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AMERICAN EXPRESS VICE CHAIRMAN INVITES U.S. BANKS TO JOIN THE COMPANY'S NETWORK

ORLANDO, Fla., October 2, 1996 -- The following remarks were delivered by Kenneth I. Chenault, American Express vice chairman, at the American Bankers Association credit card conference today.

Kenneth I. Chenault
Vice Chairman, American Express

Good morning everyone. Today I'm going to talk about two surprises.

I'll begin with one and end with the other.

The opening surprise is that I'm here to make the case that it's time to let the historical relationship between American Express and banks evolve in a way that has changed from close to unthinkable to arguably inevitable.

I believe it's time for American Express and banks to open a new and active era of card partnership...with banks issuing consumer and business cards on the American Express network.

It's time to move beyond restrictive strategies of the past and reap the new possibilities of the future in which we cooperate and compete, simultaneously.

I emphasize **time** -- the word is heavily underlined in my text -- because time itself is such a forceful factor in the process of our evolution.

To remind myself of how remarkable this idea of a new partnership would be, all I have to do is think back on the year I joined American Express: 1981.

In 1981, American Express and the banks had had some success together -- notably in selling American Express® Travelers Cheques and the early marketing of the Gold Card.

But atrophy set in, and in terms of card competition, the face-off between Visa and MasterCard and American Express in the early 1980s approximated the spirit of the Soviet-American relationship of those years -- when President

Reagan was calling the Soviet Union "the evil empire" and there was far more talk about Star Wars than there was about joint business ventures.

In those days, it would have been unthinkable -- it would have been preposterous -- to help save the life of the Russian leader by sending over one of America's greatest heart doctors. But as you know, last week Dr. Michael DeBakey flew to Moscow to help treat Boris Yeltsin.

And last May, the chairman of American Express, Harvey Golub, made a breakthrough proposal to the banks. He invited banks to issue cobranded cards or to issue cards using the American Express network -- with individual deals tailored to meet the needs of a bank and its customers.

So things that couldn't happen are now happening.

But not without resistance. Vested interests dig in to delay change, protect turf, preserve old advantages and cling to structures that are marked for extinction by the changing logic of the times.

In my suburban town, they spray-paint a big red X on dead trees that have to be cut down; then one day, a work crew stops in front of that tree, and one-half hour later, there's nothing left but sawdust. The pace of evolution is deceptive -- for a long while, nothing seems to be happening; then you hear the chainsaw.

Today, as we look at the relationship between American Express and the banks, the bylaws of Visa and MasterCard pose a barrier to imminent change. And even if these bylaws were modified, we are talking about relationships and customized arrangements that will take time to forge.

So we are looking a bit down the road. But I think it's obvious that change is in the cards. And let me stress that I'm not suggesting that it will be as violent as a chainsaw slicing through dead trees. In fact, I'll tell you why I think the future will be much more about coexistence and multiplicity than winner-takes-all.

But what we need to do for now is see the big picture.

We have to see that the environment is different. The equations and permutations have changed. New forces dominate the landscape.

These forces are no secret. They've been identified repeatedly and cited in about 90 percent of all corporate speeches in this decade.

Let me mention four of them.

One is consumer choice.

The era of the black telephone, white T-shirt and wooden tennis racquet is now a quaint memory. Our kids wouldn't believe it if we told them about it. Today, everything comes in a dazzling range of varieties; the ultimate direction of choice is deeper and deeper into customization, right down to the individual consumer.

Another factor is partnerships -- business combinations that cut across old lines. Expedient, ad hoc and often single-purpose. Not necessarily permanent. Often creating and tolerating complex arrangements in which companies do enthusiastic business with other companies that were once their greatest rivals.

Examples: AT&T selling equipment to rival long-distance companies, or American Express proposing to simultaneously compete and cobrand with other card issuers.

A third important force is the collapse of artificial barriers and restrictions.

You could say this whole era began in 1989 with the collapse of the most artificial and restrictive barrier -- the Berlin Wall.

That was the end of keeping people walled off from new ideas and choices. Since then, many of the barriers have fallen: political, economic, geographic, regulatory, bureaucratic...and so on.

Another conspicuous form of an artificial and restrictive barrier is embodied in the closed system. This idea is rooted in a basic human instinct: Get a good thing and build a fence around it.

This wasn't always a bad strategy, but frankly, now it's outmoded.

It doesn't survive in the current marketplace -- the world is too quick and clever to be frozen out of any good thing. You can't keep a product or a business all to yourself. The recent history of closed system thinking is a litany of failure, of head-in-the-sand, ostrich behavior.

Just ask Apple Computer. Ask Sony about Betamax. Ask Citibank about its failed attempt to sustain a proprietary ATM network.

Ask American Express -- once ranked among the world's most arrogant companies for thinking it could have the world its own way, competition shouldered aside and dismissed. We found out the hard way that our attitude was wrong. We accepted the fact that even our affluent customers wanted to use their cards at Kmart and Wal-Mart.

We were late to acknowledge the exploding desire of consumers to use revolving credit. We made our way through early tribulations with Optima and finally came up with a much wider choice of cards -- issuing more cards and products in just

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the last year than we had in the last decade.

We made technology decisions. We became aggressive about new distribution channels, like the Internet.

We are not the same company we used to be. We've broken out of the "same-old, same-old" mode. We're looking outward, not inward. We're operating more flexibly and creatively in the open field, doing things we never would have done.

We saw the light.

The bankcard association system, I believe, has not yet seen the light. Visa sticks with its famous bylaw preventing member banks from issuing American Express® Cards (and also Discover cards) on pain of losing their Visa affiliation.

Just weeks ago, MasterCard instituted a similar rule -- a last-minute fence-building effort in direct and futile contradiction to the logic of the times.

The bankcard association structure is an old invention, and that brings me to the fourth powerful force on the new landscape -- the instinct to reinvent.

Reinvention is an important idea, just one of many important business ideas of the 1990s beginning with the prefix "re-." Consider some others: reengineer, restructure, re-create, refocus, retool, reenergize.

Obviously, the re- prefix means "again." I think what it means to business has something to do with starting fresh.

Going back to a clean slate. Getting rid of the clutter and baggage, the rules and the handcuffs, all the "we don't do it that way" thinking that sapped our verve and made us sluggish when we wanted to be nimble and quick -- that made us plodders when we wanted to seize opportunities to do business in the high-energy, creative way that lit up our dreams when we walked into an office on day one of our careers.

So to "reinvent" means to get back to being tigers, getting out of the defensive, status quo posture and being open. Not just because it's invigorating, but because it's necessary for survival.

What consumer choice, partnerships, the fall of barriers and reinvention have in common is their orientation.

They lead toward the same goal: *value.*

Jack Welch of GE calls the 1990s the "value decade." He says the way to control your destiny in a global environment of change and uncertainty is simple: Be the highest-value supplier in your marketplace.

Consumer choice is a value. Partnerships enable value. Knocking down barriers permits or liberates value. Reinvention discovers and generates value.

And, of course, brands have value.

Combined with the reality of cost, these forces will shape a future in which maximizing value is the primary objective and paramount strategy.

Nothing else comes close to the importance of this reality -- certainly not competitive maneuvering or negative gamesmanship.

It's incumbent on us as businesspeople to reevaluate everything in the context of value and the forces creating it.

Everything else is tangential; all fixtures that are not about value will drop by the wayside.

There is a devastating clarity to all of this. We are fools if we don't see it. These forces are worldwide and historic; they are also good and positive.

Harvey Golub sees this and says, "OK, let's put aside history and make the new way work for all of us."

Visa and MasterCard say, 'OH, GOLLY, HERE COMES AMERICAN EXPRESS! SLAM THE WINDOW! PULL DOWN THE BLINDS! MAKE THEM GO AWAY AND LEAVE US ALONE!"

You tell me who's got the winning attitude? Who's got inevitability on their side?

Not long ago I asked someone an either/or question, and his answer was, "Yes."

I said, "The answer I was expecting was A or B, not yes."

And he explained that he meant yes to both options -- to A and B -- and didn't mean to exclude C or D.

In the old days, he could have been dismissed as covering his tail. But the reality of business in the 1990s is that the either/or question is almost archaic, because so many alternatives of products and partnerships can exist and flourish side by side.

For banks, it should no longer be a question of either the bankcard or the American Express Card. The answer should be YES...meaning both. Whatever is right for the customer.

The American Express proposition -- unlike Visa's and MasterCard's -- is not that you have to choose one or the other. Not -- to put it in dramatic battlefield terms -- that one must die

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so the other shall live. That's just silly.

We are not talking about replacing your Visa or MasterCard portfolio.

We are not talking about diluting your card -- either its brand value or its customer base. Nor are we worried about diluting our own brand value or customer base -- because our proposition is not about either/or. It's about two cards coexisting under the same roof, with our card as an incremental presence in your house, an additional option for your customers. We think it's about building your franchise.

Why would that be good for your customers?

Well, because of the extraordinary brand value of the American Express Card. Because of our service quality, the size and global reach of our network, the wide range of our products. Tangibles like our *Membership Rewards™* program -- the most popular in the world, with 5.7 million enrollees in 30 countries. This program has also benefited us by lifting enrolled members' spend by about 25 percent during their first year.

Intangibles like the simple desire to be an American Express Cardmember, an attraction felt by millions of Americans, Europeans, Asians, Africans and South Americans. People just want the Blue Box logo in their wallet -- and that desire can translate into revenue for you.

Why does it make sense for banks to issue American Express Cards?

Well, here are four quick reasons: pleasing and expanding your customer base; making more money; strengthening your competitive position; and avoiding the ill-advised tactic of standing still while the industry is changing in ways that could threaten you.

Such threats include: consolidation among issuers (with nonbanks in five of the top 10 positions among credit card issuers); growth of no-fee, rewards and cobranded segments throughout the industry; increased importance of scale; and the entrance of new, technology-based competitors.

Visa and MasterCard will tell you that coexistence is just a guise for American Express to get in and steal your customers, that it's an either/or, that you can't let a new competitor into the game.

This goes dramatically against the grain of the times, against logic, against your self-interest. Go into a supermarket and you'll see Coke and Pepsi on the same shelves, as well as the house cola. People are buying A, B and C. And the supermarket's doing fine.

Distributing multiple brands is a plus, not a minus. Segmentation and targeting work -- they expand markets, customers who get what they want keep buying, and it's good for everybody.

Charles Schwab's "One Source" idea is a huge success, not by narrowing the mutual fund market but by offering a menu of 600 funds. People love it. Customers seldom object to so much choice.

For years, Sears fiercely protected its store brands, keeping other brands off the shelf. All that did was prevent customers from getting what they wanted, forcing them to go elsewhere.

Finally, Sears realized it was not in the store-brand business, it was in the distribution business: The competition was not Maytag, GE or Black & Decker. It was Wal-Mart, Home Depot and Circuit City.

Sears changed, adapted, opened up. Business is booming.

I'd suggest that banks have to see things in the same way as Sears...to see themselves as distributors. Think about distributing an attractive range of products rather than putting all your chips on the house-brand bankcards.

To resist choice is anti-customer, and customers will eventually get even by exercising their choice and taking a hike -- they won't stand around long enough to listen to excuses.

Imagine a restaurant that serves only white wine. If I want red wine, will I listen to the restaurant's explanation about its deal with the White Wine Company -- and the White Wine Company's repressive threats against restaurants that try to serve red wine?

No, I won't listen to that. I'll just leave and never come back. I'll cross the street to the place that serves red and white wine.

How about if I go into a bank and say, "I'm proud to have reached the state in life when I'm ready for the Platinum Card® from American Express -- will you issue it, or do I have to get it through American Express?"

Your answer is, "No, you can't get it here, you'll have to get it through American Express. Make sure American Express gets the fees, and the spin-offs to other products, and the long-term customer relationship. Give it all to American Express; we have to observe our Visa bylaw!"

What does that bylaw do for you?

We know what it does for Visa, but *what does it do for you?*

Visa says keeping us out will preserve business. We say keeping American Express out will cost you business. It will cost you opportunities and growth.

It will cost you valuable relationships. Our customers spend an average of $4,315 a year on our cards. While the average spending on bankcards is $1,547 per year.

It will cost you potential customers for the superior American Express Purchasing Card and Corporate Card systems...the Platinum Card and other payment products...and it will cost you the benefit of shifting convenience, or pay-in-full, customers to a network designed to meet their needs.

Your reward for denying yourselves and your customers these benefits is the satisfaction of being good soldiers in the fight to preserve the status quo -- in a world where the status quo has clearly been spray-painted with a big red X.

Will keeping American Express out make you richer?

Will letting us in make you poorer?

So far, because of Visa and MasterCard bylaws, we have no case histories in the United States. But I can tell you about some of our experiences overseas, where banks in South Africa, Venezuela, Portugal, Greece and (soon) Turkey issue our cards as well as Visa cards. One of our favorite examples is Bank Hapoalim in Israel, a bank that successfully issues American Express, Visa and MasterCard. Not at the expense of one product or one brand, but for the benefit of their customers and shareholders.

All these banks are thriving. There is no dilution, no conflict. Coexistence is not a problem, and competition is healthier than ever before.

Despite this -- maybe because of this -- Visa moved to extend their exclusionary bylaw overseas, including the threat to take away Visa affiliation if a bank issued American Express Cards. As you know, we appealed to the European Commission, whose response prompted Visa to drop its bid for the bylaw in Europe.

The restriction remains in the United States, but the Justice Department is studying its legality.

Congressman Charles Schumer, a member of the House Banking and Financial Service Committee, wrote in *The New York Times* that free competition would be a boon to both consumers and smaller banks:

"If banks are going to truly be providers of financial services," he said, "there must be greater choice of credit and charge cards."

To attack our efforts, the bankcard associations have used the Trojan horse argument, claiming that we are trying to infiltrate the bankcard world with happy promises of sharing -- disguising our evil schemes of plunder and pillage, starting with a free ride on your network.

Let me be clear. We're not out to free-ride your network. We have a good network of our own. On the other hand, let me remind you that Visa and MasterCard have allowed many nonbanks -- such as AT&T, GM and GE -- to ride the network you've built and to compete with you. These three institutions also heavily compete with you in auto lending, financing, and lending in general. So you could say the real Trojan horse -- the infiltrator bent on hypocritical plunder -- is the accuser.

Moreover, as you read in this week's *Wall Street Journal*, monoline banks like Advanta and Capital One now account for almost a 60 percent share of total consumer revolving debt, compared with 35 percent 10 years ago.

We encouraged a substantial shifting of market share and profits from traditional banks to non-banks. Are we the enemy? I think not.

I do not blame the nonbanks. I like open competition, and I think they are terrific competitors. I just think you -- the traditional banks -- need to understand that neither Visa or MasterCard is always serving your interests.

If Visa is saying that we're motivated by growth and profit, I plead guilty. But there's no insidious or hypocritical motive in positioning ourselves as a vendor in a deal in which you would be the card issuer. You would own the customers, the customer list and the customer data...there'd be no restrictive bylaws...no either/or propositions...no catches. You are in the driver's seat."

Another charge we hear is that banks don't like us and don't want to deal with us.

Not true. After Harvey Golub's speech last May at the Bank Card Forum, we got more than 40 calls responding to our invitation. What kinds of deals are they interested in?

- One bank has approached us to provide network services to help them win a bid for an affinity card that is soon coming up for rebid. They know everyone else will only offer Visa or MasterCard. They also know that the American Express brand -- and our network of travel offices worldwide -- fits the profile of the people who want this product. They know that most customers in the portfolio don't revolve and will be less fee-sensitive with an American Express product. They believe our economics will help them meet their profit hurdles. They feel this is the right way to go for their customers and their shareholders. This would be a perfectly acceptable network deal for us.
- Another institution wants to issue Platinum Cards to their

very best and most valuable customers. They know that their best customers would feel that their relationship was deepened by offering this product. They see it as a way to differentiate themselves in the market. This would be a perfectly acceptable network deal for us.

- Another global institution with a major interest in the business of multinational corporations believes that our Corporate Card would be a perfect fit with their global plans. They see it as the best-developed system of its type, globally. They want to integrate it into their sales and relationship approach as a leveraging tool. This would be a perfectly acceptable network deal for us.

These are real examples, and there are many other variations on the theme. Each one is a compelling business proposition that would advance both the business of the financial institution, as well as our own. I'd argue that the primary reason banks are reluctant to deal with us today is the Visa guillotine hanging over their necks. We did a survey of 300 Visa-issuing banks in the United States, and 62 percent told us the Visa bylaw has a chilling effect on any consideration of issuing American Express or Discover cards.

As for banks not liking us -- some don't, but most do. In addition to 100 years of selling Travelers Cheques and a variety of investment products through banks, we've chalked up a number of other successful collaborations. For example, just last week, we announced a partnership with Wells Fargo and Banc One to lend money to small businesses. We've placed financial advisors in more than 300 community banks, and as I have mentioned, we've partnered successfully with banks overseas.

Earlier I talked about the trend toward customizing and segmenting, tailoring products and services and marketing to what customers want -- right down to individual customers.

This is how we're approaching our business now, and how we're offering this new proposition.

You would issue cards with the American Express logo on them -- cards that would be accepted by the merchant network that accepts American Express Cards.

Every other aspect of the business arrangement is open to discussion and negotiation. The day is long gone when we take a my-way-or-the-highway approach.

Now, I must confess, I'm a little ill at ease coming into your house today and making charges against the bankcard associations. This verges on bad manners; it's also contrary to the coexistence spirit of our proposition.

But in general terms, I think I can suggest that the association bureaucracy has taken on a life of its own, with economic interests that often diverge from the majority of its members -- and especially its traditional and smaller members.

I would remind you that a bank's customers belong to the bank, not to Visa. And Visa doesn't own you -- you own Visa.

So who's going to make the rules?

I know -- some of you feel restricted from calling me up right now to talk about the possibility of a partnership. You don't feel free to do what you want.

Think about that for a moment: a partnership that takes away your freedom.

I said I'd end with a surprise. What would surprise me is if this new arrangement that we are proposing doesn't happen, doesn't become widespread and common -- the state of the industry.

I mentioned moving from the unthinkable to the inevitable -- I think this is inevitable.

What stands in its way is the restriction on your freedom. I think this restriction is untenable: As we did with the Berlin Wall, I think we will look back in not too many years, and remark on how easily it went down when its time finally came -- under the weight of its obsolete purpose and the pressure of desire for choice.

I mentioned choice and three other factors leading to value. Consider these four forces and apply them to your current situation:

- Your choice is restricted; a potentially beneficial partnership with American Express is blocked by an artificial barrier, and your impulse to re-invent yourself is stalemated.
- I suggest that you consider the growth and business you're not getting, and the growth and business you could get.
- I suggest you ask Visa and MasterCard why they don't let you do what you want.
- And I suggest that as soon as you possibly can, you give me a ring to talk about a deal.

We'll be expecting your call.

Thanks very much.

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