

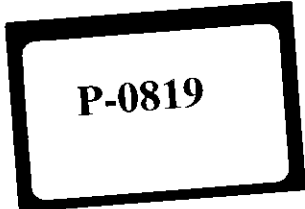


VISA U.S.A.

CONSUMER PRODUCTS SUPPORT - MEMBER RELATIONS

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# NEWS RELEASE

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## VISA RESPONDS TO AMERICAN EXPRESS

SAN FRANCISCO, May 2, 1996 — Responding to comments made today by American Express chief executive Harvey Golub, Visa U.S.A. executive vice president Michael Beindorff released the following statement:

"American Express is a fierce competitor. It has vigorously competed against Visa Member banks for years, and continues to do so, attempting to take market share away from banks.

"Visa Members have built the world's most successful payment systems brand at a substantial investment. Visa is their brand and Visa card products are their products.

"Frankly, we're astonished American Express is taking this position. Their motive in inviting banks, American Express' long time competitor, to issue its own products seems clear to us. Its overture to banks is nothing more than a Trojan Horse. This is a shrewd American Express proposal designed to reap profits for American Express at the expense of the banks' own Visa card programs.

"As to the issue of consumer choice, there is certainly no shortage of opportunity for consumers to obtain an American Express card product. In fact, the only way a consumer today would not have an American Express card is if American Express itself denied that consumer a card.

"Visa will continue to serve the interests of Visa Members in providing products and services that enable them to compete effectively with American Express and Discover."

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## AMERICAN EXPRESS

## Q&amp;A

**Q** What is Visa's position on American Express' appeal to banks to issue their card products?

**A** Greater issuance of American Express cards, whether by American Express alone or in combination with others, will inevitably be to the detriment of the Visa brand and Members' success with Visa card offerings. Members have invested enormous sums over the years making Visa the most successful consumer payment brand. It's hard to see how Members benefit from a weakening of that brand. Mr. Golub ignores two critical facts: Visa is your brand, and Visa card products are your products.

**Q** Why is American Express so focused on credit cards and bank partnerships after maligning them for years?

**A** Golub is clearly trying to recover the card market share American Express has lost over the last ten years on behalf of American Express shareholders. In one decade, AmEx has lost more than one-third of its market share while bankcard profits have increased steadily and the Visa brand has grown. The only way Golub can reach his stated objective of attaining \$30 billion in receivables by the year 2000 (from \$10 billion today) is by taking share away from bankcards and other competitors. AmEx must increase its card base in order to attract more merchants to accept its card and to also make up the revenues it is losing on merchant discount fees which must be lowered in order to attract more merchants.

American Express is staking its future on competing against banks on the revolving credit side, to the detriment of Visa Members and the Visa brand. Golub is appealing to banks in an attempt to satisfy American Express stockholders at the expense of Visa Members. And cards are just "the foot in the door." American Express' stated agenda is to offer consumers a wide variety of payment and financial services that directly compete with banking services offered by Visa Members. AmEx is trying to use the credit card as an entree to the consumer relationship that is critical to preserving banks' preeminence in financial services.

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**Q** What is Visa's position on American Express' survey of banks which found that many are interested in issuing additional cards, but believe that Visa's By-law limits such opportunity?

**A** We know as little about the survey as Harvey Golub did when he was asked about it following his speech. Frankly, we question the credibility of a survey that some Members tell us was conducted just prior to Harvey's speech. Several large Members tell us that they were never surveyed by American Express, so the survey is hardly representative of the opinions of the top 300 banks. It looks very much like another one of American Express' clever public relations stunts aimed at garnering media attention.

This era of consolidation is creating a challenging time for banks and other financial institutions; however when presented with the competitive implications and long-term costs of doing business with AmEx, we believe each Member will determine that it does not make much sense to pad the pockets of AmEx's shareholders at the expense of its own card program.

But meaningless surveys aside, the point to remember is that if banks issue American Express cards, or give American Express a free ride in any way, AmEx will be strengthened at the direct expense of the Visa brand and Visa Member profits. Visa has become the strongest and most preferred brand in the industry without ever issuing a card that competes with a Member. We don't believe that our Members are going to be interested in sacrificing this worldwide prominence to help American Express.

**Q** Why can't Visa give Member the right to choose—why do we need a By-law that prohibits competing card issuance?

**A** Visa's core job is to protect and increase the value of the Visa brand — that optimizes the returns our Members, on an overall basis, get from Visa card issuance. "Increasing value of the Visa brand" must mean -- among other things -- more cards, more acceptance locations, more consumer usage and more products at the expense of Visa's brand competitors. You simply can't do that if your Members are promoting, at the expense of the Visa card, the foremost competitive payment card brand, AmEx. Golub has essentially said

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that he will do a deal with a handful of banks. They might opportunistically benefit, if only in the short term, by cutting a sweetheart deal. But this would be at the expense of all other Visa card issuers, who would not have this product, and who would suffer through increasing competitive strength of the AmEx brand. This is precisely why Visa has a rule to prevent what economists refer to as "opportunistic" behavior that may benefit a few at the expense of many and the brand.

It is important to note that Visa in no way restricts Members choice. Today, Members can choose to issue Visa Cards and/or MasterCard because duality has enabled them to become owners of both associations. Members can also choose not to issue Visa cards, issuing American Express cards instead.

Visa actually places minimal constraints on Members. Those that we do place are specifically and narrowly targeted at increasing the value of the Visa brand and thereby increasing profits for all Visa Members. Moreover, our By-laws are central to ensuring that competitive and other sensitive information remains confidential. Golub is simply using this "freedom to choose" message as a measure to woo you to issue AmEx cards. His intent is to boost American Express share at the expense of Visa Members.

**Q** If a By-law makes so much sense, why doesn't MasterCard have one?

**A** You would have to ask MasterCard that question. However, it is clear that they do not have a brand, system, or set of products nearly as valuable as Visa's to protect. Moreover, MasterCard has shown in the past a willingness to sacrifice Member interests in the name of market share.

**Q** Do you anticipate a regulatory or legal challenge in the U.S. if a Member chooses to issue an American Express Card in violation of the By-law?

**A** Given that the U.S. regulators have been aware of the rule and taken no action and that this rule is entirely consistent with the reasoning of the federal appellate court in upholding Visa's right to deny Membership to Dean Witter, we are confident that a challenge would not be made or, if made, would not be successful.

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**Q** What is the status of American Express' complaint with the European Commission?

**A** American Express' complaint is totally groundless, and Golub knows it. As a clear latecomer to the credit card business, American Express has failed to invest in developing adequate distribution channels in Europe and has therefore adopted its current "This is bad for consumers" positioning which is nothing but a pretext for wanting a free ride on the \$5 billion investment made by Visa Members. Visa has spent over 20 years creating and investing in an innovative global consumer payment system and doesn't believe it is fair that American Express, a latecomer to the revolving payment card market, should ride free on that investment.

**Q** What is Visa's position on duality?

**A** Visa is committed to protecting the interests of our Members. Over twenty year of bankcard duality, the start of which was prompted by the U.S. Justice Department failure to endorse Visa's non-duality rule and tacitly endorsed over the next twenty years, has produced strong consumer benefits: hundreds of millions of bankcards that offer exceptional convenience, options and value; over 3 million merchant locations in the U.S.; and the creation of new acceptance markets like mail order and supermarkets. The AmEx question is not one of duality. Members are entitled to be issuers of both bankcard brands because they are owners of both associations.

**Q** Why shouldn't Visa Members sign up merchants for American Express if it makes economic sense to do so?

**A** The total profit for all banks from signing up merchants for American Express is estimated at only \$500,000 per year. We don't believe this sum justifies undermining Visa's acceptance superiority—the bedrock of Visa's success on behalf of Members.

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**Q** How exactly does partnering with American Express hurt, rather than boost our profitability?

**A** American Express can only offer a few select banks a quick fix, but this will undermine the strength of the Visa brand and ultimately Members' profitability. When you as a Visa Member give American Express a "free ride", you are reducing American Express' costs and increasing their profitability — allowing your fiercest competitor to grow its share and reputation directly at your expense.

- a) Harvey Golub states in his annual report that American Express has increased its share of the Travelers Cheques category, "most importantly, much of this growth came at the expense of our competitors." Visa Members currently sell 75% of all U.S. American Express Travelers Cheques, yet your profits would be higher if you sold Visa Travelers Cheques.
- b) Every time you as a Visa Member accept American Express cards at your ATM, you undermine the competitiveness of your own bankcards.
- c) When you as a Visa Member book travel services through the American Express travel agency, you support the profitability of American Express instead of your own.
- d) American Express is a clear threat to Visa's Relationship Card strategy. What AmEx is cleverly trying to do is use proposed partnerships to gain entree to banks' customer relationships. American Express will then quickly achieve a position from which it can offer a variety of financial services that compete directly with the banks.

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**Q** Are banks disadvantaged because they can't issue a choice of payment products as Harvey Golub suggests?

**A** No. Visa Members don't need American Express to compete or to offer new card products to consumers. Working together, we have been enormously successful with a wide range of customized Visa card offerings that appeal to a diverse customer base. Visa Classic and Visa Gold cards form a strong platform for a vast array of co-branded and affinity card offerings. Additionally, we have made great progress with our deposit access products such as Visa check card and Interlink. Visa continues to enhance the value of our commercial card offerings; and we are investing in the development and delivery of other products and services, like Visa Cash and Visa TravelMoney, that permit Visa Members to satisfy ever changing and demanding consumer needs.

Any customer, other than one denied by American Express, can easily obtain an American Express Card if he or she desires one. Reality is, consumers do have a very wide choice of payment products, and owing to the strength of Visa's brand building efforts, consumers prefer Visa. This is hard pill for AmEx to swallow.

**Q** How does Visa respond to the accusation that the association is run for the benefit of relatively few banks and the Visa's staff.

**A** Harvey Golub is desperately trying to drive a wedge between Visa and you, our Member owners. Obviously he has lost sight of the fact that Visa is governed by Members, and all major initiatives are endorsed by our Board of Directors. Visa staff and management are accountable to the Members we serve.

What's more, American Express ignores two very fundamental but critical facts: Visa is your brand, and Visa products are your products. Members are well aware of the strength they've built in the Visa system -- superior merchant acceptance, penetration of new merchant segments and an expanded family of payment products designed to strengthen your relationship with your customers.

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Your success has hurt American Express. Yet, Visa has succeeded without ever issuing a card that competes with banks. Visa exists to enhance Member profitability while American Express exists to return profits to stockholders. Please be assured that Visa will continue to serve the interests of all Visa Members in providing a superior brand and the products and services that enable you to compete effectively with all competitors.

**Q** Visa's co-branding efforts benefit individual bankcard Members at the expense of others, how does Visa justify this?

**A** Again, Visa's co-branding strategy is Member directed. Linking the Visa brand with brands of prominent co-branding partners enhances the overall image of all Visa products and further solidifies our leadership position. This ensures that Visa remains the number one payment system brand has a positive effect on all Members. Additionally, co-branding programs result in additional transaction volumes which result in greater economies of scale and system-wide reductions in costs. Since American Express co-branded programs like their Delta and Hilton programs take volume out of the Visa system and promote the AmEx brand, our Members would much rather lose a co-branded program to another bank than to a bank competitor like American Express.

**Q** What implications does the new American Express offensive have on the relationship card strategy?

**A** If banks allowed Golub to succeed with his plan, it could fundamentally weaken Members' ability to implement the relationship card strategy because AmEx could cultivate new customer relationships at the expense of Members. Therefore, it is vital that each Member carefully evaluates the long-term impacts to its Visa card program and its long-term overall customer strategies when considering a partnership with a financial supermarket like AmEx.

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American Express continues to send conflicting messages. On one hand it criticizes Visa for developing new products like Visa Check Card, Visa Cash, Visa TravelMoney and new services like electronic commerce and remote banking; claiming that these products do not benefit banks. On the other hand, American Express' 1995 annual report states that it intends to develop new products and services in all of these areas and create a virtual bank strategy. Imitation is truly the sincerest form of flattery, and we are flattered that American Express has recently adopted the Secure Electronic Transaction protocol developed by the bankcard industry for use in its own electronic commerce solutions.

**Q** What do you think of AmEx's participation in Faulkner & Gray's credit card forum?

**A.** For years, Harvey Golub has publicly shunned credit card industry conferences and events, preferring to attack the revolving credit industry and the banks involved in it. In light of this, we're not pleased with the prominent position Harvey Golub has been given at this industry event especially when his expertise in the credit card industry is rather limited. However, we believe that the more our Members come to understand AmEx's strategy -- which ultimately is to take business away from banks -- the less interested they will be in supporting AmEx's profitability.

**Q** What did you think of Harvey Golub's speech?

**A** It's always interesting to hear how AmEx finally got religion about credit, and how they are now proposing to work with banks to pursue this business. The reality is that AmEx has spent the last decade maligning banks for their credit products and services, labeling them anti-consumer. We think banks and other parties involved in the credit/payment card industry will see right through AmEx's posturing and realize that AmEx will do anything to succeed, usually at the expense of banks, merchants who pay high their discount rates, and consumers.

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**Q** What do you think of AmEx's most recent financial results?

**A** In three years, Harvey Golub has managed to refocus and streamline AmEx's business, but he has yet to come up with compelling reason why a consumer should pay a large annual fee for an AmEx card or a merchant a high discount rate. He has clearly staked the company's future on competing against banks on the revolving credit side. Banks have been successful despite intense competition from AmEx and we expect that they will continue to do so.

**Q** What does Visa think about Amex's deal with Banc One?

**A** The fact that Banc One has made a deal with American Express on the commercial lending side is evidence that Visa's rules are not restrictive and that Members do have freedom of choice. However, this kind of arrangement demonstrates that Visa needs to do a better job of educating each of our Members about the downsides of aligning themselves with AmEx on any initiative so that each can factor in the long-term negative consequences so that each can make a fully-informed decision regarding the wisdom of partnering with AmEx. In the business card market, AmEx has not only been successful at competing with banks but has, in fact, dominated that market.

**Q** AmEx has greatly increased its acceptance by signing up merchants across all categories including WalMart. What do you think of this?

**A** It's clear that AmEx is now relying on credit to contribute a large percentage to its profitability, so it can lower some discount rates such as WalMart to rates rumored to be as low as .75 percent. However, across the board, average AmEx merchant discount rates are still 100-plus basis points higher than Visa's. Research consistently has shown that Visa continues to be the preferred card for merchants and consumers alike.

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**Q** What about Diner's Club, which is issued by another Member bank? What's the difference between Diner's Club and American Express?

**A** Diner's Club is owned by a Visa Member; AmEx is not. Moreover, Citibank has owned Diner's Club since the late 70's and during that time has marketed this product as a niche product. As such, Diner's Club has never competed with general purpose cards. Today, Diner's Club remains a niche product and is a relatively insignificant force in the market.

**Q** Will the EC complaint cause Visa to repeal its U.S. bylaws?

**A** No. This is not a U.S. issue.

**Q** Can Visa sustain its current growth level?

**A** We're bullish on the future of our brand. We were the only one of the major four card brands to gain market share in the past year, according to Credit Card News' Credit Card Issuer's Guide. With a two-point gain over the year prior, Visa's charge volume of \$340.2 billion represents 48.5% of the total \$700.9 billion in U.S. charge volume on Visa, MasterCard, American Express and Discover cards last year. AmEx's share declined from 17.4% to 16.4%. Equally important, Visa is working with its Members to offer new products and services that will continue to add value to the consumer's banking/payment experience.

**Q** What is Visa's response to Harvey Golub's point that AmEx's discount rate would be more profitable for banks and that Members should question the wisdom of Visa's incentive interchange rate strategies?

**A** Visa is not surprised that American Express would like to see interchange rates increase because it would close the gap between Visa Member's lower merchant fees and AmEx's historically higher profit-based discount rates. Visa's incentive interchange rates, have benefited its Members. This strategy

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has led to widespread terminalization and electronic authorization. This has benefited the entire industry because it dramatically increased the number of merchants that accept payment cards and reduced the risk associated with card acceptance. Minimizing the risk of card acceptance in-turn has reduced the risk of card issuance, thereby enabling card issuance to a much greater number of consumers. Moreover, this strategy has led to the penetration of new merchant segments for the benefit of all Members. It is our position that Visa's interchange rates are both pro-merchant and pro-consumer.

It is surprising that American Express, after years of bashing the credit card industry for being anti-consumer, would seem to encourage higher merchant fees that would no doubt result in higher costs to consumers. Given that American Express' high discount fees are already a major cause of merchant discontent with that brand, their motive in making this argument is clear.

**Q** American Express has also attacked Visa's sports and special events sponsorships, claiming that they benefit only select Visa Members and Visa staff, how do you respond?

**A** As is the case in most highly visible consumer brand companies, sports and event sponsorships play an integral role in Visa's overall marketing strategy. For example, Visa has been an Olympic sponsor for more than 10 years and most recently we've become the official sponsor of the NFL and the Triple Crown and Elton John's North American Tour. Sponsorships allow Visa to develop strong, positive, desirable associations between our brand and major sports or entertainment experiences. These associations can then, in turn, dramatically affect the ways consumers perceive our products. Ultimately, they lead to stronger brand recognition, enhanced image, increased sales and profits for Members and opportunities for individual Member tie-ins. We continually evaluate the effectiveness of our sponsorships through consumer perception surveys and have found that our partnerships with high-value properties have had tremendous positive impact especially since they strongly leverage our superior "Everywhere You Want to Be" and "They Don't Take American Express" positioning.

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Visa's strategy has always been to maximize our sponsorship dollars for the benefit of all Members. That is why we use sponsorships in our national television image advertising. And that is why we develop sponsorship-based promotions that benefit banks, merchants and consumers. Visa has become expert in developing unique and creative sponsorship program that extend far beyond the hospitality tent to positively support our business goals.

The truth is that Harvey Golub knows just how effective Visa's sponsorships and accompanying marketing promotions have been in reducing AmEx's market share. This is probably why Visa has suffered numerous unethical ambush marketing attacks from American Express during previous Olympics. And it's also why AmEx fought so hard and paid so much for their deal with the Dallas Cowboys. Furthermore, American Express itself has bid on many of these sponsorships and has been rejected by many sports and special events groups in favor of Visa.

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