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Global
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Global Network Services
-- North America --

U. S. Bank Strategy
(pending resolution of DOJ action against the Associations)

-- Confidential --

REDACTED

Cracchiolo 8
Linen 10
McCurdy 5
Golubs 11

OCE
October 28, 1998

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Meeting Context, Purpose & Objectives



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Meeting Context

- DOJ's lawsuit against VISA/MasterCard creates new opportunities, urgency and complications for commencing active discussions with U.S. bank prospects.

Meeting Purpose

- Gain clear strategic direction and agreement from the OCE and P&PC regarding our recommended approach to signing U.S. banks and optimizing the U.S. market *before* commencing major sales effort.

Meeting Objectives

- Revalidate the key business objectives and assumptions driving the GNS U.S. strategy within today's competitive environment.
- Agree which products, services and features (*both PL & NPL*) should be licensed to or distributed by U.S. banks, targeted to which segments and under what conditions/requirements
- Address need to accelerate certain infrastructure investments in order to achieve Amex Network parity with competition
- Gain consensus on U.S. bank targeting criteria, deal prioritization and approach

Strategic Context: GNS U.S. Business Objectives



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- Compete openly in an environment free of anti-competitive restrictions
- Create an increased variety of consumer payment options
- Leverage, reinforce and extend the value of the Amex brand
- Build the best global payment services network
- Attract high skill/will banks and non-bank (PL & NPL) issuers who will invest in the Amex business
- Enable Partners to be more competitive in their businesses
- Contribute to optimized TRS market level performance via careful planning, licensing and partner selection
- Build a critical mass of mutually beneficial and profitable partnerships by Year End 2002 (*assuming restrictions fall by January 1, 2000*) three scenarios:

Three Year Build Scenarios

	# Partners	CIF	Billings	PTI
<i>Expected (Plan):</i> <i>12 large banks (2, 4, 6); no conversions</i>	25	8.8M	[REDACTED]	[REDACTED]
<i>High (Receptive Market):</i> <i>20 large banks (10, 5, 5) plus conversions</i>	50	21.1M	[REDACTED]	[REDACTED]
<i>Low (Resistant Market):</i> <i>4 large banks (2, 2, 0); no conversions</i>	15	5.8M	[REDACTED]	[REDACTED]

Large Banks NCIF/Year [REDACTED]; Other Banks NCIF/Year = [REDACTED] Avg Spend/CIF [REDACTED] Margins [REDACTED]

Strategic Context: Competitive Environment Assumptions



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- DOJ lawsuit achieves Amex favorable consent decree or verdict
 - Restrictions eliminated allowing banks to issue on Amex Network
- Continued, vigorous anti-American Express strategy by associations
 - Comparative advertising
 - Increased interchange rate to issuers (+5% in 1998, +5% in 1999)
 - Subsidized interchange for Business/Purchasing Card portfolios
 - 2.15% for T&E spend threatens GNS “premium economics”
 - Increased support for Signature and WorldCard “no pre-set spending limit” cards
 - Subsidized interchange (2.15%) for T&E spend
 - Continued large issuer subsidies for Cobrand, Affinity and acquisition
- Continued growth of Debit Card driven by associations and regional bank networks

GNS-North America Strategy Overview



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GNS-North America is pursuing a two pronged strategy:

- Support an Amex favorable resolution of DOJ's lawsuit while preparing the Network's sales, marketing and infrastructure capabilities to sign/implement U.S. bank deals when 2.10e is eliminated.
 - GNS can positively influence the elimination of 2.10e
 - Actively pursue U.S. banks and encourage them to do business with Amex by demonstrating a compelling value proposition
 - Encourage banks to convince associations to settle lawsuit (*eliminate 2.10e*)
 - Encourage banks to "break ranks" with the associations and become Amex issuers
 - Network must be prepared to immediately sign/implement U.S. bank deals if 2.10e falls or major bank(s) break ranks to become Network issuers
- Although less attractive, continue to develop alternative sources for acquiring Network issuers
 - Non-traditional prospective issuers
 - Retailers (Bull's Eye), insurance companies (McDonald) and brokerages, (e.g. Merrill)
 - Canadian and foreign banks
 - Crown, Rocket

GNS-North America Strategy Overview



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The remainder of the discussion will focus on confirming our plans and enlisting your support in three critical areas:

- **US Network Product Offerings**
- **Required Infrastructure Investments**
- **Bank Targeting and Initial Contact Strategies**

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US Bank Strategy - Product Licensing



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While NPL forms the core of the current US Network strategy, PL licensing of the traditional American Express Consumer & SBS Charge products presents a significant risk to the Brand in the US, and is therefore not recommended at this time

Proprietary Consumer/SBS Charge Card Licensing

Positives

- PL charge card design is among the most recognizable AMEX Brand assets
- PL charge card proliferation will enhance ESG ability to maintain premium value to SEs and further enhance the AMEX Brand

Issues

- PL charge card licensing has a greater probability of failing to grow overall AMEX Network share and net new CIF
- PL charge card design and attributes closely associated with AMEX as Issuer. Licensing would lead to consumer confusion
- PL charge card licensing can also lead to brand damage due to inappropriate positioning, poor quality or inappropriate customer bases
- Amex has no definitive experience to guide the management of multiple proprietary licensees in a single market



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US Bank Strategy - Product Licensing

To insure protection of the American Express Brand, we recommend a mix of issuing and distribution licensing for Proprietary Products

<u>Product</u>	<u>License</u>	<u>Conditions/Comments</u>
<u>Proprietary Products</u>		
Personal Green	Distribution Only	} Possibly marginal demand unless bundled with asset or lending products (e.g. CMA or DDA Accounts w/OD) due to absence of lending opportunity for Bank Partners
Personal Gold	Distribution Only	
Personal Platinum	Distribution Only	
SBS	Distribution Only	
Corporate Purchasing	Issuing License Issuing License	} Absence of consumer confusion allows PL issuing; issuer economics in question
Delta/Cobrands Membership Rewards	TBD TBD	} Pending discussions with MR and Co-brand partners
Optima GRCC Blue	Issuing License Issuing License Issuing License	} License one of the three, depending on the final selection made for the US market

US Bank Strategy - Product Licensing



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We believe Distribution arrangements can be structured to provide protection for the American Express Brand, and revenue opportunities for Financial Institution Partners

Recommended Distribution Terms for Charge Card

(Green, Gold, Platinum Personal & SBS)

- Products may be packaged by the distributor as a part of a larger product bundle (e.g CMA or with a DDA or Private Banking account), or sold separately to existing customers
- Permit Bank Name hot stamping on card face to identify issuer
- Card must be called "The American Express Card", without reference to the Bank's name
- Prohibit any communication which may disparage proprietary branding
- All Card Features and Benefits will be identical to Proprietary products
- Encourage packaging enhancements including "in-direct" credit such as automatic month-end debit to a DDA with an overdraft line, or a LOC
- Offer a variable distribution fee split between an up-front sales commission and annual commissions based on average spend/card (to encourage continued support), paid on new AMEX Card customers
- AMEX will not use card information to target Partner's customers for certain products without the Partner's agreement

US Bank Strategy - Product Licensing



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We would consider offering a License to issue Proprietary Revolving Credit products under the following standard terms:

Recommended Revolving Credit PL Requirements

- Card face to be identical to Proprietary Revolving Credit products
- Permit Bank name to be hot stamped on the card face to identify the issuer
- Card to be called the "XYZ Bank American Express Card"
- All advertising must be in accordance with PL guidelines
- Prohibit any communication which may disparage proprietary branding
- License is for revolving credit product only
- Confirm minimum features requirements at parity to proprietary products (TAI etc)
- Additional features and enhancements are encouraged in accordance with brand requirements
- Servicing quality must meet minimum standards in accordance with standard licensing terms
- Consumer pricing is at the full discretion of the issuer
- All PL Issuers have the opportunity to participate in SE general offers, but may negotiate exclusive benefits with SE's themselves or with ESG assistance

US Bank Strategy - Product Licensing



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Additional PL considerations

Issue

Distribution

- Maintaining Platinum service levels and exclusive image

Revolve Products - Issuing

- GRCC/Optima/Blue licensing requests
- Delta (and other proprietary Co-brand) Card licensing requests
- Membership Rewards licensing requests

Proposed Solution

- Increase capacity to accommodate demand
- Restrict Platinum to qualified (minimum asset or income levels) in-house clients
- Determine which proprietary product(s) will be offered in the US
- *Do not offer* pending further discussions with Delta
- *Do not offer* pending further discussions with CCG and MR partners

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US Bank Strategy - Product Licensing



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Additional PL considerations

Issue

- Corporate/Purchasing Card licensing requests

- Processing/ Customer Service Insourcing requests for Issuers

Proposed Solution

- Pending additional input, permit licensing for Middle and Large Market & MNC (excluding MIS consolidation), to qualified issuers

- Pending Triumph availability, offer Vision Plus only, pending certification for PL lending products
- Pending modification of Vision Plus or alternative decision by CSG, do not offer for Corp/Purchasing PL.

US Bank Strategy - Infrastructure Readiness



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Current infrastructure gaps will be a barrier to growth and profitability for GNS-US.

- US Bankcard issuers and processors have built their operations on industry “standards” - uniformly followed by Visa and MasterCard Issuers
- These “standards” have allowed increased operating efficiencies, scale benefits and consolidation among Bankcard issuers/processors
- Amex’s “Closed-Loop” Network has evolved differently in certain areas - Creating disparities for sophisticated Bankcard issuers (see following pages)
- In addition, virtually all Bankcard Issuers will lack scale economies when issuing AMEX products to the extent that significant processes differ.
- Proposed infrastructure investments will reduce comparative operating inefficiencies and insure product/functionality parity over time
- Failure or delay in rectifying these infrastructure issues may substantially offset the value of the incremental issuers rate which Amex offers, making us no longer the “Premium” network of choice for issuers
- For these reasons, GNS is requesting incremental funding in 1999 to insure that these issues are substantially resolved by year end 2000

US Bank Strategy - Infrastructure Readiness



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US Major Infrastructure Gaps summary

Product Functionality Gaps

- Automated Address Verification (for mail order sales)
- On-Line Debit Card functionality
- Corporate/Purchasing Card Data Provision
- “InSight” Capability for Network Issuer Data

Issue

- Required to support direct mail merchants (including airlines), without which charges will be denied, billings lost and brand image damaged
- Not available on today’s POS or ATM AMEX Network, but required by banks
- Network not able to support full pass through of required transaction data making these products un-competitive in the US marketplace
- Required to support ESG marketing and promotional value story to SE’s - no current provision has been created in US Network.

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US Bank Strategy - Infrastructure Readiness



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US Major Infrastructure Gaps

summary

Operating Functionality Gaps

- Complete Transaction Life Cycle Management (TLCM) Audit Trail

- Integration of Dispute Handling Image Exchange and TLCM

- Transaction Fee Assessments

Issue

- Transaction ID (TID's) assigned at POS authorization and maintained through presentment and chargeback are critical to processor's efficiency. Absence of this functionality forces manual workarounds

- US operations must align with GNP, and the connection between TLCM and the image exchange must be automated if AMEX is to avoid substantial incremental operating expenses

- The Network is incapable of assessing transaction fees today, so each transaction type has the same effective "cost" to an issuer, though each has a different cost to the Network and other Network participants. Creating "prices" for transaction types will encourage more efficient use of the network.

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US Bank Strategy - Infrastructure Readiness



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With the requested incremental investment, the identified gaps in infrastructure functionality and product capability can be closed in two years. Alternatively, some of these gaps continue through 2001.

Gaps Closed by YE2000 at Current Funding Levels

99.2 (proposed)

Automated Address Verification
Image/document Handling and TLMC Integration
Full Acquirer Functionality
Network Messages (partial)
Authorization Enhancements
Corporate Card

00.1 & 00.2 (proposed)

Transaction ID @ Authorization
Transaction Fee Assessments
Network Messages (remaining)
Product/Tier Based Pricing
Automated Funds Exchange
GNS Regional Routing Processors
MIS-Authorization
Fraud Prevention Tools
ATM Coverage and Features

Additional Gaps Delayed until 2001 at Current Funding Rates

Debit Card
Purchasing Card
Value Added Services
Chip Based Cards
Data Warehouse
Certification Environment

Note: Above prioritizations are based on pre-PDP estimated sizings which may vary



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U.S. Bank Prospects: Targeting Criteria

We are utilizing disciplined targeting criteria to identify U.S. bank prospects which will enable GNS-NA to deliver profitable growth quickly, while enhancing the GNS value proposition and Amex brand long-term.

- **Bank Attractiveness to Amex (*Criteria*):**
 - Large number of target customers and strong growth (*CIF, outstandings and volume*)
 - High average spend/CIF
 - High spend/outstandings (convenience users)
 - Strong bank brand "*affinity*" with Amex brand
 - Existing portfolios with high-spending segments which are easily converted to Amex:
 - Upscale/private clients, convenience users, rewards addicts, small business owners, etc.
 - Flexible hook-up to certified 3rd party processors

- **Bank Willingness to Partner with Amex (*Criteria*):**
 - Clear Amex "*friend*" or strong current relationship
 - TC, ATM, Corporate Services or senior executive
 - Low dedication to single bank brand
 - Non-boardmember on bankcard associations boards or stated non-commitment to associations
 - Announced market expansion plans
 - Expressed interest in working with Amex



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U.S. Bank Prospects: Prioritization

After assessing each bank for *Attractiveness* and *Willingness*, we forced ranked them to develop a prioritized list of the Top-30 U.S. Bank Prospects

Bank Prospect Scoring

#	Bank Name	Attractiveness	Willingness
1	Banc One/First USA/First Chicago	10	8
2	MBNA	8	7
3	Wells Fargo	8	7
4	Citibank/AT&T/Travelers	10	4
5	BankBoston	6	8
6	BankAmerica/NationsBank	9	5
7	Chase Manhattan	8	3
8	Fleet/Advanta	6	5
9	US Bancorp/First Bank Systems	11	0
10	USAA Federal	8	2
11	Capital One	5	5
12	PNC Bank	6	4
13	Peoples Bank	6	4
14	KeyCorp	5	5
15	Household Bank	9	0
16	Associates Natl	5	3
17	Chevy Chase	5	3
18	Norwest	4	4
19	Marine Midland	6	2
20	Wachovia	3	4
21	First of America	4	3
22	Sun Trust	4	3
23	Direct Merchants	5	1
24	Provident Bancorp	3	3
25	GE Capital	5	1
26	First Union Natl	3	3
27	Mellon Bank	1	5
28	National City	2	4
29	First Natl Nebraska	2	3
30	CoreStates Financial	1	4

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U.S. Bank Prospects: Prioritization by Type



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We have further prioritized U.S. Bank Prospects into Global, Monoline and Major National Issuers which may require different product/service licensing and infrastructure in order to optimize the GNS/Amex business opportunity.

Bank Type and Rank by Type	Bank Name	OCE to Contact? (Yes/No)	Prior Mts/ Discussions? (Yes/No)	* Amex Attractiveness	Bank Size (Out of Top 10)
Global Bank Issuer 1	Banc One/First USA/First Chicago	Yes	Yes	1	2
Global Bank Issuer 2	Citibank/AT&T/Travelers	Yes	No	4	1
Global Bank Issuer 3	Chase Manhattan	No	No	7	5
Global Bank Issuer 4	GE Capital	Yes	Yes	25	18
Mono-Line Issuer 1	MBNA	Yes	Yes	2	3
Mono-Line Issuer 2	Capital One	Yes	Yes	11	8
Mono-Line Issuer 3	Provident Bancorp	No	No	24	11
Major National Issuer 1	Wells Fargo (pending merger w/Norwest)	Yes	No	3	10
Major National Issuer 2	Bank Boston	Yes	Yes	5	29
Major National Issuer 3	Bank America/Nations Bank	Yes	No	6	4
Major National Issuer 4	Fleet/Advanta	Yes	No	8	9
Major National Issuer 5	US Bankcorp/First BankSystems	Yes	No	9	7
Major National Issuer 6	USAA Federal	No	No	10	12
Major National Issuer 8	PNC Bank	No	No	12	17
Major National Issuer 9	Peoples Bank	No	No	13	19
Major National Issuer 10	KeyCorp	No	No	14	23
Major National Issuer 11	Household Bank	No	No	15	6
Major National Issuer 12	Associates National	No	No	16	15
Major National Issuer 13	Chevy Chase	No	No	17	16
Major National Issuer 14	Norwest (pending merger w/Wells Fargo)	No	No	18	27
Major National Issuer 15	Marine Midland	No	No	19	20
Major National Issuer 16	Wachovia	Yes	Yes	20	13
Major National Issuer 17	First of America	No	No	21	25
Major National Issuer 18	SunTrust	No	No	22	28
Major National Issuer 19	Direct Merchants	No	No	23	22
Major National Issuer 20	First Union (pending merger w/Corestates)	No	No	26	14
Major National Issuer 21	Mellon Bank	Yes	No	27	24
Major National Issuer 22	National City	No	No	28	26
Major National Issuer 23	First National Nebraska	No	No	29	21
Major National Issuer 24	Corestates (pending merger w/First Union)	No	No	30	30

* Amex Attractiveness represents GNS/NA's assessment of the overall bank attractiveness as a partner and willingness to work with Amex

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U.S. Bank Prospects: OCE Calling Plan



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Capitalizing on the momentum generated by DOJ's lawsuit, we believe the most effective way to initiate meaningful contact with U.S. banks is for OCE members to call their counter-parts on our prioritized Top-30 list.

- Jon Linen to propose OCE calling "assignments" in order to:
- Gather Intelligence
 - Assess banks' support for Associations' DOJ defense
 - Gauge bank/Association expectations for a world without illegal restrictive by-laws
- Communicate Key Messages
 - Amex has issues with Associations -- not with banks
 - Encourage banks to convince Associations to settle and start obeying the law
 - Amex is open for Network business outside the U.S.
- Commence the Sales Effort
 - Introduce/reiterate the potential benefits of becoming an issuer on Amex Network
 - Gauge their overall interest in a Network deal with Amex
 - Schedule a more detailed follow-up sales presentation by GNS-NA executives

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