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MC 3440

Memorandum

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To
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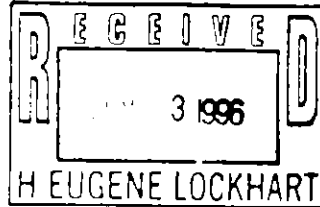
MasterCard
International



From
Christopher D. Thom

Date
May 31, 1996

Subject
SMG June 4th



In advance of our further discussions on AMEX, I felt it would be useful to provide you with:

1. Competitive background Summary
2. Global distribution of competing card lines
3. Nilson Forecast of Competitor Market Shares
4. Discussion points on competitive issues
5. Members that issue competitor cards

I will present recommended rules and standards at the meeting. The detailed financial analysis, being undertaken by Global Research and Analysis, will not be completed until shortly before the June 29th Board Meeting.

Chris

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GLOBAL COMPETITIVE OVERVIEW

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I. BACKGROUND

- In 1991 the US Visa Board voted for a bylaw stating that any member shall be automatically terminated "if its parent, subsidiary, or affiliate, directly or indirectly, issues Discover Cards or American Express cards, or any other card deemed to be competitive by the board of directors."
- In January 1996, Visa CEMEA announces mandate disallowing a second logo to co-inhabit a Visa/Plus or Interlink card. It also discusses implementing a bylaw similar to the US bylaw.
- In January 1996, rumors that the Visa European Union Board might do the same led AMEX to petition European Commission to rule that a bylaw prohibiting member banks from issuing AMEX cards would be illegal and anti-competitive
- In February, Discover protests proposed European bylaw.

BACKGROUND, (continued)

- May 2, Harvey Golub, CEO AMEX openly asked issuing banks to consider the American Express Card and to voice their disapproval of Visa's U.S. bylaw and Visa International's proposed by-law prohibiting Visa members from dealing with AMEX and Discover. This is the culmination of at least a year's confidential overtures to bankcard issuing banks.
- May 28, Diners Club protests proposed European bylaw
- May 30, European Commission has ruled the proposed Visa by-law to be unacceptable. The European Competition Commissioner timed the announcement 3 days before Visa's annual board meeting.
- MasterCard's position has been to not prohibit its issuing banks from issuing AMEX or any other competing acceptance brand. About 31 MCI members currently issue competing brands other than Visa. Eight of them currently have country exclusive AMEX franchises (see banks with asterisks on following chart).
- AMEX's "throwing down the gauntlet" suggests that their competition for a share of the bankcard distribution network is a major initiative, behind which they will throw major resources.

II. 1995 COMPETITIVE OVERVIEW

GLOBAL DISTRIBUTION BY CARD BY REGION

GROSS DOLLAR VOLUME (\$ BILLIONS)

	WORLDWIDE	U.S.	EUROPE	ASIA PACIFIC	LATIN AMERICA	CANADA	MIDDLE EAST ASIA
VISA	\$779.3	\$372.0	\$245.7	\$96.5	\$22.3	\$37.2	\$5.6
MASTERCARD	467.6	202.9	112.9	114.4	18.2	13.7	5.5
AMERICAN EXPRESS	161.6	121.6	17.0	11.0	6.0	5.0	1.0
DISCOVER	48.0	48.0	0.0	0.0	0.0	0.0	0.0
JCB	38.1	N/A	N/A	36.0	N/A	N/A	N/A
DINERS CLUB	25.4	9.0	7.0	5.0	3.0	1.0	0.4
TOTAL	\$1520.00	\$753.50	\$382.6	\$262.9	\$49.5	\$56.9	\$12.50

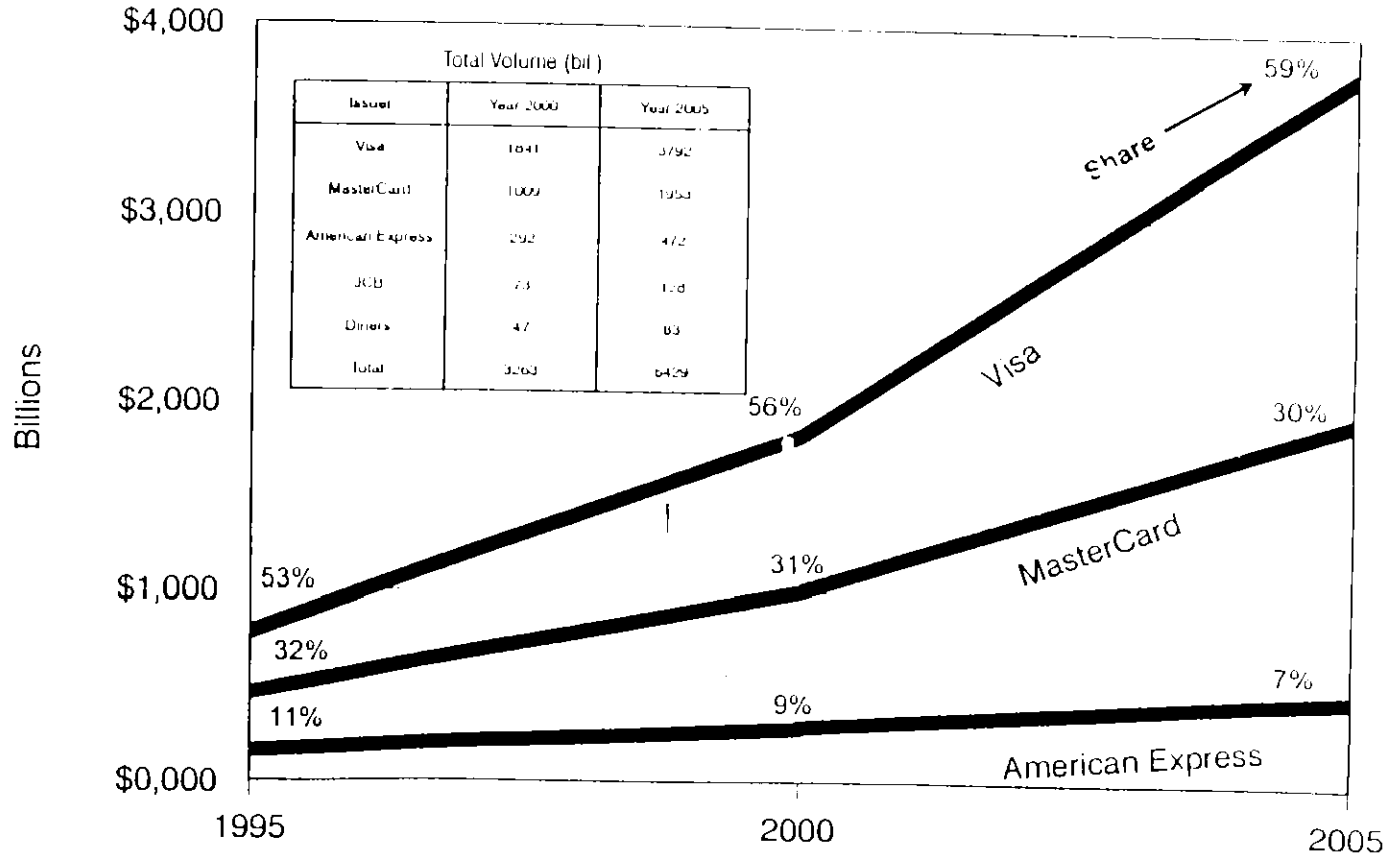
PERCENT GLOBAL DISTRIBUTION BY CARD BY REGION

	WORLDWIDE	U.S.	EUROPE	ASIA PACIFIC	LATIN AMERICA	CANADA	MIDDLE EAST ASIA
VISA	100%	48%	32%	12%	3%	5%	1%
MASTERCARD	100%	43%	24%	24%	4%	3%	1%
AMERICAN EXPRESS	100%	75%	11%	7%	4%	3%	1%
DISCOVER	100%	100%	0	0	0	0	0
JCB	100%	N/A	N/A	94%	N/A	N/A	N/A
DINERS CLUB	100%	35%	28%	20%	12%	4%	2%

Source: Nilson Report

III. NILSON FORECAST OF COMPETITOR MARKET SHARES

GLOBAL MARKET SHARES PROJECTED



Source: The Nilson Report, July 1996

IV. COMPETITIVE ISSUES

<u>Competitive Issues</u>	<u>Discussion Points</u>
1. AMEX has a strong brand one of the ten most recognized brands in the world	<ul style="list-style-type: none">• Brand not strong enough to stop 2.2mm card holders or 17% of charge card base from leaving 9/91 to 9/94• Commoditization of credit-card business works against AMEX. Individuals, at \$55 for a green or \$300 for platinum doubt whether the 'prestige' is worth the premium when MasterCard offers same functionality (& wider ranges of rewards) for lower fees• Although consumer psychology has turned against snob appeal of 80's, it may still play in some overseas markets.
2. AMEX has 4mm merchant locations world-wide compared to MCI's 13mm <ul style="list-style-type: none">• AMEX is increasing acceptance outlets. Card member coverage ratio of 87% vs 74% in 1992.• Still needs to increase acceptance overseas.	<ul style="list-style-type: none">• Adding acceptance increases merchant locations - but also means AMEX is moving down market. So as acceptance outlets such as Shoprite and KMart increase and AMEX moves progressively to a downscale markets, it loses its upscale image.• AMEX currently using the Optima sub-brand to target mass market, but it is still an AMEX brand.

Competitive Issues	Discussion Points
<p>3. AMEX has a closed-loop network - handles every step of transaction</p> <ul style="list-style-type: none"> • Controls quality (vs numerous banks and processors for bankcard issuers.) • Can develop superior personalized rewards programs 	<ul style="list-style-type: none"> • New partner banks often do billings, payment, accounting, customer service and authorizations - so AMEX is losing control of quality and could thus imperil brand reputation for quality. • Personalized Rewards program expensive to administer - will remain limited to high end of market.
<p>4. AMEX has higher discount rates (Novus has lower discount rates to incent merchant acceptance, but unlike AMEX can augment profitability with credit card portfolio).</p>	<ul style="list-style-type: none"> • Higher rates give issuers more profit on transactors. But as the prime source of revenue (plus fees) overall profitability of a portfolio is less than a portfolio which has credit. Transactors increasingly going to debit card which offers more convenience (although no float.)
<p>5. Will AMEX cease to compete?</p>	<ul style="list-style-type: none"> • AMEX is still selling through their existing proprietary distribution network. Would they have to grant exclusives to banks around the country? If AMEX's independent marketing efforts cease, can bank distributors make up the difference?
<p>6. Product development - AMEX is issuing 10-15 new consumer charge and credit cards a year and has decreased product development cycle from 18 months to 3 months</p>	<ul style="list-style-type: none"> • Considered to be "me too" card products. Many of the big co-branded names are taken. AMEX will have to bid on price to get programs up for renewal. Quick product development cycle increases AMEX's odds of a win.

Competitive Issues	Discussion Points
7. Will members risk existing relationships to see if AMEX products have lower acquisition costs and higher profitability?	<ul style="list-style-type: none"> • In the U.S., no members have taken AMEX up on their offer despite their overtures.
8. AMEX is strong in Corporate Card and Premium Card.	<ul style="list-style-type: none"> • Overseas, AMEX has given exclusive rights to issue AMEX to one bank in each of eight countries. • Still face the issue of whether to compete or offer exclusives. They have 70% share of Fortune 500's in corporate card and 30% of Fortune 100 in purchasing card, so would probably have to target mid-size banks with turnkey products.
9. Discover Card - increased share of US market from 0 to 11% in last ten years - could be repeated in selected foreign markets. Discover successful by offering differentiated product in 1986 - no fee card with 1% cash back bonus and low merchant discount rate (about 1.5%).	<ul style="list-style-type: none"> • Policies that impact on AMEX should apply to Discover, JCB and Diners. Diners and JCB less aggressive than Discover and may not have the patience Discover exercised in waiting for a new program to turn a profit. Competitors have been able to ride on the back of MCI/Visa facilitation of electronic on-line delivery. This will continue in overseas markets.
10. Competitive risk goes beyond competing credit and T&E cards <ul style="list-style-type: none"> - members issue AMEX travelers checks - members have agreed to put Cirrus logos onto JCB cards, which effectively globalizes regional acceptance marks. 	<ul style="list-style-type: none"> • Policies that impact on the card product lines should apply to other competing product lines.

V. MasterCard Association Members That Also Issue AMEX, Diners or JCB Cards

	Issuing	Acquiring
American Express		
Alpha Credit Bank, Greece	✓	
Akbank, Turkey	✓	
Banco Comercial Portugues, Portugal*	✓	
Banco Consolidado, Venezuela*	License Application Pending	
Banco Del Progreso, Dom. Republic	✓	✓
Banco Popular, Dominican Republic**	✓	✓
Banco Santander, Spain**	✓	✓
Bank Hapoalim, Israel*	✓	✓
Nedcor Bank, South Africa*	✓	✓
Sumitomo Bank, Japan ⁽¹⁾ **	✓	✓
Diners Club		
Banco Mercantil, Venezuela	✓	✓
Banco Del Progreso, Dom. Republic	✓	✓
Bank of Cyprus, Cyprus	✓	✓
Citicorp: Argentina, Beneluz, Brazil, Canada, France, Germany, Greece, Hong Kong, India, Mexico, Taiwan, U.K., U.S., Venezuela, and other countries	✓	✓
Commercial Bank, Qatar	✓	✓
Countrywide Bank, New Zealand	✓	
Credit Anstalt, Austria	✓	
Emirates Bank, United Arab Emirates	✓	
Fuji Bank, Japan	✓	
SE Banken, Five Nordic Countries	✓	
Standard Bank, South Africa	✓	✓

✓ Has activity in database

* Exclusive Franchises.

** Marketing Alliances.

⁽¹⁾ Largest member of the Visa Japan association and an Amex joint-venture partner

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JCB		Issuing	Acquiring
Asahi Bank (Union Credit), Japan ⁽²⁾		✓	
BC Card, Korea ⁽³⁾		✓	
Chiba Bank (Diamond Credit), Japan		✓	✓
Daiwa Bank (Union Credit), Japan ⁽²⁾		✓	
Hong Kong & Shanghai, Hong Kong		✓	
Household Bank, U.S.		✓	✓
National Credit Card Ctr., Taiwan ⁽⁴⁾		✓	✓
Nippon Shinpan Co., Japan ⁽²⁾		✓	✓
Siam Commercial, Thailand		✓	✓
United Overseas, Singapore		✓	✓

✓ Has activity in database

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⁽²⁾ Major shareholders in JCB Card.

⁽³⁾ Members - 12 banks including Bank of Seoul, Hamil Bank, and Commercial Bank.

⁽⁴⁾ Members - Asia Trust, Chuatrust Commercial, Hsin Chu Bank.