Memorandum

Moll-01

MasterCard International

GOVERNMENT DEPOSITION EXHIBIT 734

To
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From
Laura T. Moll

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Subject
Summary of the February 8 SMG Meeting

LTM - excellent summary
let's make sure we follow up on the first order of business @ next SMG

Copies to
H. Eugene Lockhart, Gayle M. Rigione

The following is a recap of the February 8 SMG meeting.

I. BILL PRESENTMENT – Hogan

We reformulated our joint venture proposal from 50/50 with FDC to 33/33/33 with FDC and Intuit. Intuit is attractive to us because it already has more than 70% of the "meaningful" remote banking consumer software market. Intuit does not want to pursue a bill payment venture with us because it already has that business. It is in our interests to pursue a payment service while also offering Intuit a means to participate (hence a new, modular structure that separates bill presentment from bill payment).

EJH thinks FDC and Intuit are ready to do this. Recommends going forward with the new proposal or we'll be displaced. We are currently ahead of the pack and have a better service, but Lockheed just partnered with six regional switches to do something like this.

Key discussion points/issues:

- We will build a customer base through multiple avenues: existing PC-banking customers; Web browsers; participating billers.
- The service is initially limited to US-based institutions, but someone with a US DDA account could make payments from a PC anywhere in the world. There is no reason we can't eventually expand this to other areas.
- The service will initially be DDA only. Credit payments have interchange implications that need to be worked out. A biller would send the bills for all participating customers to our server; we would give customers the option of paying by credit or debit.

GOVERNMENT EXHIBIT 6

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- A merchant that takes credit payments wouldn't have to be a merchant "in the POS sense", but would instead be a "biller". We need a rule change to define a new merchant type – "merchant for bill presentment".
- This offers an opportunity to open acceptance in new categories like insurance, telecom, cable, and utilities. We should learn from the Switch experience and make sure we price accordingly.
- There is concern that we are "expediting the dilution of card value" by substituting for card use. Should we open new categories first, and then offer such a service?
- We anticipate that local networks may claim these transactions – what if the customer, the bank, and the merchant are all within the same region? It's a question of who puts the "stake in the mud" first.

Follow-up required:

- (EJH CDT) "Get square" on defining these transactions within the framework of MasterCard transactions/BVTs; determine need for new rules governing transaction types.
- (EJH/AJH/GHM) Rationalize venture, Debit Services, and MasterBanking resources.
- (EJH) Ensure that the FDC logo does not appear on the screens.
- (EJH) Clarify with Intuit who owns the customer data.
- (EJH Goff) Approach on-line service providers to form agreements. Start with CompuServe.

2. MEXICAN MARKET OPPORTUNITIES – Piña (JP)

The Mexican market is newly stable and poised for growth, particularly in debit (payroll cards) and pre-paid cards. Only 35% of the population is "banked". We have a major opportunity to serve the industry (and the government) through a JV that re-engineers authorizations, clearing, and settlement into a national system. These processes are currently handled via bi-laterals or the associations, but the bi-laterals' service levels are increasingly unacceptable as new service entrants have heightened the focus on quality. This poor service hurts the industry but not necessarily our brand. Additionally, the Total Systems "dollarization" of volume is uneconomical for the banks.

What we want to do is process every local transaction. Cross-border transactions would go to the gateway. Visa was willing to break up the bi-laterals but wanted to process back in the US. Banks didn't like the approach and felt Visa was set up to compete with them. What we are proposing is a Mexican solution for a Mexican problem. Our "Master Vision" for the JV has 3 principles, which the six core banks support: don't compete with members; don't level the playing field; and provide "commodity processing services" to decrease costs and improve service quality. MasterCard and Visa both have bad brand awareness. This could help us become the brand of choice and could lead to better presence at the POS.

Key discussion points/issues:

- This is an alternate implementation to a Mexican Processing Center. The banks have asked about ownership (probably 70%). We would contribute technology and know-how; they would contribute volume.

- If they need our technology and leadership, we should not accept a minority share of the venture.

- Who pays for development? Do we make our investment back on the volume. Can we buy the Prosa assets and infrastructure?

- We shouldn't have to pay, we are taking a problem off their hands. We should go to the Ministry of Finance – the government really needs to fix the banking system. Perhaps there is grant money available (IMF? World Bank? etc.) The investment would be minimal compared to their loan buyouts. We should take advantage of our contacts with "influencers" like Banamex.

- The Central Bank is supportive vis a vis the regulatory environment for making it happen. There is a feeling that if we don't do something, the system will collapse.

Follow-up required:

- (RNC) Coordinate with Resource Management Committee.

3. 1997 PLANNING PROCESS – Johnsson

The 1996 planning process (undertaken in 1995) was the first cycle to incorporate significant changes. We want to build on those changes to make further improvements. A recent survey to the SMG and 1996 budget contacts (17 of 40 responses received) noted improvements like the BPIM, better communication, better guidance, and good feedback from HEL and WIJ. We still need to improve the templates, make the BPIM more decision-oriented, make tighter links between program plans and budgets, and reduce "slippage" in turnaround at the end of the process.

Key discussion points/issues:

- A 3-year approach should help us "get out in front" and should make it easier in ensuing cycles. We are traditionally reactive only because we've never tried to had to really plan – if we're forced, we'll start to anticipate.

- The intent is to have a 1-year budget but a 3-year plan, with quarterly forecasting. We'll measure "good management" on the basis of accurate budgeting.

- Have considered involving the SMG in budget reviews. There may be SMG members who would not have sufficient insight to contribute; perhaps a subset (those whose groups are "collaborators" or "providers") could review the budgets.

- We should have a "Finance Conference" for all functional contacts worldwide. The prevailing atmosphere is adversarial. The Finance department needs to adopt a TEAM orientation. The off-site could combine TEAM and process refinement, and end products would be (1) a plan to address negative feedback from the planning survey and (2) the group's commitment to a process as they define it.

- The SMG should have input in establishing the guidelines; a uniform approach might not work everywhere. We never assessed trade-offs associated with the guidelines. (This is being addressed via BU-by-BU guidelines that build toward the corporate goal.)

- It's possible the BU-specific adjustments will yield guidelines that don't correlate to the overall corporate targets. Instead, a bottom-up approach might work.

- Are we ready for zero-based budgets across the board? Two-thirds of the survey respondents suggested a zero-based approach.

Follow-up required:

- (HEL) Document corporate strategy with SMG input.
- (Rio) Explore/arrange early "BPIM" for Finance and regional contacts.
- (SMG) Adhere to all deadlines and guidelines: any submissions that don't conform to the guidelines will not be reviewed.
- (CDT) Document queue of approved/agreed RMC projects in advance of the next budget cycle.
- (SMG) A single BU owner has to take accountability for each budgeted initiative.

4. AMERICAN EXPRESS – Lockhart

American Express is trying to "franchise" members for card issuance. Our current rules don't address this – should they? How we can differentiate our approach from what Visa has done? We need to temper our response according to the potential threat (i.e., how likely is it that AmEx can really become a global player?).

Key discussion points/issues:

- Visa seems to continue to anger banks: many favor Visa but hate working with them. If we are "clever", this is an opportunity to come out okay. We should "let Visa be the bad guy." We can even "pour kerosene on the fire" by making this an industry issue and letting Visa bear the brunt of media/member reaction.

- We should make it as hard as possible for AmEx to do anything. They are in a corner now and we shouldn't let them out.
- The banks don't realize they can already do this. (We have agreements with some that say they have to ask us first.) Do we want a rule? How do we ensure that if our banks issue AmEx we don't forsake Gold card and T&E? What if a bank puts MasterCard and AmEx in the same ad? Can we guarantee that for every AmEx card issued, at least one MasterCard card is issued?
- We don't really do much package pricing except in LA/C. Maybe a tactical application of package (incentive) pricing would make sense to address this issue.

Follow-up required:

- (MCJ) Assess MasterCard options.
- (JVT) Investigate recent IBM corporate card presentation shortcomings.

The next SMG meeting will be on Thursday, March 7 at 10:00 a.m.

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