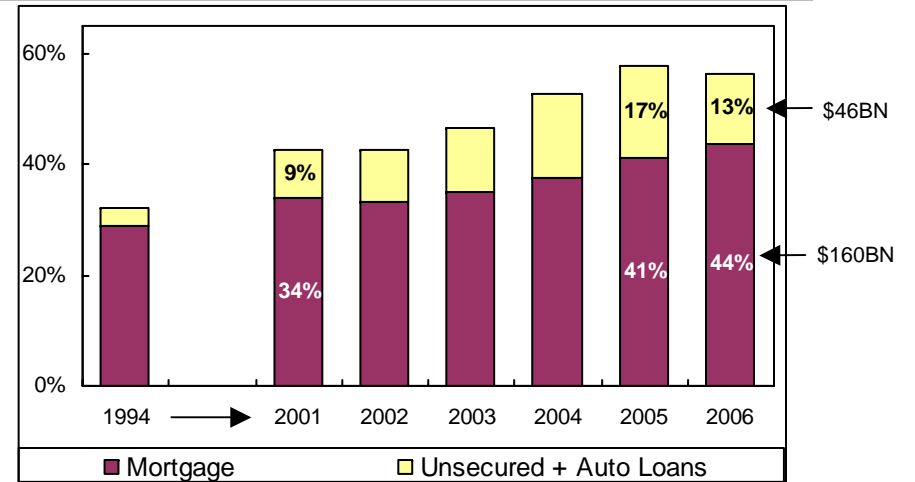


Taiwan Market Overview

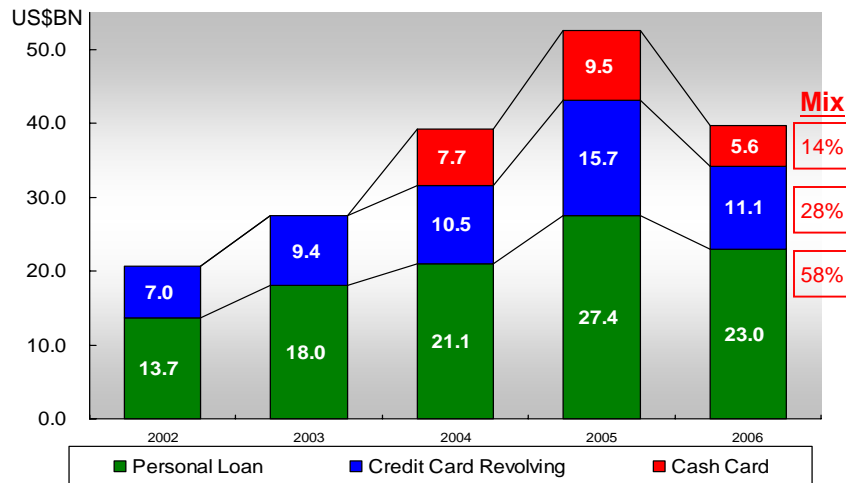


Macroeconomic Indicators	2002	2003	2004	2005	2006	2007E
GDP Growth (%)	4.2	3.4	6.1	4.0	4.6	4.3
GDP Per Capita (US\$)	13,163	13,327	14,271	15,291	15,640	16,069
Private Consumption Growth (%)	2.3	0.9	3.9	2.7	1.5	3.2

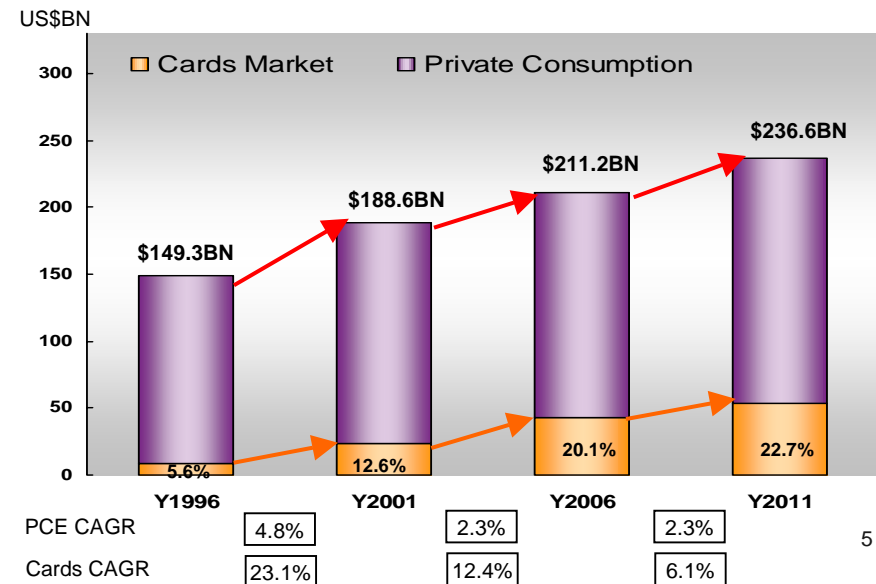
➤ Consumer Loan % Taiwan GDP



➤ Unsecured Lending Trend



➤ Cards Sales Penetration to Private Consumption



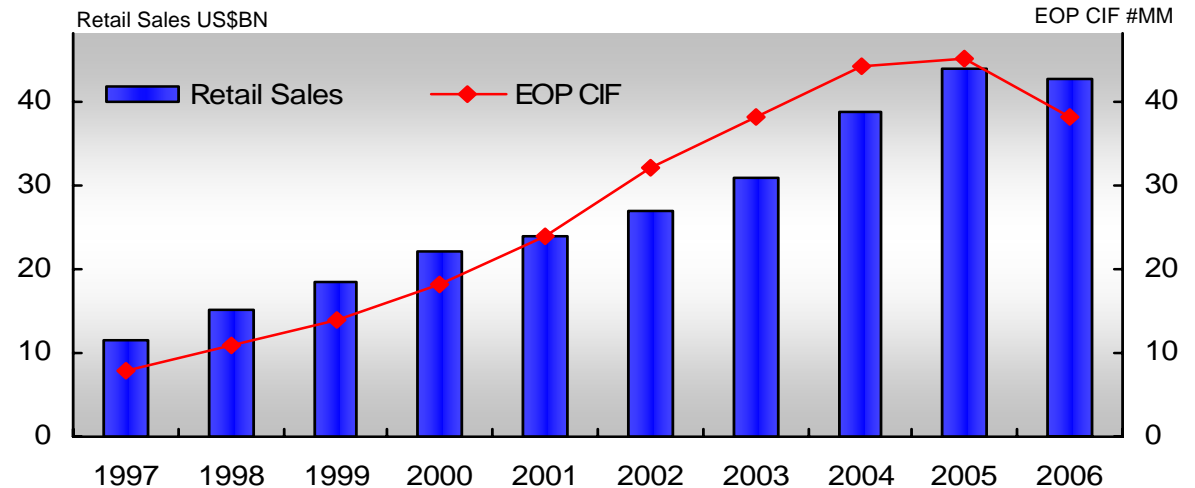
Taiwan Cards Market



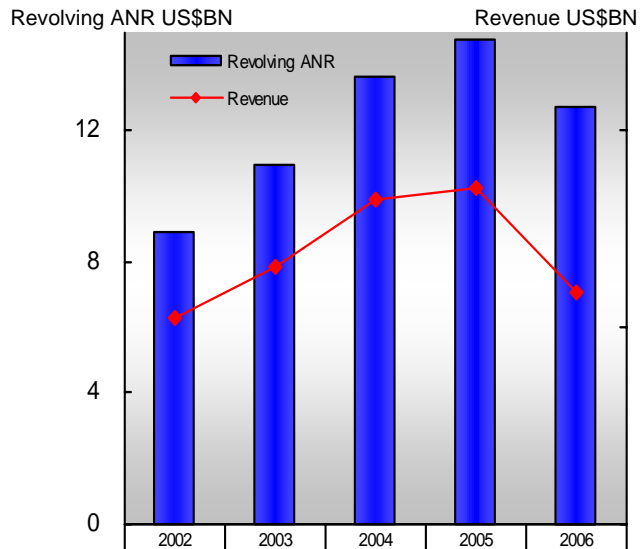
➤ 2006 Market Profile

CIF: 38.3 MM Plastics
 Activation Rate: 53%
 Retail sales: \$ 42.5BN
 Revolving ANR: \$12.8 BN
 Revenue: \$ 2,350 MM

➤ Growth Trend 1997-2006



➤ Market Trend from 2002 to 2006



Revolving ANR	9	11	14	15	13
Revenue	2	3	3	3	2



Distribution expansion & Penetration growth

- CSV/PCE from 5% to 13%

Rapid growth in CIF (38%CAG), & Sales (30%CAG)

No Credit bureau

Sales growth decline - 10% in 2001

Competition intensifies- increase in features, Zero-fee Platinum, high cost acquisition gifts

Very high premiums on Cobrand partnerships

Credit Bureau launch (2002)- used mainly for new Cards & not for account management

Cosmos launches Cash Cards in Taiwan (2003)

Rapid growth in Cash card receivables- \$9bn in just 18 months

Aftermath of Credit Crisis



Aftermath of Credit Crisis

Regulatory restrictions- on issuance to leveraged customers & Third-party channels

Severe reduction in card issuance

Most issuers exited Cash cards

Focus on usage & profitability

Rationalized earlier 'rich' features

Media spend dropped 54% in 2006

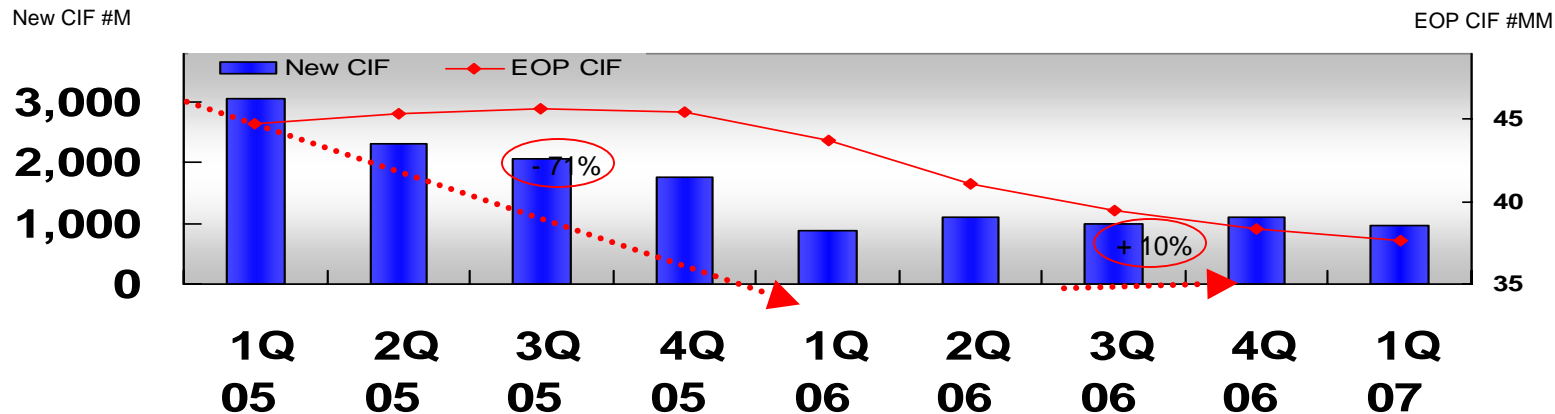
Initial signs of consolidation & 'downsizing' in the industry

Emerging Market Scenario ...

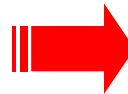
Top players have started to focus on Usage & Cobrands

Increase in New acquisitions

Early interest in Agent banking but very little progress



Re-bounding Market



Key Competencies for Growth-

- Strong Products
- Distribution- branch, partnerships & Internet
- Analytical expertise

Market Scenario



Over 60 Card Issuers- many unprofitable

“Free-for-Life Platinum” Market

- With ‘Super Rich’ Card features

Intense competition for Place-in-wallet and Share-of-wallet

- High Advertising spend
- Regular usage promotions
- Large number of Cobrands

Citibank is #2 in Market Share of Card Receivables

Developed Credit Cards- 90% of eligible population holding Cards

2.4 Cards/ person and 4.4 Cards in every eligible person’s wallet

Penetration of Cards & Sales has grown aggressively

PCE Penetration trends during 1999-2004 are below

- Currently over 20% of PCE is on Cards

- Citibank Cards Business started in 1989
- Current CIF: Over 1.5MM
- Market Share:
 - #1 in Credit Card balances
 - #2 in Credit Card Sales
- Recognitions:
 - 2005 Best Program- Eva Platinum (MCI)
 - 2005 First to Launch ALOP in Asia Pacific
 - 2005 Most Respected Bank in Taiwan- Benchmark Study
 - 2004 Processing Excellence Award(MCI)

	Card Sales/ PCE(%)
1999	11.51%
2000	13.37%
2001	14.49%
2002	16.36%
2003	19.12%
2005	20.00%

Taiwan Market Overview - Summary

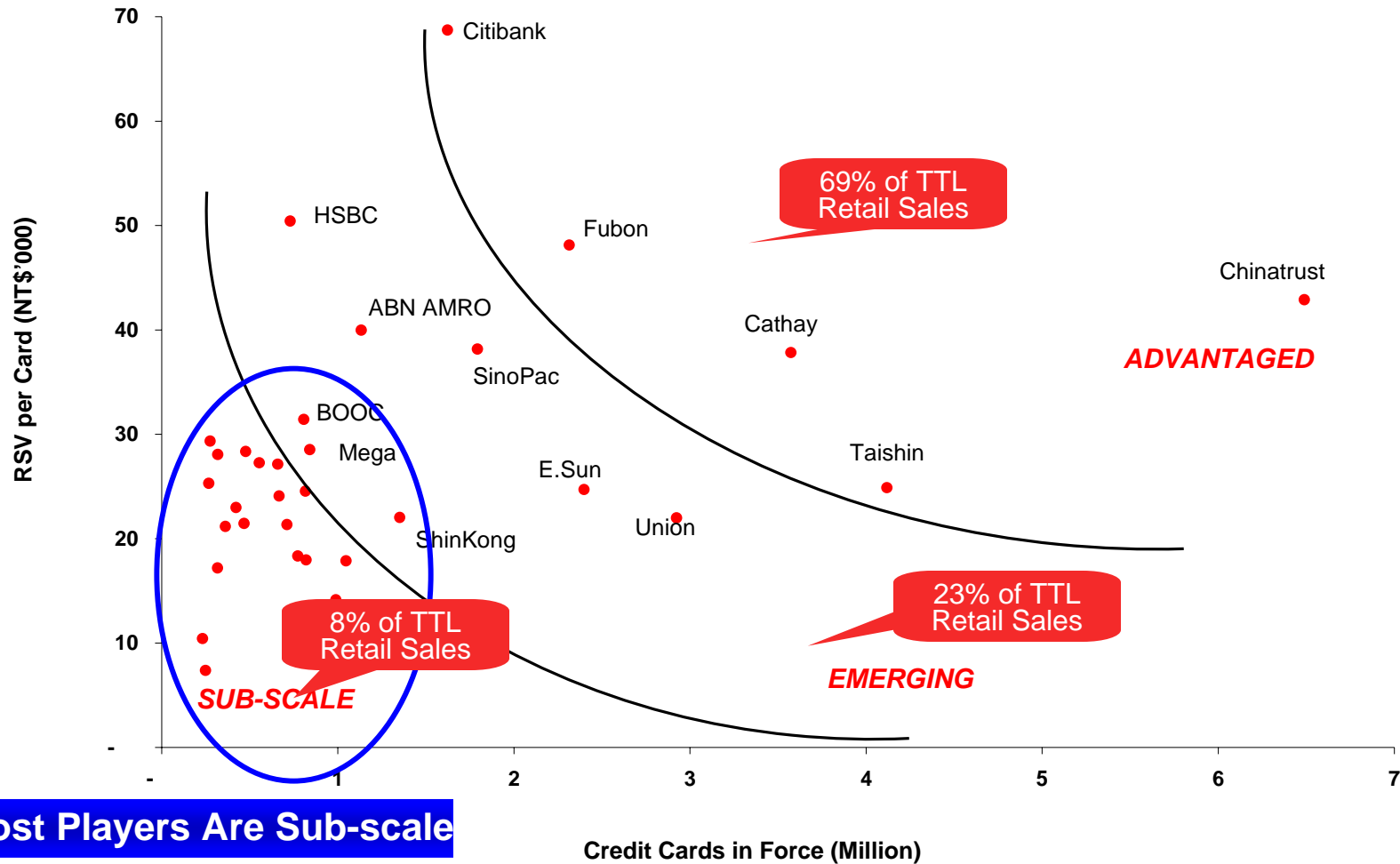


- Market fragmentation remains unchanged (45 players in the market)
- M&A keeps moving – Citibank & BOOC, HSBC & Chung Hwa, StanChart & HIB, GE & Cosmos, Longreach & EnTie, Taishin & CHB (still negotiating)
- Banks have tightened credit policy, curtailed sales & marketing, and cut cardholder benefits
- Contactless Cards, by delivering a faster and more efficient payment experience, is a strong small ticket payment solution

Taiwan Market Overview - Issuers



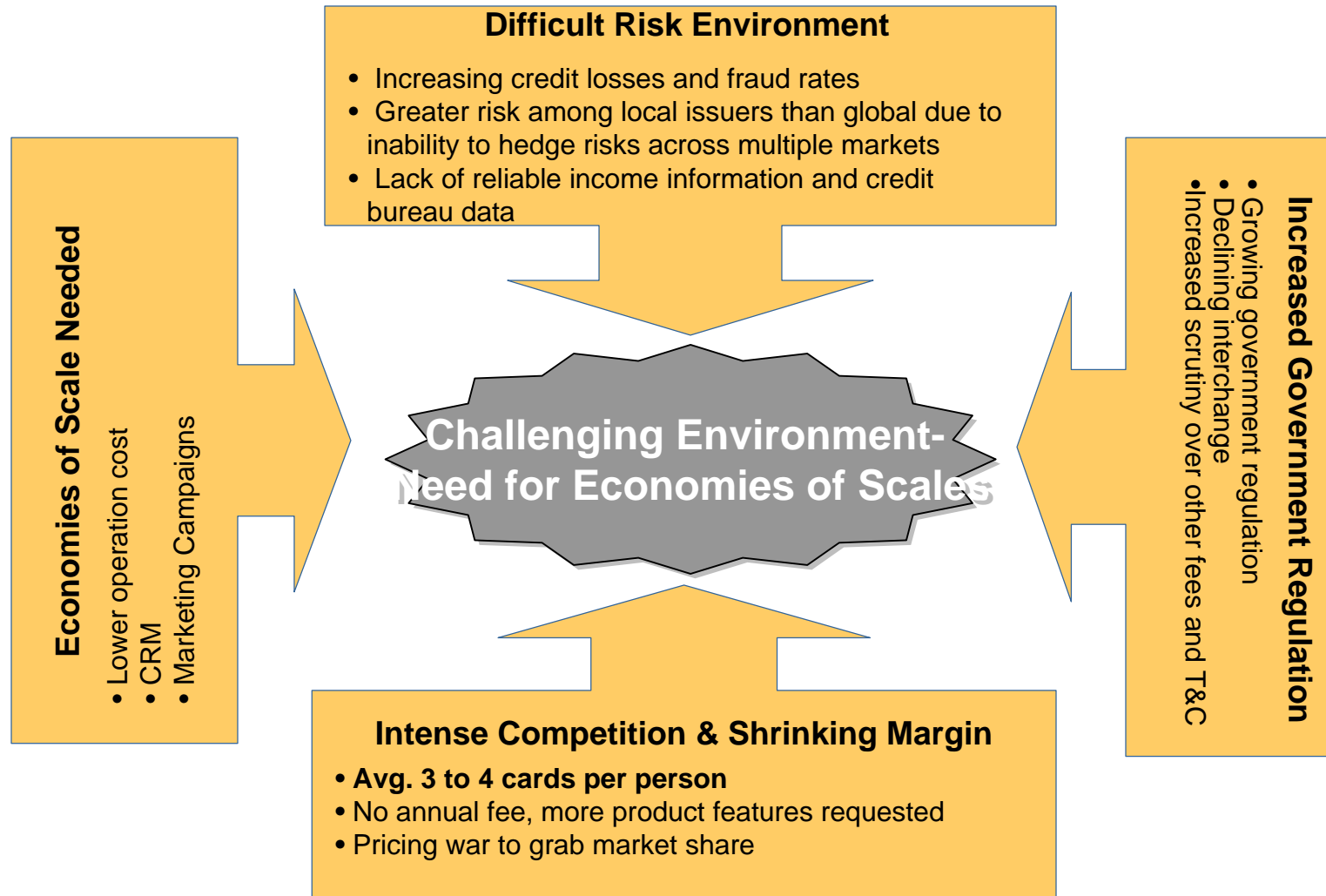
Taiwan Credit Card Issuers Landscape



The Trend and Analysis of Taiwan Credit Card Environment



The Challenge of Credit Card market : crowded competitors, shrinking margin, volatile risk and increased government regulations

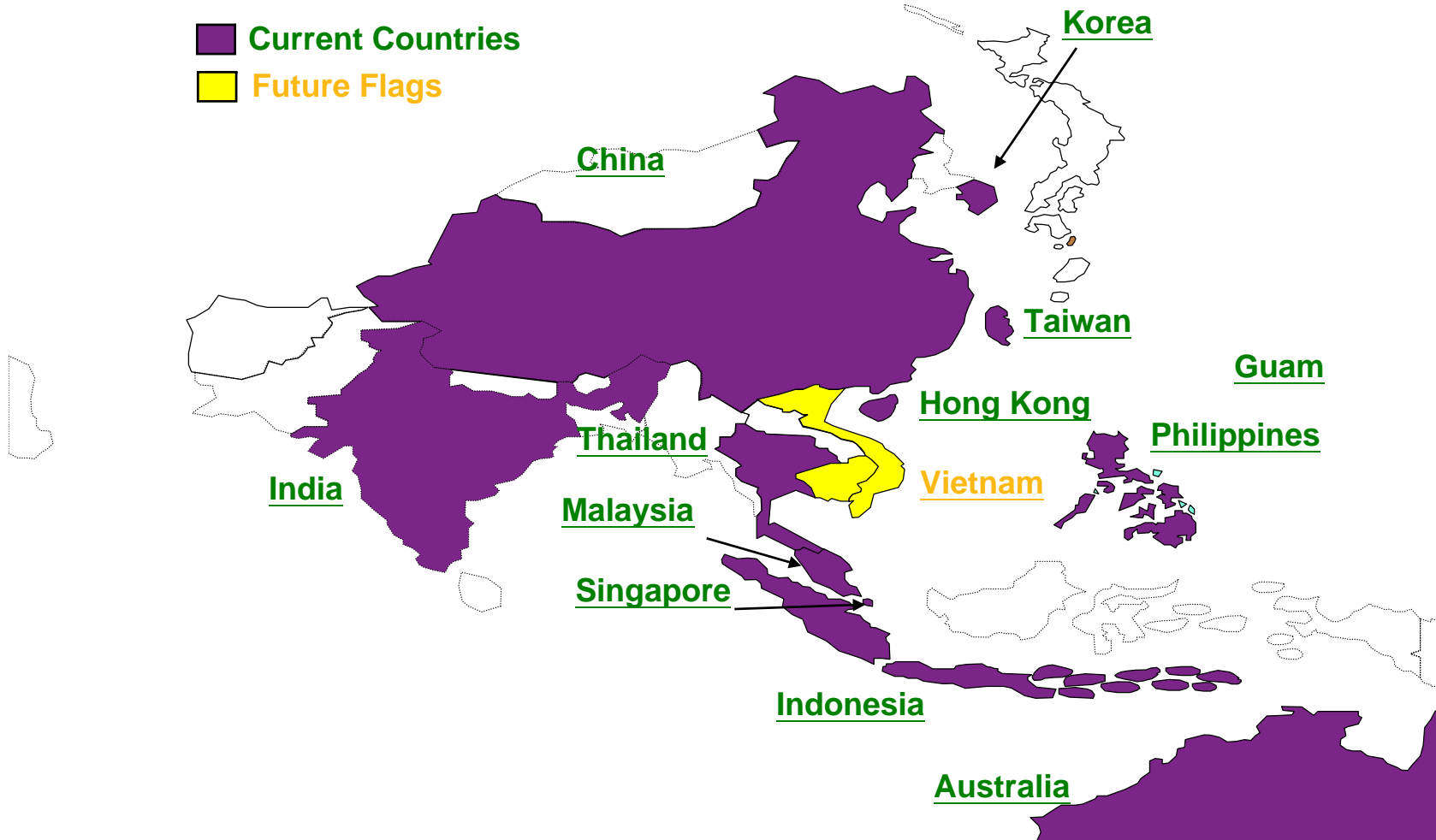


Citi Cards- Asia Pacific



Geographic Reach

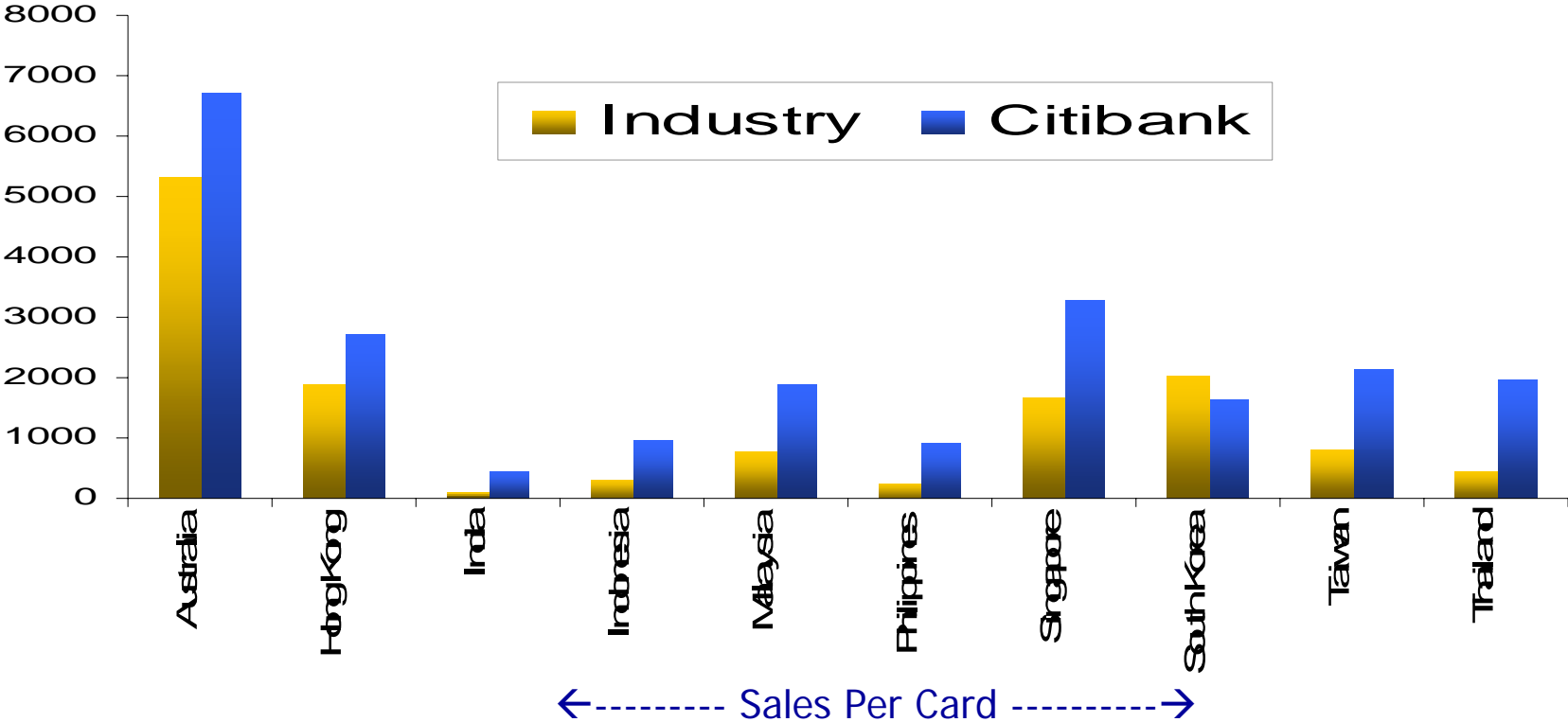
- Current Countries
- Future Flags



Focus on Customer Value & Utility



Citibank Card- The Main Card in Wallet



Cards Business Dynamics



Credit Card Business- The Key Players



Issuers: Financial institutions who issue credit cards

Consumers: Individuals who use the cards

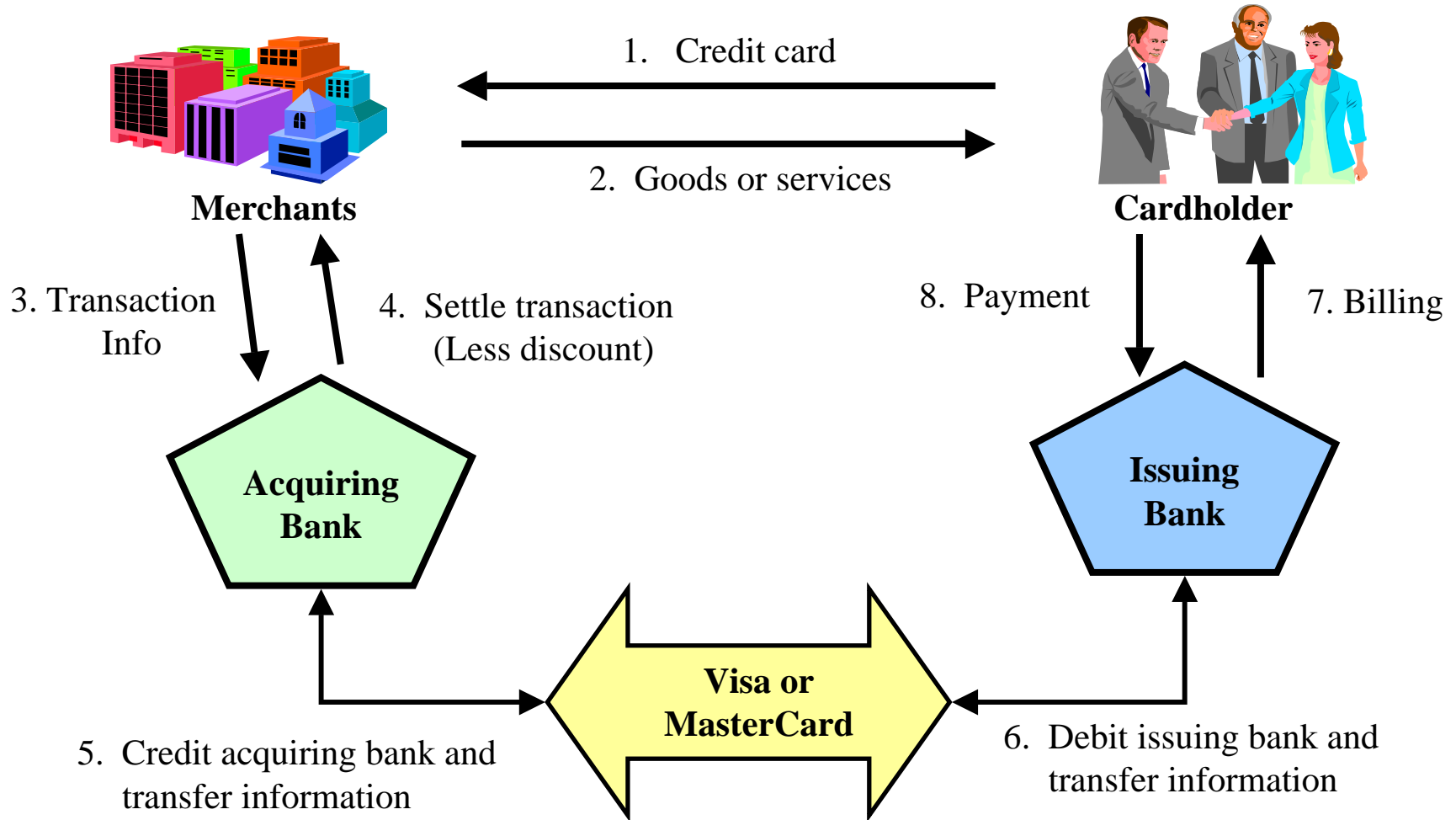
Merchants: Points of sales where the cards are used

Acquirers: Financial institutions who process (acquire) transactions performed at the merchant sites

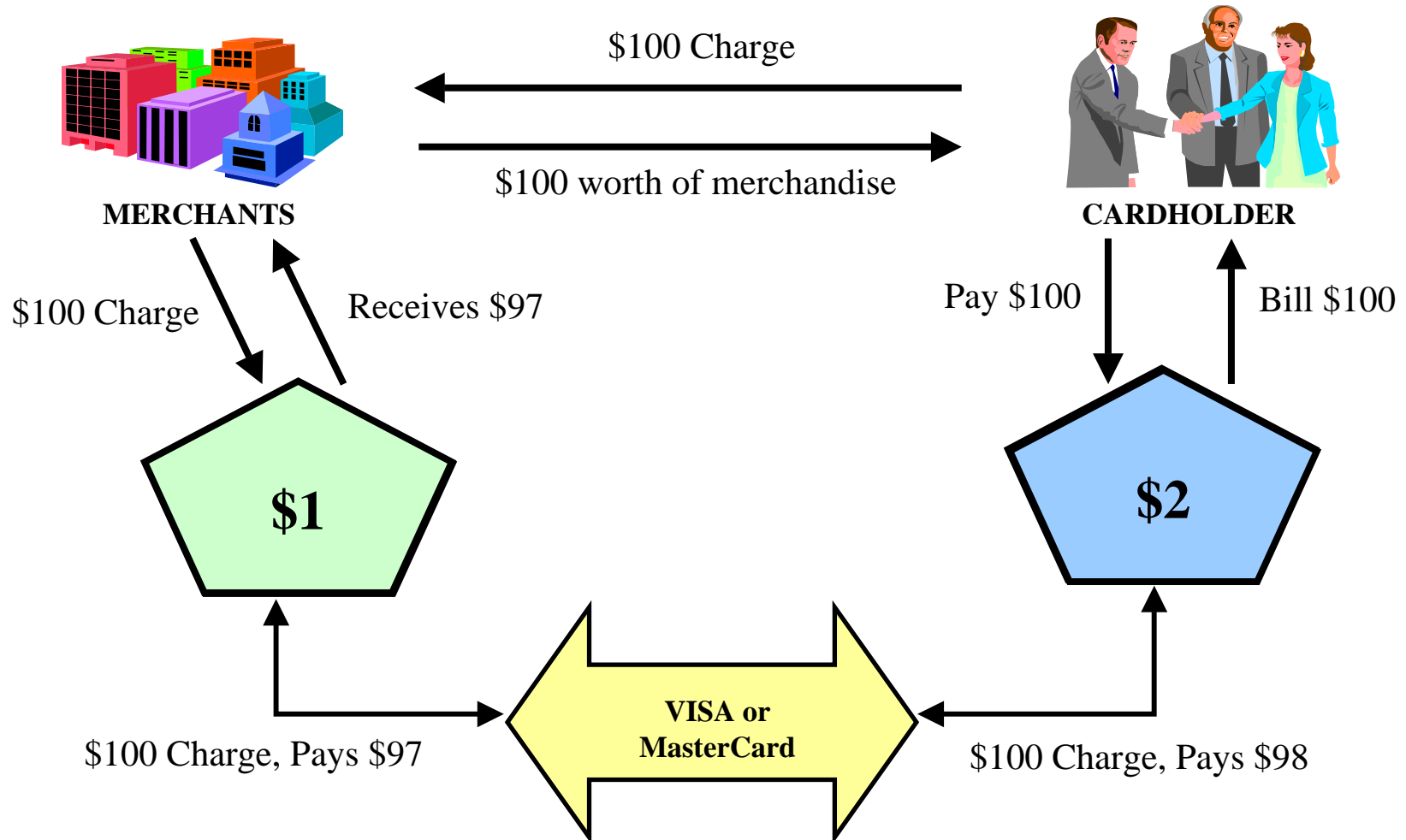
Associations: Organizations that provide networks to facilitate transactions between Acquirers and Issuers (Visa, MasterCard & Diners)

Others: Regulatory bodies, consumer right groups, third party service providers, credit agencies, etc.

Transaction Flow



Transaction Flow - Example

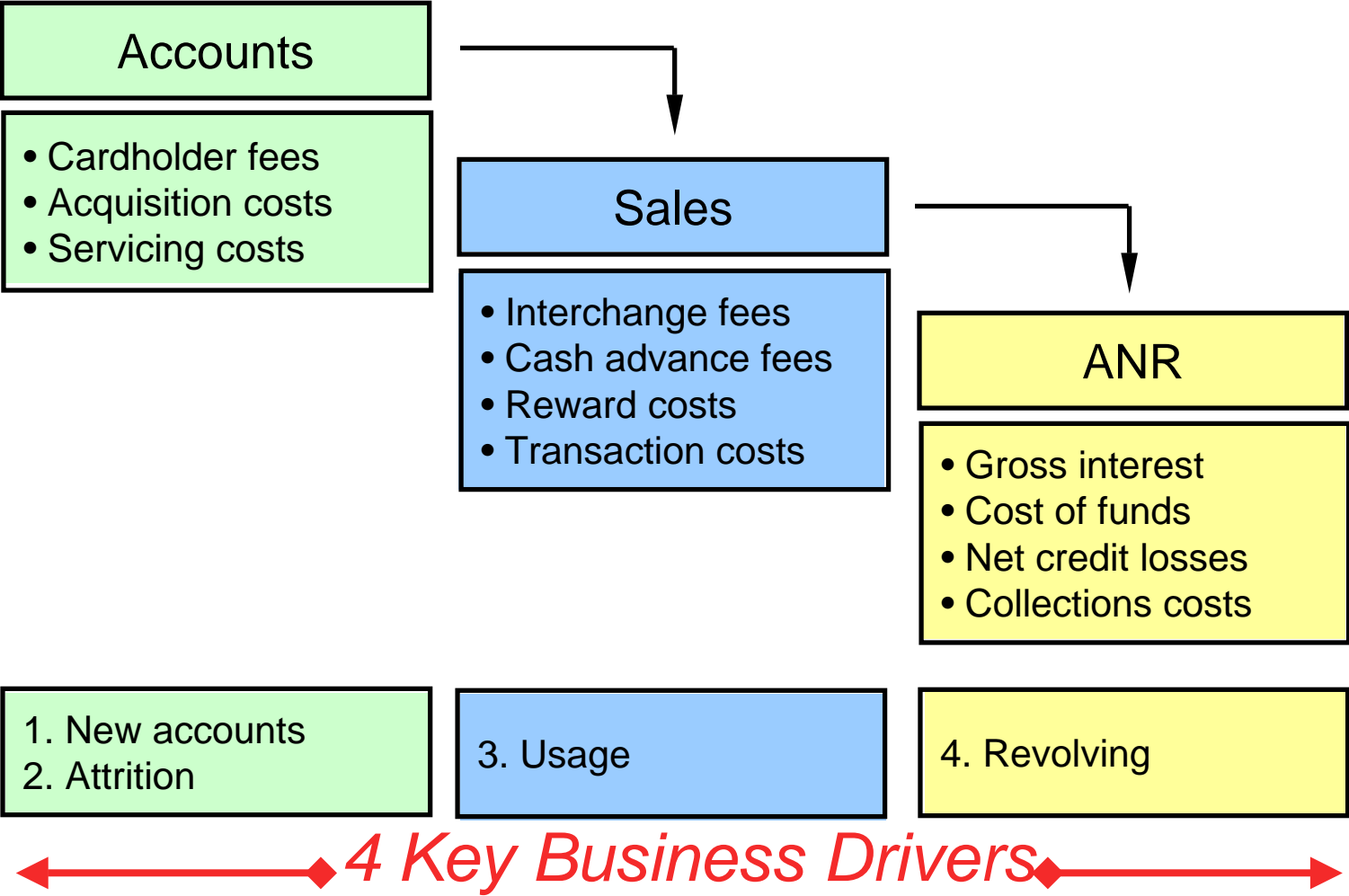


Cards P&L Structure



A	INTEREST	
B	ADJUSTMENT	
C	INTEREST REVERSAL	
D	<u>COST OF FUNDS</u>	
E	NRFF	= A - B - C - D
F	INTERCHANGE	
G	ANNUAL FEES	
H	<u>OTHER FEES</u>	
I	FEES	= F + G + H
J	CUSTOMER NET REVENUE	= E + I
K	CREDIT COST (NCL/LLR)	
L	NET CREDIT MARGIN	= J - K
M	EXPENSES	
N	EBIT	= L - M
O	TAXES	
P	NET INCOME	= N - O

Business Drivers



Expenses

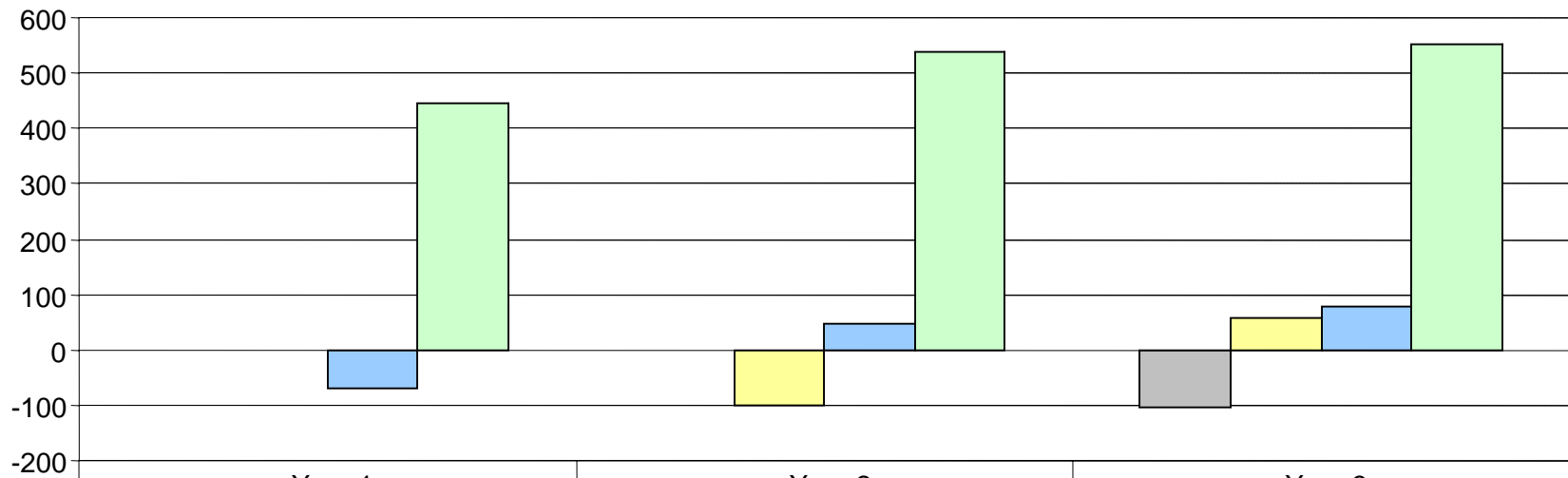


<p>■ ACQUISITION: Sales & marketing, credit initiation and card issuance. Driven by # of new accounts/channel mix and approval rate.</p>	# New Accounts
<p>■ SERVICING: Customer (citiphone, collection) & Non-Customer (payment/transaction processing, authorization, settlement). Driven by # of open accounts and level of automation/centralization.</p>	# Avg Open Accounts
<p>■ MARKETING: Advertising, product & portfolio management (activation, upgrades). Driven by scale and depth of communication/program.</p>	
<p>■ TECHNOLOGY: Telecommunication, data centre, enhancement, maintenance and production services. Driven by extent of functionality and level of centralization.</p>	
<p>■ INFRASTRUCTURE: Business management, support functions, fraud losses and corporate allocations. Driven by sales volume (fraud) and level of efficiency.</p>	

Vintage P&L

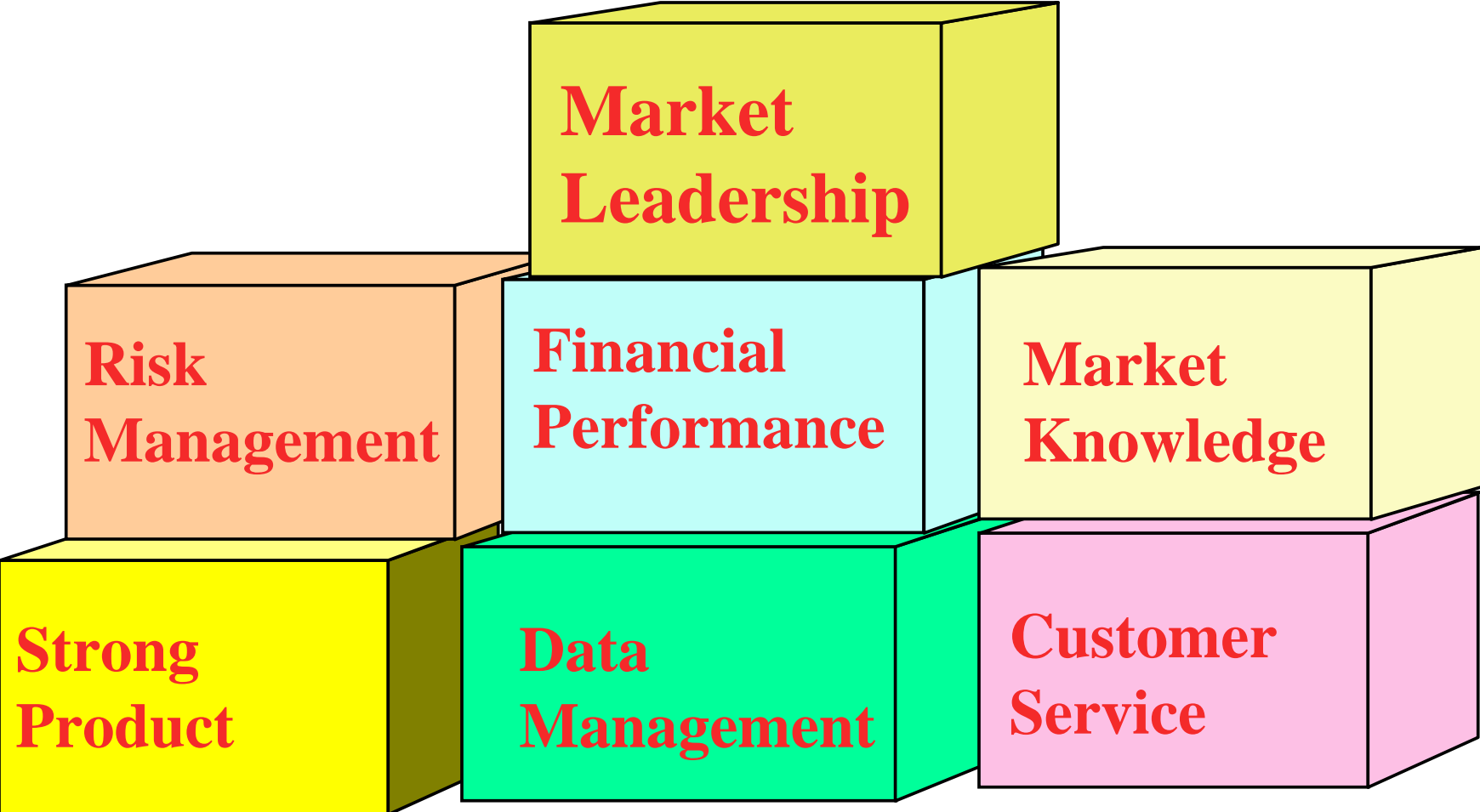


EBIT (US\$MM)



	Year 1	Year 2	Year 3
Vin=3			-104
Vin=2		-102	57
Vin=1	-71	47	77
Vin<=0	445	539	552

Credit Cards- A Business of Many Moving Parts



Operational Framework



Marketing

- Cardholder Acquisition
- Portfolio Management
- Branding & Advertising
- New Product Dev. & Partner Mgmt
- Research & Planning

Risk Management

- MIS
- Credit / Risk Management
- Risk Policies
- Collections
- Fraud Security

Operations

- Credit Initiation/ Appl. Processing
- Authorization
- Transaction Service
- Front End Collections
- Customer Service

Technology

- Front end distribution System
- Host System
- System development & maintenance

Others

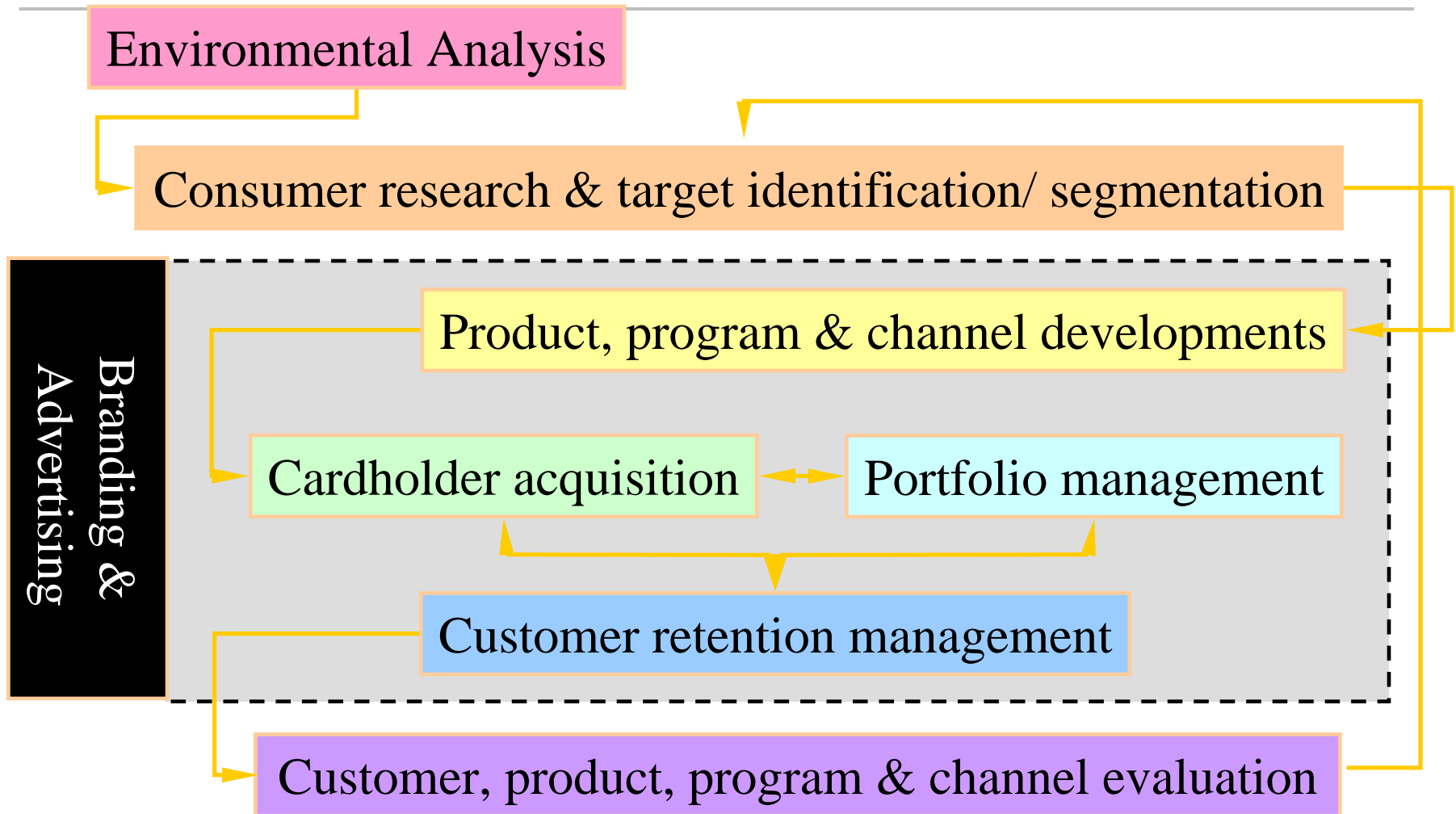
- Financial Control, Human Resources, Legal/Compliance, Treasury

Service- The Key Link with Customer

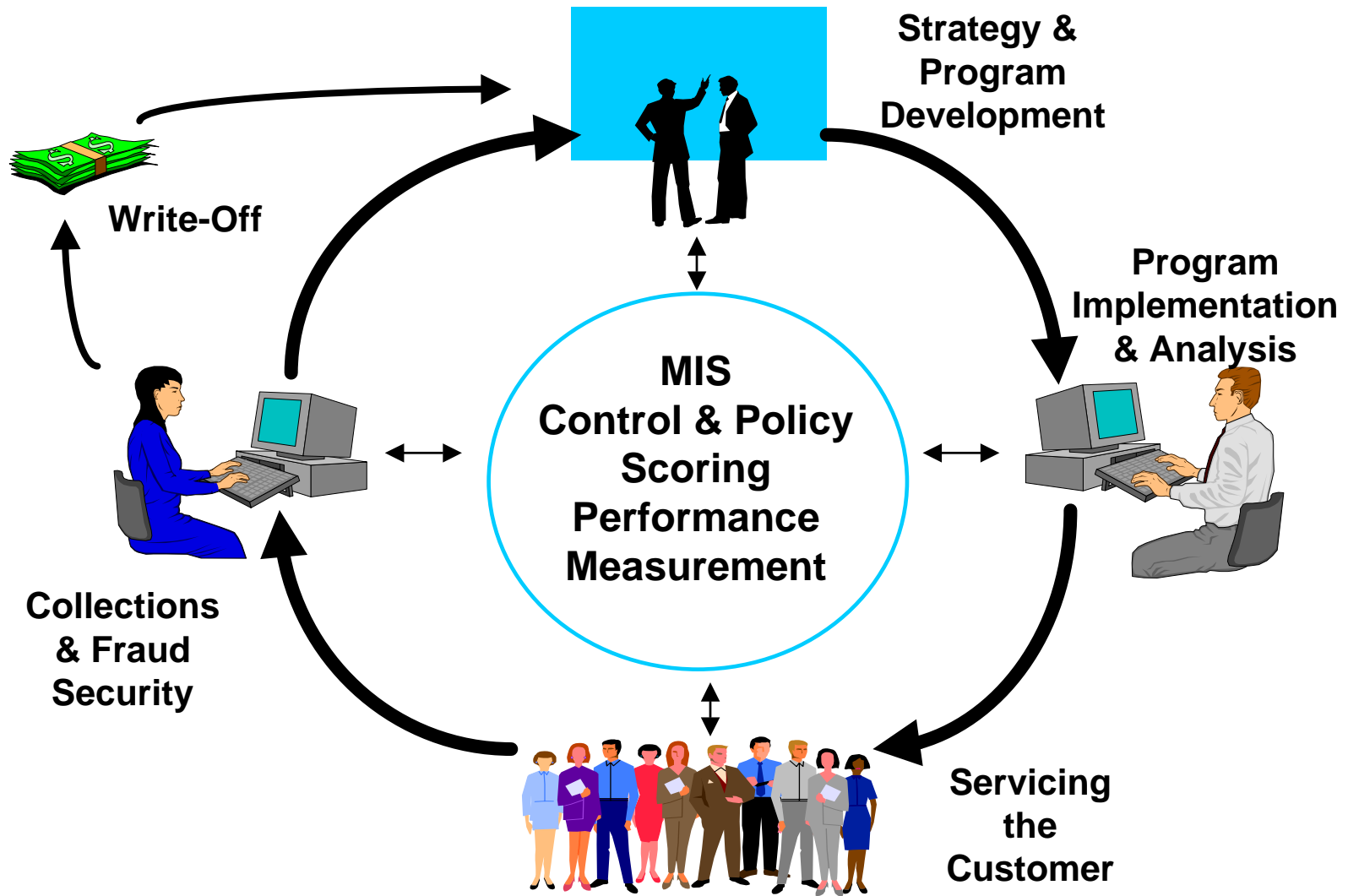


- **Application Processing & Delivery Time**
- **Statement Rendition & Accuracy**
- **Phone Service Quality**
- **Reward Fulfillment PIR**
- **System Availability – AVR (Total)**
- **Emergency Card Replacement**

The Marketing Cycle



The Credit Cycle



Every Transaction is a Credit Decision



Authorizations

Crucial process in controlling delinquency and fraud while providing exceptional service and increasing sales

Good authorization process can

- Prevent further credit exposure
- Establish validity of the transaction
- Prevent use of lost or stolen cards
- Detect patterns of card usage suggesting fraudulent use
- ... Managing portfolio through appropriate authorization policy

Criteria

- Outstanding Balance / Available Limit
- Delinquency
- Length and Depth of relationship
- Type of purchase
- Validation of purchase
- Behavior Score

Collection of Bad Debts



Collection is a Balancing act

- Cost vs. Return
- Customer relationship (retention) vs. Asset Protection

Customer contact is important

- “If you don’t make contact, you don’t collect”

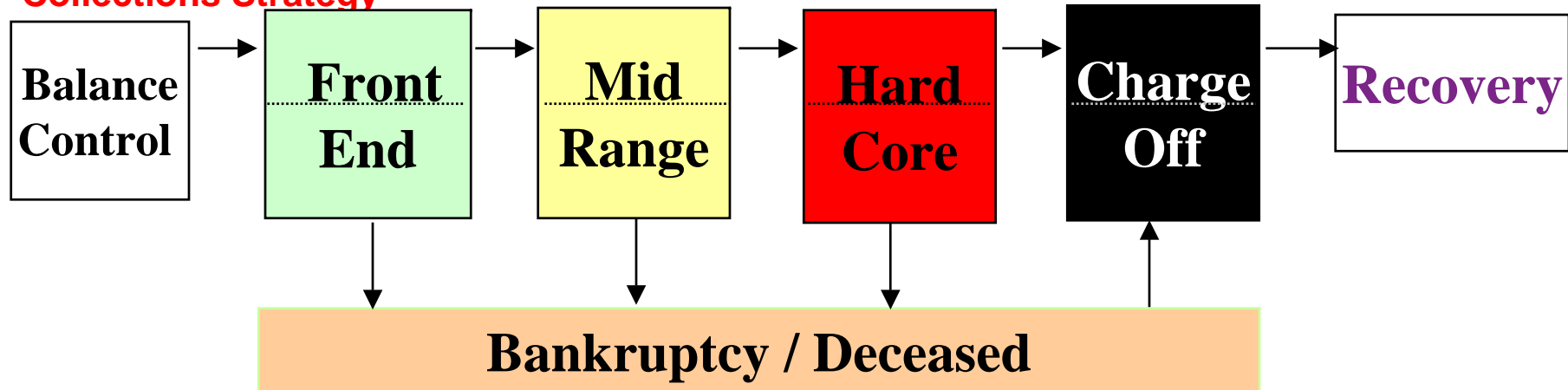
People

- Training & performance coaching & monitoring
- Collection agency

Process & System

- Technology
- Performance MIS

Collections Strategy



Fraud Threat in Card Industry



Mission

Protect the franchise against fraudulent activities while maintaining customer convenience & service

Types of Fraud

Traditional Types

- Lost / Stolen
- Never Receive Issuance (NRI)
- Fraudulent Application
- Mail / Telephone Order (MOTO)
- Account Take Over (ATO)

Emerging Types

- Manual Counterfeit (White Plastic, Altered, etc)
- Electronic Counterfeit (Skimming)
- Merchant Fraud
- Internet / E-Commerce

In Summary...



1. **Cards is a 'universal' product with mass appeal**
2. **Industry continuous to grow- both due to economic growth and cash-to-card shift; specially in Asia**
3. **Effective marketing requires understanding different segment dynamics and support with right product/channel strategy**
4. **Cards is a complex business requiring significant local/ international infrastructure, and good understanding of risk management, analytics, and profitability dynamics.**
5. **It's competitive, constantly changing and growing business**

Challenging & fun business to work in...

 **citibank**

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