



**EMERGING PAYMENTS FORUM:  
BARCLAYCARD PERSPECTIVE  
29 March 2011  
Philip McHugh, CFO - Barclaycard**

**[Slide 1] – Title Slide**

Thank you, hello, and good afternoon.

During the next 30 minutes, I'd like to talk to you about Barclays, Barclaycard, but more importantly about the significance of emerging payments for our strategy.

**[Slide 2] – Presentation Content**

I'll start with a quick overview of Barclaycard, talk about some key emerging trends that help define our strategy, and finally give a few examples of our innovation in the digital payment space.

I'd also like to caveat one item in our presentation. As a British based bank, all of our information is in Pound Sterling not US Dollars, so for the Americans in the audience, I'd ask that you just multiply any financials by 1.5 and you'll get the broad picture.

**[Slide 3] Barclaycard is an important part of Barclays and the Global Retail Bank (GRB)**

First, let me set the context by illustrating how Barclaycard fits within Barclays. As many of you know, Barclays is a large global universal bank comprised of retail, corporate, investment banking, and wealth management services.

In 2010, Barclays earned 6bn pounds PBT, of which 30% came from Global Retail Banking, headed by Antony Jenkins. As you can see from the slide, Global Retail Banking includes four key businesses providing a full range of consumer banking and payment solutions.

The business units are the UK Retail Bank, Barclaycard, Western Europe, and Barclays Africa. Last year, Barclaycard generated 791m pounds of profit before tax, representing 43% of GRB and 13% of Barclays.

Hopefully that gives you a sense of the magnitude of the Barclaycard within the organisation.

Another way to look at Barclaycard is overall versus peers. In terms of outstandings, revenue and profit before tax we are a similar size to Discover. And in terms of spend, Barclaycard's turnover globally is nearly 40% of Amex's global turnover.

**[Slide 4] Barclaycard has innovated and diversified from its roots as a UK credit card provider**

Looking beyond financials, Barclaycard not only represents a key source of diversification within Barclays, but it also plays a key role in terms of innovation and focus in the payments space.

For those of you who are not familiar with the UK market, Barclaycard is a well known consumer brand that has a reputation as a pioneer.

Since we launched the first UK credit card in 1966, Barclaycard has maintained its heritage of innovation and over the past 45 years, it has continued to take the lead in emerging payment trends.

Barclaycard's history is also a history of diversification.

First, diversification into the business payments space, with the first UK acquiring network, followed by the launch of Company Barclaycard in 1977.

In addition, Barclaycard has expanded its international footprint with scaled expansions into Germany, the US, South Africa, and Scandinavia.

**[Slide 5] Barclaycard has innovated and diversified from its roots as a UK credit card provider**

The result of this diversification, Barclaycard today is a broad, international payments business. Let me walk you through the profile of the business.

We still derive about 40% of our revenue from our core UK Consumer Card Issuing business where we maintain a market leading position. However an additional 37% of revenue comes from International Consumer Card businesses where we have scaled and profitable operations in the US, Germany, South Africa, and in Scandinavia through our joint venture with Swedbank called Entercard. In each of these markets, we have achieved significant market position.

Finally, about 20% of our revenues come from Business Payment Products – our B2B Division. This is comprises:

Our merchant acquiring business, called Payment Acceptance, where nearly 1 in 3 card purchases in the UK are made through merchants that acquire through Barclaycard.

Commercial Payments, providing corporate, travel and procurement cards to 155 thousand clients primarily UK based businesses and government agencies.

And finally, Barclays Partner Finance, provides point of sale finance products to merchants across the UK

Looking at the portfolio in aggregate, all our businesses are:

Scaled.

Specialised in their capabilities.

And all generate meaningful profits.

#### **[Slide 6] Strong track record of returns through the cycle**

So how does this portfolio translate into performance?

The combination of a diversified business built on scaled and specialised operations along with the benefits of working closely with all Barclays businesses has served us well and allowed Barclaycard to generate consistent profit growth through a very volatile period.

Additionally, the combination of fee-based and asset-led businesses, a generally conservative risk posture, and good cost control have allowed Barclaycard to also maintain consistently strong returns on risk-weighted assets.

#### **[Slide 7] Pressures on consumer credit card issuing are accelerating industry change**

So far so good. We do however recognise that the payments market is changing rapidly and we will need to change with it. We see four main factors driving this change.

First, the market is maturing. Credit Card growth is flat to down in most major markets, consumers are moving from credit to debit, and most recently we are seeing a general trend of consumer de-leveraging. This is a fact.

Second, whether it is with the Cards Act in the US or the European Consumer Credit Directive, there are consistent regulatory themes in all our markets including regulation of interchange rates, risk-based fees, and balance hierarchies. The fact is that the traditional card income streams are changing and we need to adapt.

Third, new competition is emerging as new players enter the payments space including mobile operators, retailers, and emerging technology companies. For example, we have seen national retailers take over 10% of consumer credit cards in issue in the UK.

Finally, a key area of change is in digital payments. The rapid growth in smart phones is a global mega trend and consumers will eventually move towards new and better ways to make payments.

Drawing these trends together, we see change in our industry driven by new competitors and technology. More importantly, we see change driven by what customers want. They want payments to be simpler and they want their lives made much easier.

### **[Slide 8] Barclaycard Growth Strategy**

The focus to be the best brand in simple payments and to ultimately make customer lives much easier is the central insight which informs our strategy.

Looking forward, Barclaycard has three growth priorities.

First, we intend to maintain or build upon our scaled positions in existing markets. This will be achieved primarily through innovation, cost efficiencies, leveraging our brand, and in many cases through partnership. Let me walk you through a few examples:

This month we announced purchase of the Egg Credit Card portfolio from Citi, representing 1.15 million accounts and 2.3bn pounds of receivables. This transaction reinforces our market leading position in the UK. Importantly we will also be able to absorb this business with relatively little impact to our operating costs going forward. It shows the power of scale.

Another example is our joint venture in Scandinavia, where it took us just four years to become the #2 consumer credit card issuer through our joint venture with Swedbank.

And a further example has been the synergy between Barclaycard's expertise and Absa's distribution in South Africa, making us the #2 consumer issuer.

Finally, in the US Market, we have been able to grow from a boutique player with 1.4bn US dollars of receivables and the number 18 market position where we were able to transform that business into a top ten player.

We are currently the 9<sup>th</sup> largest Visa/Mastercard issuer in the country with 10bn US dollars of receivables.

This has been achieved through a focus on the partner card model including partnerships with US Air, LL Bean, the NFL, Apple, and Barnes & Noble to name just a few.

We believe that the partner-based model in the US provides greater benefit to and loyalty from consumers.

As an example, over a quarter of our active customers actually pay an annual fee.

And in light of the recent credit card regulations, we believe our business model is well-placed to continue to grow in the US market.

So overall in consumer cards, the strength of scaled businesses combined with capabilities to manage partnership gives us confidence that we will be able to maintain our leading positions.

The second strategic focus is diversification beyond consumer credit cards. Specifically we see significant growth opportunities to build on our existing B2B business, in particular, payment acceptance and commercial payments.

This is a known market with attractive economics, driven by fees on payment flows:

The B2B business attracts more than 4x the amount of non-interest revenue, it typically attracts lower impairment. As a result, returns on risk weighted assets tend to be more than 4 times higher than a traditional consumer credit card model.

As important, we believe the market in Europe is fragmented and Barclaycard is positioned as one of the few players able to offer complete payment solutions to our corporate clients.

So, to recap, B2B has attractive economics and Barclaycard has the capability to take share.

Finally, we recognise that payment trends are changing and that being a leader in payments innovation will be key to our future success.

## [Slide 9] Barclaycard is innovating in the emerging digital space

So what does it mean to be a leader in payments innovation?

Basically, we recognise that the businesses that can make payments for consumers faster, better, smarter, and ultimately simpler will win customer share and will win customer loyalty.

There are five key tenets which underpin our approach to being a key player in the emerging payments space.

First, we know that customer preferences and technology trends are evolving rapidly but with significant differences across markets. The simplest example is the rapid adoption of mobile payments in emerging markets versus mature markets.

Second, this means that we have to consider our approach market by market. There is no 'silver bullet' solution.

Third, it means it will be impossible to predict upfront which models will succeed. We need to be prepared to support multiple initiatives and be flexible in our approach, given the power of disruptive technology. It also means we will have to accept a higher, but still acceptable, failure rate of some of our initiatives.

Fourth, we do believe strongly that Barclaycard has a number of competitive advantages which will enable us to win in this space. We have a strong brand, we have a large and loyal customer base, we have a unique presence in issuing and acquiring and we have expertise in innovation as well as experience in building partnerships.

And finally, as important as the advantages we can bring to bear, we are committed to this space.

So let me share with you now three initiatives in payment innovations that are underway, all of which focus on making payments faster, better, smarter, and ultimately simpler.

## [Slide 10] Creating the market in contactless

So in 2007 we recognised that payments was changing and that contactless would be part of the journey towards mobile payments.

And in the UK, Barclays has a unique position as a major player in the credit card issuing, acquiring and debit card segments which gave us the capability to create the market.

We took the decision to move our point of sales terminals, as well as to convert all of our credit and Retail Bank debit cards, to contactless.

As a result, we now have 11 million of the 13 million contactless cards in the market. We also have over 90% of contactless terminals in the UK.

The result has been increasing customer uptake, with contactless transaction volumes more than doubling just in the last year. As a result of making payments faster and simpler, we think contactless in the UK is now reaching critical mass.

Some great examples of the increased uptake include not only new partners with Barclaycard, but also other competitors now following into this space. Recently announced moves into contactless include: McDonalds, announcing a move to contactless in its UK outlets, Boots, a leading UK pharmacy chain, and Lloyds Banking Group, the largest retail bank in the UK, starting to issue contactless cards.

This is a great example of Barclaycard innovating and helping to create a market.

## [Slide 11] Increasing customer spend through loyalty

Barclaycard has also been innovating in the loyalty space with the objective of driving greater customer spend and making payments better.

In 2010, we launched Freedom, an innovative real-time reward proposition delivered through our acquiring terminals. This proposition:

Allows customers to immediately earn and redeem at the point of sale.

The customers earn 'cash not points'.

This leverages any Barclaycard credit card, eliminating the need for separate plastic or coupons. In other words, its simpler and better for customers.

As importantly, the rewards are funded by the merchants and not by Barclaycard.

Again, Barclaycard's unique position in both issuing and acquiring has enabled us to deliver this proposition, and Freedom is driving results.

1 million customers have been using it –

Earning more than 3.4m pounds in Reward Money.

Through 4 million transactions.

his has delivered an average uplift in qualifying sales of 14% for retailers who participated in Freedom from launch.

## **[Slide 12] Shaping the future of mobile payments**

Finally let me turn to the area of mobile payments where developments are at an earlier stage.

This is a space where the power of partnership is critical. It is our belief that no-one player on its own has all the capabilities needed to succeed in this spacer. As a result, Barclaycard is working with partners to develop compelling mobile payments propositions.

In the UK, we have an established partnership with Orange leading to a launch of Mobile Payments in the second quarter of this year. This will be the one of the first full commercial and nationwide launches of NFC enabled payments in the world.

Initially on limited handsets, the solution will expand throughout 2011 onto multiple handsets and across multiple phone operating systems and manufacturers.

In the US, we are partnering with the ISIS joint venture between Verizon, AT&T, T-Mobile and Discover. The intention of this partnership is to create a national mobile payment network using mobile phones and NFC technology. Services are expected to be launched within the next 18 months.

So within a short period of time, Barclaycard along with key market partners will launch significant mobile payment initiatives on both sides of the Atlantic.



**[Slide 13 Wrap-Up] Barclaycard will drive growth from a strong base**

So, in summary, Barclaycard has a strong and diversified business model with a track record of delivering year on year performance while consistently investing in the future.

We aim to deliver strong compound annual profit growth, by continuing to build on our strong base and focus on three growth priorities:

1. Outpacing competitors in existing markets.
2. Diversifying beyond consumer credit primarily in the B2B space.
3. And leading in payment innovation and making payments simpler.

And while our customers will be the ultimate arbiters of who will win in the innovation space, we think Barclaycard is well positioned to be at the forefront of change.

Thank you very much.