

CITIBANK⁺

PAYMENT SYSTEMS

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GOVERNMENT
DEPOSITION
EXHIBIT
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N.A. CARDS

Outline

- Payment Systems
 - Recent Developments
 - Trends
- Role of the Associations (VISA)
 - Changes over Time
- How the Role Has Impacted the Industry
 - How We Have Suffered
- What Would We Like to See Different
- Alternatives
 - Evaluation

Payment Systems

- Developments
 - Associations have matured in the arena of acceptance mark
 - Multiple access vehicles
 - ▲ Charge
 - ▲ Credit
 - ▲ Debit
 - ▲ Check
 - ▲ Phone
- } Increasingly electronic
- Integration lost
 - ▲ Checks
 - ▲ Credit
 - ▲ ATM
 - ▲ Clearing house
 - ▲ POS merchants
 - ▲ Associations
 - The system, taken as a whole, is inefficient

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Role of the Associations

- Change over Time
 - Move from concentration on uniform acceptance to a marketing company
 - ▲ Advertising
 - ▲ Product development
 - Association decisions do not reflect the interests of the institutions that provide the bulk of the industry revenue

Role of the Associations (cont'd)

- Associations were formed to:
 - Provide merchant acceptance
 - Licensor of the acceptance mark
 - Administer liability rules between members
 - Administer risk transfer pricing (interchange)—cost-based
 - Provide authorization, clearing and settlement services
 - Provide investigative services to control counterfeit and fraud
 - Provide least-cost interchange services

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Role of the Associations (cont'd)

- Over Time

*Member
brand
dilution*

- The acceptance marks have replaced member brands—confusing the public and regulators as to who the real competitors are
 - ▲ Many consumers think VISA/MC offers the service (some banks purposely position their products as offered by VISA)
 - ▲ Regulators view VISA/MC as competitors versus the individual banks

*Select
member
profit
subsidies*

- Associations are increasingly paying incentives to select members to obtain Association preference
 - ▲ This creates a form of involuntary subsidization of select member programs resulting in higher costs to the remaining members

*Product
competition*

- Competitively developed member products are adopted by the Associations, limiting a member's ability to sustain competitive differentiation
 - ▲ World Card

*Higher
costs*

- Scale benefits are increasingly used to further an Association agenda versus reducing member costs (spend rather than economize)

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Role of the Associations (cont'd)

- Many positive results have been achieved
 - Wide acceptance* – Acceptance coverage second to none—global/established
 - Universal currency* – Cross-border currency exchange
 - Acceptable costs
 - Good transaction control
 - Reasonable transaction liability rules
 - Reliable service

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How These Changes Have Impacted Players

- The front-end “equality” represented by the Association logos has greatly aided smaller, lesser known firms.
 - They are viewed as qualitatively identical to the more established institutions
 - They benefit most from “renting” acceptance
 - Association advertising primarily benefits smaller players
 - Association development funding is largely for their benefit
 - The governance structure gives no benefit to large contributors
- The establishment of the Association brand doesn’t allow the development of other credit card brand names by Association members.

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What Would We Like to See Different

- Brand-based competitive frame
- Financial and ownership stake and control
- Ubiquitous acceptance and network scale
- Broad payment functionality (card, check, chip)
- Lowest-cost processing environment
- Quality customer service—continuity
- Good merchant value proposition
- Consumer choice
- Industry prospects (all banks)

We Have at Least These Options

- In working with the Associations, we would like to de-emphasize the Association logo, and effect several other changes to allow greater marketing freedom for members

*Expand
Member
Options*

- Brand Management
- Product Development
- Governance

- Further, we would like to unbundle Association services, to allow a "Pay If You Participate" platform (e.g., only those who want product development done by the Association will share in its cost)

*Unbundle
Services*

- Brand Licensing
- Processing
- Private Label

- Separately, the industry should look to how the national payment system works with a view to making it more efficient, and returning control of it to the banking industry

*Restructure
Payments
System*

- All Types / All Brands
- Streamlined Processing
- Cost-Effective
- Consolidations?

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*More Consumer Options
More Member Competition*

VISA Expand Member Options

- Brand Management:** Permit members to compete more directly through promotion of their individual brand as the primary product brand
- VISA is the neutral acceptance mark
 - Reposition to the back of the card
 - Allow secondary positioning to the member brand
 - Focus advertising and promotion on acceptance
- Product Development:** Promote member product development to spur competition between competitors
- Establish optional member participation and funding in new products
 - Focus product development on essential services— i.e., information exchange services vs. product features.
- Governance:** Evaluate methods to balance decision-making between one-man/one-vote rules and overall contribution to the organization.

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More Consumer Options
More Member Competition

VISA Unbundle Services

Brand Licensing:

Separate acceptance mark licensing from processing services—i.e.:

- an acceptance mark licensing company
- a transaction processing/switching company

Expand processing services:

Support member introduction of competing private label brands

- Provide authorization, clearing and settlement services on a contractual basis
- Administer BIN assignments within existing infrastructure, including BIN conversion to private label purposes
- Focus on delivery infrastructure without limiting private label configuration except as necessary to ensure accurate processing—minimal restrictions.

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Better Costs,
Better Efficiency

Rationalize Existing Payment Structure

- Assess the level of duplication in clearing and settlement processes
 - Checks
 - Credit Cards
 - ACH
 - Debit cards
 - ATM networks
- Focus on achieving these benefits
 - Cost-effective transaction processing
 - Timely payments exchange standards
 - Avoid throw-away technology investments due to obsolescence or incompatibility
 - Minimized development expense
 - Reduced management/administrative overhead
 - Reciprocal payment guarantees
 - Continued bank role in payments infrastructure

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