

For nearly 20 years, Delta and American Express have been offering co-branded credit card products. And when cardmembers earn miles with their SkyMiles credit card, they don't expire— an industry first.

AMERICAN EXPRESS

H

HISTORY FOLLOWS MANY OF US around like a second shadow. And while it's easy to ignore, the smart ones acknowledge—and even invite—its presence. Kenneth Chenault is one of the smart ones. The chairman and CEO of American Express has made a name for himself by sticking to the 164-year-old company's core values of service, trust and security—even during some of the toughest financial crises in recent memory.

The son of a dentist and a dental hygienist, Chenault grew up in a middle-class area of Long Island. He discovered a passion for history while studying the subject at Bowdoin College in Maine in the early 1970s. After receiving his J.D. from Harvard Law School, Chenault worked short stints at law and management consulting firms before landing at American Express in 1981. A quiet, pragmatic leader, he quickly rose through the ranks of the financial services company, which started as an express delivery firm in 1850 before morphing into the travel and credit card giant we know today.

In 1997, Chenault became president and chief operating officer of American Express, and four years later he took over at the helm. In his decade-plus as CEO, he's led the



Kenneth H. Chenault

HAS NAVIGATED AMERICAN EXPRESS THROUGH SOME TUMULTUOUS FINANCIAL WATERS AND STILL MANAGED TO COME OUT AHEAD.
by **CHRIS CLAYTON**

PHOTOGRAPH *by* MILLER MOBLEY

company through periods of huge success. It's currently the largest credit card issuer by purchases—thanks to its affluent membership base—and in 2013 earned a record \$5.4 billion in net income.

Happily married with two grown sons, Chenault, 63, wouldn't be faulted for kicking back a little. Yet he's busier than ever, guiding Amex through a range of innovative digital initiatives, including a recent partnership with Apple Pay, the tech giant's new mobile payment service. He still keeps an eye on history, but rather than focusing on his place therein, he's doing it to inform his company's future—a point he stressed when we spoke in November.

What drew you to American Express early in your career?

I liked that American Express was in the service business. That's been core to the company from the beginning. Second, it's a company that's very focused on ideas and innovation. And what I could see is that it was very involved in becoming more meaningful in people's lives. Its range of offerings—from travel to the payments business—touches people's personal lives, business lives and overall lifestyle. I liked that combination. Overlay that with the fact that American Express has reinvented itself over and over. I remember when I first interviewed for the company, I did some research and found out that it started in the freight forwarding business, then found its way into travel, travelers checks and payments.

This year marks the company's 100th anniversary in the travel services business. Where does travel fit into American Express today and moving forward?

Travel has always been in our DNA but certainly became more pronounced in 1915 when we formally established our travel business. The travel business really leverages the service, trust and security bedrock values of our brand

that are relevant when you're leaving the safety of your home. What I think is critical is that consumer travel is playing an integral role in our company. Look at what we've done with our Platinum and Centurion cards and the range of services we provide—we operate one of the largest

global full-service travel and lifestyle networks, on- and offline. And we also have a very large retail travel network, with travel counselors around the world. Business travel, too, plays a very essential role.

Talk about challenges you've faced in your career and what you learned from them.

Leadership reputations are made or lost during times of crisis. And the way you judge a strong company is really that company's ability to not just survive crisis but to emerge stronger. I took over as CEO in 2001, and then we had the tragedy of 9/11. We lost 11 of our colleagues in the attack and that was obviously incredibly emotional. The impact on our business was also significant. People really

questioned how we would be able to navigate through the downturn in the travel industry and the impact on the economy; spending was in double-digit declines. But American Express had survived a range of crises over the past 150 years, so we focused on the core attributes of the company. We addressed the emotional needs of people, which was most important, but also took tough actions to reinvigorate and position the company for the future. I'm very proud of how the organization responded, and we emerged strong as a company. The other challenge was the financial crisis of 2009. The mantra that I used for the organization at the time was that we had to stay liquid, profitable and selectively invest in growth. Even in the most dire situation, we still focused on growth. I'm proud that American Express emerged from the worst financial crisis in the last 100 years as a substantially stronger company than before the crisis.

As an African American CEO, do you feel pressure to be a role model?

I believe strongly in the importance of being a role model in our company and in society in general. At the end of the day, corporations have an obligation to make a positive difference in our society, because corporations exist because society allows us to ex-

"I believe strongly in the importance of being a role model in our company and in society in general. At the end of the day, corporations have an obligation to make a positive difference in our society, because corporations exist because society allows us to exist."

CASH, CREDIT OR

IF ONE WORD SUMMED UP THE FUTURE OF HOW WE PAY FOR THINGS, IT CERTAINLY WOULDN'T BE "PLASTICS." MOBILE PAYMENTS ARE EMERGING AS THE ULTIMATE DISRUPTER OF CASH AND CREDIT CARDS, WITH APPLE PAY, GOOGLE WALLET AND OTHERS COMPETING IN AN INCREASINGLY CROWDED MARKET.

by **CHRIS CLAYTON**

ist. Corporations have a public trust, and it's important that companies live up to that trust.

As the payment industry embraces mobile innovation, does plastic matter anymore?

I couldn't care less if plastic goes away. The form factor is irrelevant. Our core attributes are actually more meaningful in the digital age. When the Internet really exploded, some questioned whether brands would be important, but brands became even more important. American Express has the largest global, integrated payments platform in the world. That means we're involved in every aspect of the payment process. What's really exciting is the convergence of the on- and offline worlds—there's a tremendous opportunity for growth there. We've developed partnerships with Apple Pay, Facebook and Uber—you can now redeem your membership reward points on Uber. We are leveraging our data to create more personalized offers for customer needs. We also want to become an even more welcoming and inclusive brand, so now we offer Serve and Bluebird [prepaid cards] for the nonaffluent customer. Overall, I think that our business model will be more impactful going forward than it was in past. ▼

AP PHOTO/ERIC RISBERG



“expensive organic groceries,” he had used his fingerprint and smartphone to buy expensive organic groceries.

Not that swiping plastic is any more time consuming than holding up your phone, but Payne argues that convenience isn't Apple Pay's main selling point. “It's more about security,” he says. Apple Pay uses something called “tokenization,” which replaces the card info stored on your phone with a special number used to make payments. That number is translated only when it reaches your credit card network, meaning the merchant never sees your financial information. It's not foolproof, but it's a lot safer than swiping plastic, which leaves your identity exposed to hackers.

Innovations such as tokenization in the mobile space are slowly but surely pushing consumers away from cash, checks and physical cards. Based on Federal Reserve statistics, *Business Insider* forecasts that by 2018, cash transactions will have fallen by 1.1 percent and check transactions by 10.8 percent. For the first time, U.S. consumers are using debit and credit more often than cash—and on a growing number of platforms. From rewards apps to digital wallets to fringe currencies such as Bitcoin, there never have been more ways to pay.

But not every customer is like Payne. For the average shopper, the number of payment options can be dizzying. Plus, old habits die hard. Compare the hundreds of millions of plastic card users in the United States to the few million

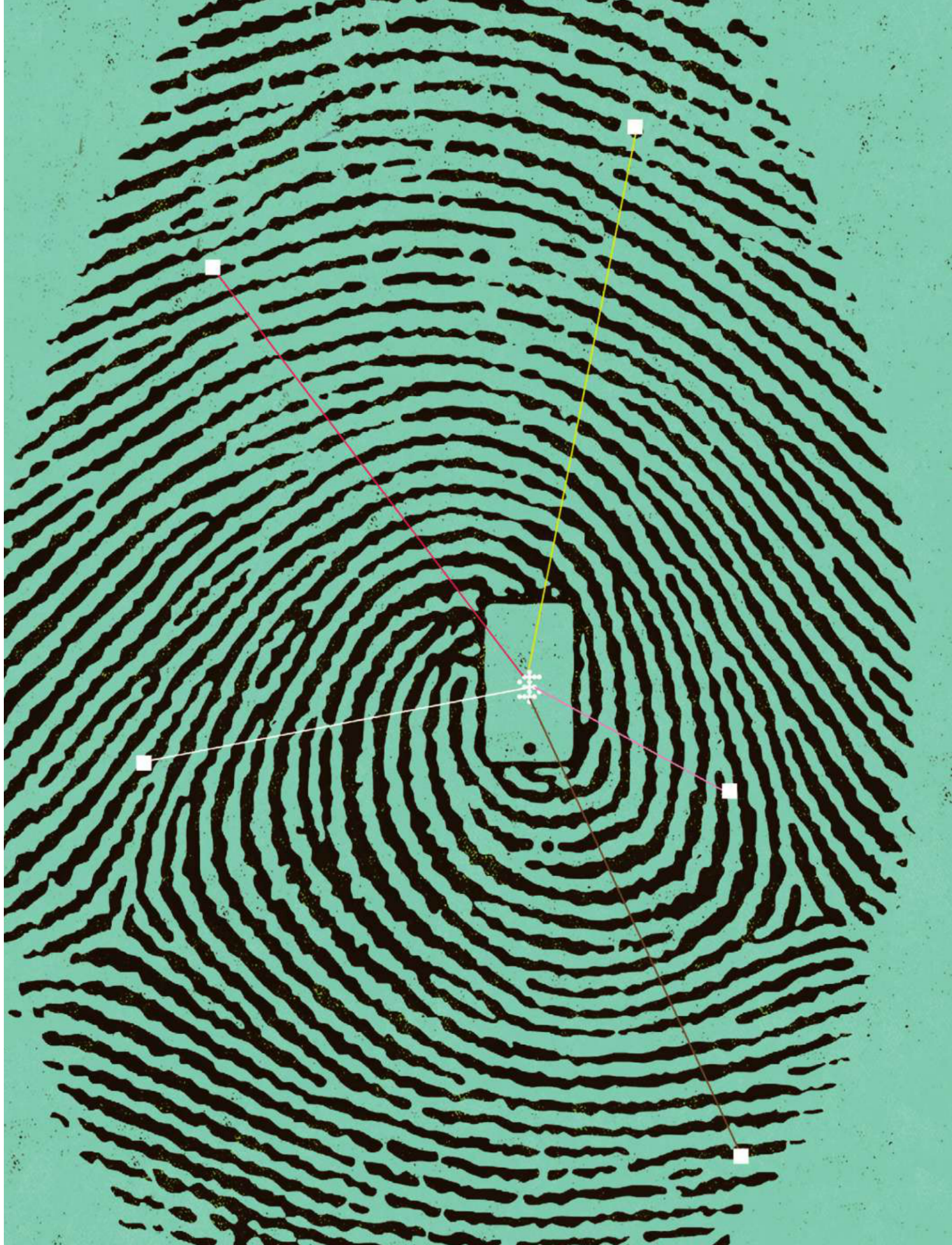
trying out Apple Pay and Google Wallet. “Apple Pay is in the novelty phase,” Payne says. “And it'll stay that way until it's widely adopted by consumers and merchants.” And therein lies the mystery in these early, wild days of mobile payments: Which innovation will emerge as the true disrupter of cash and plastic, and who stands to benefit the most?

According to a 2014 *Business Insider* report, in-store mobile payments in the United States (that is, using your phone to pay for goods rather than cash, check

Apple's senior vice president of internet software and services, Eddy Cue, shows how the company's new Apple Pay system works at a local Whole Foods store.

IPHONE?

BY NEARLY EVERY PSYCHOGRAPHIC MEASURE, ELLIOTT PAYNE is the ideal Apple customer. He lives in a hip city (Minneapolis), has a creative job (designer at a digital ad agency), moonlights as a DJ, blogs about tech and—most importantly—is a proud early adopter. So when Apple released its new mobile payment service on iPhone 6 in October, guess who tried it out at Whole Foods on the first day it was available? At checkout, Payne placed his thumb on his phone's touch ID sensor, waved it in front of a reader on the payment terminal, and before he could say,



or plastic card) will grow by 153 percent from \$1.8 billion in 2013 to \$190 billion by 2018. Pair that with data from a 2014 Forrester Research eCommerce forecast predicting online retail sales to jump from \$294 billion in 2014 to \$414 billion in 2018, and it's clear that our growing love of smartphones and tablets is impacting how and where we shop. Predictably, banks, credit card networks, retailers and tech companies are clamoring to invent bells and whistles to make mobile payments easier, more secure and—to borrow a word used by a Square spokesperson when we asked how the merchant services outfit planned on winning at the point of sale—more “magical.”

Take American Express. In addition to partnering with Apple Pay (and shelling out for the privilege, according to *Bloomberg Businessweek*), the financial services company is expanding its rewards program to allow cardholders to redeem points at McDonald's, Amazon, Uber and elsewhere. Piggybacking with popular brands helps Amex stay top of mind with its members even if plastic cards eventually disappear. The brands stay happy because they gain access to all those affluent card carriers.

“We're the largest global integrated payments platform in the world,” says American Express CEO Kenneth Chenault. “And what's important is that we want to become an even more welcoming and inclusive brand. There's a tremendous opportunity in the convergence of the online and offline worlds, and to leverage our data to create more personalized offers for customer needs.”

Chenault's last point is especially pertinent. The Dodd-Frank financial reform legislation of 2010 limits the amount banks and card networks can charge merchants for each swipe. As a result, they're looking for new revenue streams, such as the potential of “big data”-based business models. “One strand in today's payments game is about replicating in the physical world what's

already taken place online,” says Bill Maurer, director of University of California-Irvine's Institute for Money, Technology and Financial Inclusion. “Online, Amazon has this sewn up. They track my purchases and give me recommendations. That's easy on the Internet, but it's a big challenge in the physical world, and right now, no one owns the consumer at the point of sale.”

In the brick and mortar space, merchants and card companies have always stored slices of con-

sumer data but never the whole pie. For example, Target knows everything you buy at Target, but nothing about the other stores you visit or what you purchase there. Your credit card company, on the other hand, knows every store you visit and how much you spend at each, but nothing about the items you purchase.

Not that this has stopped the two sides

from doubling down on mobile. While the card networks scramble to form alliances with great brands, retailers such as Starbucks and Taco Bell are releasing mobile payments apps that offer in-app deals and allow users to check out by scanning barcodes on their phones. The Starbucks app also manages customer rewards, stores favorite items and, beginning later this year, will let customers order ahead and skip the line. At presstime, the app accounted for a staggering 14 percent of Starbucks' weekly transactions. It's no wonder others are trying to replicate its success.

It's clear what merchants and banks stand to gain from leaps in mobile payment tech, but there's hardly a consensus regarding the benefits on the consumer side. Sure, rewards apps are easy and fun to use, but not everyone wants their purchase history recorded and mined. For this reason, says Maurer, Apple is smart to release a wallet

that doesn't offer much beyond security. “In a post-Target data breach world, Apple Pay's strategy of ‘We're not doing anything with your data’ might be a good one for people worried about privacy,” he says.

This year should be a good litmus test for the impact these new technologies could have on the marketplace. By October 1, most U.S. retailers will be liable for any credit card fraud if they do not accept new, more secure “chip and pin” cards that encrypt financial data and will soon replace magnetic stripe cards. As a result, stores are replacing old payment terminals with new ones equipped to handle whatever the consumer throws at them, including old swipe cards, chip and pin cards and phones using “near field communication” to wirelessly talk to terminals from close range, an approach used by Apple Pay. For small businesses worried about keeping up, mobile card readers such as Square and Amazon's Local Register also will begin accepting chip and pay and digital wallets.

But in an arms race this crowded, Maurer says it's tough to predict a winner. Apple Pay might be user-friendly and well designed, but at presstime it was accepted at a relatively small number of businesses—and even shunned at CVS, Walmart and a slew of other retailers using a rival digital wallet known as CurrentC. And don't dismiss cash—at least in the short term. “A lot of these companies forget the human factor,” says Maurer. “So many of these new technologies are requiring people to engage in things they don't do or have never done. Sure, cash is old, but people like it.”

People also liked phonebooks and encyclopedias when the Internet first arrived, and we all know how that turned out. What seems like a novelty today—wave your phone, get bananas!—might revolutionize how we spend in the future. Just ask an early adopter. “I'm not your average consumer,” says Elliott Payne, “but you don't have to be crazy like me to see how these technologies can benefit the world.” ▼

"In a post-Target data breach world, Apple Pay's strategy of, 'We're not doing anything with your data,' might be a good one for people worried about privacy."

— BILL MAURER, UC-IRVINE'S INSTITUTE FOR MONEY, TECHNOLOGY AND FINANCIAL INCLUSION

ILLUSTRATION by BRIAN STAUFFER