

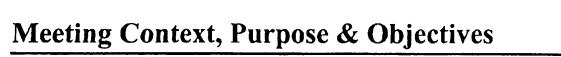
**Global Network Services** -- North America --

U. S. Bank Strategy (pending resolution of DOJ action against the Associations)

-- Confidential --

**OCE** October 28, 1998

# AMEX OUGH SAITI





#### **Meeting Context**

 DOJ's lawsuit against VISA/MasterCard creates new opportunities, urgency and complications for commencing active discussions with U.S. bank prospects.

#### **Meeting Purpose**

 Gain clear strategic direction and agreement from the OCE and P&PC regarding our recommended approach to signing U.S. banks and optimizing the U.S. market before commencing major sales effort.

#### **Meeting Objectives**

- Revalidate the key business objectives and assumptions driving the GNS U.S. strategy within today's competitive environment.
- Agree which products, services and features (both PL & NPL) should be licensed to or distributed by U.S. banks, targeted to which segments and under what conditions/requirements
- Address need to accelerate certain infrastructure investments in order to achieve
   Amex Network parity with competition
- Gain consensus on U.S. bank targeting criteria, deal prioritization and approach

## **Strategic Context:** GNS U.S. Business Objectives



- Compete openly in an environment free of anti-competitive restrictions
- Create an increased variety of consumer payment options
- Leverage, reinforce and extend the value of the Amex brand
- Build the best global payment services network

Large Banks NCIF/Year

- Attract high skill/will banks and non-bank (PL & NPL) issuers who will invest in the Amex business
- Enable Partners to be more competitive in their businesses
- Contribute to optimized TRS market level performance via careful planning, licensing and partner selection
- Build a critical mass of mutually beneficial and profitable partnerships by Year End 2002 (assuming restrictions fall by January 1, 2000) three scenarios:

	<b>Three Year Build Scenarios</b>			
	# Partners	CIF	Billings	PTI
Expected (Plan): 12 large banks (2, 4, 6); no conversions	25	8.8M		
High (Receptive Market): 20 large banks (10, 5, 5) plus conversions	50	21.1M		
Low (Resistant Market): 4 large banks (2, 2, 0); no conversions	15	5.8M		
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Other Banks NCIF/Year =

Avg Spend/CIF

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# Strategic Context: Competitive Environment Assumptions



- DOJ lawsuit achieves Amex favorable consent decree or verdict
  - Restrictions eliminated allowing banks to issue on Amex Network
- Continued, vigorous anti-American Express strategy by associations
  - Comparative advertising
  - Increased interchange rate to issuers (+5% in 1998, +5% in 1999)
  - Subsidized interchange for Business/Purchasing Card portfolios
    - 2.15% for T&E spend threatens GNS "premium economics"
  - Increased support for Signature and WorldCard "no pre-set spending limit" cards
    - Subsidized interchange (2.15%) for T&E spend
  - Continued large issuer subsidies for Cobrand, Affinity and acquisition
- Continued growth of Debit Card driven by associations and regional bank networks

# Global AMERICAN EXPRESS Services

# **GNS-North America Strategy Overview**

#### GNS-North America is pursuing a two pronged strategy:

- Support an Amex favorable resolution of DOJ's lawsuit while preparing the Network's sales, marketing and infrastructure capabilities to sign/implement U.S. bank deals when 2.10e is eliminated.
  - GNS can positively influence the elimination of 2.10e
    - Actively pursue U.S. banks and encourage them to do business with Amex by demonstrating a compelling value proposition
    - Encourage banks to convince associations to settle lawsuit (eliminate 2.10e)
    - Encourage banks to "break ranks" with the associations and become Amex issuers
  - Network must be prepared to immediately sign/implement U.S. bank deals if 2.10e falls or major bank(s) break ranks to become Network issuers
- Although less attractive, continue to develop alternative sources for acquiring Network issuers
  - Non-traditional prospective issuers
    - Retailers (Bull's Eye), insurance companies (McDonald) and brokerages, (e.g. Merrill)
  - Canadian and foreign banks
    - · Crown, Rocket

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### **GNS-North America Strategy Overview**

The remainder of the discussion will focus on confirming our plans and enlisting your support in three critical areas:

- US Network Product Offerings
- Required Infrastructure Investments
- Bank Targeting and Initial Contact Strategies



# **US Bank Strategy - Product Licensing**

While NPL forms the core of the current US Network strategy, PL licensing of the traditional American Express Consumer & SBS Charge products presents a significant risk to the Brand in the US, and is therefore not recommended at this time

#### **Proprietary Consumer/SBS Charge Card Licensing**

#### **Positives**

- PL charge card design is among the most recognizable AMEX Brand assets
- PL charge card proliferation will enhance ESG ability to maintain premium value to SEs and further enhance the AMEX Brand

#### <u>Issues</u>

- PL charge card licensing has a greater probability of failing to grow overall AMEX Network share and net new CIF
- •PL charge card design and attributes closely associated with AMEX as Issuer. Licensing would lead to consumer confusion
- PL charge card licensing can also lead to brand damage due to inappropriate positioning, poor quality or inappropriate customer bases
- Amex has no definitive experience to guide the management of multiple proprietary licensees in a single market

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## **US Bank Strategy - Product Licensing**

To insure protection of the American Express Brand, we recommend a mix of issuing and distribution licensing for Proprietary Products

Product	<u>License</u>	Conditions/Comments
Proprietary Products Personal Green Personal Gold Personal Platinum SBS	Distribution Only Distribution Only Distribution Only Distribution Only	Possibly marginal demand unless bundled with asset or lending products (e.g. CMA or DDA Accounts w/OD) due to absence of lending opportunity for Bank Partners
Corporate Purchasing	Issuing License Issuing License	Absence of consumer confusion allows PL issuing; issuer economics in question
Delta/Cobrands Membership Rewards	TBD }	Pending discussions with MR and Co- brand partners
Optima GRCC Blue	Issuing License Issuing License Issuing License	License one of the three, depending on the final selection made for the US market



### **US Bank Strategy - Product Licensing**

We believe Distribution arrangements can be structured to provide protection for the American Express Brand, and revenue opportunities for Financial Institution Partners

# Recommended Distribution Terms for Charge Card (Green, Gold, Platinum Personal & SBS)

- Products may be packaged by the distributor as a part of a larger product bundle (e.g CMA or with a DDA or Private Banking account), or sold separately to existing customers
- Permit Bank Name hot stamping on card face to identify issuer
- Card must be called "The American Express Card", without reference to the Bank's name
- · Prohibit any communication which may disparage proprietary branding
- All Card Features and Benefits will be identical to Proprietary products
- Encourage packaging enhancements including "in-direct" credit such as automatic month-end debit to a DDA with an overdraft line, or a LOC
- Offer a variable distribution fee split between an up-front sales commission and annual commissions based on average spend/card (to encourage continued support), paid on new AMEX Card customers
- AMEX will not use card information to target Partner's customers for certain products without the Partner's agreement

# Global AMERICAN DOPRESS Network Services

### **US Bank Strategy - Product Licensing**

We would consider offering a License to <u>issue</u> Proprietary Revolving Credit products under the following standard terms:

#### Recommended Revolving Credit PL Requirements

- · Card face to be identical to Proprietary Revolving Credit products
- Permit Bank name to be hot stamped on the card face to identify the issuer
- · Card to be called the "XYZ Bank American Express Card"
- All advertising must be in accordance with PL guidelines
- Prohibit any communication which may disparage proprietary branding
- License is for revolving credit product only
- Confirm minimum features requirements at parity to proprietary products (TAI etc)
- Additional features and enhancements are encouraged in accordance with brand requirements
- Servicing quality must meet minimum standards in accordance with standard licensing terms
- · Consumer pricing is at the full discretion of the issuer
- All PL Issuers have the opportunity to participate in SE general offers, but may negotiate exclusive benefits with SE's themselves or with ESG assistance

## **US Bank Strategy - Product Licensing**



#### Additional PL considerations

#### **Issue**

#### **Distribution**

• Maintaining Platinum service levels and exclusive image

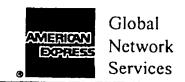
#### Revolve Products - Issuing

- GRCC/Optima/Blue licensing requests
- Delta (and other proprietary Cobrand) Card licensing requests
- Membership Rewards licensing requests

#### **Proposed Solution**

- Increase capacity to accommodate demand
- Restrict Platinum to qualified (minimum asset or income levels) inhouse clients
- Determine which proprietary product(s) will be offered in the US
- Do not offer pending further discussions with Delta
- Do not offer pending further discussions with CCG and MR partners

# **US Bank Strategy - Product Licensing** Additional PL considerations



#### Issue

 Corporate/Purchasing Card licensing requests

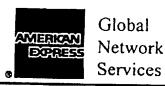
• Processing/ Customer Service Insourcing requests for Issuers

#### **Proposed Solution**

• Pending additional input, permit licensing for Middle and Large Market & MNC (excluding MIS consolidation), to qualified issuers

- Pending Triumph availability, offer Vision Plus only, pending certification for PL lending products
- Pending modification of Vision Plus or alternative decision by CSG, do not offer for Corp/Purchasing PL.

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# US Bank Strategy - Infrastructure Readiness

Current infrastructure gaps will be a barrier to growth and profitability for GNS-US.

- US Bankcard issuers and processors have built their operations on industry "standards" - uniformly followed by Visa and MasterCard Issuers
- These "standards" have allowed increased operating efficiencies, scale benefits and consolidation among Bankcard issuers/processors
- Amex's "Closed-Loop" Network has evolved differently in certain areas -Creating disparities for sophisticated Bankcard issuers (see following pages)
- In addition, virtually all Bankcard Issuers will lack scale economies when issuing AMEX products to the extent that significant processes differ.
- Proposed infrastructure investments will reduce comparative operating inefficiencies and insure product/functionality parity over time
- Failure or delay in rectifying these infrastructure issues may substantially offset the value of the incremental issuers rate which Amex offers, making us no longer the "Premium" network of choice for issuers
- For these reasons, GNS is requesting incremental funding in 1999 to insure that these issues are substantially resolved by year end 2000

# Global AMERICAN DORESS Services

# US Bank Strategy - Infrastructure Readiness 。

#### <u>US Major Infrastructure Gaps</u> <u>summary</u>

Product Functionality Gaps	<u>Issue</u>
<ul> <li>Automated Address Verification (for mail order sales)</li> </ul>	•Required to support direct mail merchants (including airlines), without which charges will be denied, billings lost and brand image damaged
On-Line Debit Card functionality	•Not available on today's POS or ATM AMEX Network. but required by banks
Corporate/Purchasing Card Data Provision	<ul> <li>Network not able to support full pass through of required transaction data making these products un-competitive in the US marketplace</li> </ul>
•"InSight" Capability for Network Issuer Data	•Required to support ESG marketing and promotional value story to SE's - no current provision has been created in US Network.

# US Bank Strategy - Infrastructure Readiness 。

#### US Major Infrastructure Gaps summary

#### **Operating Functionality Gaps**

# •Complete Transaction Life Cycle Management (TLCM) Audit Trail

- •Integration of Dispute Handling Image Exchange and TLCM
- •Transaction Fee Assessments

#### **Issue**

- •Transaction ID (TID's) assigned at POS authorization and maintained through presentment and chargeback are critical to processor's efficiency. Absence of this functionality forces manual workarounds
- •US operations must align with GNP, and the connection between TLCM and the image exchange must be automated if AMEX is to avoid substantial incremental operating expenses
- •The Network is incapable of assessing transaction fees today, so each transaction type has the same effective "cost" to an issuer, though each has a different cost to the Network and other Network participants. Creating "prices" for transaction types will encourage more efficient use of the network.

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## **US Bank Strategy - Infrastructure Readiness**

With the requested incremental investment, the identified gaps in infrastructure functionality and product capability can be closed in two years. Alternatively, some of these gaps continue through 2001.

#### Gaps Closed by YE2000 at Current Funding Levels

#### 99.2 (proposed)

Automated Address Verification
Image/document Handling and TLCM Integration
Full Acquirer Functionality
Network Messages (partial)
Authorization Enhancements
Corporate Card

#### 00.1 & 00.2 (proposed)

Transaction ID @ Authorization
Transaction Fee Assessments
Network Messages (remaining)
Product/Tier Based Pricing
Automated Funds Exchange
GNS Regional Routing Processors
MIS-Authorization
Fraud Prevention Tools
ATM Coverage and Features

# Additional Gaps Delayed until 2001 at Current Funding Rates

Debit Card
Purchasing Card
Value Added Services
Chip Based Cards
Data Warehouse
Certification Environment

10

Note: Above prioritizations are based on pre-PDP estimated sizings which may vary



### U.S. Bank Prospects: Targeting Criteria

We are utilizing disciplined targeting criteria to identify U.S. bank prospects which will enable GNS-NA to deliver profitable growth quickly, while enhancing the GNS value proposition and Amex brand long-term.

- Bank Attractiveness to Amex (Criteria):
  - Large number of target customers and strong growth (CIF, outstandings and volume)
  - High average spend/CIF
  - High spend/outstandings (convenience users)
  - Strong bank brand "affinity" with Amex brand
  - Existing portfolios with high-spending segments which are easily converted to Amex:
    - Upscale/private clients, convenience users, rewards addicts, small business owners, etc.
  - Flexible hook-up to certified 3rd party processors

#### Bank Willingness to Partner with Amex (Criteria):

- Clear Amex "friend" or strong current relationship
  - TC, ATM, Corporate Services or senior executive
- Low dedication to single bank brand
- Non-boardmember on bankcard associations boards or stated non-commitment to associations
- Announced market expansion plans
- Expressed interest in working with Amex



## **U.S.Bank Prospects: Prioritization**

After assessing each bank for Attractiveness and Willingness, we forced ranked them to develop a prioritized list of the Top-30 U.S. Bank Prospects

#### **Bank Prospect Scoring**

	Bank Name	Attractiveness	Willingness		
1	Banc One/first USA/First Chicago	10		to de la	
2	MBNA		i	40.7	
3	Wells Fargo		7	HINTY! A THE	
4	Citibank/AT&T/Travelers	10	4		
5	BankBoston	6		17.5	
•	SankAmerica/NationsBank	•	5		
7	Chase Manhattan	8	3	Mark 1/2	
8	Ficet/Advanta	6	5	100 TV	
•	US Bancorp/First Bank Systems	11	0	446	
10	USAA Federal	•	2	CONTRACT STORY	
11	Capital One	5	5	7.77	
12	PNC Bank	6	4	178	
13	Peoples Bank	6	4	440%	
14	KeyCorp	5	5	197	
5	Household Bank	9	0	h faith and	
6	Associates Nati	5	3	25355	
7	Chevy Chase	5	3	防衛務 表面	
•	Norwest	4	4	7.5	
19	Marine Midland	4	2	12.000	
10	Wachovia	3	4	56.00	
1	First of America	4	3		
12	Sun Trust	4	3	F 127-	
13	Direct Merchants	5	1	See See 1 150	
14	Providian Bancorp	3	3	15 to	
15	GE Capital	5	1	1.0	
16	First Union Yati	3	3		
7	Mellon Bank	1	5	·	
1.8	National City	2	4	Property (N	
9	First Nati Nebraska	2	3	7 120 100	
0	CoreStates Financial	1	4	13 M	



# U.S. Bank Prospects: Prioritization by Type

We have further prioritized U.S. Bank Prospects into Global, Monoline and Major National Issuers which may require different product/service licensing and infrastructure in order to optimize the GNS/Amex business opportunity.

Bank Type and	Bank Name	OCE to Contact?		* Amex	D. 100
Rank by Type	+	(Yes/No)	Discussions? (Yes/No)	Attractiveness	Bank Size
Global Bank Isser 1	Banc One/First USA/First Chicago	Yes	Yes	1	(Out of Top 30)
Global Bank Isser 2	Citibank/AT&T/Travelers	Yes	No	4	
Global Bank Isser 3	Chase Manhattan	No	No	7	<del></del>
Global Bank Isser 4	GE Capital	Yes	Yes	25	<del>-                                     </del>
Mono-Line Issuer 1	MBNA	Yes	Yes	1	18
Mono-Line Issuer 2	Capital One	Yes	Yes	11	<del> 3</del>
Mono-Line Issuer 3	Providian Bancorp	No	No	24	8
Major National Issuer 1	Wells Fargo (pending merger w/Norwest)	Yes	No	74	
Major National Issuer 2	Bank Boston	Yes	Yes	5	10
Major National Issuer 3	Bank America/Nations Bank	Yes	No	· · · · · · · · · · · · · · · · · · ·	29
Major National Issuer 4	Fleet/Advanta	Yes	No	0	4
Major National Issuer, 5	US Bankcorp/First BankSystems	Yes	No	-	9
Major National Issuer 6	USAA Federal	No	No	<del></del>	
Major National Issuer 8	PNC Bank	No	No	10	12
Major National Issuer 9	Peoples Bank	No	No	12	17
Major National Issuer 10	KeyCorp	No	No	13	19
Major National Issuer 11		No	No.	14	2)
Major National Issuer 12	Associates National	No	No	15	
Major National Issuer 13	Chevy Chase	No	No	16	15
Major Vallenel Januar II		<del>- </del>		17	16
Major National Issuer 15	Norwest (pending merger w/Wells Fargo)	No	No	18	27
		No	No	19	20
Major National Issuer 16	Wachovia	Yes	Yes	20	13
Major National Issuer 17		No No	No	21	25
Major National Issuer 18			No	22	28
Major National Issuer, 19	Direct Merchanis		No	23	22
Maior National Issuer 20	First Union (pending merger w/Corestates)		No	26	14
Major National Issuer 21			No	27	24
Major National Issuer, 22		No	No	28	26
Malor National Issuer 23	First National Nebraska	No	No	29	21
Major National Issuer 24	Corestates (pending merger w/First Union)	No		30	130

<sup>\*</sup> Ames. Attractiveness represents GNS-NA's assessment of the overall bank attractiveness as a partner and willingness to work with Amex

# U.S. Bank Prospects: OCE Calling Plan



Capitalizing on the momentum generated by DOJ's lawsuit, we believe the most effective way to initiate meaningful contact with U.S. banks is for OCE members to call their counter-parts on our prioritized Top-30 list.

- Jon Linen to propose OCE calling "assignments" in order to:
- Gather Intelligence
  - Assess banks' support for Associations' DOJ defense
  - Gauge bank/Association expectations for a world without illegal restrictive by-laws
- Communicate Key Messages
  - Amex has issues with Associations -- not with banks
  - Encourage banks to convince Associations to settle and start obeying the law
  - Amex is open for Network business outside the U.S.
- Commence the Sales Effort
  - Introduce/reiterate the potential benefits of becoming an issuer on Amex Network
  - Gauge their overall interest in a Network deal with Amex
  - Schedule a more detailed follow-up sales presentation by GNS-NA executives