



Frequently Asked Questions

MasterCard® PayPass™

GENERAL

Q. What is MasterCard PayPass?

A. MasterCard PayPass is a new “contactless” payment feature that provides consumers with “The Simpler Way to Pay™” by tapping their payment card or other payment device, such as a cell phone or key fob, on a point-of-sale (POS) terminal reader rather than swiping or inserting their card or handing it to a cashier.



Q. How does MasterCard PayPass work?

A. MasterCard PayPass cards and devices feature an embedded chip and radio frequency antenna.

- After cardholders tap or wave their MasterCard PayPass card/device at a special POS merchant terminal, the card/device transmits payment details wirelessly, eliminating the need for cardholders to hand over their card for a merchant to swipe it through a reader.
- Account details are communicated to the terminal and are then processed through MasterCard’s highly trusted acceptance network in the normal manner.
- Moments after consumers tap the terminal with their MasterCard PayPass card/device, they receive payment confirmation and are on their way.

Q. Who benefits from MasterCard PayPass?

A. All parties involved in the payment transaction stand to benefit from accepting MasterCard PayPass. Contactless payments open up new opportunities for financial institutions, merchants, and consumers.

These potential benefits include:

For financial institutions, MasterCard PayPass is designed to:

- Increase Gross Dollar Volume (GDV) by attracting payments away from cash.
- Open up new acceptance opportunities for quick-pay environments.
- Increase cardholder loyalty for their card programs.

For retailers, MasterCard PayPass is designed to:

- Be simpler and faster than cash, thereby speeding consumers through the checkout process.
- Increase average transaction amounts spent, as compared to cash.
- Provide a reliable, trusted payment method that works well in quick-pay environments.
- Help attract new customers and increase their loyalty.

For consumers, MasterCard PayPass is designed to:

- Provide a quick, easy payment method, thereby improving the overall shopping experience.
- Increase the feeling of security, as cardholders remain in control of the card/device during transactions.
- Provide better record keeping than cash.

Q. Does MasterCard PayPass replace existing cards, or is it a new account?

A. This is entirely up to the card issuer. Basically, the contactless payment technology is used simply to communicate payment account data in a quicker and more convenient way than a magnetic stripe or contact chip. PayPass can enhance any MasterCard payment account, whether it is added to a credit, debit, or prepaid/stored-value account.

TRIALS/RESULTS

Q. Where has MasterCard PayPass been used?

A. On September 30, 2003, MasterCard reached an important milestone with the conclusion of its nine-month MasterCard PayPass market trial in Orlando, Florida, with Chase, Citibank, and MBNA.

More than 16,000 cardholders and more than 60 retailer locations participated in the market trial.

In addition, MasterCard worked with Nokia, AT&T Wireless, and JPMorgan Chase to incorporate MasterCard PayPass into mobile phones in Dallas, Texas. Here, consumers simply tapped their phones to make payments.

Q. What did MasterCard learn from its PayPass trials in Orlando and Dallas?

A. Consumers respond to PayPass

Trial results in Orlando indicated that consumers find MasterCard PayPass to be simple, fast, and convenient. MasterCard PayPass cardholders value the added security that they receive from retaining possession of their card while paying. Consumers also like the convenience of not carrying cash for everyday purchases and not having to go to the ATM as frequently.

Positive impact on card usage

One particularly interesting finding was that MasterCard PayPass prompted infrequent card users to pay with their PayPass-enhanced cards much more frequently—and in a greater variety of situations—than they had previously. This established a positive link between MasterCard PayPass and increased cardholder activation. In particular, over the nine-month trial, we realized nearly an 18% activation rate on formerly inactive accounts. These newly active accounts transacted consistently more than eight times a month through September.

We saw a top-of-wallet trend emerge among PayPass cardholders. Specifically, there was a nearly 23% increase on transaction volume versus the same period in 2002, and an even higher increase of nearly 28% in total weekly spend versus 2002. We also saw a pattern of frequent usage emerge. Month over month, we saw more than a 12% increase in transaction volumes at PayPass merchants.

Increased average transaction size

We saw clear evidence that consumers were using their PayPass cards where they once would have used cash. The average PayPass transaction size during the trial was around \$21, and 80% of PayPass transactions were for purchases under \$25.

Q. How much does MasterCard PayPass technology speed up an average/standard cash and credit retail transaction?

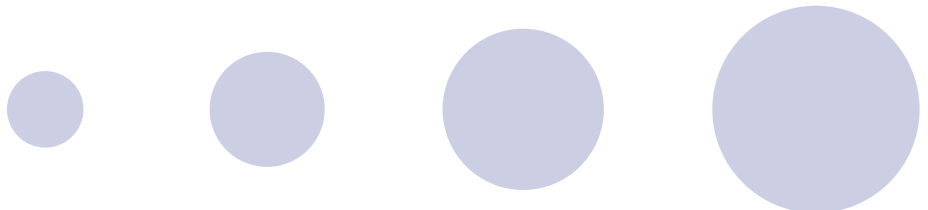
A. Results of the Orlando trial also verify that MasterCard PayPass can offer significant time savings to retailers. In some locations, MasterCard PayPass reduced purchase times so substantially that retailers should be able to support additional transactions and thus potentially increase revenues. The most significant time savings have been realized in the drive-thru environment, which shaved between 12 and 18 seconds off the purchase time as compared to cash.

Results from the MasterCard PayPass trial in Dallas reinforce speed and convenience as top benefits.

Together, this all indicates the emergence of a strong issuance business case for MasterCard PayPass.

Q. What were MasterCard's most significant findings from its consumer payment trends research?

A. In late 2003, MasterCard carried out a national telephone survey to gain additional insight into consumer payment trends and preferences. Many of the survey's results confirmed our trial findings. For example, according to the survey, nearly 40% of U.S. adults carry less cash with them compared with five years ago. Twenty-six percent say they carry "a lot less" cash. Findings also showed that nearly half (49%) of consumers carry \$20 or less in their wallet and 86% of consumers reported that they want to use cash less often than they currently do. These survey results are also in line with 2002 studies which showed that 53% of consumers would use MasterCard PayPass to replace cash payments if their banks offered it to them.



MERCHANTS

Q. What types of merchants will benefit the most from MasterCard *PayPass*?

- A. MasterCard *PayPass* is ideal for traditional, cash-only environments where speed is essential, such as fast-food restaurants, drive-thrus, convenience stores, movie theaters, self-serve gas stations, mass transit, pharmacies, parking lots, and toll roads. The most significant time savings were recognized at drive-thrus, where MasterCard *PayPass* shaved between 12 and 18 seconds from the purchase time, as compared to cash.



Q. What are the benefits of installing MasterCard *PayPass* readers over a consumer self-swipe reader?

- A. Both traditional self-swipe readers and the new MasterCard *PayPass* “tap and go” readers are designed to improve the overall consumer experience at the point-of-sale. However, installing a *PayPass* reader at the POS offers consumers (and retailers) even greater convenience with a simpler way to pay. Key benefits include:

- **Usability**—Cardholders need not worry about which way to insert the card (as with a self-swipe reader); they simply “tap and go.” A MasterCard *PayPass* card can be read in any direction when tapped.
- **Simple design**—With no openings for cards, the MasterCard *PayPass* reader mitigates the risk of service disruption and repairs resulting from wear and tear—especially helpful for outdoor locations (drive-thrus, gas stations, etc.).
- **Versatility**—MasterCard *PayPass* readers work equally well with MasterCard *PayPass*-enabled payment cards and with non-card payment devices like fobs, phones, and PDAs, allowing consumers an even greater range of payment alternatives to cash.

Q. How does pricing work for merchants? Are MasterCard *PayPass* transactions more or less than traditional credit and debit transactions?

- A. The use of the MasterCard *PayPass* technology has no bearing on pricing. Pricing is a matter between the acquirer and the merchant.

Q. How does this “non-verified” transaction change the payment guarantee for the merchant?

- A. The use of MasterCard *PayPass* does not change the payment guarantee for merchants. Existing rules in place for the product/merchant category in which the transaction takes place continue to apply when data is passed across a contactless interface.

Q. What are the costs involved?

- A. To accept *PayPass* payments, merchants can choose to implement a plug-in, *PayPass*-only reader or a fully integrated system. Costs will vary depending on the selected solution.

ISSUERS

Q. How safe are these transactions? Can't someone intercept the data or get incorrectly charged for purchases when carrying the card?

- A. These transactions are just as safe as, if not more safe than, traditional card payment transactions, as the *PayPass* feature incorporates special security technology to prevent “replay” fraud when a *PayPass* program is implemented as recommended by MasterCard. MasterCard *PayPass* also provides more consumer control, since the card doesn't have to leave the hands of the consumer to be swiped by the merchant. Additionally, MasterCard *PayPass* provides zero consumer liability in North America, just like all MasterCard payment programs.

Q. Is the signature requirement waived for MasterCard PayPass purchases? Is there a limit?

A. MasterCard PayPass transactions are targeted at low-value purchases that were formerly paid with cash. To ensure this type of transaction is a simpler and more convenient way to pay for both consumers and retailers, in the US and Canada we offer qualified, quick-pay retailers the opportunity to participate in our Quick Payment Service (QPS) program. QPS allows participating merchants to waive signature requirements for authorized small-value transactions while still receiving a guarantee of payment for that purchase. Eligible merchant categories include fast-food restaurants, drive-thrus, convenience stores, pharmacies, parking lots, gas stations, and movie theaters. The exact dollar amount varies by merchant category, but is generally below \$25. For purchases above that limit, cardholder signature or PIN is still required.



the chip on the card. The risk management rules will depend both on the technology and the underlying payment application (credit, debit, prepaid/stored-value, etc.).

Q. What if the card gets stolen? Does MasterCard's zero liability policy cover transactions made with MasterCard PayPass cards?

A. In the event of loss or theft of any MasterCard payment card, consumers should report it immediately to their issuing bank. This notification will prevent future authorization of transactions made against that MasterCard account. This is the same for all MasterCard payment programs, whether they are enhanced with PayPass or not. In any case, North American MasterCard cardholders are protected by zero liability for any fraudulent transaction.

Q. Are MasterCard PayPass transactions authorized online?

A. MasterCard recommends that all transactions be authorized online. The decision to send transactions online is subject to existing rules for the payment application enhanced by PayPass, any participation in special merchant acceptance programs, and issuer-determined risk management parameters set within

MISCELLANEOUS

Q. What type of technology is used for MasterCard PayPass?

A. In keeping with our overall strategy to create globally interoperable payment solutions, MasterCard PayPass was built following an open industry standard for radio frequency communications—ISO 14443.

*MasterCard
International*



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¹Learnings cited drawn from a series of trials conducted by MasterCard International during 2002-2003.