



Visa International
Service Association
European Union
(EU) region

MEMORANDUM

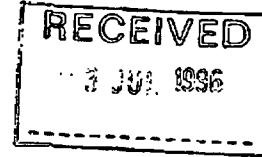
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TO: All Staff

FROM: Hans van der Velde

DATE: 2 July 1996

SUBJECT: "Facing the Competition" Visa Report Briefing



Attached is a Visa Report Briefing which addresses the aspirations and activities of one of our Members' most aggressive competitors - American Express.

It is being mailed to all principal and associate Members and travellers cheque issuers, as well as the Visa EU Board of Directors, the UK Board, Visa Deutschland Board and additional contacts as notified by country managers.

To help Members compete more effectively with American Express, The Visa EU directors have agreed to a new set of product and marketing initiatives. These are outlined in the enclosed Briefing, and we will be providing further details over the coming months.

While bringing you news of these initiatives, I also wanted to update you on the steps which we took in agreeing upon them. This, in itself, should help to set the record straight on the recent wave of media coverage which American Express instigated.

So, very briefly, the chronology was as follows:

- American Express made it clear that it wanted to sign franchise deals with bank Members.
- This indicated a significant change to the competitive environment, and many Visa Members voiced their concern.
- The Visa Board asked management to investigate a number of possible responses, including the by-law restricting the issuance of competing brands (of course, such a by-law has been in place in our US region for a number of years, and has never been a matter of contention among Members or challenged by regulatory authorities).
- The various possibilities were thoroughly reviewed by the Membership, through discussions at board meetings and advisors meetings.

PO Box 253
London W8 5TE
United Kingdom
Tel +44 (0) 171 937 8111
Telex A9 52956
Fax +44 (0) 171 937 0677

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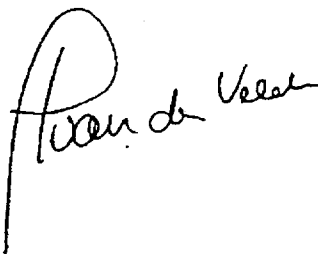
- At Montreal the Board of Visa EU examined the issue one final time, and agreed on its preferred approach: namely, to concentrate on the product and marketing initiatives which are outlined in the enclosed Briefing.

While acknowledging that American Express competes fiercely with individual banks, it is important to keep the issue in context. During 1996 we expect to see the Visa cardholder base increase by at least ten per cent - over 50 million new Visa cards, compared with a total of 40 million American Express cards. This is the clearest demonstration of the superiority of the Visa system - the fact that it enables Members to offer a much better product at a much better price to cardholders and merchants alike.

I am confident that, with the new initiatives we have in place, there will be even less incentive for any Member to allow American Express into its business; that they will continue to issue their own, branded products and not to act as a conduit for a separate and competing brand.

Additional copies of this Briefing are available from Joanna Henderson (ext. 5220 profs: HENDERSJ) as well as on the literature racks around the building. Please feel free to distribute copies to your own Member contacts to ensure the Visa EU Membership at large fully understand how we are working to help Members develop their business and maximise their profitability.

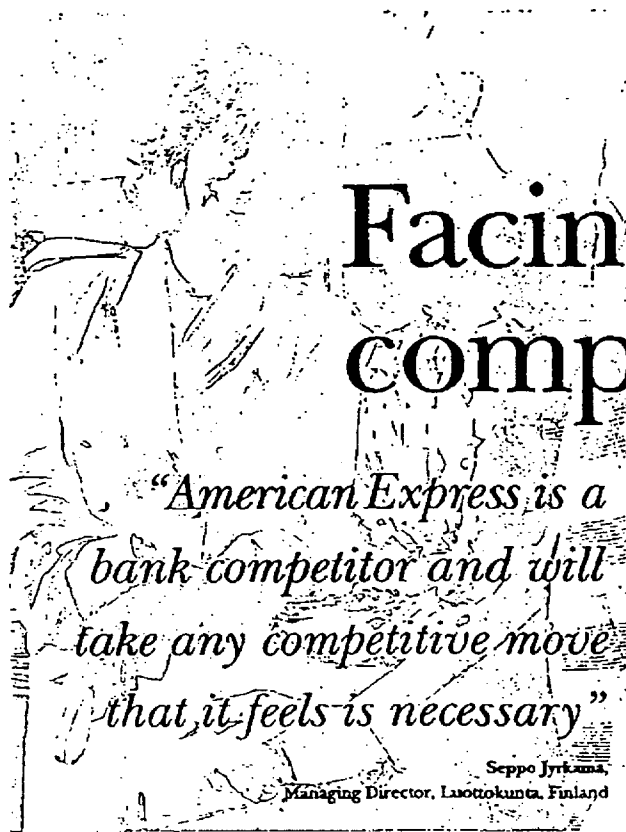
I hope that this letter and the attached Briefing help in clarifying the situation and, as ever, I welcome any feedback or comments which you may have.

A handwritten signature in black ink, appearing to read "Andrew Vesel". The signature is written in a cursive style with a large, looping initial 'A'.

VISA

JULY 1996

Report briefing



"American Express is a bank competitor and will take any competitive move that it feels is necessary"

Seppo Jyrkama,
Managing Director, Luottokunta, Finland

Facing the competition

At the Visa European Union (EU) Region Board meeting on 5 June, directors decided not to consider the possible adoption of a by-law restricting Members' issuance of competing payment cards.

The issue, fuelled by a public relations and political lobbying campaign mounted by American Express, had become a deviation and distraction from Visa's principal job of helping its Members to develop their businesses and maximize their profitability.

But the potential problems that Visa directors sought to address in earlier discussions remain.

Put simply, American Express does not merely want Visa Members to share their merchants and give away their most profitable cardholders, although the President of the company's

European Consumer Services Division, John Crewe, has admitted, "We have a mission to capture 100 per cent of the plastic spending of [affluent] households."

It also wants to use the relationships it builds with these cardholders to sell them other card and financial products and, ultimately, complete banking services, as banks in Germany and the United States are already discovering.

American Express is in outright competition with banks - and it intends to use issuing and acquiring deals with Visa Members as the first step towards capturing the banking business of those Members' best customers.

As the company's mission statement puts it, American Express aspires to become "the world's leading service brand".

Visa will help its Members to combat this threat with a series of initiatives that will strengthen the VISA products competing in market segments in which American Express has traditionally been strong. These initiatives will focus both on the product definitions and marketing of VISA Gold, VISA TravelMoney and VISA commercial programmes.

The Visa EU Board has already agreed on general approaches, which are outlined on pages 3-4, and full details of the initiatives will be announced later this year.

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AMERICAN EXPRESS STRATEGY

American Express is a publicly quoted company. This is what drives its strategy. It needs to deliver profits to its shareholders – unlike Visa, which exists solely to improve and expand its Members' businesses.

In order to generate the profits that those shareholders demand, American Express needs to expand its merchant and cardholder bases and to offer new products and services, from credit cards to remote banking initiatives.

Rather than working to expand the global market for its existing products and sign up more merchants, American Express has chosen to take a short cut. It intends to poach cardholders and merchants directly from Visa Members – Members who have spent billions of dollars and 30 years to establish Visa as the world's leading card payment system.

Karl Lotter, Director of Bankgesellschaft Berlin, says, "American Express is trying to get a free ride on Members when the proper place to deal with these issues is in the market arena."

Seppo Jyrkama, Managing Director of Luottokunta in Finland, has seen the American Express strategy in operation over the years. "I remember very well when one European country's banks sold American Express cards on their behalf. We told them, 'You're selling your best customers to your competitors,' but they didn't believe that – they just saw the fee for introducing cardholders," he says.

"American Express then went at full speed to sell those customers other financial products. Those banks still haven't got the customers back after decades."

Activities in the EU Region

In the markets of Visa EU, American Express is attempting to increase the numbers of its merchants and cardholders through issuing, acquiring and ATM deals with Visa Members.

These give American Express access to what it most wants – merchants and ATMs, to expand its limited acceptance base, and Visa Members'

cardholders, to whom it would like to sell other products and services.

Agreements with American Express – such as those made by banks in Israel, Portugal and Greece – also undermine both inter-system competition and the Visa system itself.

Richard Reay-Smith, Personal Sector Director at Barclays Bank in the United Kingdom, points out, "American Express is a direct competitor to Visa Member banks. Over the years, Visa Members have invested billions of dollars, which has allowed them to offer better-value products to consumers and capture market share from American Express.

"Now American Express wants to use the Visa system at no cost to compete against Visa Members. If it is allowed to do this, Visa Members will suffer, and so will their customers."

Karl Lotter agrees. "Doing deals with American Express is just short-sighted," he says. "All that company wants to do is increase the share value of American Express – it certainly doesn't care about the share value of Visa Members."

Visa Members are not the only ones to have noticed what is happening. A recent article in Forbes magazine concluded by stating, "AmEx isn't just fighting against some smart competitors. It is, in effect, competing against all the banks in the world that have a vested interest in bank cards."

Co-branding

The key to the success of the American Express strategy is to build strong relationships with all its cardholders – relationships that will enable it to sell financial and banking products as well as payment cards.

Even if an American Express card also bears the name of a Visa Member bank or a co-branding partner, it is the relationship with American Express that will be carefully cultivated.

In pursuit of more cardholders, American Express has therefore targeted co-branding partners including Citroën, Hilton, Accor, the travel agency Havas Voyages, Delta – the third

VISA INTERNATIONAL

*Owned by 20,000 Member
financial institutions*

*Run by boards elected by
Members and composed of
their representatives*

*Provides products and
services to Members, who
offer these directly to their
own customers, establishing
primary customer
relationships*

*13 million acceptance
locations*

*Role is to improve and
expand Members' businesses,
maximizing their
profitability*

AMERICAN EXPRESS

Publicly quoted company

Run by board responsible to shareholders, not banks

Sells products and services directly to customers - the primary relationship is with American Express

4.3 million acceptance locations

Role is to make profits for shareholders, not banks or their partners

largest American airline - and Sovac, a French store card operator.

This activity is further evidence that American Express is not acting in the interests of the banking community. It clearly demonstrates that what American Express wants is a new and convenient route to market - and it doesn't much care whether this route is through a retailer, a manufacturer or a bank.

More announcements about co-branding deals with American Express can be expected and, in each case, relatively affluent individuals are being offered American Express cards when they could equally well be using VISA cards.

These are Visa Members' best cardholders, or best potential cardholders, and their loss means a loss of revenue to Visa Members and the Visa system that supports the Members.

"I've been asked many times who are my enemies, and I always reply, 'The first is cash, the second is cheques and the third is American Express,'" says Seppo Jyrkama.

"It is a competitor and will take any competitive move that it feels is necessary. It is not a friend."

Banking services

American Express' moves into banking are not a vague plan for the future - they have already begun. In Germany, it has launched a direct telephone bank. In the US, ExpressNet offers a computer-linked card, ticket reservation and on-line shopping service. And American Express Financial Services Direct, a virtual bank where cardholders can access a full range of personal financial services, has already opened for business.

"American Express in Germany is already a real competitor to banks, for certain customers, across a lot of areas of their business," Karl Lotter says.

The American financial press agree. In a recent article about American Express Financial Direct, the New York Times called the service "the first component of a plan to offer insurance, lending and full service banking".

VISA INITIATIVES

The board of Visa EU has endorsed a wide range of strategies designed to enable Members to combat American Express in all areas of its business.

Underpinning this activity will be a renewed level of support for the VISA brand - an acceptance brand that adds real value to banks' own card programmes.

Consumer research shows that cardholders associate the VISA brand with an impressive array of attributes, including convenience, simplicity, security and accessibility. But, importantly, the VISA brand does not conflict with Member branding. Everywhere in the world, consumers view the brand as a product and a property of their local bank and their local banking community - as a local brand providing global utility.

VISA brand support will continue to reinforce these core attributes, while demonstrating the superior utility of VISA payment cards - the fact that a complete portfolio of VISA card products is available, and that these cards are welcomed in more than three times as many places worldwide as American Express cards.

Commercial cards

Products in this sector will be reorganized into three separate lines:

- VISA Business, for small- to medium-sized firms
- VISA Corporate, a new product aimed at the large corporate Travel & Entertainment (T&E) market
- VISA Purchasing, which allows large organizations to control their expenditure on regular purchases

When approaching multinational companies, Visa Members may join together in a consortium to issue VISA Corporate and VISA Purchasing cards across borders. Where such consortia are not appropriate a single bank may issue these cards on a multi-national basis.

This cross-border issuing is restricted to the multi-national commercial sector. In the personal sector, the local customer relationship remains paramount.

To improve the commercial sector offering, Acquirers will also be asked to provide enhanced card transaction data. For example, information such as the name and location of merchants and full details of airline tickets will be available through customer statements.

This information will be supplied through InfoSpan, Visa's new desktop reporting package, which will be available in German and French as well as English.

VISA TravelMoney

This unique pre-paid ATM card will be positioned as a modern alternative to American Express travellers cheques.

VISA TravelMoney is expected to be particularly attractive to bank customers. They will be able to withdraw cash, 24 hours a day, at any of the 280,000 ATMs in the global VISA network.

Users will also benefit from a competitive currency conversion rate, which is generally much better than the rate available to users of American Express travellers cheques.

A number of Visa EU issuers, including Interpayment Services and Crédit Lyonnais, have already launched the product, or are due to do so in the near future.

In June, the directors agreed to a re-pricing of VISA TravelMoney, making it more profitable for Issuers, and further launches are anticipated over the coming months.

VISA Gold

To enable Issuers to compete more effectively with American Express in the personal sector, strong encouragement and marketing support will be given to VISA Gold programmes.

Issuers will be offered support packages which allow them to segment their existing customer base and to predict the profitability of planned VISA Gold programmes. They will also be offered a risk management package to minimize potential fraud and bad debt risk exposure.

In the Visa EU Region, there are currently just four VISA Gold cards for every 100 VISA Classic

cards – in other words, as a proportion of VISA Classic cards. VISA Gold cards account for four per cent. A target has now been set for increasing this proportion to 20 per cent.

Since VISA Gold is typically a more profitable product than VISA Classic, this should result in a significant increase in Member profitability.

With more choice in the premium sector of the market, consumers will be less interested in applying for American Express cards, so bank/customer relationships can also be protected.

Merchant Acceptance

The scope of the Visa merchant network gives Visa Members a major advantage over American Express. Visa has 13 million acceptance locations, while American Express has just 4.3 million.

To retain this lead, a Merchant Sector Development programme will be actively pursued.

It will aim to improve the service provided to existing merchant sectors and to target merchant categories that do not currently accept VISA.

A pilot scheme for improved merchant communications will be launched, concentrating on showing how merchants can save money by being paid with VISA rather than American Express cards.

The programme will include public relations and direct mail campaigns.

Reductions in referral and decline rates can also be expected, which will improve Members' service to both merchants and cardholders.

Related initiatives

Among other initiatives are increased support for co-branding in all markets where this is desirable. This will help Members to establish relationships with viable co-branding partners before American Express can do so.

Relationships with travel agents will also be strengthened. Visa will point out that American Express is a direct competitor and that its products need not be sold or accepted.