

Amex

Memorandum

To

PRIVILEGED & CONFIDENTIAL

MasterCard
International



Region Presidents
Robert E. Norton
Chris D. Thom

From
H. Eugene Lockhart



Date
May 6th, 1996

Subject
Amex

Copies to
William I Jacobs, Gayle M. Rigione, Mary C. Johnson, Anne P. Ko

Now that Amex has come out of the closet (see the attached note from Robert E. Norton), I think we have to consider our options very carefully. In this regard, I have the following initial thoughts:

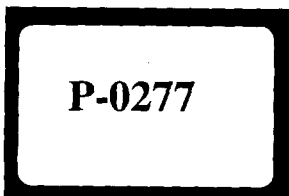
1. I believe we should consider this threat very real; e.g. Amex will put serious money behind this in terms of incentives and marketing.
2. If we don't play our cards right, we have the most to lose. One scenario could be the following:
 - VISA holds firm on its rule and VISA banks don't issue Amex.
 - Amex pays huge incentives to primarily MasterCard banks who have no such rule restriction.
 - VISA uses this play to market against us: a la AT & T

Another scenario is also equally possible:

- VISA holds firm on its rule.
- Amex pays huge incentives and attracts one or two large VISA banks who flip their portfolio to MasterCard/Amex.

I am sure there are other permutations.

3. My guess is that Amex will target three products:
 - Corporate T&E for medium sized and small business.
 - Platinum cards (we don't have a competing product yet)
 - Mid-level revaluing cards through OPTIMA.



Confidential
Subject to Protective Order

MC 6382

Amex

Memorandum

To

MasterCard
International

PRIVILEGED & CONFIDENTIAL



Region Presidents
Robert E. Norton
Chris D. Thom

From
H. Eugene Lockhart *EL*

Date
May 6th, 1996

Subject
Amex

Copies to
William I Jacobs, Gayle M. Rigione, Mary C. Johnson, Anne P. Ko

Now that Amex has come out of the closet (see the attached note from Robert E. Norton), I think we have to consider our options very carefully. In this regard, I have the following initial thoughts:

1. I believe we should consider this threat very real; e.g. Amex will put serious money behind this in terms of incentives and marketing.
2. If we don't play our cards right, we have the most to lose. One scenario could be the following:
 - VISA holds firm on its rule and VISA banks don't issue Amex.
 - Amex pays huge incentives to primarily MasterCard banks who have no such rule restriction.
 - VISA uses this play to market against us; a la AT & T

Another scenario is also equally possible:

- VISA holds firm on its rule.
- Amex pays huge incentives and attracts one or two large VISA banks who flip their portfolio to MasterCard/Amex.

I am sure there are other permutations.

3. My guess is that Amex will target three products:
 - Corporate T&E for medium sized and small business.
 - Platinum cards (we don't have a competing product yet)
 - Mid-level revaluing cards through OPTIMA.

P-0277

GOVERNMENT
DEPOSITION
EXHIBIT
808

CONFIDENTIAL
SUBJECT TO
PROTECTIVE ORDER

MC 6382

Amex

Memorandum

To

MasterCard
International

PRIVILEGED & CONFIDENTIAL



Region Presidents
Robert E. Norton
Chris D. Thom

From
H. Eugene Lockhart *EL*

Date
May 6th, 1996

Subject
Amex

Copies to
William I Jacobs, Gayle M. Rigione, Mary C. Johansson, Anne P. Ko

Now that Amex has come out of the closet (see the attached note from Robert E. Norton), I think we have to consider our options very carefully. In this regard, I have the following initial thoughts:

1. I believe we should consider this threat very real; e.g. Amex will put serious money behind this in terms of incentives and marketing.
2. If we don't play our cards right, we have the most to lose. One scenario could be the following:
 - VISA holds firm on its rule and VISA banks don't issue Amex.
 - Amex pays huge incentives to primarily MasterCard banks who have no such rule restriction.
 - VISA uses this play to market against us; a la AT & T

Another scenario is also equally possible:

- VISA holds firm on its rule.
- Amex pays huge incentives and attracts one or two large VISA banks who flip their portfolio to MasterCard/Amex.

I am sure there are other permutations.

3. My guess is that Amex will target three products:
 - Corporate T&E for medium sized and small business.
 - Platinum cards (we don't have a competing product yet)
 - Mid-level revaluing cards through OPTIMA.

GOVERNMENT
DEPOSITION
EXHIBIT
992

P-0277

PERMITS/LOV
EXHIBIT
6

Confidential
Subject to Protective Order

MC 6382

Memorandum
Page 2
May 6, 1996

We should get our product people to quickly compare/contrast our product features and interchange levels on each of these. It will be important to model member profitability against our offerings vs. Amex so we know what we are up against. Anne Ko should work with product units to synthesize this work.

4. We need to call key members who will be susceptible to this and other Board members to assess their plans. My guess is that the following US members will be targets:
 - a) MELLON
 - b) BONY
 - c) WELLS
 - d) FLEET
 - e) KEYCORP
 - f) FIRST USA
 - g) WACHOVIA
 - h) GE
 - i) FINGERHUT (We know they are)
 - j) AT&T

Alan Heuer should coordinate this and feedback reactions.

5. Given their likely use of Platinum, we should step-up our efforts to roll out a Premium offering. This offering should have very attractive interchange rate and strong fees.
6. I understand we are currently looking at US pricing and interchange. If Amex fights on interchange, then we may have to be more aggressive for selected acceptance categories. Alan Heuer should task the acceptance group (working very closely with Jason Rogers who knows Amex well from his VISA days) and identify by category what we could do to compete better using interchange as a tool.
7. Amex will link travel services as a competitive weapon to the product we offer. We should now act seriously to develop a strong alliance with Carlson.
8. On balance, I don't think VISA will budge. That is likely to put pressure on us. We may need to be clever in our rules development to look flexible but have criteria which ensure our continued share. For example, we should consider thoughts like:
 - a) Allowing Amex issuance for certain products not others.
 - b) Requiring higher share (\$ volume) targets to be MasterCard for portfolios that issue Amex (e.g. Having portfolio minimums for MasterCard of 80% - 90% of total portfolio)

Confidential
Subject to Protective Order

MC 6383

Memorandum
Page 3
May 6, 1996

- c) requiring special brand development fees to be paid to us if an issuer issues Amex; these should be punitive.
- d) Others (there are probably many other valid ideas).

We should discuss this at SMG on Wednesday.

Thank you.

HEL/lje

Attachment

Confidential
Subject to Protective Order

MC 6384

Memorandum

To
H. Eugene Lockhart

MasterCard
International

From
Robert E. Norton, Jr. 



Date
May 3, 1996

Subject
Harvey Golub Speech of May 2, 1996 at Credit Card Forum in Atlanta

Copies to
William I Jacobs
Noah J. Hanft
Carl J. Munson, Jr.

Attached is the summary of my notes of Harvey's comments at the conference. The following is my review of the gist of his presentation and the questions and answers immediately following:

- Harvey was offering the key members in attendance the opportunity to become an issuer and/or acquirer of American Express transactions. His basic message was that for those select few who choose to do so and who are accepted, Amex would negotiate with each a unique deal based on their particular needs. He was in effect saying that issues, such as, who keeps the interest and annual fees, the split of the fees at the point-of-sale, Amex's level of involvement and who owns the accounts would be subject to negotiation.
- Harvey also commented that a consumer survey had indicated many consumers would like an American Express card issued by their bank and a survey of banks indicated that the banks would like to issue such a product, but for the Visa rule.
- The card he showed on the screen was a gray card with the bank name with the American Express box in the right hand corner where the MasterCard logo usually appears.
- It was an interesting approach that Harvey took to attack Visa as an entity created to support the members, which now was taking action to advantage (i) a few select members through incentive programs and (ii) the Visa staff. He made the point that Visa precluding its members from participating in issuing an Amex card really advantaged Visa to the detriment of the members.
- One of the things that Harvey emphasized was how bankcard interchange is not at a level where it properly reimburses the issuers. He asserted that by reducing the interchange, Visa is creating more transactions to Visa's advantage, because Visa makes money on transaction fees. He did not think the lower interchange was in the best interest of the issuing members. So they really went after Visa and not MasterCard, even on this point.

Confidential
Subject to Protective Order

MC 6385

Memorandum - H. Eugene Lockhart

May 3, 1996

Page 2 --

- The thing that was most disconcerting was when Harvey said "Well, you should contact MasterCard because they don't have a rule and maybe you can convert all your cards to MasterCard." This does create the need for us to communicate to some extent with our members so they don't assume they can just sign up with American Express without talking with us. Noah and I believe a press release advising members that we are looking at the issue and will take a position later would be the best approach. This will put our members on notice not to assume they can go forward without fear of action by us.

Although I wasn't at the Novus presentation, Dean Witter, like American Express, is attacking Visa, while taking a more conciliatory approach with MasterCard. It appears that we will have to secure a decision from the Board on this issue in June in London. Perhaps the best approach would be to talk to the key MasterCard players (such as Citibank) and get their read on MasterCard allowing members to issue the Amex product, provided that we require Amex to allow all members to do so, not just a select few, as they are proposing. I believe Visa would use any discussion by us to allow members to do this against us, unless Visa is forced by the members to also accept Amex and Dean Witter cards issued by our members.

Whatever decision is reached at the June Board Meeting will have to be announced to the membership at that time.

Confidential
Subject to Protective Order

MC 6386

SPEECH

The Basic Offer: Amex is provider of network over which cards issued by Banks bearing the "Blue Box" would be processed. All other aspects, e.g., who keeps interest and annual fees, the features of the card, the ownership of the accounts, are open to discussion.

Bank can offer to some or all of its cardholders. Can provide card offering a convenience/charge card feature. Can be cobranded and non-cobranded cards. Card shown on screen - Card with Blue Box where red and yellow circles usually reside.

Bank can select services it wants from Amex, i.e., back office, credit management, network incentive programs, authorizations, etc.

Why Amex?

FIRST REASON: Strengthen competitive position and make more money.

Consumer survey: ¼ of consumers asked would like Amex Card issued by their bank. They would like to hear more about such a card from their bank.

Harvey said consumers like Amex billing statements, worldwide support service and card replacement service. They also like Amex Partner Rewards Program.

Harvey - 1,000 partners in entertainment, restaurants, airlines, etc.

Cardholders like the no turn down at POS, i.e., very low incidence of rejection. Appreciate not having credit lines blown on hotel bills. Appreciate payment in full feature: Not a penalty but positive option.

SECOND REASON: Financial results of participating member would be enhanced. Wider choice of payment products for Bank's bankcard holders generates cardholder loyalty and spending.

Convenience users of Bankcards - very expensive and convenience usage is growing - maybe Amex product is the answer. Hinting at higher POS and Annual Fees - more revenue for issuer.

THIRD REASON: Link through Amex network - Excellent MIS and also higher quality of systems.

FOURTH REASON: Can offer real platinum card.

FIFTH REASON: Advantage of more discounts to cardholders from merchants.

...

Talked about fact Banks have worked with Amex in past - Travelers Cheques, e.g., mentioned Wells & Nations. Banks chose Amex Travelers Cheques because better services and customers prefer Amex Travelers Cheques.

Also talked about since 1994 Banks and processors and sales agents are offering Amex acceptance. (Actually only processing - Amex is acquirer, but distinction was not made).

Talked about fact that outside U.S. have issuing partners and have on-going discussions with several members. Mentioned Bank Hyppolito in Israel and a Portuguese Bank among others.

Senior Execs Of These Banks Reasons For Partnership:

1. Value of Amex Brand
2. Offer consistent quality of services through Amex
3. Enables them to offer wider array of services

No one in U.S. is doing this - why - because of Visa By Law.

Harvey briefly alluded to history of Visa-Amex relationship. Visa established to serve Banks, now serves only some favored members and Visa management. Offering incentives to some members and their programs with money paid by all.

Discussed how attacks on Amex helped Visa - not members. Visa gets revenues from transactions - member profits not focus. Also, attacks caused Amex to work harder and resulted in closing acceptance gap.

He also pointed out that can't tell which member is the issuer on many recent Visa cards. Also latest deals and ads benefit members who have relationship with Visa, not all members

Interchange rates too low - Benefits Visa because generates more transactions, does not benefit issuers. Answer - come talk to us but Visa By Law won't let you. Need Visa's approval. Should not accept this.

Survey of top 300 Visa issuers - they said would like to explore Amex issuance but Visa By Law blocks them.

Harvey said Visa would respond to his presentation as follows:

1. Amex getting free ride on Visa and its members - Harvey said no because there is no access for Amex to Visa system.
2. If members also issue Amex, it reduces competition between banks, creates lack of competition issue. Harvey said more competition than less.
3. Visa will claim Amex proposal a sign of weakness. Suggestion - Stand up to Visa - call your directors - we will meet with you. Also contact MasterCard and offer to change cards to MasterCard - they have no restrictive rule like Visa. Tell MasterCard you'd like to work with Amex.

Questions

1. Why Amex giving up issuing benefit?
A. Rather have 50 of 100% than 80% of 20%. Willing to give issuing rights in some markets because consumers want card from bank which can structure to appeal to its audience
2. Banks have voice in MasterCard and Visa, what voice will they have in Amex?
A. Will strike individual deals with key banks regarding their Amex issuing program. One on one negotiations and structure.
3. In response to question about Amex claim Visa dictating to Banks, not doing best thing for Banks, Will Amex do same?
A. Bank will own assets - can talk about what Bank needs to do deal. Fees, pricing, accounts can be owned by Bank. There won't be a lot of Banks participating in these programs. Amex is going to be selective.
4. How will deals be structured?
A. Could be joint venture, partnership or license - depends on what bank needs. Could do pilot with each member to see what's best.
5. What extent will banks share in closed loop?
A. For corporate and purchasing card, closed loop is necessary, for consumer business - privacy questions - must be careful. Harvey didn't dismiss the possibility of consumer closed loop.
6. What about corporate or consumer card with Bank holding balances?
A. Harvey said marvelous product, could do, but emphasized not many institutions will participate.
7. What about geographic exclusivity?
A. In U.S. may be issue because of national marketers: Did not dismiss possibility.
8. How does this differ from old Amex Gold Card?
A. Gold card-Banks credit line, Amex marketing the card. Banks lost money, eventually cross sold bankcards to Amex Gold cardholders This time we will discuss any proposal and structure product individually with interested Banks.
9. Does Amex have actual understanding or agreement with MasterCard?
A. MasterCard has no restrictive rule, Visa does. Talk to MasterCard.

In closing, Harvey said his goal to get best deal for each Bank and for Amex. Strike best deal for both.