THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AXP - American Express Company at KBW Payments Conference

EVENT DATE/TIME: FEBRUARY 16, 2012 / 2:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Dan Schulman *American Express Company - Group President-Enterprise Growth Services*

CONFERENCE CALL PARTICIPANTS

Steven Kwok *Keefe, Bruette & Woods - Analyst*

PRESENTATION

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

Thank you, everyone. So our next speaker is Dan Schulman, who is the Group President of the exciting segment within American Express known as the Enterprise Growth Services segment.

Dan, what I asked everyone to do was to just prepare some introductory remarks, just touch on your key goals for the next 12 months, maybe the Company as a whole as well, and the pros and cons of your being able to achieve those goals. So maybe you could start with that.

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Good morning, everyone. So we just had our financial community meeting last week. Hopefully most of you either listened into that or came. So I won't spend a lot of time on American Express's specific goals.

I think they are relatively well-articulated and we can talk about them in Q&A. But I have only been with American Express for the past 18 months or so and Enterprise Growth is a new division within American Express.

So I thought maybe I would spend a little bit in terms of what is enterprise growth and what are my primary objectives within American Express. So there are really four things that I have primary responsibility for or I spend a lot of time thinking about.

The first basically is where is American Express going to be in the next three, five, 10 years as we look out. What is the strategy of the Company? You can't go a day without a great analyst report coming out on mobile payments or a press article or two or three or 10 a day on some new company coming into payments, and thinking about where the payments industry is going, not just within the context of payments which is a very important both in the context of commerce overall -- because there are adjacent industries surrounding payments that are all part of that commerce lifecycle -- and understanding what competitors are playing in each of those adjacencies, how are they coming in after payments, why are they coming after payments? What can we do to move into adjacent industries is extremely important.

So we think about both traditional, nontraditional competitors. We think about potential partnerships. We think about that in terms of M&A, the M&A group reports up to me what partnerships might we want to have. What strategic acquisitions might we want to do. What kind of technologies might we want to have. So all of the strategy as we look forward for the Company.

The second thing is if we are going to implement that strategy and it does necessitate changes and the way we think about the future. The real question is culturally, culturally can we move and what is the catalyst to move us culturally. Because we are talking about the potential new business models of expanding upon our current business models. We are looking obviously at moving from physical to digital to software to software platforms to data analytics to cloud-based-oriented platforms that compete against new competitors coming in.

And so a large part of the reason why I actually dress like I do is it isn't that I don't have lots of suits hanging in my closet, I do, it is because the talent that we are trying to bring in now, we are recruiting from Google, from Amazon, from Microsoft from startups throughout the city and in Silicon Valley, software engineers and when I interview them -- and I interview pretty much every single one of them and we've hired quite a number over the course of the last year -- they are looking for a culture that allows them to express themselves.

They are different in many ways. We actually have an office in Silicon Alley here where we've housed most of our digital and online forces and I remember I took one of our senior managers through our Hudson Street office and I said, what do you think. And he said, lots of tattoos. And I said, yes, that's true. There is.

But we are really trying to develop a whole different way of thinking within the Company and not just within Enterprise Growth but across the entire core business as well. Because we want to leverage all of the assets and strengths that we have as a company.

So first is strategy, second is sort of cultural change and a catalyst for change within the Company. The third is getting us ready for the digital transformation, creating all of the platforms, products, software applications that we need to move into the future. There is no question that you can define the time, we will probably talk about that later -- but at some point in the future, there will be a tipping point where you'll move from primarily plastic to utilizing digital forms of payment.

The line between off-line commerce and e-commerce is blurring. We all always carry around our mobile phones with us, our smart phones. And when we are shopping in a store we are using our mobile phone just the same as if we were behind our desktop doing traditionally what we think about e-commerce. And that platform, that platform that people utilize on their mobile phones is an extraordinarily important part of how we will add value in the space between merchants and consumers going forward.

Part of the ethos of American Express has always been the value that we add to merchants and the value we add to consumers and by controlling the entire closed loop system from issuing to acquiring to having our own network. And to do that in the future, you really need to own the software platform, the digital wallet and the applications around that.

This is all about digital payments and digital commerce going forward. Not just digital payments because the two are blurring and I am sure we will talk more about that later and why that is so important. Why data is so important. So creating the software platforms, creating the data analytical tools to be able to create algorithms to analyze all of the data that we have. Because in Web 2.0 companies, the weapon that you use in marketing his algorithms.

Algorithms -- the most famous is if you like this you'll like this. Right, that is the Amazon algorithm. And algorithms they are -- if that is the weapon, the ammunition is data on there. The more data you have the more accurate your algorithms are, the more accurate your algorithms are, the more value you can add.

So getting us ready with all of that opening up our platforms through APIs and software development kits to developers, all of that are important aspects of how we get ready for the digital future.

Then, finally, the fourth thing that I have responsibility for is how do we expand and diversify the American Express franchise? Typically we have been known as a sort of mass affluent target market, primarily, or more skewed towards North America. But as you move into digital forms of payments and prepaid types of services and you look at sort of the electronification of cash throughout the world because certainly the rest of the world is not going to follow the United States, economies like China and India are not going to move from cash to checks to plastic to digital payments. They are going to leapfrog from cash straight to mobile payments.

And we believe with these digital platforms that we are putting into place, and new products that we are introducing like some of our prepaid products, that we can access segments of the market that we have never been able to access before like the youth market. Maybe some of the underbanked. Those who use debit today. We certainly feel that that is a target market for us going forward.

And then international markets where truthfully credit and charge are a small part of the overall transaction, pie, it's primarily cash and as that cash moves again to digital and/or to prepaid we think we now have the toolset and the products to be able to access that. So those are primarily the areas that I am responsible for.

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

I want to drill down on timing because I think it is important and maybe -- and I know the timing is different across all these different regions as you mentioned, but maybe you could provide us your best guess on a roadmap as to how we evolve to a mobile payment landscape across the globe and how it impacts you guys. Because I think we understand that it is an evolution that is going to happen over time but it is obviously it is going to impact the economic as well. And I think investors kind of want to know when it is actually going to materialize.

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Yes. That's a good question. So I think when you break out mobile payments or digital payments, a lot of people think about NFC as -- near field communications, which I think all of you know it's just kind of a standard that allows two devices to talk to each other at very close distances without dialing up an IP address or anything like that.

NFC, I'm actually a believer in NFC. I think we are moving towards that. I think standards are becoming more well understood. I think the ecosystem is beginning to realize that no one party can do this alone.

We will talk about economics in a little bit but there are very large economics and large profit pools to share, if we can talk to each other and work together on that. No one company can do this alone.

But NFC is not going to come about for a while. I think NFC, if I had to make a prediction and predictions are notoriously wrong, but if I had to make a prediction I would look at what is happening with mobile phones right now and most smart phones coming out -- we'll still see about Apple on a go-forward basis -- but most smart phones coming out are being enabled with NFC. In the US now, over 50% of the gross ads are smart phones now. The typical consumer changes their phone out every 18 to 24 months.

So if you think about smart phones being enabled with NFC chips, consumer migration patterns, you can see consumers having a reasonable number of NFC-enabled phones sometime over the next four to six years. Think about it in that.

The natural upgrade cycle for point-of-sale is also about four to six years. So a lot of people are saying, well, you know, our retailers just going to upgrade. They may or may not want to talk about that because they won't upgrade just for a form factor change which is instead of swiping your card you swipe your phone. There's no real value in that.

They may upgrade if we talk about digital commerce and the benefits that data and the data associated with transactions can provide. But since the typical upgrade cycle for point of sale is four to six years, and if you listen to any of the point of sale manufactures they are all including NFC in their new additions of point-of-sale, that also comes about in about a four- to six-year period.

So you can start to see the potential of a tipping point at least here in the United States in the next four to six years. Overseas, you have tremendous push right now for electronification of cash by governments. Cash is inherently unsafe. It avoids the taxation.

It -- there is a large amount of leakage for instance in India. Some 20% of benefits are lost when the government is trying to put them out to those who need them. Just -- they disappear. Corruption, whatever it may be.

And so if you can do it electronically, and they are trying to do that through UID, through no-frills bank accounts, you can start to see those vibrant economies that are predominantly cash-based moving towards mobile payments. Again, it won't happen overnight but will it happen? Absolutely.

For us at American Express, you know, we are on a multiyear journey on this. This is not going to happen overnight. Nobody should expect it to happen overnight.

But you do need to be actively implementing and planning today to be ready for tomorrow. And so, we see basically our -- and the way I see that, my goals are, we just finished year one of this multiyear journey. And year one was basically put out the software platform, we call it Serve. It is a funding agnostic cloud-based modular platform that started off as a digital payments platform that you could use to load your wallet with any funding source. Cash, any credit card, any debit, any through EFT.

And then from that make online and off-line purchases because, we associated a prepaid card with that cloud-based wallet so that on day one once you loaded that wallet you could swipe your prepaid card, and it would be linked to your digital wallet at any merchant that accepts American Express on day one. So that automatically meant you were accepted at millions upon millions upon millions of merchants.

So we put out a digital platform. It was version 1.0. By the way another thing about culture and software is you iterate all the time. Put out version 1.0. Then you put out 1.1, 1.2, 1.3, 1.4, 1.5 -- which is what we did last year. We will go into version 2.0 this year which is when we turn our platform from a digital payments platform to a digital payments and commerce platform in which we are able to electronically enable customized deals and offers to consumers and offer merchants the ability to load that in to a platform.

We will put on that, our target is to do that this year and also to add loyalty components to the platform. And then we will round out the platform with money management tools and with what I call shopping registry tools. I'll talk about that in a little bit.

So we did that last year. We have got more to do this year. We have got more to do frankly the year after that to create what I think will be a world-class differentiator software platform.

The next step was basically to do business development, sign up partnerships for that. And what we found going out even with version 1.0 is we have a very differentiated platform. There are very few digital platforms in the world right now and as we talk to partners and potential partners across the world, in many ways our cup runneth over with people who wanted to do business with us.

We did sign some 14 or 15 partnerships last year. We have announced a couple of them like Ticketmaster and Verizon Wireless. We just announced our deal in China with Lianlian, which we can talk about. But that was the next step, sign up partnerships.

This year now what we're doing is we are integrating all those partnerships. We have got API sets that we are linking to their API sets to make sure that when somebody is ready to make a transaction, say on a Verizon Wireless customer, they want to do a carrier bill. It is over the limit that the carrier allow, it will automatically roll over to the Serve platform to allow people to make that transaction. So we are integrating all of those.

Once you integrate all those, then scale comes onto the platform. When scale comes onto the platform then you really start to make money not just on the digital payments but on digital commerce. And we can talk about that in a little bit too.

Think about it in a multiyear phase; but the potential at the end of it both through digital payment and digital commerce is quite large.

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

So when you guys provide those offers to their customers, when you turn on the Server 2.0, I mean do you guys collect marketing economics for providing those offers that they are taking?

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Yes. So that is -- the way to think about this, I guess, let me may take one step back and then go through this so everyone understands kind of what the concept of digital commerce. The concept of digital commerce is, at its broadest vision right now, is that instead of NFC being just at the point-of-sale, imagine NFC being in the doorway of a retailer. All right.

So when you come into a retailer you tap your phone on the doorway. By tapping that phone on the doorway, what you expose to the retailer on an opt-in basis is your shopping list. Your -- the SKUs that you are interested. You relay to that retailer before you check out that you are either a loyal customer or a first-time customer.

That retailer can then customize offers back to you. So for instance I am a Heinz Ketchup lover. You don't need to give me a coupon on Heinz Ketchup. I am always going to buy Heinz Ketchup. But if you have excess inventory of Hunts Ketchup and you want to incent me to switch then you can go and do that and give me quite a discount on that to change my shopping behavior.

Data is incredibly important, because retailers right now are fighting a very difficult battle against online retailers. So offline is becoming showrooms for online. There is a famous quote out there that Best Buy is becoming a showroom for Amazon. So you go into Best Buy and Amazon even incents this right now. You do a scan of a barcode or a QR code and Amazon will ship that to you the next day. They will discount the price and if you use their app, they will give you an additional 5% off to go and do that.

And so how do retailers battle back?

Well, retailers spend some $400 billion right now on advertising, marketing, couponing and a huge piece of that is very difficult to track and is likely wasted. In fact, in couponing most industry experts say that about 75% of couponing is wasted, either give somebody something that they already would have bought or it's just out there in newspapers. It is not targeted.

So if a retailer could put an offer out there, and you could click on that offer, you could click on that offer, load it into your digital wallet and then go into the store and then click your -- tap your phone at the point of sale and that retailer now knows that you saw that offer, you loaded it into your wallet and you bought it. And you bought it, [closing the entire market looks] and not only did you buy that but you bought $22 of incremental things in that basket. Imagine how valuable that data is.

So I'll give you an example.

Google -- and these are approximate numbers -- Google makes about $0.80 every time somebody clicks on an advertisement. But 70% of Google's clicks result in an offline transaction. And Google can't follow that all the way through nor can the advertiser. So we know you clicked but we don't know that you bought.

If we knew that you clicked and you bought that is worth instead of $0.80 it is worth $8.00 to an advertiser. So, think of the power of data. The reason that Google is moving into this, into their Google wallet is not around payments. In fact they will do pass-through economics. We can talk through some of that. But they are moving into it because the data associated with the transaction is now more valuable in many ways than the actual value associated with that transaction, if you will.

And so, as we think about working with merchants and going into merchants, we think about the platforms that we are building with Serve are two-sided platforms. Right? They are intended to basically load scale from a consumer perspective on the digital platform, allow merchants to load offers in there, and then for us to share in the economics of driving incremental sales in saving a tremendous amount of marketing costs.

And so, it is a combination of those. And if you think about the Groupons and Living Socials and other who by the way I think we'll look back in 10 years and think that was like one of -- just this blunt instrument where we all get basically the same coupon for salon services or whatever it may be. And frankly I am not into that, but I am into sports but if you gave me something around sports it would be tailored to me. I think that is kind of where we are going.

But those margins right now are 50% margins that Groupon and Living Social make. It is that valuable to retailers. So if you can do something reasonable it makes the margin structure, the payments business look small in comparison to the margins around digital commerce. And as I mentioned, digital commerce is actually an industry that may be three to four times bigger than the payments industry in the US.

And as you create these platforms, you can now have the opportunity to go after those markets where you didn't before.

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

You mentioned Google, Apple, I am going to throw PayPal in there. Can you just talk about whether or not you're concerned -- or how you perceive them? Do you perceive them as partners or facilitators or just intermediators?

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Yes. So I think that all of those folks have strength and also, obviously, things that they are trying to shore up in many cases. We can talk about those specifically in a little bit. But when I hold up our assets to those competitors coming in, I like the hand that we're dealt right now.

The first thing I will tell you is that the unsexy part of payments, the fraud management, the risk, the regulatory compliance is enormously difficult to replicate and it is enormously difficult to replicate at scale. It is one of -- you know when I first came in I thought all of that was going to slow us down and be a difficult thing. And now what I am realizing is tremendous competitive advantage for us to have that plumbing in place.

There is one company that was starting to get some steam out into the marketplace and I looked at potentially acquiring them and then I realized the reason they were getting staying is they were really following you know your customer guidelines.

And they could do that because they were under the radar. But they were -- and they were starting to get hit with fraud and you can start to see it build up. And I just felt bad for them because I know it is just almost impossible to build up that infrastructure. Very, very difficult to go and do that.

And then when I think about what we have with our closed loop network, you have both merchant acquisition. So we have a tremendous sales force, talking to merchants all the time. We issue directly to consumers so we have 90 million plus Cardmembers. We have our own network and therefore we know all of the data that goes on that network. We see that data and we know where it was spent, we know who it was and we can take and aggregate that data and that is something that since it's a PayPal can't do and others can't do right now. And so when I look at all of the assets that we have and not the least of which is our brand -- which stands for trust, security, and service -- and as we all start to put our commerce identity up into the cloud, because that is where it is all going, that is so different than your social identity.

Our social identity on Facebook right now, it doesn't have to be accurate, right? I can say I like Coldplay and I may not like Coldplay but I want you -- you like Coldplay and I want you to like me. So it doesn't necessarily have to be accurate.

Your commerce identity, it not only needs to be accurate it needs to be absolutely secure in there. And if you make the transaction, you tap your phone, you do a digital transaction on your phone, and it doesn't show up, you want to talk to somebody. Right? You want to be able to find that out and therefore service is absolutely critical.

And one study after another as I said, really, financial institutions are the ones who are trusted to manage commerce identities. And so, when I think about all of the assets that we have, it doesn't mean that we don't need to be extremely innovative and move forward aggressively because things move all the time. And that is something that I continually harp on within the Company. But we have a lot of assets to play off.

In terms of potential competitors, look. It is very early innings right now in this digital game. And I think it is way too early to declare winners and/or losers and it is way too early to establish bright lines as to who would be a potential competitor and who might be a potential partner for us.

And so, we are trying to keep our optionality open. I think we understand it is a multidimensional chess game that we're playing. We understand the assets that are very important to own, that are important as we look ahead, and so I would say it is still early in the game to officially declare.

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

So I'm going to ask one more before I open it up to the audience. I think AT&T disabled NFC for some time on some of their phones. We have heard of other types of actions such as that by the carriers. I don't know if it was in self-interest or what it was.

But could you just talk about the functionality of Serve on today's phones? Can you actually conduct a transaction on the phone today?

And then what is the risk that some of these intermediaries that are involved in this mobile payments ecosystem actually turn people off of it because they try to close it?

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Off of Serve?

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

No, just off. Just turn them off of mobile commerce because they try to shut them down or limit it in some way.

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

So, yes, I think again this is going to be a multiparty ecosystem. So consumers eventually need choice and that is why we built Serve to be OS operating system-agnostic so it works on Android or IOS or Microsoft Windows. So the Serve platform isn't just Android-based, it can work across most operating systems out there right now.

We also thought it needs to be funding-agnostic. If it is your wallet you need to be able to fund it any which way you can. And so by the way, you can extend this to AMEX Cardmembers where they wake up one day and they don't need to move to Serve they just have the Serve underlying digital platform capabilities, they can do P2P transfers. They can set up master subaccounts. They can't get offers, they can drag them into wallets. They can swipe it on their register card API that we have done with Facebook with Link Like Love.

So I think you need to be kind of agnostic across quite a number of different things to make sure that the consumer gets choice. I think for instance the carriers, if you are thinking about Isis versus Serve. Right now Isis which is the carrier joint venture with T-Mobile, AT&T, and Verizon and that is where I think you heard about potentially Verizon not allowing Google Wallet in.

And -- but that is NFC-focused and as I talked about NFC, right now, it's like 1.5% of the terminals out there accept NFC and there's like one or two or three smart phones now that have NFC in them. So the carriers know that, for quite some time, NFC at point-of-sale is going to be a small thing.

But digital payments off of mobile is a very large and growing marketplace. And right now, and so the carriers want to do a lot on their own carrier bill but they are not in the risk business. They don't want to allow somebody to rack up $200 or $300 or more on their carrier bill and then say whoa, I never got that or I am not going to pay that bill or I am going to default on that. So they set pretty tight limits on that.

And what we've been able to do with Verizon wireless princess is when somebody went once we fully integrate when somebody clicks to buy something, they can if they exceed that limit and they have a Serve account they can automatically roll over to Serve. And then what you have is a seamless transaction. So you don't have to worry about the limit because then we already have the funds, already pre-paid. They have gone through our fraud and risk engines and we can make that transaction seamless.

And the other thing that we are allowing consumers to do is use their mobile phone number and a PIN as their financial identification. They should probably know 40% plus of all mobile transactions actually fail because people fat finger their phone numbers. They can't get out their credit cards. It is so easy if you have got your mobile phone there and all you need to do is put in a PIN to complete that transaction. And we utilize a third party called Payfone that integrates right into the carriers' billing system and signaling systems to create more risk and fraud engines on top of that.

So I think with each of these ecosystems we will see how they evolve going forward.

But I think from my conversations, at least, with all of the carriers and as you know I come from that carrier world, so they are pretty good friends of mine, they all get that this is going to be a multiparty play going forward.

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

Yes.

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Yes I think eventually.

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

All right, good. So maybe I will open it up to the audience for questions. Anyone got questions?

QUESTIONS AND ANSWERS

Unidentified Audience Member

Thanks. Great presentation. You mentioned sophisticated algorithms on need increased amounts of data to be effective. And increased data tends to fire up privacy advocates. Do you have any thoughts on how that plays out?

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Yes, I do. Actually I am very strong about it. So I take two points on that.

Data comes from scale and partly -- you heard me talk about American Express very much designed to expand and diversify its franchise as well. So going after many more segments of the market, staying very true to our brand attributes, trust, security, added value. But we want to put on more and more customers on to our platforms across the world because that arms us with data. And so that is number one.

Number two is privacy and security is paramount here. It is -- and by the way you're already getting a couple of bad articles coming out on the Google Wallet being cracked and being able to, there are ways to break into it. I won't say them publicly right now but they are all out there and they are obviously working on that.

But my view on security and data privacy is that, obviously, we will file all the regulatory guidelines on this, or rules on this. But I think we'd need to do even more. I think this is all about actually customers opting in to share their data. Because you know, you have got -- you are storing your information in the cloud; there is going to be a lot of electronic communications going back and forth. You are going to tap your phone and what we as consumers don't want and what we are getting a lot of right now is spam.

That will turn people off to things. And merchants want to be able to microsegment and target the right way.

So I think on the privacy and on the data side, this needs to be not just you didn't opt out but you specifically opt in. Which is what we do for instance with our Facebook Link Like Love application that we have. You have to actually opt in to get that when you do it; and that is sort of how we are building our thesis around this.

This is data that is too private and personal to you and must be accurate as opposed to, again, to social identity for us to do really anything else around it.

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

Do we have any other questions?

Unidentified Audience Member

On the -- you know, you mentioned the advantage of the closed loop which I agree with, but if I am a consumer or a retailer, any given issue or product only sees a slice of my life unless I'm really committed to one specific card. And so, I want something that is going to capture my entirety of commerce.

And the merchants and the retailers they want to see that entire view too. So, why would I be interested in any wallet that is not broad across all the different payment mechanisms that I use as opposed to coming from one issuer?

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Yes, I tend to agree with you. That is one of the reasons why we call it Serve From American Express and Serve is funding agnostics so you can put whatever you want to fund that in. You can find it with cash. Go to a retailer, pay cash and they automatically load it into your digital wallet. You want to do a transaction with your debit card from whoever, fine, fund it with that debit card from that. I do believe that wallets need to be funding-agnostic. And that is what Serve is.

By the way, think about the great thing. I mean you go to a -- tap your phone, you can either pay now straight from your checking account if you want to or pay later versus credit. I mean, and you can maybe redo that decision later on. So these give you a lot more flexibility in terms of how you pay.

The other thing -- I will get right to you -- is think about if we add loyalty to a digital wallet. Right. And now all the rewards points become a universal currency and we translate -- for instance, your AMEX Rewards in to the ability to get cash to go and bring that. So if you use your card infrequently and you only have X amount of points and they are just stranded points there for you. You are never going to get to an airline ticket.

Wouldn't it be great if you could pay and say, I want to pay using $4 with my Rewards points, $3 with my debit and I will do the rest later. So there's just much more flexibility as well with wallet.

So these are not just about -- this is really important. It is not a form factor change. This is not tapping your phone instead of swiping your credit card. These are fundamental value proposition changes in terms of how we do payments and how we do commerce going forward.

Unidentified Audience Member

If you are equipped to talk about this, could you discuss American Express's motivation to go into the pre-paid space? Specifically the historic AMEX customer is probably very different than what the prepaid customer looks like in how American Express is handling this and the reasons for going after this different segment?

THOMSON REUTERS

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

I am prepared to talk about that. It actually reports to me. So first of all, prepaid is a very large and very rapidly growing market right now. And because of both the remnants of the economy and people looking for budgetary tools, as well as regulations -- you know, Durbin has capped debit. In many ways some of the debit benefits that consumers saw are being taken away and, therefore, I think prepaid is poised to explode.

And the problem with prepaid, though, has been especially here in the United States is that it has been laden with fees. And you know, before we started really pointing this out you had a fee for almost everything. A monthly fee, transactional fee, sometimes fees to call customer service. You could actually buy a $20 card and in four months never use it and not have any more money on it.

And so, we basically saw an opportunity to move into the prepaid market here in the US. One, to diversify and expand our franchise because we do want the scale. We think scale is very important. Two, we want to do it though consistent with American Express brand ethos. It has got to be a consumer value proposition that is second to none out there. Customer service benefits like roadside assistance, all of that with prepaid, but do it in a way that takes advantage of our unique model in which we control all aspects of issuing and acquiring in the network.

And so, what we were able to do is put out basically a no-fee prepaid product out there. Reloadable prepaid product. And reloadable means that you have an ongoing relationship with that customer, and so, we just started to really roll that out in national retail. We had a trial with Target about six or seven months ago. We just rolled that out nationally with Target. We were really pleased with those results.

We rolled out nationally with Barnes & Noble and college bookstores, and we will announce several other retailer things in the next quarter or so.

So we are really pleased with that rollout. We think it is a big market. We think it is a big market overseas. We have started experimenting with a number of countries overseas as well. We are getting regulatory approvals and numerous regions of the world to be able to go after that, because we do think that there are people who are attracted to the American Express brand but either have thin credit file or don't want to have credit. This is an ideal opportunity. 20% of our ads on our reloadable prepaid, we have a decline counteroffer now.

If you can't qualify for a credit card or a charge card we offer you this. And what we are starting to do right now is to look at your history in terms of your payment with prepaid. How often are you loading it and we are looking at that as a means of several, in terms of whether you might be able to qualify for charge or credit going forward.

So we are looking at this as a great opportunity for us. And I do think there's very good potential at quite attractive margins.

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

Okay. And with that I think have one more, we have got one more but we have run out of time. So we will just bring you the mic --.

Unidentified Audience Member

Is there any way that you can or will migrate the basic capabilities of prepaid on Serve to the basic American Express network, and the same kind of algorithms that you are developing? You know, increasingly there is an overlap with the core customers on Serve and prepaid who are really flying in front of the plane on Cathay Pacific. So how do you then as part of the Enterprise Group at American Express communicate and enlarge this capability where the margins and merchant discount is obvious -- where they really have the competitive advantages?

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Yes. That's a great question. So first thing we did was build out the platform for Serve customers. The next thing we are going to do we are targeting to do this year is take the prepaid platform that we have because we now have a prepaid card associated with Serve but we have a separate prepaid platform for reloadable.

We are going to merge those together. So that all of the capabilities on Serve will be fully available, including offers and all of that, for all of our reloadable prepaid customers going forward.

That will be -- by the way that allows us to do a tremendous amount of new product innovation and you can expect to see from us innovating all the time on prepaid types of services, and creating very unique value propositions as a result of that.

The next step after that is to bring all of the capabilities to our Cardmember base as well. And what we want to do with that is do that in a very seamless way so that you don't as a Cardmember you don't actually have to sign up for Serve. Basically what we want is one day to say to you, congratulations, you now have the capabilities to do P2P offers, to get offers loaded to set up a subaccount for your child and automatically pay them their allowance if they are at school, whatever it may be.

So we want to have one digital platform across our entire customer base from Serve customers to prepaid customers to charge to credit because that is where the scale and the merchants really come to power. And that is clearly what we are aiming for as a company. It is a great question.

Steven Kwok - *Keefe, Bruette & Woods - Analyst*

Okay. With that, we will end this presentation. Thank you.

Dan Schulman - *American Express Company - Group President-Enterprise Growth Services*

Thank you very much.
