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**Cisco Survey Reveals Consumers Trust Online Payment Providers
More Than Traditional Banks**

*Connected Commerce Gives Banks the Opportunity to Strengthen Relevance
and Gain New Sources of Revenue*

NEW YORK and SAN JOSE, Calif. – Sept. 29, 2008 – Important consumer segments such as baby boomers trust online payment providers more than they trust traditional banks, according to a survey on retail financial services recently conducted by the Cisco[®] Internet Business Solutions Group (IBSG). Consumers are demanding the same convenience they receive online when shopping in a brick-and-mortar environment. This dramatic shift in consumer expectations presents a considerable market opportunity for financial institutions that embrace connected commerce. The average incremental value of connected commerce for the top 20 U.S. banks is estimated to reach more than \$100 million yearly by 2015. For more information on the Cisco IBSG retail financial services survey, please visit www.cisco.com/go/ibsg/financialservices.

In an effort to help clients stay competitive and increase their profitability, Cisco IBSG, the company's global strategic consulting arm, surveyed more than 1,500 consumers to better understand how their behaviors and perceptions shape the evolving commerce landscape of shopping and payments. By monitoring what innovative companies are doing to attract and retain customers in retail and related industries, Cisco IBSG helps financial institutions take advantage of leading, innovative practices to remain relevant.

The research reveals that evolving customer preferences among all age groups represent both a challenge and an opportunity for financial institutions. As consumers increasingly use the Internet and mobile devices to make purchases and payments, banks are subject to both customer

attrition and revenue loss. The research also shows, however, that banks can reverse this trend and use their connections to merchant and consumer payment data to create new revenue models from advertising, cross-selling and value-added services surrounding points of sale.

“Retail financial institutions are uniquely poised to enable the next evolution of connected commerce,” said Jim Greene, vice president and global head of financial services, Cisco IBSG. “The profound shift in consumer shopping preferences, coupled with the pervasiveness of the network, presents a tremendous opportunity for financial institutions to evolve from simply being a provider of the payment element of a purchase, to being a uniting factor among consumers, merchants, advertisers, product manufacturers and payment providers.”

Consumers Prefer the Online Channel

Historically, the online shopping experience was designed to imitate the brick-and-mortar experience. The Cisco IBSG survey results show that now, coming full circle, the brick-and-mortar experience must resemble the online channel to meet the shifting expectations of consumers.

The survey suggests that the physical store experience is increasingly falling short of consumer expectations:

- 50 percent say the checkout process takes too long
- 48 percent say items aren't in stock
- 46 percent say they can't find the items they want
- 22 percent say they don't always have applicable coupons or offers with them
- 20 percent say it is hard or time-consuming to keep track of receipts

As consumers' expectations rise, merchants, advertising agencies and new financial services entrants are all trying to capture consumer attention at the point of purchase and, in some cases, to disintermediate traditional payment players. The threat to existing banks is evident: 87 percent of those who use the services of alternate payment providers (such as PayPal and Obopay) indicated a strong interest in using mobile Short Message Service (SMS) or a similar method to initiate payments in physical stores. The PELORUS Group estimates that by 2010, payments

made via emerging methods such as radio frequency identification (RFID), SMS, and biometrics are expected to grow to \$400 billion. In addition, 23 percent of all survey respondents expressed interest in using a mobile device to make contactless payments in physical stores, and that number is only expected to grow. Two-thirds of current mobile banking users expressed interest in “swiping” a device embedded with a chip at the point of sale.

“Consumers not only recognize the conveniences enabled by the Internet but now also require the totality of their shopping experiences to afford those same benefits,” said Greene. “Given their current interaction with both consumers and merchants, banks are in a unique position to provide these ‘connected’ propositions and the insight that leads us into 21st-century commerce.”

How Financial Institutions Can Compete

Through the study and its proven success working with 80 of the 100 largest global financial services organizations, Cisco IBSG identified the consumer segments with the highest likelihood of engaging with banks for connected commerce services. The survey also identified the most important ways in which financial institutions need to change their interactions with consumers in order to remain relevant in today’s market. To increase their competitiveness, banks must:

- Provide superior commercial services with greater transparency, security, speed and flexibility
- Use their relationships with, and access to, both merchants and consumers to provide new revenue sources to the merchants and value-added services to consumers
- Help consumers make sense of their spending patterns and provide guidance and recommendations
- In collaboration with the merchant, provide advertisers and product manufacturers with access to consumers at or near the point of sale so that the advertisers and manufacturers can offer real-time, targeted promotions gleaned from the customers’ profiles, transactions and behavior analytics
- Manage loyalty programs to lower the cost of running these programs for merchants and to improve the ease of use and benefit accumulation for consumers
- Build a subscriber-referral model for merchants to bid for customer attention

- Provide customized payment terms or offer “matching” terms at the point of purchase

“In this changing landscape, banks must continually evaluate their long-term competitive position to take advantage of new opportunities and mitigate threats presented by the connected consumer at point of sale,” said George Tubin, senior research director, Tower Group.

About Cisco

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