










WHAT IS NEXT AND WHAT WILL WIN

THE FUTURE OF PAYMENTS

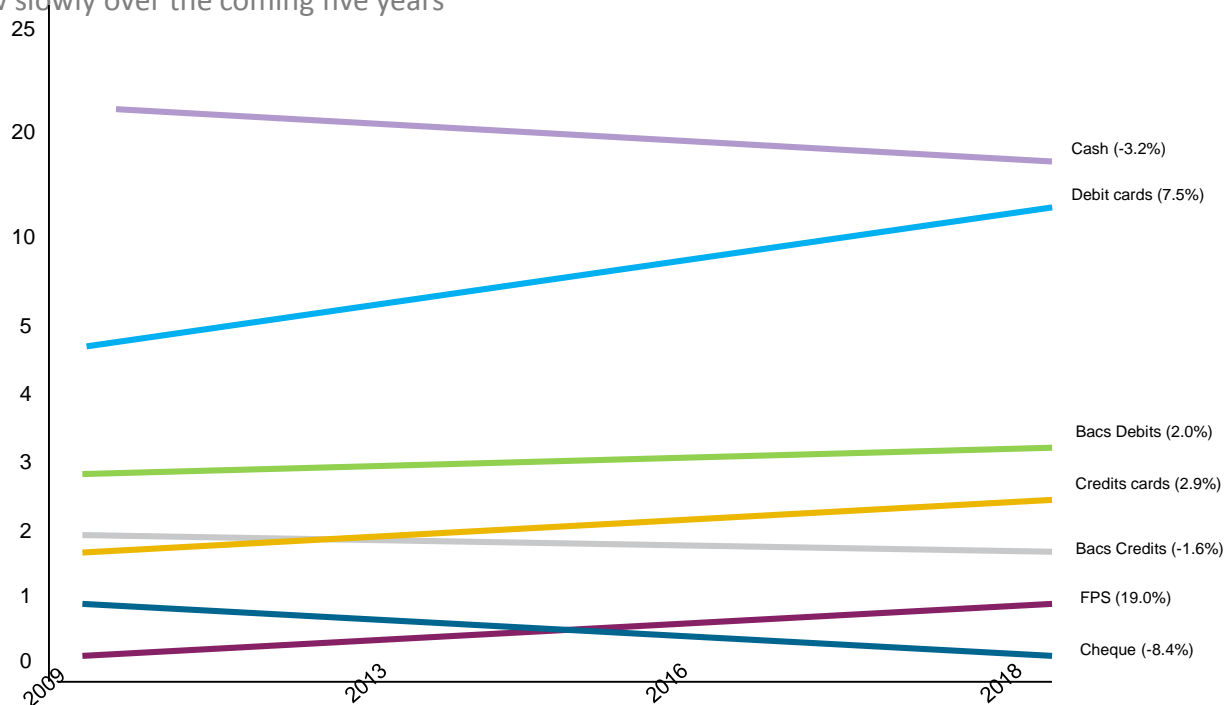
THE FUTURE OF PAYMENTS

-  WHO TAKES THE CAKE
-  SMARTPHONE-THE CHANNEL OF CHOICE
-  TECHNOLOGY-WHAT IS UP
-  DIGITAL UNIVERSE IS COMING
-  KNOW YOUR CUSTOMER
-  WHAT'S NEXT
-  Q&A Session

Debit cards are growing fast, while other methods are seeing slowing growth or minor reduction

UK Payments Council forecasts: Key observations

- Cash payment volumes are predicted to decline by 3 billion over the next five years. Debit cards are expected to drive this reduction (+2.8 billion)
- ATM withdrawals predicted to reduce by 200 million plus
- Bacs credit transfers are declining, largely due to a trend towards aggregation of payments
- Bacs debit will grow slowly over the coming five years



Worldwide markets show high growth in card payments and high non-cash payment growth within developing countries

Key Global payment trends-WHO TAKES THE CAKE

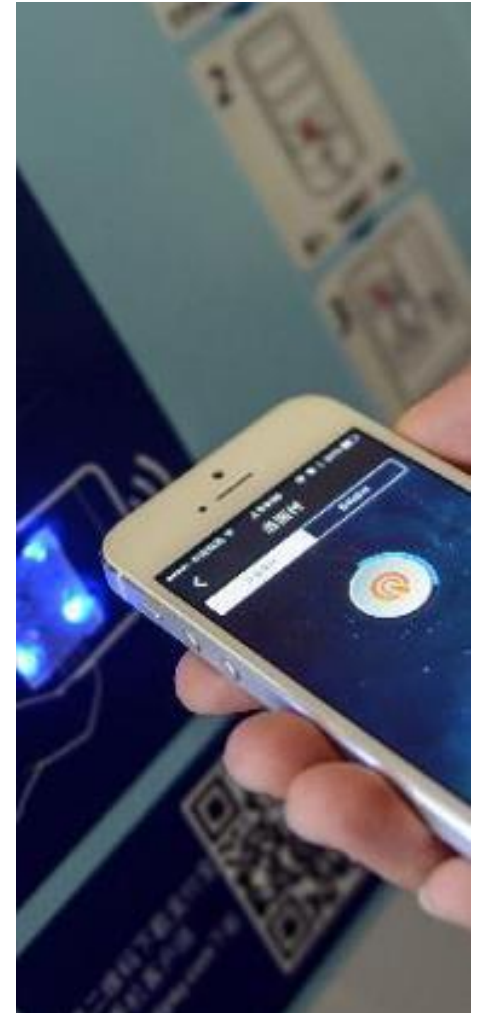
The Asia Pacific region represents the greatest growth area in terms of economic and future growth in transactions volumes. It has been the fastest growing non-transaction market in the world since 2005 and will remain so through 2016.

* Debit cards are the most popular and fastest growing non-cash payment method in the world and will account for 39% of non-cash payments by 2016.

* Pace of growth in non-cash payments is fastest in developing markets

* Credit transfers and direct debit usage remain stable. Europe is a dominant player in the credit transfer market with 52% of global market share. Europe also accounts for over half of the global volume of direct debit transfers indicating its dominance in the ACH market.

* Cheque usage continues to decline in most markets, however they remain stubbornly high in many emerging markets as they transition away from cash.



Smartphone -the channel of choice

50% of the smartphone population are interested in mobile payments

Currently, 20% of UK consumers state they make mobile payment through their mobile. The majority of these consumers are under the age of 35, and are in the early adoption segments.

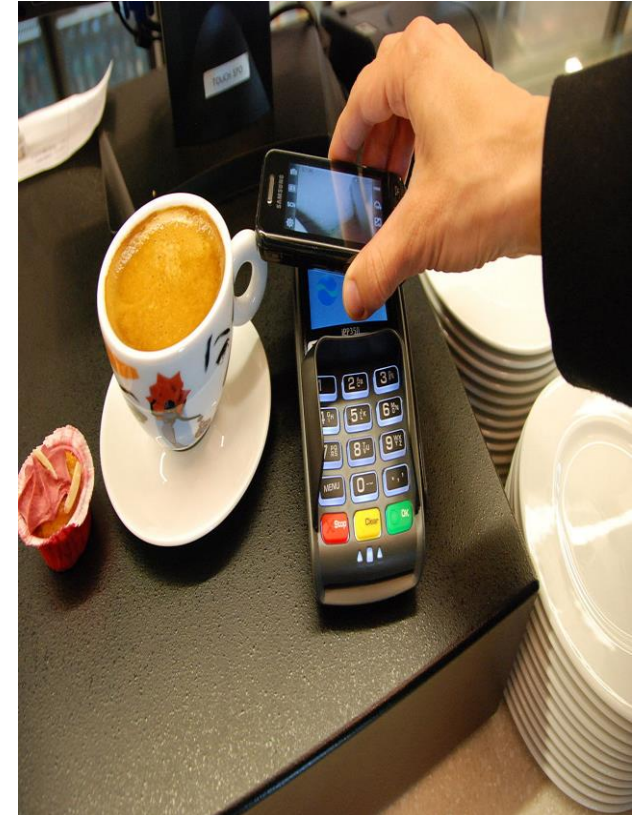
Similarly to mobile banking, convenience and speed plus not needing to carry cash are the key reasons consumers who are currently using mobile banking say are the main benefits.

The majority would only pay for items up to £600.

Of those who are not interested in mobile payments, security and risk of losing their mobile phone are key reasons why they are not picking up the service, however this drops significantly among those who are current mobile banking users.

Over a third of the UK is interested in paying for a payment service that guaranteed no surcharges or additional costs when paying for items, the highest levels are seen across the younger age groups and those who are mobile banking or payment users

Unsurprisingly banks are the most trusted providers of the service, followed by the card providers.



Technology development is changing consumer expectations and creating new business models

Top 7 technology trends

Abundance of computing power

- Computing devices are faster, cheaper, smaller, and with greater storage and longer battery lives
- Cloud computing has created an abundance of data storage at minimal cost and lowered barriers to entry

Device evolution

- Proliferation of devices that hold computing functionality, changing the competition dynamics between players in the value chain
- Payments opportunities include automatically triggered payments, (e.g. highway tolls), acceptance and payment-related apps and hardware (e.g. Swipe)

Inter-connectedness

- Physical and logical connectivity via high network capacity, faster speeds, greater coverage, and greater intelligence around context (e.g. location)
- For payments, this is demonstrated by mobiles as card replacements, terminal replacements, and authentication devices

Digitisation of reality

- Real-world processes are increasingly 'digitised'
- Key elements include scanners, actuators, UIs, and interconnectedness, supported by databases and other services

Data explosion and analytics

- New analytics models are developing to cope with the size of data and demands of analytics
- The payments industry will benefit from anonymising data so it can be analysed securely

Social and collaborative computing

- People/organisations are collaborating creating crowdsourcing opportunities
- The payments industry lacks a viable framework for this space

Identity

- Online identities are no longer owned/managed by financial institutions
- Users will require sophisticated identity management, access, and security

The capability and accessibility of computing power is increasingly rapidly, while costs are declining

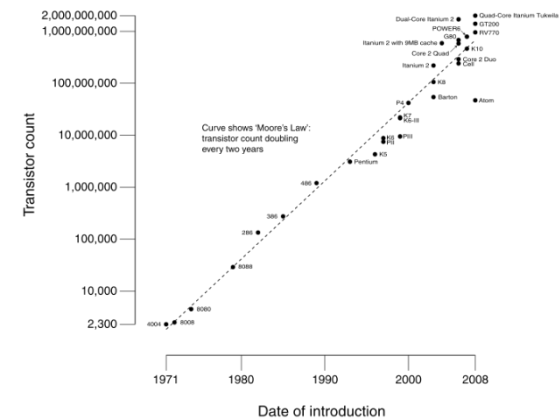
Power & Capability

- The scale of computing power in both personal and enterprise level is increasing rapidly
 - Hardware becomes ever more powerful (e.g. iPads, smartphones, laptops)
 - Software becomes ever more capable (operating systems, graphics, automation, etc.)
 - Memory/data storage becomes ever more abundant (consumer class storage now as low as €50/terabyte)
 - Networks become ever faster and more intelligent
- AND, the price becomes ever more affordable – the relative cost of all these factors continues to fall every year

Accessibility

- Concepts such as cloud computing and grid computing are enabling businesses and even individuals to buy or rent processing power as though it were a utility
- A whole host of vendors, including Amazon, Google, IBM and Microsoft, now provide sophisticated, mature services ranging from simple, on-demand applications such as e-mail and basic document sharing through 'point applications' such as sales and customer relationship management to data storage/backup and complete server environments for mainstream software packages or custom applications
- High-speed global connectivity, combined with the emergence of open systems and service-oriented architectures, will mean it is progressively more appropriate to purchase more of our technology as a service

CPU Transistor Counts 1971-2008 & Moore's Law



The digitisation of reality is becoming commonplace and driving new consumer and business behaviours

Our real lives are replicated and reflected in a parallel (digital) universe

A large number of real-world processes and activities are becoming mirrored in the digital world (e.g. parcel tracking, emergence of RFID tagging, etc.)

In the future it is feasible that every physical entity will have its virtual equivalent. And it won't just be tagged. The virtual object may be imbued with intelligence by virtue of its interconnection with the real world

This digitisation of reality is expanding to the consumer domain in the emerging uses of smartphones and other mobile devices which are aware of and tracking everything from the user's location and preferences to the ambient light. Much of that information is then pumped back into the network to improve the services and solutions offered via the device

The emerging "app" culture on smartphones is another example of companies packaging up specific services and interactions into simple, easily accessible digital tools which allow the user to customise their device according to their needs/preferences



The world is a more open and collaborative place in which to operate

The role of “open” payment platforms (e.g. PayPal X, Amazon Payments, etc.) is rapidly expanding the scope of electronic payments and allowing new and innovative environments to monetise their engagements

People have always been social but technology is accelerating the multitude of interactions between people

Open innovation and crowd sourcing accelerating the rate of change and increasing the rate of innovation

Social networking is old news but everything is going social – social shopping incorporating recommendations from your friends, social career development, social learning, gaming – all opening up multiple opportunities for the industry and attracting newcomers

Collaborative computing between organisations – “mashups” giving rise to new opportunities and driving new business models



Traditional identity management models become increasingly unsustainable

In future, there will be the need for a robust personal identity management (PIM) solution with some of the following likely characteristics:

*It would be standards based
It would function at a regional level and be interoperable at a global level*

It would be an internet-based collection of identity components stored at the individual level

The collection of components would include photos, biometrics and scans of notarised document (passport, bank statement, proofs of address, and so on)

The individual would solely manage the contents of the collection, including its encryption, to avoid the possibility of mass data theft

A trusted third party would be able to provide independent assurance of the relationship between the real-life person, the real-world evidence of their identity, and their virtual identity

There would be 'high street' agencies that provide facilities and assistance

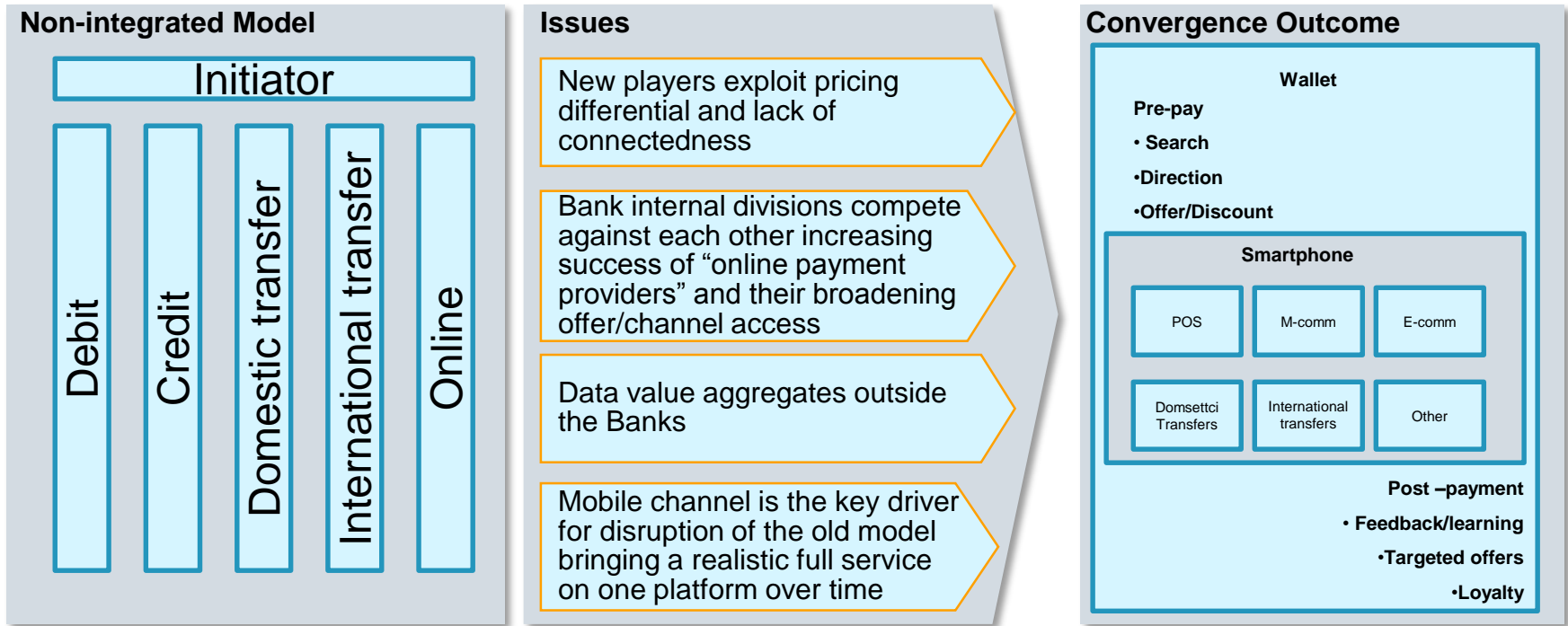
Access for the individual would be via a secure methodology (perhaps even biometrics to allow for the loss of credentials)

The service would support personas, credentials and avatars

The service would be held in public trust, managed by a highly trusted organisation, and capable of replication and access to federated organisations



Payments convergence is not yet a reality, but the potential outcome requires 4 key competitive levers to succeed



Users, driven by app familiarity and customisable look and feel, may drive seek single platform solutions; especially if integrated rewards become available

“Wallet provider” or Integrator will build closest connection to the customer and will generate significant income from that position

- Winners will demonstrate:**
- an enhanced end to end customer experience
 - rigid control and understanding of costs and returns
 - strong and appropriate brand
 - collaboration: effectively and at pace

Q & A Session



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