

AMERICAN EXPRESS CO

Form 10-K

February 28, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

p **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010
OR
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from to
Commission File No. 1-7657

American Express Company
(Exact name of registrant as specified in its charter)

New York
*(State or other jurisdiction of
incorporation or organization)*
World Financial Center
200 Vesey Street
New York, New York
(Address of principal executive offices)

13-4922250
*(I.R.S. Employer
Identification No.)*
10285
(Zip Code)

Registrant's telephone number, including area code: (212) 640-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Shares (par value \$0.20 per Share)

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of June 30, 2010, the aggregate market value of the registrant's voting shares held by non-affiliates of the registrant was approximately \$47.6 billion based on the closing sale price as reported on the New York Stock Exchange.

As of February 22, 2011, there were 1,202,409,106 common shares of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Parts I, II and IV: Portions of Registrant's 2010 Annual Report to Shareholders.

Part III: Portions of Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Shareholders to be held on May 2, 2011.

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PART I*

ITEM 1. BUSINESS

INTRODUCTION

Overview

American Express Company, together with its consolidated subsidiaries (American Express, the Company, we, us or our), is a global service company that provides customers with access to products, insights and experiences that enrich lives and build business success. Our principal products and services are charge and credit payment card products and travel-related services offered to consumers and businesses around the world. We were founded in 1850 as a joint stock association. We were incorporated in 1965 as a New York corporation. American Express Company and its principal operating subsidiary, American Express Travel Related Services Company, Inc. (TRS), are bank holding companies under the Bank Holding Company Act of 1956 (the BHC Act), subject to the supervision and examination by the Board of Governors of the Federal Reserve System (the Federal Reserve).

Our headquarters are located in New York, New York in lower Manhattan. We also have offices in other locations in North America, as well as throughout the world.

We are principally engaged in businesses comprising four reportable operating segments: U.S. Card Services, International Card Services, Global Commercial Services, and Global Network & Merchant Services, all of which we describe below. Corporate functions and auxiliary businesses, including the Company's Enterprise Growth Group, publishing business, as well as other company operations, are included in Corporate & Other.

Securities Exchange Act Reports and Additional Information

We maintain an Investor Relations Web site on the Internet at <http://ir.americanexpress.com>. We make available free of charge, on or through this Web site, our annual, quarterly and current reports and any amendments to those reports as soon as reasonably practicable following the time they are electronically filed with or furnished to the Securities and Exchange Commission (SEC). To access these materials, just click on the SEC Filings link under the caption Financial Information/Filings on our Investor Relations homepage.

You can also access our Investor Relations Web site through our main Web site at www.americanexpress.com by clicking on the About American Express link, which is located at the bottom of our homepage. Information contained on our Investor Relations Web site and our main Web site is not incorporated by reference into this report or any other report filed with or furnished to the SEC.

2010 Highlights

Compared with 2009, we delivered:

total revenues net of interest expense of \$27.8 billion, up 13% from \$24.5 billion

income from continuing operations of \$4.1 billion, up 90% from \$2.1 billion

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*Some of the statements in this report constitute forward-looking statements. You can identify forward-looking statements by words such as believe, expect, anticipate, optimistic, intend, plan, aim, will, may, should, likely, estimate, predict, potential, continue or other similar expressions. We discuss certain factors that affect our business and operations and that may cause our actual results to differ materially from these forward-looking statements under Item 1A. Risk Factors below. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

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net income of \$4.1 billion, up 90% from \$2.1 billion

diluted earnings per share based on net income of \$3.35, up 118% from \$1.54

return on average equity of 27.5%, compared with 14.6%.

The Company's results for 2010 reflected strong spending growth and improved credit performance. Throughout the year cardmember spending volumes grew both in the United States and internationally, and across all of the Company's businesses. Cardmember spending levels in 2010 reached record levels at the end of the year. Improving credit trends contributed to the reduction in loan and receivable write-offs and the reduction of loss reserve levels over the course of 2010 when compared to 2009. It is expected that the year-over-year benefits from improving credit trends will decrease over the course of 2011. While the Company invested at historically high levels in 2010, it intends to maintain the flexibility to scale back on investments as business conditions change and the benefits realized from improving credit trends lessen.

Despite improvement in parts of the economic environment, challenges clearly remain for the Company, both in the United States and in many other key regions. These challenges include weak job creation, volatile consumer confidence, consumer behavior, an uncertain housing market, and the regulatory and legislative environment, including the uncertain impact of the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act), of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and of the proceeding against the Company recently brought by the Department of Justice (DOJ) and certain state attorneys general alleging a violation of the U.S. antitrust laws. In addition, as previously discussed, the Company will stop receiving quarterly litigation payments from MasterCard International, Inc. (MasterCard) and Visa Inc. (Visa) at the end of the second and fourth quarters of 2011, respectively, and year-over-year comparisons will be more difficult to maintain in light of the strong 2010 results.

In 2011, the Company will be particularly focused on several initiatives designed to help us accomplish our long-term growth goals: providing greater value to merchants; adding more women, minorities and younger adults to our customer base; accelerating our growth outside the U.S.; making significant progress in the Enterprise Growth Group; and increasing our share of online spending across all products while transforming our customers' digital experience.

We also continue to seek more ways to turn existing capabilities and relationships into new fee services. In the past eighteen months, we launched or expanded several key initiatives, including Business Insights, which provides analytics and consulting services to help merchants attract more customers and increase sales, and AcceptPay, which simplifies the invoicing and payment process for small businesses. Overall, we set an aggressive goal to generate \$3 billion in annual fee-based revenues for the Company by the end of 2014.

For a complete discussion of our 2010 financial results, including financial information regarding each of our reportable operating segments, see pages 20-120 of our 2010 Annual Report to Shareholders, which are incorporated herein by reference. For a discussion of our principal sources of revenue, see pages 72-73 of the 2010 Annual Report to Shareholders.

Products and Services

The Company's range of products and services includes:

charge and credit card products

expense management products and services

consumer and business travel services

stored value products such as Travelers Cheques and other prepaid products

network services

merchant acquisition and processing, point-of-sale, servicing and settlement, and marketing and information products and services for merchants; and

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fee services, including market and trend analyses and related consulting services, fraud prevention services, and the design of customized customer loyalty and rewards programs.

The Company's products and services are sold globally to diverse customer groups, including consumers, small businesses, mid-sized companies and large corporations. These products and services are sold through various channels, including direct mail, on-line applications, targeted direct and third-party sales forces, and direct response advertising.

The Company's products and services generate the following types of revenue for the Company:

Discount revenue, the Company's largest revenue source, which represents fees charged to merchants when cardmembers use their cards to purchase goods and services on the Company's network;

Net card fees, which represent revenue earned for annual charge card memberships;

Travel commissions and fees, which are earned by charging a transaction or management fee for airline or other travel-related transactions;

Other commissions and fees, which are earned on foreign exchange conversions and card-related fees and assessments;

Other revenue, which represents insurance premiums earned from cardmember travel and other insurance programs, revenues arising from contracts with Global Network Services' partners (including royalties and signing fees), publishing revenues and other miscellaneous revenue and fees; and

Interest and fees on loans, which principally represents interest income earned on outstanding balances, and card fees related to the cardmember loans portfolio.

Our general-purpose card network, card-issuing and merchant-acquiring and processing businesses are global in scope. We are a world leader in providing charge and credit cards to consumers, small businesses and corporations. These cards include cards issued by American Express as well as cards issued by third-party banks and other institutions that are accepted on the American Express network (collectively, "Cards"). Our Cards permit our cardmembers ("Cardmembers") to charge purchases of goods and services in most countries around the world at the millions of merchants that accept Cards bearing our logo. At December 31, 2010, we had total worldwide Cards-in-force of 91.0 million (including Cards issued by third parties). In 2010, our worldwide billed business (spending on American Express® Cards, including Cards issued by third parties) was \$713 billion.

The Company has also recently created an Enterprise Growth Group to focus on generating alternative sources of revenue on a global basis, both organically and through acquisitions, in areas such as online and mobile payments and fee-based services. For a discussion concerning our Enterprise Growth Group, please see "Corporate & Other" below.

Our business as a whole has not experienced significant seasonal fluctuations, although travel sales generally tend to be highest in the second and fourth quarters. Travelers Cheque sales and Travelers Cheques outstanding tend to be greatest each year in the summer months, peaking in the third quarter. American Express® Gift Card sales are highest in the months of November and December; and Card billed business tends to be moderately higher in the fourth quarter than in other quarters.

Spend-Centric Model is Competitive Advantage

Despite the continuing challenges of the current economic environment, we believe our spend-centric business model (which focuses on generating revenues primarily by driving spending on our Cards and secondarily by finance charges and fees) continues to give us significant competitive advantages. Average spending on our Cards, which is substantially higher on a per-card basis for us versus our competitors, represents greater value to merchants in the form of loyal customers and higher sales. This enables us to earn premium discount rates and thereby invest in greater value-added services for merchants and Cardmembers. As a result of the higher revenues generated from higher spending Cardmembers, we have the flexibility to invest in more attractive rewards and other incentives to Cardmembers, and targeted marketing and other

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programs and investments for merchants, all of which in turn create incentives for Cardmembers to spend more on their Cards. The significant investments we make in rewards and other compelling value propositions for Cardmembers drive Card usage at merchants and encourage Cardmember loyalty. This business model, along with our closed-loop network, in which we are both the Card issuer and, in most instances, the merchant acquirer, gives us a competitive advantage that we seek to leverage to provide more value to Cardmembers, merchants and our Card-issuing partners.

The American Express Brand

Our brand and its attributes—trust, security, integrity, quality and customer service—are key assets of the Company. We continue to focus on our brand by educating employees about these attributes and by incorporating them into our programs, products and services. Our brand has consistently been rated one of the most valuable brands in the world in published studies, and we believe it provides us with a significant competitive advantage.

We believe our brand and its attributes are critical to our success, and we invest heavily in managing, marketing and promoting it. In addition, we place significant importance on trademarks, service marks and patents, and diligently protect our intellectual property rights around the world.

GLOBAL NETWORK & MERCHANT SERVICES

The Global Network & Merchant Services (GNMS) segment operates a global general-purpose charge and credit card network for both proprietary Cards and Cards issued under the global network services business. It also manages merchant services globally, which includes signing merchants to accept Cards as well as processing and settling Card transactions for those merchants. This segment also offers merchants point-of-sale, servicing and settlement, fraud prevention services, and marketing and information products and services.

Cards bearing our logo are issued by our principal operating subsidiary, TRS, by the Company's U.S. bank subsidiaries, American Express Centurion Bank (Centurion Bank) and American Express Bank, FSB (AEBFSB), and by other operating and bank subsidiaries outside the United States. They are accepted at all merchant locations worldwide that accept American Express-branded Cards. In addition, depending on the product, Cards bearing our logo are generally accepted at ATM locations worldwide that accept Cards. TRS and its subsidiaries, including Centurion Bank and AEBFSB, issue the majority of Cards on our network.

Our Global Network Services (GNS) business establishes and maintains relationships with banks and other institutions around the world that issue Cards and, in certain countries, acquire local merchants on the American Express network. GNS is key to our strategy of broadening the Cardmember and merchant base for our network worldwide.

Our Global Merchant Services (GMS) business provides us with access to rich transaction data through our closed-loop network, which encompasses relationships with both the Cardmember and the merchant. This capability helps us acquire new merchants, deepen relationships with existing merchants, process transactions, and provide targeted marketing, analytical and other value-added services to merchants in our network. In addition, it allows us to analyze trends and spending patterns among various segments of our customer base.

Global Network Services

We continue to pursue a strategy, through our GNS business, of inviting U.S. and foreign banks and other institutions to issue Cards and acquire merchants on the American Express network. By leveraging our global infrastructure and the appeal of the American Express brand, we broaden our Cardmember and merchant base for our network

worldwide. The GNS business has established 129 card-issuing and/or merchant-acquiring arrangements with banks and other institutions in 131 countries.

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In 2010, GNS signed four new partners to issue Cards and/or acquire merchants on the American Express network. Additionally, GNS partners launched approximately 77 new products during 2010, bringing the total number of American Express-branded GNS partner products to approximately 1,000.

GNS focuses on partnering with qualified third-party banks and other financial institutions that choose to issue Cards accepted on our global network and/or acquire merchants on our network. Although we customize our network arrangements to the particular country and each partner's requirements, as well as to our strategic plans in that marketplace, all GNS arrangements are designed to help issuers develop products for their highest-spending and most affluent customers and to support the value of American Express Card acceptance to merchants. We choose to partner with institutions that share a core set of attributes compatible with the American Express brand, such as commitment to high quality standards and strong marketing expertise, and we require adherence to our product, brand and service standards.**

As discussed below, while GNS has added significant partners in 2010, a core strategy of GNS is to build and invest in deeper and more meaningful relationships with its existing partners.

With approximately 1,000 different Card products launched on our network so far by our partners, GNS is an increasingly important business that is strengthening our brand visibility around the world, driving more transaction volume onto our merchant network and increasing the number of merchants accepting the American Express Card. GNS enables us to expand our network's global presence generally without assuming additional Cardmember credit risk or having to invest a large amount of resources, as our GNS partners already have established attractive customer bases they can target with American Express-branded products, and are responsible for managing the credit risk associated with the Cards they issue. Since 1999, Cards-in-force issued by GNS partners have grown at a compound annual growth rate of 24%, and totaled over 29 million Cards at the end of 2010. Outside the United States, 75% of new Cards issued in 2010 were Cards issued by GNS partners. Spending on GNS Cards has grown at a compound annual rate of 25% since 1999. Year-over-year spending growth on these Cards in 2010 was 28%, with total spending equal to \$92 billion.

In assessing whether a given country should be proprietary, GNS, or some combination thereof, we consider a wide range of country-specific factors including the stability and attractiveness of returns, the size of the affluent segment, the strength of available marketing and credit data, the size of co-brand opportunities and how best can we create strong merchant value.

GNS Arrangements

Although the structures and details of each of the GNS arrangements vary, all of them generate revenues for us from the Card transaction volumes they drive on the American Express network. Gross revenues we receive per dollar spent on a Card issued by a GNS partner are generally lower than those from our proprietary Card-issuing business. However, because the GNS partner is responsible for most of the operating costs and risk of its Card-issuing business, our operating expenses and credit losses are generally lower than those in our proprietary Card-issuing business. The GNS business model generates an attractive earnings stream and risk profile that requires a lower level of capital support. The return on equity in our GNS business can thus be significantly higher than that of our proprietary Card-issuing business. In addition, since the majority of GNS costs are fixed, the GNS business is highly scalable. GNS partners benefit from their association with the American Express brand and their ability to gain attractive revenue streams and expand and differentiate their product offerings with innovative marketing programs.

Our GNS arrangements fall into the following three main categories: Independent Operator Arrangements, Network Card License Arrangements and Joint Venture Arrangements.

** The use of the term partner or partnering does not mean or imply a formal legal partnership, and is not meant in any way to alter the terms of American Express relationship with third-party issuers and merchant acquirers.

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Independent Operator Arrangements

The first type of GNS arrangement is known as an independent operator (IO) arrangement. As of the end of 2010, we had 64 of these arrangements around the world. We pursue these arrangements to expand the presence of the American Express network in countries in which we do not offer a proprietary local currency Card. The partner's local presence and relationships help us enhance the impact of our brand in the country, reach merchant coverage goals more quickly, and operate at economic scale and cost levels that would be difficult for us to achieve on our own. Subject to meeting our standards, IO bank partners are licensed to issue local currency Cards in their countries, including the classic Green, Gold and Platinum American Express Cards. In addition, the majority of these partners serve as the merchant acquirer and processor for local merchants. American Express retains the relationship with multinational merchants. Our IO partners own the customer relationships and credit risk for the Cards they issue, and make the decisions about which customers will be issued Cards. GNS generates revenues in IO arrangements from Card licensing fees, royalties on Cardmember billings, foreign exchange conversion revenue, royalties on charge volume at merchants, share of discount revenue and, in some partnerships, royalties on net spread revenue or royalties on cards-in-force. Our IO partners are responsible for transaction authorization, billing and pricing, Cardmember and merchant servicing, and funding Card receivables for their Cards and payables for their merchants.

We bear the credit risk arising from the IO partner's potential failure to meet its settlement obligations to us. We mitigate this risk by partnering with institutions that we believe are financially sound and will meet their obligations, and by monitoring their financial health, their compliance with the terms of their relationship with us and the political, economic and regulatory environment in which they operate. In addition, depending on an IO partner's credit rating and other indicators of financial health, we may require an IO partner to post a letter of credit, bank guarantee or other collateral to reduce this risk.

Examples of countries where we have entered into IO arrangements include Brazil, Russia, China, Indonesia, Turkey, Ecuador, Greece, South Korea, Pakistan, Croatia, Peru, Portugal and Vietnam. Through our IO partnerships, we believe we can accelerate growth in Cardmember spending, Cards-in-force and merchant acceptance in these countries.

Network Card License Arrangements

The second type of GNS arrangement is known as a network card license (NCL). At the end of 2010, we had 61 of these arrangements in place worldwide. We pursue these arrangements to increase our brand presence and gain share in countries in which we have a proprietary Card-issuing and/or merchant acquiring business and, in a few cases, those in which we have IO partners. In an NCL arrangement, we grant the third-party financial institution a license to issue American Express-branded Cards. The NCL issuer owns the customer relationships for all Cards it issues, provides customer service to its Cardmembers, authorizes transactions, manages billing and credit, is responsible for marketing the Cards, and designs Card product features (including rewards and other incentives for Cardmembers), subject to meeting certain standards. We operate the merchant network, route and process Card transactions from the merchant's point-of-sale through submission to the issuer, and settle with issuers. The NCL is the type of arrangement we have implemented with banks in the United States, United Kingdom, Australia and Japan.

GNS revenues in NCL arrangements are driven by a variety of factors, including the level of Cardmember spending, royalties, currency conversions and licensing fees paid by the partner and fees charged to the Card issuer based on charge volume, and our provision of value-added services such as Cardmember insurance products and other Card features and benefits for the issuer's Cards. As indicated above, the NCL issuer bears the credit risk for the issued Cards, as well as the Card marketing and acquisition costs, Cardmember fraud risks and costs of rewards and other loyalty initiatives. We bear the risk arising from the NCL partner's potential failure to meet its settlement obligations to us. We mitigate this risk by partnering with institutions that we believe are financially sound and will meet their

obligations, and by monitoring their financial health, their compliance with the terms of their relationship with us and the political, economic and regulatory environment in which they operate. In addition, depending on an NCL issuer's credit rating and

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other indicators of financial health, we may require an NCL issuer to post a letter of credit, bank guarantee or other collateral to reduce this risk.

Examples of NCL arrangements include our relationships with Bank of America in the United States, Lloyds TSB Bank in the United Kingdom and Westpac Banking Corporation in Australia.

Joint Venture Arrangements

The third type of GNS arrangement is a joint venture (JV) arrangement. We have utilized this type of arrangement in Switzerland and Belgium, as well as in other countries. In these countries, we join with a third-party to establish a separate business in which we have a significant ownership stake. The JV typically signs new merchants to the American Express network and issues local currency Cards that carry our logo. In a JV arrangement, the JV is responsible for the Cardmember credit risk and bears the operating and marketing costs. Unlike the other two types of GNS arrangements, we share management, risk, and profit and loss responsibility with our JV partners. Income is generated by discount revenues, card fees and net spread revenues. The economics of the JV are similar to those of our proprietary Card-issuing business, which we discuss under U.S. Card Services, and we receive a portion of the JV's income depending on, among other things, the level of our ownership interest. Our subsidiary, AEOCC Ltd., purchases card receivables from certain of the GNS JVs from time to time.

GNS Business Highlights

Outside the United States we signed a number of agreements in 2010 to enhance our presence in countries where we already do business and further expanded our global presence into new geographic areas.

Some of the highlights of our GNS business outside the United States in 2010 include:

- Announcement of a new card partnership with Sberbank, a leading retail bank in Russia, for the issuance of American Express branded-cards in Russia

- Expansion of our card-issuing partnership with China Merchants Bank through the launch of American Express consumer Cards that bear the Centurion image

- Announcement of the launch of the Pantai American Express® Credit Card with Maybank in Malaysia, the first medical co-brand credit card with a leading healthcare service provider in Malaysia

- Renewal by Credit Saison of its signature product line in Japan and introduction of four new Saison American Express Cards with the Centurion image

- Launch of the Blue from American Express Card in Georgia, with our partner, Bank of Georgia

- Launch of the Blue from American Express Card in Kazakhstan, with our partner, Kazkommertsbank

- Launch of the American Express® Gold Card in Armenia, with our partner, ACBA Credit Agricole.

GNS continues to expand the airline co-brand products issued through GNS relationships, launching 8 new airline co-brands in 2010 bringing the total to 52 airline co-brand products. Some of the key airline co-brand launches outside the United States in 2010 include:

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Hana SK Skypass American Express® Card and the Hana SK Skypass Corporate American Express® Card with HanaSK Card Co., Ltd. in Korea

Lotte Skypass from American Express with Lotte Bank in South Korea

Miles & More Brussels Airlines products with our partner Alpha Card in Belgium

AAdvantage from Bank of America Europe Card Services (MBNA) in the United Kingdom

Aeroflot Card from American Express with our partner Russian Standard Bank in Russia

La Tarjeta Distancia American Express® Platinum and Elite with Banco de Guayaquil in Ecuador.

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Some of the highlights of our GNS business in the United States in 2010 include:

Announcement of a new partnership for Macy's and Bloomingdale's credit cards to be co-branded exclusively with American Express and issued by Citibank

Announcement of a new partnership with Regions Bank in the U.S. to launch the Regions Reservesm American Express[®] Card, developed for Regions Bank's Private Banking clients and issued by Bank of America.

Global Merchant Services

We operate a GMS business, which includes signing merchants to accept Cards, accepting and processing Card transactions, and settling with merchants that accept Cards for purchases made by Cardmembers with Cards (Charges). We also provide marketing information, and other programs and services to merchants, leveraging the capabilities provided by our investments in our closed-loop structure, as well as point-of-sale products, servicing, and fraud prevention services.

Our objective is for Cardmembers to be able to use the Card wherever and however they desire, and to increase merchant coverage in key geographic areas and in selected new industries that have not traditionally accepted the Card. We add new merchants to our network through a number of sales channels: a proprietary sales force, third-party sales and service agents, strategic alliances with banks and processors, the Internet, telemarketing and inbound Want to Honor calls (i.e., where merchants desiring to accept the Card contact us directly). As discussed in the Global Network Services section, our IO partners and JVs also add new local merchants to the American Express network.

During 2010, we continued expanding our integrated American Express OnePoint[®] solution for small- and medium-sized merchants in the United States. Under this program, third-party service agents provide payment processing services to merchants on our behalf for Card transactions, while we retain the acceptance contract with participating merchants, manage merchant pricing decisions and negotiations, and receive the same transactional information we always have received through our closed-loop network. This program simplifies card processing for small- and medium-sized merchants by providing them with a single source for statements, settlement and customer service. We are now following a similar strategy to our OnePoint solution in Spain through our arrangement with La Caixa, one of Spain's largest acquirers.

GMS continues to significantly expand the number of merchants that accept our Card products as well as the kinds of businesses that accept the Card. Over the last several years, we have focused our efforts on increasing the use of our Cards for everyday spending. In 1990, 64% of our U.S. billings came from the travel and entertainment sectors and 36% came from retail and other sectors. That proportion has now been more than reversed. In 2010, U.S. non-travel and entertainment billings represented approximately 71.5% of the U.S. billed business on American Express Cards. This shift resulted, in part, from the growth, over time, in the types of merchants that began to accept charge and credit cards in response to consumers' increased desire to use these cards for more of their purchases, our focus on expanding Card acceptance to meet Cardmembers' needs, and increased competition from our competitors for travel and entertainment sector spending.

During 2010, we continued our efforts to bring Card acceptance to industries where cash or checks are the predominant form of payment. For example, we have made headway in promoting Card acceptance in industries such as pharmaceuticals, construction, industrial supply, insurance and advertising. Card acceptance agreements signed in 2010 in the United States include:

Mercury Insurance Group, a leading insurance company

BDO USA, LLP, a leading professional services firm providing assurance, tax, financial advisory and consulting services

Applied Medical, a global medical device company that develops, manufactures and markets medical devices used in surgical procedures.

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Internationally, among others, Card acceptance agreements were reached with:

Centro de Recaudaciones de Impuestos Municipales (CRIM), the tax collections governmental agency in Puerto Rico & the Caribbean

Municipio de Naucalpan in Mexico

AAMI, one of Australia's largest and highest profile general insurance companies

Ageas Insurance Solutions in the United Kingdom.

Additionally, we continued our drive to expand Card acceptance for retail and everyday spending categories outside the United States. For example, during 2010, we announced Card acceptance agreements with:

Seven Eleven, now accepting the Card in Mexico

Best Buy, now accepting the Card in the United Kingdom

Kaiser's Tengelmann AG, now an accepting supermarket merchant in Germany.

Globally, acceptance of general-purpose charge and credit cards continues to increase. As in prior years, during 2010, we continued to grow merchant acceptance of Cards around the world and to refine our approach to calculating merchant coverage in accordance with changes in the marketplace. Management estimates that, as of the end of 2010, our merchant network in the United States accommodated more than 90% of our Cardmembers' general-purpose charge and credit card spending, and our international merchant network as a whole accommodated approximately 80% of our Cardmembers' general-purpose charge and credit card spending. These percentages are based on comparing our Cardmembers' spending on our network currently with our estimate of what our Cardmembers would spend on our network if all merchants that accept general-purpose credit and charge cards accepted American Express Cards.

We earn discount revenue from fees charged to merchants for accepting Cards as payment for goods or services sold. The merchant discount is the fee charged to the merchant for accepting Cards and is generally expressed as a percentage of the amount charged on a Card. In some instances, an additional flat transaction fee is assessed. The merchant discount is generally deducted from the amount of the payment that the merchant acquirer (in most cases, including for all U.S. merchants, TRS or one of its subsidiaries) pays to a merchant for Charges submitted. A merchant acquirer is the entity that contracts for Card acceptance with the merchant, accepts transactions from the merchant, pays the merchant for these transactions and submits the transactions to the American Express network, which submits the transactions to the appropriate Card issuer. When a Cardmember presents the Card for payment, the merchant creates a record of charge for the transaction and submits it to the merchant acquirer for payment. To the extent that TRS or one of its subsidiaries is the merchant acquirer, the merchant discount is recorded by us as discount revenue at the time the transaction is received by us from the merchant.

Where we act as the merchant acquirer and the Card presented at a merchant is issued by a third-party bank or financial institution, such as in the case of our GNS partners, we will make financial settlement to the merchant and receive the discount revenue. In our role as the operator of the Card network, we will also receive financial settlement from the Card issuer, who receives an issuer rate (i.e., the individually negotiated amount that Card issuers receive for transactions charged on our network with Cards they issue, which is usually expressed as a percentage of the charged amount). The difference between the discount revenue (received by us in the form of the merchant discount) and the

issuer rate received by the Card issuer generates a return to us. In cases where American Express is the Card issuer and the merchant acquirer is a third-party bank or financial institution (which can be the case in a country in which the IO is the local merchant acquirer), we receive an individually negotiated issuer rate in our settlement with the merchant acquirer, which is recorded by us as discount revenue. By contrast with networks such as Visa and MasterCard, there is no collectively set interchange rate on the American Express network.

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The following diagrams depict the relationships among the parties in a point-of-sale transaction effected on the American Express network where we act as both the Card issuer and merchant acquirer (the 3-Party Model) and under an NCL arrangement where third-party financial institutions act as Card issuers (the NCL Model):

The merchant discount we charge reflects the value we deliver to the merchant and generally represents a premium over the rates charged for acceptance of many cards issued on other networks. We deliver greater value to merchants in a variety of ways, including through higher spending by our Cardmembers relative to users of cards issued on competing card networks, our product and network features and functionality, our marketing expertise and programs, information services, fraud prevention services, and other investments which enhance the merchant value propositions associated with acceptance of the Card.

The merchant discount varies, among other factors, with the industry in which the merchant does business, the merchant's Charge volume, the timing and method of payment to the merchant, the method of submission of Charges and, in certain instances, the geographic scope of the Card acceptance agreement signed with us (local or global) and the Charge amount.

In prior years, we experienced some reduction in our global weighted average merchant discount rate. The average discount rate was 2.55 percent and 2.54 percent for 2010 and 2009, respectively. Over time, certain repricing initiatives, changes in the mix of business and volume-related pricing discounts and investments will likely result in some erosion of the average discount rate.

While most merchants that accept our Cards understand our merchant discount pricing in relation to the value provided, we do encounter a relatively small number of merchants that accept our Cards, but tell their customers that they prefer to accept another type of payment or otherwise seek to suppress use of the Card. Subject to local legal requirements (such as, by way of example, Dodd-Frank), we respond to this issue vigorously to ensure that our Cardmembers are able to use their Card where and when they want to and to protect the American Express brand. We have made progress limiting Card suppression by focusing on acquiring merchants where Cardmembers want to use the Card; continuing to enhance the value we provide to merchants through programs such as DailyWish and American Express Selects, which enable merchants of

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any size to gain valuable exposure and additional sales by providing exclusive offers and experiences to American Express Cardmembers; developing and providing new and innovative business insights, marketing programs and fraud prevention tools using information available through our closed-loop network; providing better and earlier communication of our value proposition; and, when appropriate, exercising our right to terminate Card acceptance agreements with merchants who seek to suppress the use of our Card products. We have a client management organization which is dedicated to growing our merchant customers' business and finding ways to enhance effectiveness of our relationship with these key business partners. Most importantly, we recognize that it is the merchant's choice whether or not to accept American Express cards and that all merchants have numerous options given the intense competition from new and traditional forms of payment. Therefore, we dedicate substantial resources to delivering superior and differentiated value to attract and retain our merchant customers.

The laws of a number of states in the U.S. and certain countries outside the U.S. prohibit surcharging credit card purchases. American Express' Card acceptance agreements with merchants generally do not prohibit surcharging so long as it is permitted by law and a merchant does not discriminate against the Card by surcharging higher amounts on purchases with the Card than on purchases with other cards, or by imposing a surcharge only on Card purchases, but not on purchases made with other cards. American Express also does not prohibit merchants from offering discounts to customers who pay with cash, check or Automated Clearing House (i.e., inter-bank transfers or ACH). In addition, American Express does not prohibit U.S. merchants from offering discounts or in-kind incentives to customers who pay with particular forms of payment in accordance with the provisions of Dodd-Frank, which was enacted in July 2010. For information concerning the proceeding against us recently brought by the DOJ and certain state attorneys general alleging violation of the U.S. antitrust laws with regard to certain provisions of our merchant agreements that are designed to protect our Cardmembers and our brand against discrimination at the point of sale, please see Corporate Matters within Legal Proceedings beginning on page 91.

GMS is focused on understanding and addressing factors that influence merchant satisfaction, including developing and executing innovative programs that increase Card usage at merchants, using technology resources, enhancing operational efficiencies and merchants' ease of doing business with us, providing a suite of online servicing tools, making our United States operating procedures easily available to merchants on our Web site, applying our closed-loop capabilities and deep marketing expertise, and strengthening our relationships with merchants through an expanding roster of services that helps them meet their business goals.

We also offer our merchant customers a full range of point-of-sale solutions, including integrated point-of-sale terminals, software, online solutions, and direct links that allow merchants to accept American Express Cards (as well as credit and debit cards issued on other networks and checks). Virtually all proprietary point-of-sale solutions support direct processing (i.e., direct connectivity) to American Express, which can lower a merchant's cost of Card acceptance and enhance payment efficiency.

In November 2010, we acquired Accertify Inc., a leading provider of solutions that help merchants combat fraudulent online and other card-not-present transactions. Launched in 2007, Accertify provides a hosted software application that offers an extra level of security for transactions over any of the major payment networks, including American Express, Visa, MasterCard, Discover and PayPal, or any other alternative payment method. Accertify also offers merchants the option to outsource their end-to-end fraud management process. With the acquisition of Accertify, American Express is able to broaden its fraud prevention services to merchants for transactions that take place on all networks. Accertify's capabilities are incremental and complementary to American Express' fraud solutions already offered to merchants for transactions on the American Express network.

In November 2010, we also announced the launch of American Express SafeKeysm, an online fraud prevention solution, which licenses Visa's 3-D Secure Protocol, a technology embraced by the payments industry as a global standard for payment authentication.

We continue to focus our commitment to driving global interoperability in payment card specifications, making it easier for merchants to accept our Cards, for Cardmembers to have a more seamless experience at