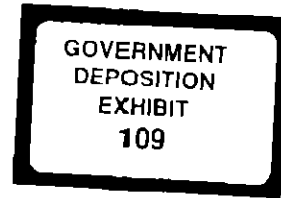


Memorandum



TO: Distribution

FROM: Beverly B. Wells

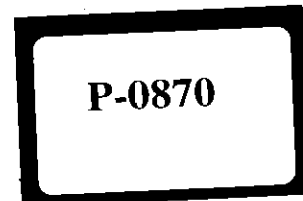
DATE: December 13, 1995

SUBJECT: VISA MEETING

Attached are notes taken from the December Visa Meeting that I attended in Denver.
Please review.

Distribution:
Ann Castle
Charlie Hegarty
Bob Hill
Doug King

Mike Scheuerman
Ann Watkins
Alan Welch



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Recap of VISA Meeting

Tom Layman - General Business Trends

I will ask for copies of Tom's presentation, so will not try to provide full detail, just the points that I would want to match up with his slides.

- VISA is not able to differentiate growth that originates from an increase in retail sales vs increased use of the card
- Relative to whether consumers will again lead the country into a recession with the trillion dollars of open to buy now available, is going to depend on the significance of the lower interest rates which are predicted and a judgment as to the ability of consumer's to handle their debt
- VISA forecast a dramatic reduction in the growth of outstandings from the current rate of 30% to 15% by year-end 1996. This is in part due to the recent strong growth which has created a base, i.e. incremental growth at the same percentage is incredible actual growth. This forecast is supported by the trend towards higher rates of pay down.
- VISA is predicting a further shift in the source of profits from finance charges and fees to interest. Charge-offs as a percentage is forecasted to go up to 5%, margins shrinking from 10-11 % down to 6%, and a continued increase in operating expenses from 5% to over 5%.
- Tom invited our strong participation in seminars of cost study, there will be one in Atlanta.

Dave Nordemann - Risk Management

- Of principal interest here was the group's reaction to Dave's update that the Risk Advisory task force had met and reviewed priorities. We ought to see if Ann has the list that was discussed and encourage her to get the outcome of the vote.
- Dave indicated that at members' encouragement, VISA is working with outside firms to obtain modeling capabilities around the issue of bankruptcy. There was division in the group as to whether this was appropriate given the expertise that exists with other well known players. Cap One felt strongly that members should buy their own models from Fair Isaac, etc. He was overruled and Dave was encouraged to hurry.
- The attack on bankruptcy is viewed as having multiple dimensions: 1) education for banks on dispute handling; 2) legislative adverse action; and 3) a strong PR campaign to reinstate some stigma.
- VISA will be updating CRIS to support on-line debits.
- VISA was encouraged to work with the ABA
- Other VISA initiatives involved international floor limits, enhancing the credit bureau support by serving as an intermediary. (Note, Barnett audits credit bureaus). This is confidential as the bureaus do not know this discussion is underway. This was also controversial.

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Rob Robbins - Mercant Relations

- Will reactivate the acquirer advisor council
- Will work more closely with processors

General Discussion led by Multiple VISA Staff - the American Express offensive

- Fran Schall led a review of the American Express strategy and the supporting evidences of their strategy and the success they are having with it. The motivation for this presentation was to gain consensus (it worked) from the group to launch an offensive. VISA outlined multiple components (possible) for this offensive, and through discussion and break-out groups, sought direction for emphasis
- We were not allowed to take away anything, but I will try to list the areas of initiatives:
1) Travel Agent Program; 2) Commercial Card Program; 3) T & E Incentive Program
4) Merchant Education and Acceptance; 5) Member Education; 6) Media; 7) Product Initiatives
- Within product initiatives, the group rejected a proposed VISA airline program as too costly, even though in research the concept appeared strong against the prototype of the Delta card. All other initiatives were endorsed with some concerns.
- The concerns could be expressed as falling into these categories: 1) since most of the campaigns focused on hurting the Delta launch, it appears that VISA is spending funds that will support some members more than others, particularly those located in Delta hub cities. 2) This same concern was voiced relative to the Commercial Card discussion, even though everyone understood that the intent was to take shots at American Express' own business. 3) The old concern that centrally administered programs tended to neutralize individual member efforts and their results. (Some members have value added programs).
- There was unanimous concern about the revenue AM Ex receives from banks -- travelers checks, selling Am Ex merchant locations, ATM usage and commercial card sells. VISA was asked to work with Board members to solicit support to create a quick movement of these business awards, through bank CEO peer pressure.
- Much frustration at our inability to use interchange to manage our business environment, which we are not permitted to do because we are an association. Also, frustration that Am Ex has a deep pool of profits because they own the whole business stream. They also have been consistent in their merchant relations and with the trust that has developed are now able to leverage these relationships into exclusives, discounts, etc. Am Ex has also strongly pushed on the rewards packaging, creating consumer card loyalty that is currently not available through the VISA structure.
- To get into some specifics on each program:
1) Travel Agent Program: incentives to book VISA (which would benefit existing airline programs). Remind them that Am Ex is the competitor. Track results (share move) by agency and have a two-tiered reward structure. 2) Commercial Card Program: co-op advertising, incremental sales efforts, commercial card financial planner, effort to convert non-VISA corp card accounts, rewards for retention and usage, product reporting enhancements. 3) Merchant Education/Acceptance: bring back the profit improvement calculator to ensure that merchants are admitting the impact that letting Am Ex in has and

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the potential that their volume could grow if we don't stop it. 4) Media a series of print ads directly focused on anti-AmEx messages.

- The feedback from break-out groups was highly charged, difficult to summarize BUT, represented strong support as the beginning of a new strategy for long-term offensive against the real competition (Am Ex and Discover) vs MC. There was emphasis on pushing our strength, using the Delta launch as a message opportunity and the formation of a bond, managed by VISA.

Pat Edwards: Targeted Rewards

- Pat's presentation met with considerable concern as she did not set herself up very well. I.E. she did not remind the group that they had briefly seen the concept in the last meeting. She got into trouble by describing a product which already has had considerable investment in systems efforts and manpower. I won't go into details here, but will say that it parallels the Usave FDR program, although the VISA thrust (certainly to piggyback the earlier discussion) was the approach Am Ex was taking.

- There was a follow-up discussion from Paul (legal counsel) highlighting the difficulties these kind of programs create.

- Charlie, the significant message here is that I volunteered that Wachovia would serve on a special taskforce to resolve the appropriateness of this concept. (Sounds like VISA is determined to do)

Harvey Bondar: research

- Unbelievable. Harvey reported on the underway product research which has as its focus to look for meaningful new stuff for consumers vs the previous focus on business problems relative to payments or credit card.

- Step 1 is to create an inventory of problems/needs for all aspects of life. Step 2 is to quantify the learning. They have 2 parallel approaches: focus groups, frustration diaries. They are early in their effort but amazed at the strength and consistency of the messages they are receiving, a strong here and now focus.

- Without getting into all of the detail (which Harvey would say is premature), this totally supports the Age Wave concept.

Research divided into four categories:

A) The Great Divide. Role of men and women, very typical, not evolving.

B) Domains of Concern. Home (need more room, finding repair and maintenance, security, financing), work (series of careers, insecurity, intrusion on personal life, commuting, work at home), elder relatives, future of children. Denial "what will be will be". Powerlessness. Information needs: homebuying, legal, savings, investing, birthday party ideas, family holidays, vacation activities.

C) Aspirations. Need nicer or first home, vacation get-a-way, cars, contentment (make life a little easier).

D) Frustrations. Time, money, lack of control, being inconvenienced everywhere. Winging everything.

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Opportunities:

- 1) Here and now mindset
- 2) Consumer desire to utilize local resources
- 3) Help consumers manage time and money
- 4) Investigate opportunities for information to put them back in control
- 5) Investigate providing guidance on achieving a secure future for themselves, parents and kids.

Positioning Research: Achievable aspirations

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