

**U.S. Region Premier T&E Interchange Program**  
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**PROPOSAL**

To approve the recommendation to implement a US Region Premier T&E Interchange Program encompassing rates, qualifying criteria, and associated Interchange Compliance Program adjustments.

**BACKGROUND**

Premier transactions, e.g., *Hertz Gold*, are non face-to-face transactions where, as a special service to preferred customers, no imprint or card swipe are required by the merchant thereby speeding the transaction and improving customer convenience. Further, premier transactions are a growing and profitable category for key lodging merchants, and represent "the best" in terms of T&E customers and MasterCard cardholders. By developing a competitive incentive interchange rate, MasterCard can improve its reputation and maintain/improve its share position among key T&E merchants.

Premier programs/transactions are an important and growing category for large T&E merchants. The following merchants currently or will soon offer premier programs: Hertz; Avis; National; Alamo; Budget; Sheraton; Marriott; Hyatt; Hilton; Radisson; all cruiselines. These merchants/categories represent approximately 4.0mm transactions and \$1.2b in MasterCard Merit II interchange volume annually, and in some instances, are key strategic marketing partners. Such an interchange program provides the basis for a meaningful, competitive response to existing premier interchange programs offered by MasterCard's competitors, and enable MasterCard to maintain current levels of acceptance. Further, the unique requirements that have been incorporated, such as the mandatory submission of 635 T&E Addendum data for all transactions, help MasterCard achieve other objectives, e.g., the transmission of mandatory addendum data in the 635 record in support of corporate card products.

**ANALYSIS**

**Current MasterCard interchange environment:**

Since the implementation of Interchange Compliance, and through April '96, MasterCard premier transactions are submitted at Merit II, currently 1.35% + \$0.09. This is possible because Interchange Compliance does not downgrade transactions from Merit II for lack of magnetic

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stripe data. Following the elimination of Merit II as part of the 1996-7 interchange program, all premier transactions will qualify only for Merit I, which, as of April '96, is 1.61% + \$0.09. Consequently, travel merchants offering premier programs will experience a significant increase in Premier Program interchange expenses due to the 26 basis point difference between Merit II and Merit I.

**Current competitive interchange environment:**

- Since April '94 Visa has had a premier interchange rate, currently set at 1.35% + \$0.05. As part of Visa's program there are unique registration, data, chargeback and fraud limits and requirements which must be met in order to qualify for this interchange category. Acquirer/merchant letters have been received stressing that unless MasterCard develops a competitive program, the merchants will be compelled to minimize their interchange costs by showing preference for the less costly card brands, which, in the premier program environment is easier to establish because the cardholder mail registration form can be easily changed to demonstrate a merchant-preference for a particular brand.
- American Express continues to maintain its dominance in the T&E industry, therefore, in order for MasterCard to improve its competitive position vs. American Express, it is important that a competitive incentive interchange program and rate be established to help create preference for the MasterCard brand among T&E merchants.
- Discover has been aggressively pursuing key T&E merchants to expand its acceptance and share of market. Historically, Discover's acceptance strategy included gaining entrance into new markets/merchants by offering extremely low interchange/discount rates. We believe this strategy is currently being applied to key travel merchants, therefore, unless MasterCard responds to this competitive threat, it is likely that Discover will quickly improve its position - at MasterCard's expense.

The Board will be asked to approve this recommendation by adopting the following resolution:

**RESOLUTION OF THE U.S. BOARD OF DIRECTORS:**

RESOLVED, that, the U.S. Region Premier T&E Interchange Program, to take effect on 1 October 1996, as presented to the U.S. Board at the meeting, be, and hereby is, approved.