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w/10 Business pages



# GLOBAL COMPETITIVE ASSESSMENT AND RESPONSE

P-1009

Visa International Board  
4 March, 1996

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# Global Competitive Assessment and Response

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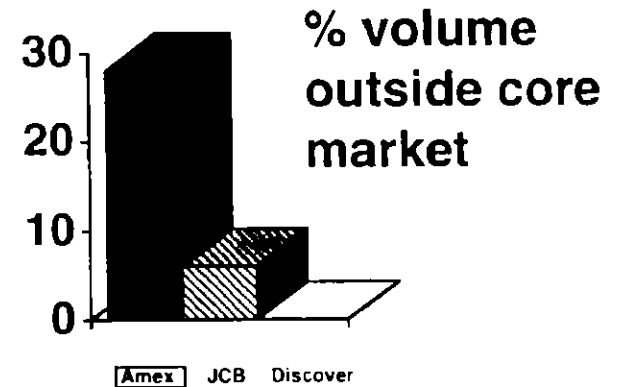
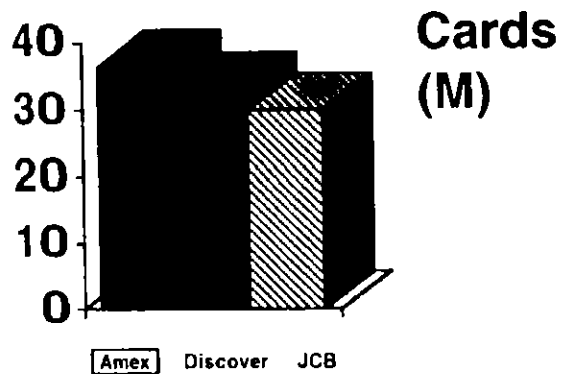
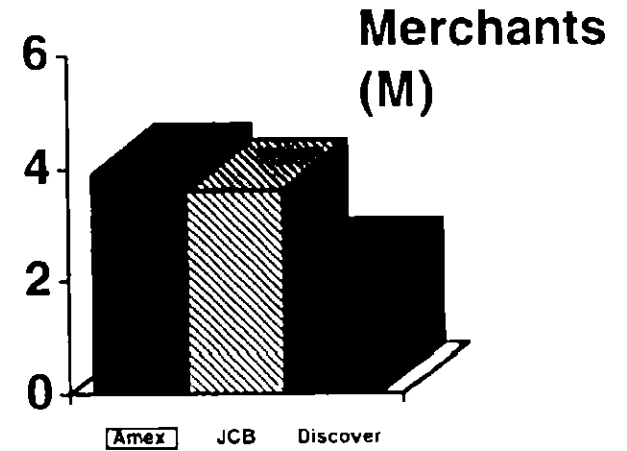
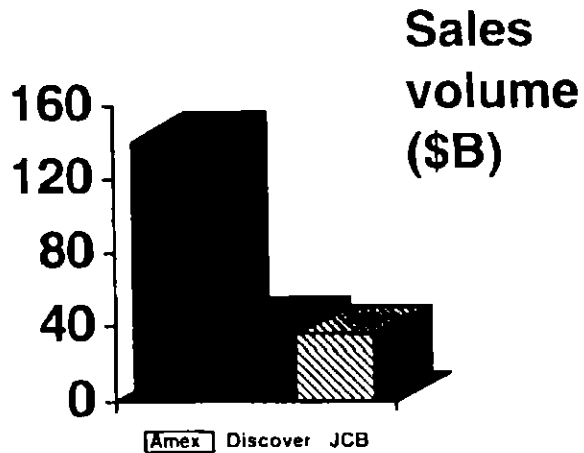


- Review Discover, JCB, American Express
- Focus on American Express Strategy
- Visa Competitive Response

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# Comparison of Global Competitors



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Note: 1994 data  
Source: Nilson reports  
DH.2/96 Int'lBd

**American Express is the largest and most global competitor**

# Global Competitors Represent Different Strengths

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## Discover

- U.S. issuing focus
- Large acceptance network
- Cross-border acquiring
- Poised for cross-border issuing

## JCB

- Large share: merchants/cardholders
- Expanding issuing/acquiring with Members
- Strong brand; travel positioning
- Large Corporate Card player

# Global Competitive Assessment and Response



## The American Express Competitive Challenge is Immediate and Significant

- **Strongest Global Brand**
- **Broadest product line/rapid expansion**
- **Aggressively growing merchant base via Members**
- **Competing in financial services - launch of Direct and Virtual Banks**

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# American Express Strategy



Revenue: 65% Merchant Dependent

Strategy: Survival

- **Aggressively expand acceptance**
  - Maintain revenue, maximize margins

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# American Express 1994+



## Acceptance Strategy

### U.S.A.

- Eliminate competitor acceptance advantage
- Use agents
- Price retail and petrol merchants at margin

### Non-U.S.A.

- Quickly expand Merchant acceptance
- Exclusive issuing/merchant franchise in under-developed markets
- Gain merchant locations
- Exclusive bank merchant agents in developed markets

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## American Express Acceptance Growth Is A Leading Indicator



### American Express Has Invested Heavily In Acceptance

- **American Express Claims**
  - **“Current Merchant network accommodates 87% cardholder needs in US”**
  - **Signing 7,500 new merchants per month**
- **Significant Acceptance Growth**
  - **Worldwide Merchants over 4.3 million.**
  - **Worldwide 141,000 ATMs.**

**53% annual growth rate**

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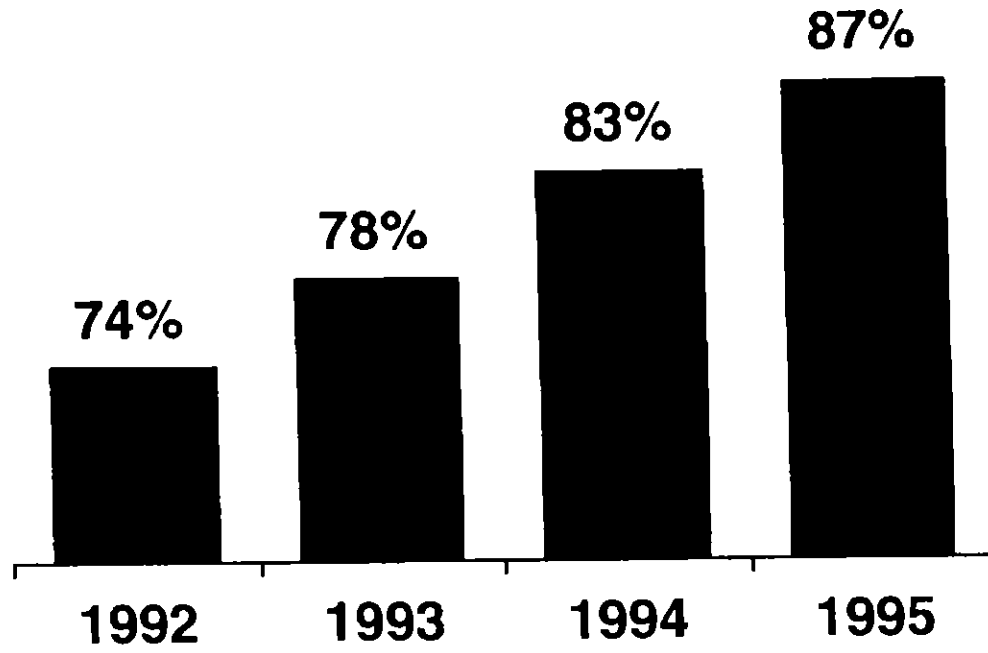
# Merchant Coverage



## U.S. Cardmember Spending Coverage

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# Merchant Coverage



## U.S. Signings



**WAL\*MART**



**VONS**



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## American Express - Partnerships



### Partnership Objective

**“The overall goal of our banking partnerships is to build a strong American Express branded global card network with broad merchant coverage.”**

**Jürgen Aumüller  
President, American Express Europe**

**“We expect several new partnerships during 1996 in smaller markets and larger ones as well.”**

**Harvey Golub  
Chairman and CEO American Express**

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## American Express - Partnerships/Investments



### Recent Exclusive Bank and Merchant Agreements for Increased American Express Card Acceptance and Issuance

- 12/95 Sovac/France - Promotion and merchant acceptance, co-branded issuance agreement
- Exclusive • 7/95 DeutscheBank-Bank Americard/Italy- Acquiring and merchant acceptance agreement
- Exclusive • 5/95 Alpha Credit Bank/Greece - Issuance of Green and Gold charge card and merchant acceptance agreement
- Exclusive • 2/95 Bank Hapoalim/Israel - Issuance of bank/Amex credit card and merchant acceptance agreement
- Exclusive • 1/95 Banco Commercial Portugues/Portugal - Issuance of Green, Gold credit cards and merchant acceptance agreement

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# Merchant Coverage



## International Signings



TONLIN

**NORTE**



Carlson  
Wagonlit  
Travel

**NACIONAL**

HAVAS VOYAGES



**SOGO**  
MORNING

**WAL\*MART**

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# Acceptance Investments Pay Dividends For American Express

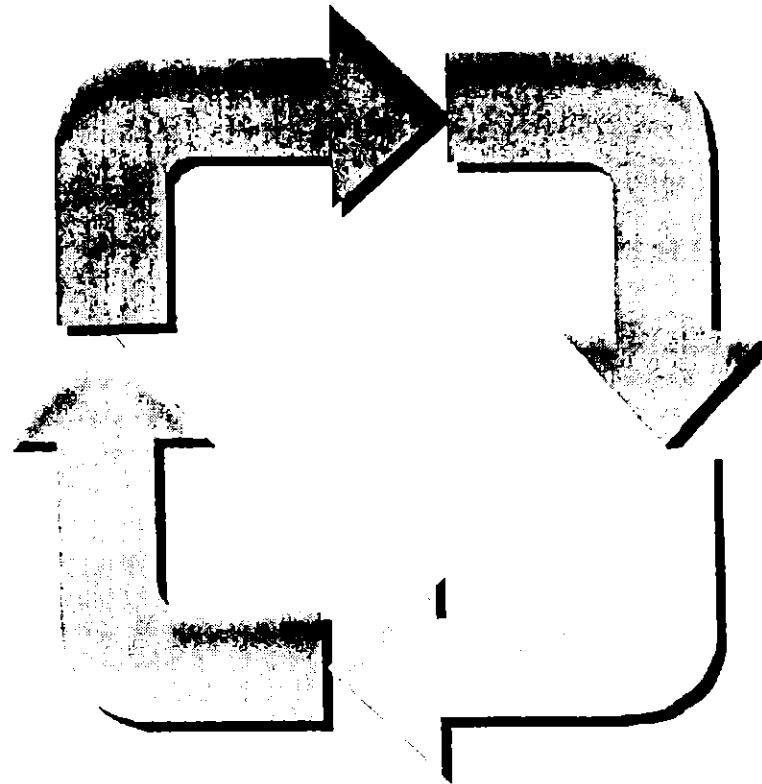


**Grow  
Acceptance**

- Increase:**
- Card Issuance
  - Volume per card

**Reduce  
Merchant Fee  
Dependency**

**Generate Finance  
Charge Income**



**Acceptance Drives Volume, Revenue and Income**

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# American Express — Progress In 1995



## American Express 1995 Performance

<u>Financial</u>			<u>Operations</u>		
	<u>\$ Billion</u>	<u>Growth</u>		<u>#/\$</u>	<u>Growth</u>
Revenues	\$15.8	10.9%	Cards	37.8 Million	4.2%
After Tax Income	\$1.6	13.3%	Volume	\$161.1 Billion	14.7%
			Credit Card Outstandings	\$10.0 Billion	23.3%

**American Express Market Value Now Exceeds \$22 Billion,  
a \$7 Billion Increase from Year End 1994**

Note: A 50% increase, out performing Dow Jones and S&P 500 in 1995

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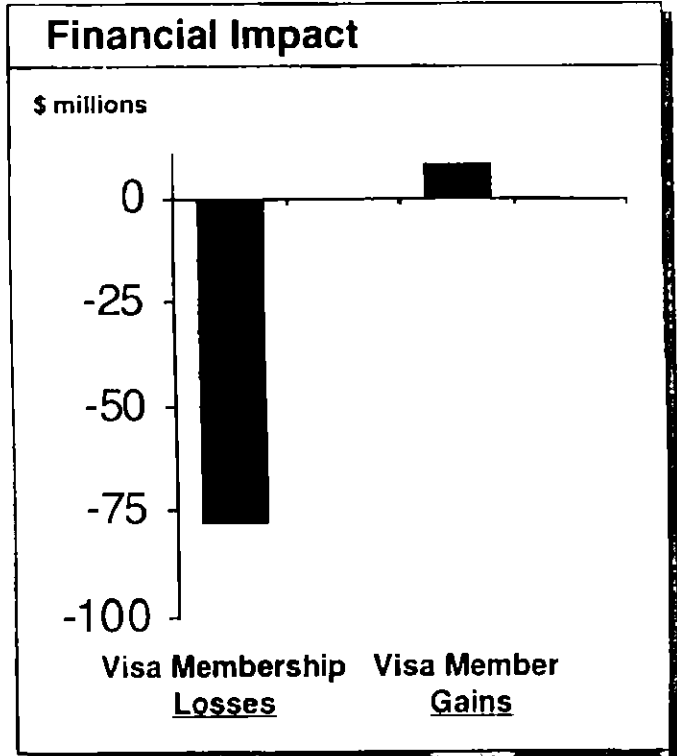
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# Franchise Agreements



## Example: Exclusive Merchant Sign-Up (Non-US Market)

	<u>Visa Members</u>	<u>Bank</u>
# Merchants signed for Amex	100,000	100,000
Amex Volume/Merchant	\$23,000	
Commission/Merchant		\$75
Volume Lost to Visa Member (50%)	\$1.15 Billion	
Income Lost (1% of Volume)	\$11.5 Million	
10 Year NPV at 10%	\$78 Million	\$7.5 Million



**One Member gains \$7.5 million, Visa Membership loses \$78 million**

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# American Express Strategy



**Revenue: 65% Merchant Dependent**

**Strategy: Survival**

- Aggressively expand acceptance
  - Maintain revenue, maximize margins
- **Reduce expense rapidly**

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# American Express Eliminates Infrastructure Expenses



## Key American Express Strategies

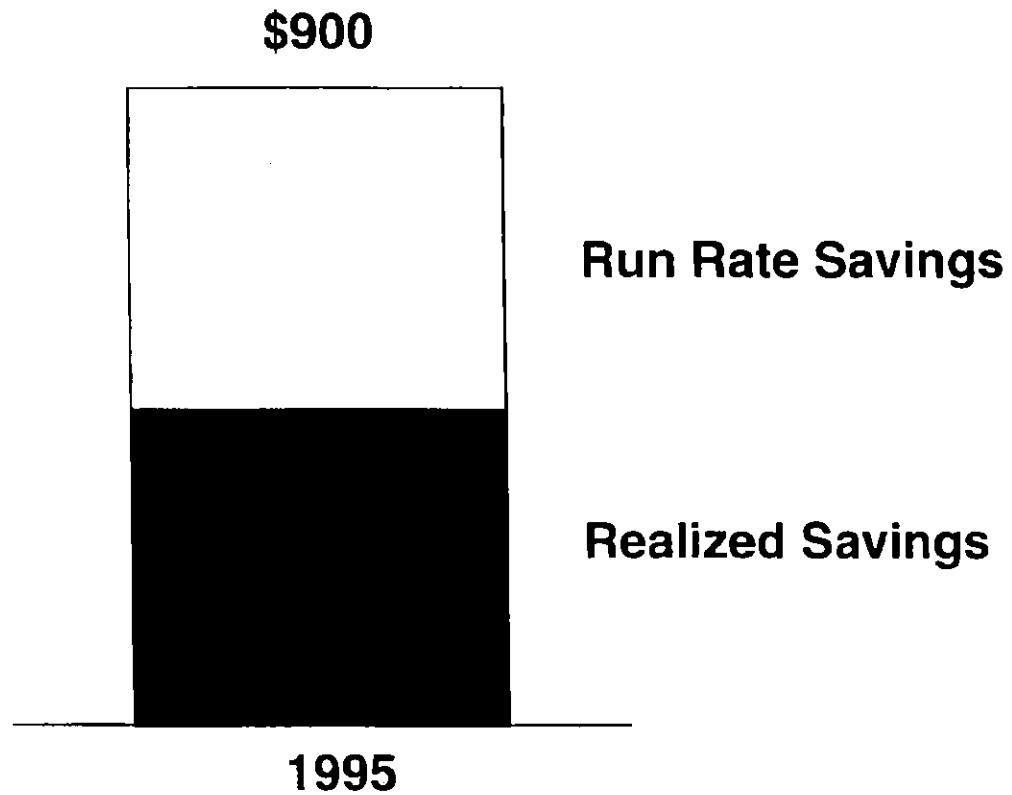
- Use Visa Member infrastructure investments
- Use Member distribution system
- Leverage Visa/MasterCard willingness to “Gateway” transactions
- Elimination of merchant terminal overhead and merchant direct connect expense
- Be “friendly partner” on chip specification (VME)

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# Reengineering



## Reengineering Savings - Phase II (\$ Millions)



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# Reengineering

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## Savings Reinvested In:

- Price reductions to merchants
- Improved value propositions
- Rewards programs
- New products and businesses
- Technology enhancements

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## American Express Strategy

Revenue: 65% Merchant Dependent

Strategy: Survival

- Aggressively expand acceptance
  - Maintain revenue, maximize margins
- Reduce expense rapidly
- **Dominate Corporate Card**
  - Largest source of volume
  - Merchants cannot switch
  - Accelerate growth/ multinational

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# American Express Strategy

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## American Express Dominates the Corporate Market

**“We have 10 times the Corporate Card base of the number two competitor (First Bank Systems) and 25 times the Corporate Card base of Diner’s Club”**

**Chuck Farr  
Vice Chairman, American Express**

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# American Express Strategy

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## Corporate Card Three-Pronged Approach

- **Product enhancements, especially MIS reporting**
- **Business line extensions with focus on small business**
- **Business extensions, such as the purchasing card**

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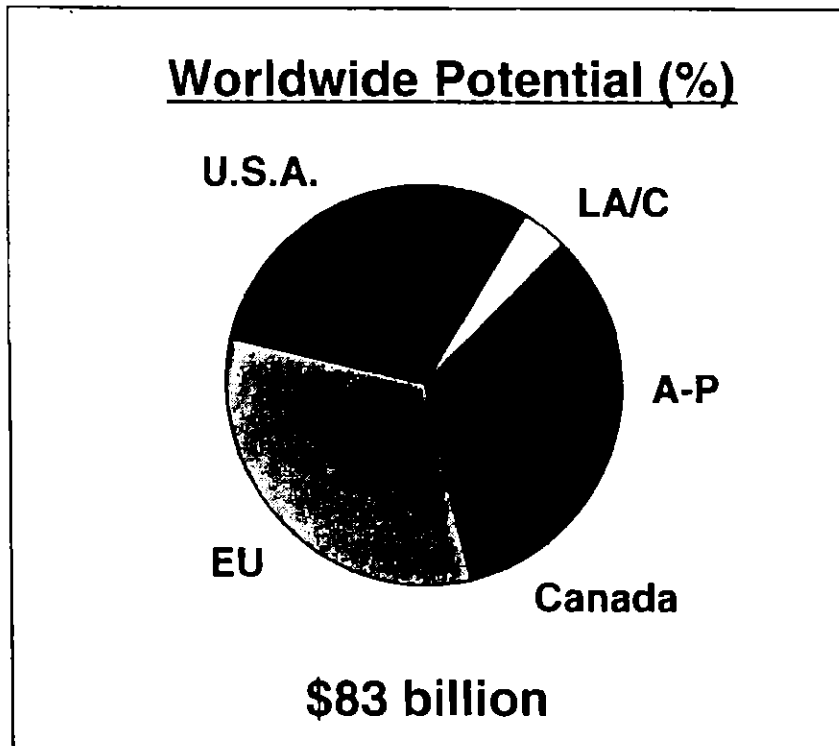
# Multinational Segment



## Top 500 Global Multinationals Opportunity:

T&E                    \$28Billion  
Purchasing         \$55 Billion  
**\$83 Billion Total**

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## Distribution of Company Headquarters

LA/C	4
Canada	13
EU/CEMEA	174
U.S.A.	92
AP	217



## Multinational Segment



### The Visa Multinational Disadvantage

<u>Corporate Needs</u>	Able to Deliver			
	<u>Amex</u>	<u>JCB</u>	<u>MasterCard</u>	<u>Visa</u>
Worldwide Marketing	Y	Y	N	N
Single Point of Contact	Y	Y	Y	N
Customer Choice of Issuer	Y	Y	Y	N
Consistent product offering	Y	Y	Y	N
Uniform pricing worldwide	Y	Y	Y	N
Global Acceptance	N	N	Y	Y

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**Visa Operating Rules Must Be Amended  
to Give Visa Members a Chance**

# Multinational Score Card



## Multi-Country Commercial Contracts Signed:

	<u>American Express</u>	<u>Visa Members</u>
<b>1994</b>	<b>25*</b>	<b>0</b>
<b>1995</b>	<b>60*</b>	<b>0</b>

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\* Per Judith Gardner, Amex VP Multinational Accounts

# American Express Strategy



## Multinational Segment

- In the last 12 months Visa Members have received Multinational RFPs worth over U.S. \$5 billion.  
No sales.

<b>Asea Brown Boveri</b>	<b>(Swiss)</b>	<b>BASF</b>	<b>(German)</b>
<b>ITT/Tevis Automotive</b>	<b>(German)</b>	<b>Siemens</b>	<b>(German)</b>
<b>Nestle's</b>	<b>(Swiss)</b>	<b>Johnson &amp; Johnson</b>	<b>(U.S.A.)</b>
<b>Digital Equipment</b>	<b>(U.S.A.)</b>	<b>CIBA Geigy</b>	<b>(Swiss)</b>
<b>Northern Telecom</b>	<b>(Canada)</b>	<b>Allied Signal</b>	<b>(U.S.A.)</b>

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# American Express Strategy



Revenue: 65% Merchant Dependent

Strategy: Survival

- Aggressively expand acceptance
  - Maintain revenue, maximize margins
- Reduce expense rapidly
- Dominate Corporate Card
  - Largest source of volume
  - Merchants cannot switch
  - Accelerate growth/ multinational
- **Maintain Travelers Cheque revenue**

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## Travelers Cheque Revenue



### American Express Travelers Cheque Strategy

**“This business will be the launching pad for entering some very profitable new markets.”**

**Chuck Farr Vice Chairman, American Express**

**“Our focus is on stored value products which we believe will be the future of this industry.”**

**Chuck Farr Vice Chairman, American Express**

- **Dominate category - maintain “cash cow”**
- **Leverage travel attributes for Brand**
- **“Own” electronic cheque category**
- **Expand stored value to key segments:**
  - **Amex Campus Funds**
  - **First Class PhoneCard**

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# American Express Strategy



Revenue: 65% Merchant Dependent

Strategy: Survival

- Aggressively expand acceptance
  - Maintain revenue, maximize margins
- Reduce expense rapidly
- Dominate Corporate Card
  - Largest source of volume
  - Merchants cannot switch
  - Accelerate growth/ multinational
- Maintain Travelers Cheque revenue
- **Grow cardholder profit**
  - Segment market
  - Broaden product line
  - Add channels/partners

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# American Express Has Aggressively Extended Its Product Line



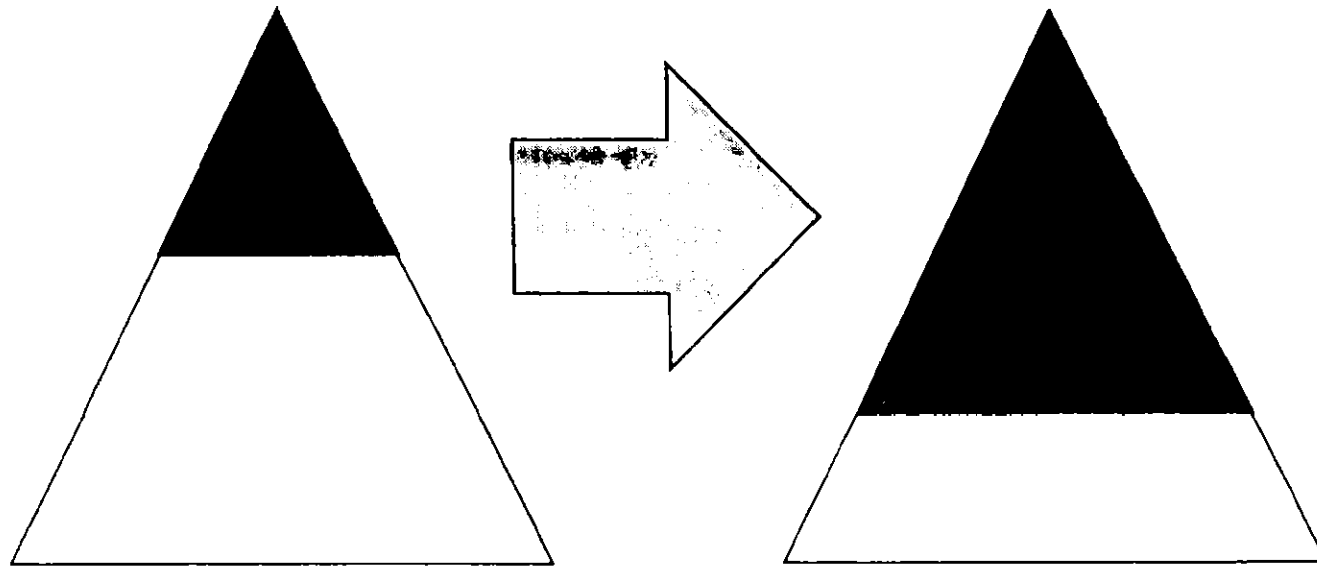
- Green Card
- Gold Card
- Platinum Card
- Corporate Card
- Optima
- Green Card
- Gold Card
- Platinum Card
- Corporate Card
- Optima
- Optima Co-Brand
- Optima True Grace
- Green Credit Card
- Senior Charge Card
- Personal Choice
- Purchasing Card
- Small Business Card
- Platinum Corporate Card

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# American Express Has Aggressively Extended Its Product Line



American Express Focus has Expanded From Half of Members Best Customers to ALL of Members' Good Customers.



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# American Express Product Offers Are Aggressive, Attacking Member Revenues/Customer Relationship



**American Express Optima Gold Card Solicitation Offer Targets  
Members Most Valuable Cardholders:**

<u>Gold Card</u>	<u>APR</u>	<u>Annual Fee</u>	<u>Cardholder Savings*</u>
Optima	12.75%	\$0	
Citicorp	16.4%	\$50	\$123
AT&T Universal	18.9%	\$40	\$163
Chase Manhattan	18.4%	\$50	\$163
First Chicago	18.9%	\$0	\$123

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# American Express - Investments In New Channels/ Partners



## Expand American Express Distribution

### ExpressNet on AOL

- Card services, reservations, on-line shopping

### On-line Commerce Initiatives

- Agreements with Cybercash, Netscape, First Virtual Holdings, and Open Market

### Virtual Bank

- Includes payments, credit, financial services, home banking via Quicken, Direct Bank in Germany

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# American Express - Strategy Overview



Growth  
Phase

Phase 1  
Basic Acceptance  
Building

Phase 2  
Product Growth  
Innovation

Phase 3  
Aggressive  
Product/Business  
Extension

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Countries



Brazil  
Dominican Republic  
Greece  
Portugal  
Japan  
Korea  
South Africa  
Venezuela



Australia  
UK  
France  
Canada  
Italy  
Germany



USA

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# Acceptance Investments Pay Dividends For American Express



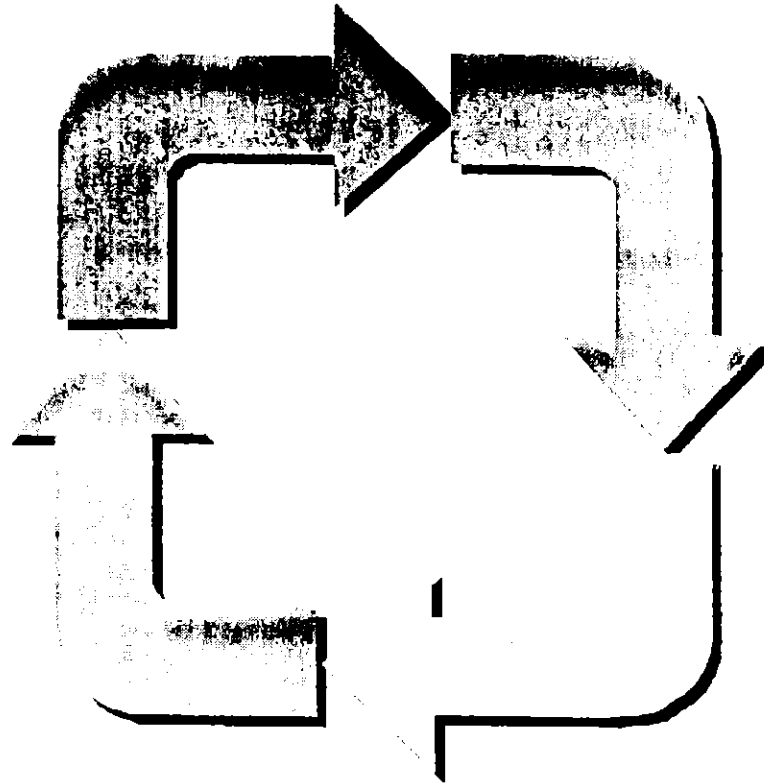
**Grow  
Acceptance**

**Increase:**

- Card Issuance
- Volume per card

**Reduce  
Merchant Fee  
Dependency**

**Generate Finance  
Charge Income**



**Acceptance Drives Volume, Revenue and Income**

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# Visa Response to American Express Strategy



## Summary

<u>American Express Strategy</u>	<u>Visa Response</u>	<u>Plan Date</u>
• Expense Reduction	• Close gateways/charge rational fees	<u>6/96</u>
• Travelers Cheque	• Continue existing strategy/strengthen VTM	<u>Ongoing</u>
• Acceptance	• Increase Acceptance Advantage <ul style="list-style-type: none"> <li>• Develop new categories of merchants</li> <li>• Increase share at key merchants</li> <li>• Prohibit signing merchants for competitors</li> </ul>	<u>6/96</u>
• Grow Cardholder Profitability	• Focus on Visa Gold <ul style="list-style-type: none"> <li>• Prohibit issuing competitor brand</li> </ul>	<u>6/96</u>
• Commercial Card Dominance	• Corporate and Purchasing Card <ul style="list-style-type: none"> <li>• Compete for multinational segment</li> <li>• Separate/ Increase IRF</li> </ul>	<u>3/96</u>

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## Visa Competitive Response: Expense Reduction



### Principle:

**No "Free" or Low Cost Ride on Visa Member Infrastructure**

- **Visa Management to review "Gateway" policy**
  - **Eliminate Gateway or charge rational fee**
    - **POS**
    - **ATM**
- **Visa International and Regions to differentiate fees for non-Visa transactions**

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# Visa Travelers Cheque Strategy



**Keep Competitive Pressure On**

## Travelers Cheque:

- Reduce Member risk
- Reduce Member cost
- Leverage value of Thomas Cook Travel Services

## TravelMoney:

- Grow Visa TravelMoney over time
  - Promote profitability, increase issuance
  - Reduce Visa Member liability

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## Strengthen Visa Corporate Card Products



### Challenge American Express Dominant Position in the Corporate Card Market

- **Improve Members' ability to win multinational corporate card business**
- **Assure Issuer profitability: establish separate IRF**

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# Enabling Resolutions/Operating Principles



## International Board Resolutions

- **Multinational Corporate and Purchasing Rules**
  - Principle place of business of Issuer and headquarters of any multinational company must be in same country
  - Where multinational company requests a program be limited to a specific region, certified Issuer(s) in that Region may respond

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# Multinational Segment



## The Visa Multinational Disadvantage

<u>Corporate Needs</u>	<u>Amex</u>	<u>JCB</u>	<u>MasterCard</u>	<u>Visa</u>	<u>Proposal</u>
Worldwide Marketing	Y	Y	N	N	N
Single Point of Contact	Y	Y	Y	N	Y
Customer Choice of Issuer	Y	Y	Y	N	N
Consistent product offering	Y	Y	Y	N	Y
Uniform pricing	Y	Y	Y	N	Y
Global Acceptance	N	N	Y	Y	Y

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**Visa Operating Rules Must Be Amended  
to Give Visa Members a Chance**

# Strengthen Visa Corporate Card



## Operating Principles

- **Multinational Product Standards**
- **Registration/Certification of Members**
- **Separate, Multi-Currency Bins (10/96)**
- **Local IRF for local transactions**
- **Local Service Charges**
- **Local card rules apply when threshold exceeded**
- **International Charge-Back Rules**

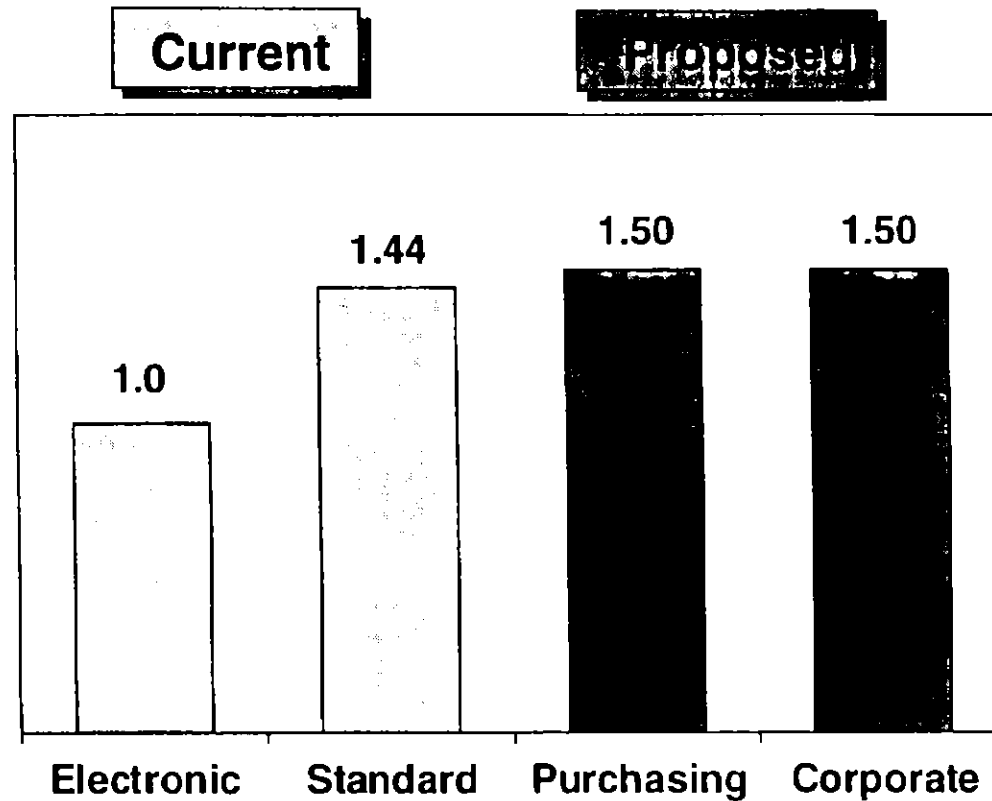
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# International IRF



## Product Economics Require Higher International Interchange



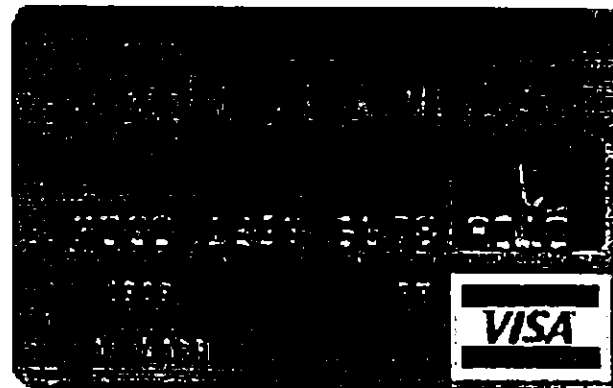
## International Interchange Reimbursement

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## Enhance Visa Gold



### Use Gold to Strengthen Visa Position in Revolving Credit Market



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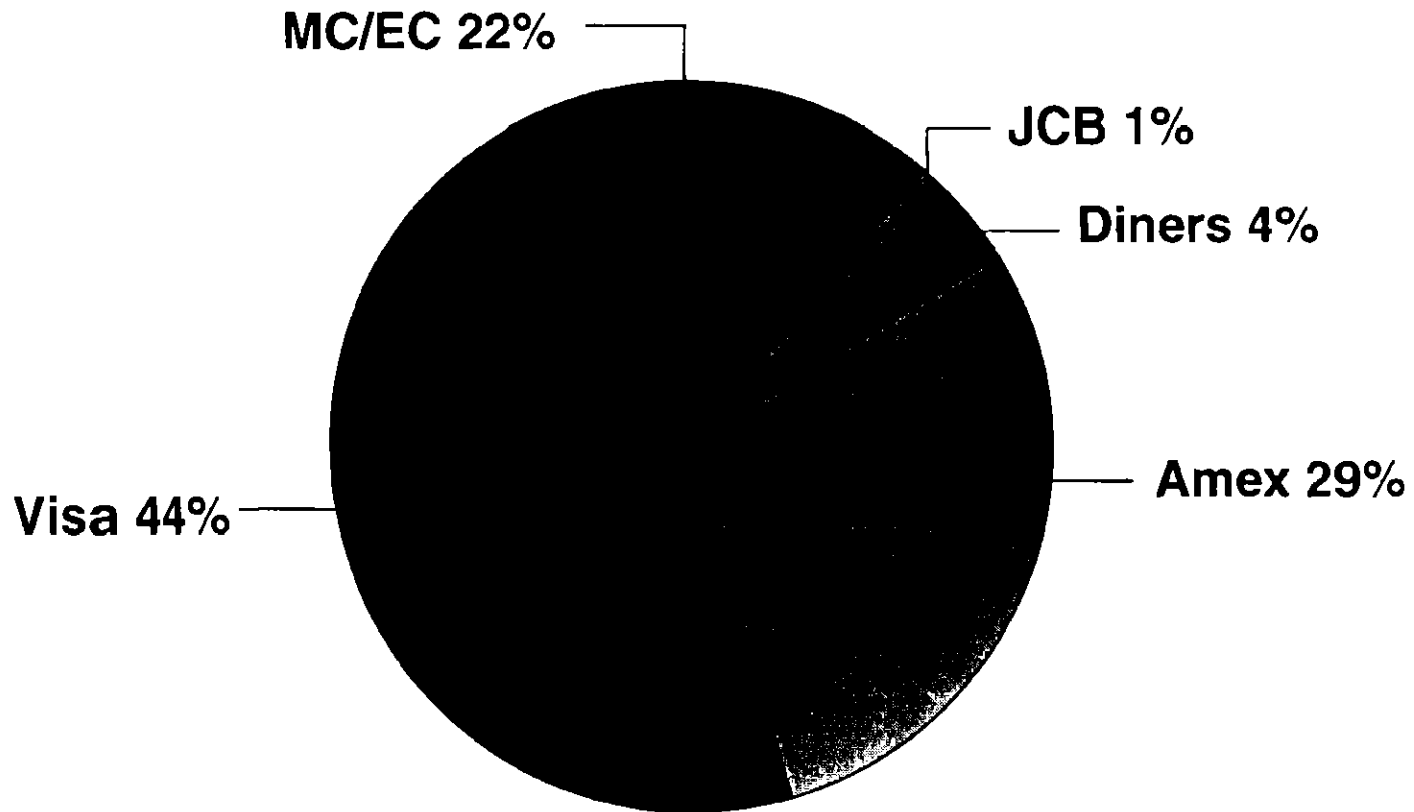
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- Improve 24 hour emergency card service
- Enhance POS performance
- Increase consumer awareness

## American Express - Current Situation (%)



**Premium Market Share Worldwide: 33%  
held by Amex and Diners**



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# Enabling Resolutions/Operating Principles

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## Regional Board Discussions

- **Prohibition against issuing competitive brands**
  - **American Express, JCB, Discover**
- **Prohibition against promoting, soliciting, signing Visa merchants on behalf of competitive brands**
  - **American Express, JCB, Discover**

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## Using Visa Today



### Corporate

Siemens	(US only - at risk)
Pepsi	(UK only)
IBM	(Singapore)
Eli Lilly	(US)
Hewlett Packard	(Singapore only)
Cargill	(US only)
Sumitomo Metals	(Japan only)
Merck	(US only)
Nestles	(US only)
Monsanto	(US only)

### Purchasing

Hewlett Packard	(US, Australia, UK, Singapore)
DOW	(US)
British Oxygen Corporation	(UK)
Mobil	(US)
British Petroleum	(US)
Intel	(US)
Dupont	(US only)
U.S. Government	(US)
Australian Government	(Australian)
Singapore Government	(Singapore)

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# Requests For Regional Programs



<b>Whirlpool</b>	<b>EU</b>	<b>Summer '95</b>
<b>DEC</b>	<b>EU, AP</b>	<b>Fall '94</b>
<b>Intel</b>	<b>Worldwide by Region EU, AP, No. America</b>	<b>(Now)</b>
<b>Hewlett Packard</b>	<b>Worldwide by Region EU, AP, No. America</b>	<b>(Now)</b>
<b>Mobil</b>	<b>AP</b>	<b>Fall '95</b>
<b>Allied Signal</b>	<b>EU</b>	<b>Fall '94</b>
<b>IBM</b>	<b>AP</b>	<b>(Now)</b>

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# Comparison of Purchasing Card Features



	<u>Visa</u>	<u>Amex</u>
<b>Desktop Reporting</b>	Y	Y
<b>Automated General Ledger Posting</b>	Y	Y
<b>Central Bill</b>	Y	Y
<b>Merchant Category Code Blocking</b>	Y	Y
<b>Single Transaction Limit</b>	Y	Y

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# Comparison of Key Corporate Card Features



	<u>Visa</u>	<u>Amex</u>
<b>Emergency Travel Assistance Service</b>	<b>Y</b>	<b>Y</b>
<b>MIS Reporting</b>	<b>Y</b>	<b>Y</b>
<b>Central or Individual Bill</b>	<b>Y</b>	<b>Y</b>
<b>ATM/ Cash Access</b>	<b>Y</b>	<b>Y</b>
<b>Corporate Liability Waiver</b>	<b>Y</b>	<b>Y</b>
<b>Acceptance Locations</b>	<b>12 Million</b>	<b>4 Million</b>
<b>Spending Limits</b>	<b>Y</b>	<b>N</b>

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# Multinational Segment



## Solicit and Issue

## Respond and Issue

Issuer where H.Q. of multinational domiciled



Issuer where H.Q. of multinational subsidiary domiciled



Issuer where local presence of multinational corporation exists



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## Domestic and Intra-Regional Interchange

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- **Commercial Cards skewed to local and Intra-Regional usage**
- **Domestic and Intra-Regional rate adjustments required**
  - **Deliver adequate profitability**
  - **Stimulate Issuance**
  - **Generate competitive revenue stream**
  - **Support infrastructure investment**
- **US Region has differentiated IRF for Commercial Cards**
- **EU/CEMEA Regions implementing rate change 10/96**
  - **Intra-Regional rates introduced for Purchasing and Business**
  - **Some domestic rate structures will follow**

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# Domestic and Intra-Regional Interchange



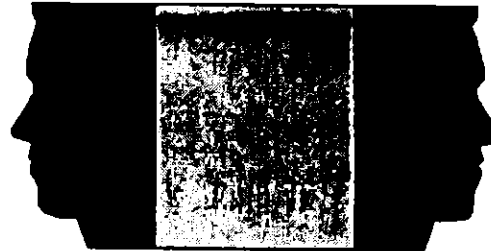
## Sample of Current rate Structures

<u>Rate Type</u>	<u>Current</u>		<u>Proposed Rates</u>
	<u>Standard</u>	<u>Electronic</u>	
<b>International</b>	1.44%	1.00%	1.50%
<b><u>Intra-Regional</u></b>			
AP	1.44%	1.00%	1.50%
LA & Caribbean	1.44%	1.00%	1.50%
EU/CEMEA	1.20%	.90%	1.30/1.50%
<b><u>Domestic</u></b>			
Canada	1.75%-.25¢	—	n/a
U.S.A.	1.50%	—	2.17%/1.93%*
France	.80%	.60%	n/a
U.K.	1.30%	1.00%	n/a
Japan	1.44%	1.00%	n/a
Brazil	1.44%	1.00%	n/a

\* T&E Transactions only

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# What Amex Says and What Amex Means



## What Amex Says:

- “Any discussion of owning customer databases is passé”
- “What will be important to banks in the future will not be their current systems and database, but their product offerings”

## What Amex Means:

- “Amex will build and continue to pioneer information and communication systems to leverage its closed loop and further segment their customer database”
- “Amex will control the value-add functions, and use banks as distributors”

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## What Amex Says and What Amex Means



### What Amex Says:

- “There is a renewed focus and excitement about the strategic importance of banks to Amex”
- “Sometimes a bank takes over all aspects of Amex issuance in a country. This keeps Amex relevance to merchants and consumers”

### What Amex Means:

- “The strength of the Amex global brand, united with local bank partners is a powerful combination for Amex”
- “Amex gains incremental volume from merchants at 6 times the rate Member banks gain from new cardholders”

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## What Amex Says and What Amex Means



### What Amex Says:

### What Amex Means:

- Amex strategies will take value from Visa Members
- Members will be reduced to a utility role, providing Amex with valuable distribution and acceptance

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## Recommendations

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- **Prohibition on issuance: legal, but not necessary**
  - Issuing a “red herring”
  - Acceptance is the key issue
- **Address Acceptance Challenge by:**
  - Incenting Visa Acquirers to prefer Visa; target key industries
  - Prohibiting Visa Acquirers from signing up merchants for Amex
  - Encouraging Visa Acquirers to sell against Amex acceptance
  - Expanding Visa acceptance, outgrow Amex acceptance increases
  - Educating merchants regarding Visa advantages vs. Amex

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## Recommendations, cont'd.

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- **Targeting high profile merchants for exclusive promotion**
- **Ensuring that the fees charged on Visa/Amex gateway transactions reflect the full cost of the service**
- **Prohibiting Members who enter into franchise agreements with Amex from holding Board seats or Advisor roles at the Regional or International level**

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## ATM Incentive Pricing



**Objective: Incent ATM owners to stop accepting Amex ATM transactions in exchange for a Visa Incentive:**

- **Visa Volume 5X Amex Volume**
- **Visa Pricing \$1.50/ ATM transaction**
- **Amex Pricing \$2.25/ ATM transaction**
- **Visa Incentive needed to offset Amex**
  - **$\$2.25 - \$1.50 = \$.75 / 5 = \$.16/\text{transaction}$**
- **Raising Visa pricing to \$1.65/ ATM transactions would provide equal revenue to ATM owner that removes Amex logo**

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## Franchise Agreements



### Example: Merchant Sign Up and Card Issuance: Israel

	American Express (Merchants)	Bank (Cards)
Growth	46,000	20,000
\$ Volume/ Merchant (non-US)	\$23,000	
\$ Volume/ Card (non-US)		\$4,180
Total Volume	\$1.058 Billion	\$84 Million
Volume Lost to Visa Members (50% of Total)	\$529 Million	—
Income (1% of Volume)	\$5.3 Million	\$8 Million
10 YR NPV @ 10%	\$33 Million	\$5 Million
<b>Visa Membership loses \$33 Million, One Member gains \$5 Million</b>		

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# Visa Response To Competitor Card Distribution

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- **Regional Board to review proposal to prohibit Issuance of American Express, JCB, Discover**
- **Protects Visa Product, Marketing, Trade Secrets**
- **Focus resources of committed, licensed Issuers of Visa**
- **Eliminates market exclusives**
- **Regional Boards to review applications for variances**

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# Limitations On Acquiring And Issuing Must Be Considered As An Aspect Of Visa Membership Competitive Response



## Recommended Rules Changes

- Issuing
  - Limit issuing activities on behalf of competitors
- Acquiring
  - Limit marketing and sales activities on behalf of competitors
  - Prohibit blending merchant fees
- Competitors consist of American Express, Discover and JCB
- Variances would be considered by Board

**No Free-riding on Visa Members Investment and Franchise**

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