

COMPANY PROFILE

American Express Co

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TABLE OF CONTENTS

Company Overview3

Key Facts3

SWOT Analysis4

COMPANY OVERVIEW

American Express Co (Amex) is a provider of card products and travel-related services. It offers a range of credit cards, charge cards, and other payment and financing solutions to individuals, small and middle businesses, and corporates. The company conducts merchant acquisition and processing, payment settlement, and point-of-sale marketing, and network services. Its travel solutions include personal and corporate travel advisory, hotel and resort booking, and travel management. Amex also offers foreign exchange services, travel insurance, and traveler's cheque. The company operates through various channels including, direct mail, online applications, in-house teams, direct response advertising, and third-party vendors across the Americas, Europe, Africa, the Middle East, and Asia-Pacific. Amex is headquartered in New York City, The US.

The company reported revenues of (US Dollars) US\$37,030 million for the fiscal year ended December 2020 (FY2020), a decrease of 17.9% over FY2019. In FY2020, the company's operating margin was 11.6%, compared to an operating margin of 18.7% in FY2019. In FY2020, the company recorded a net margin of 8.5%, compared to a net margin of 15% in FY2019.

The company reported revenues of US\$9,198 million for the first quarter ended March 2021, a decrease of 3.2% over the previous quarter.

KEY FACTS

Head Office	American Express Co 200 Vesey St Fl 50 NEW YORK New York NEW YORK New York USA
Phone	1 212 6402000
Fax	1 212 6400404
Web Address	www.americanexpress.com
Revenue / turnover (USD Mn)	37,030.0
Financial Year End	December
Employees	59,000
New York Stock Exchange Ticker	AXP

SWOT ANALYSIS

American Express Co (Amex) is a global provider of payment and travel-related services. Adequate capital; diverse customer base and global footprint, and spend-centric model and revenue mix are its major strengths; even as credit quality and operational performance of card business, and cost efficiency could be the causes for concern. Growing cards and payments market, business expansion, and strategic initiatives could provide ample growth opportunities. However, rapid changes in technology, competition, and Basel IV additional capital requirement norms could adversely affect its business operations.

Strength	Weakness
Diverse Customer Base and Global Footprint Spend-Centric Model and Revenue Mix Capital Adequacy	Credit Quality: Card Business Cost Efficiency Operational Performance : Card Business
Opportunity	Threat
Growing Market for Payment Channels: The US Strategic Initiatives Business Expansion	Basel IV Additional Capital Requirement Norms Rapid Changes in Technology Competition

Strength

Diverse Customer Base and Global Footprint

The company has a diverse customer base with a presence globally, which provides it an edge over its peers and mitigates concentration risks. It provides cards and other solutions for customer bases spanning from individuals, small businesses, mid-sized organizations, and large corporates globally. around the world. In FY2020, 49% of its worldwide billed business was generated from global consumers, global commercials (40%), and global network services (11%). In the terms of geography, 69% of the worldwide billed business was generated from the US, and rest of the 31% from outside the US.

Spend-Centric Model and Revenue Mix

The company's unique business model enables it to differentiated and additional value to the merchants, card members, and business partners. Amex has a "spend-centric" business model that primarily emphasizes on card business to generate revenue by promoting spending on the card business and through finance charges and fees. The company's spending on card business on an average per-card basis is more than the average of its peers, which provides it a better value to merchants by creating loyal customers and more transactions. It helps the company to generate higher revenue and invest in attractive loyalty programs and rewards for its customers and merchants.

Capital Adequacy

Amex has a sound capital base ensuring capital adequacy to support its organic and inorganic growth with the secured and unsecured nature of its lending. Sound capital management and moderate risk-weighted asset growth have enabled the company to strengthen its capital base. In FY2020, the company's capital adequacy, CET1, tier 1 capital, and leverage ratios stood at 16.2%, 13.5%, 14.7%, and 11%; as compared to 13.2%, 10.7%, 11.6%, and 10.2%; respectively, in FY2019. The respective capitals grew by 3.5%, 0.8%, and 3.3% over the previous year. All the ratios were well above the Basel III standards of 10.5%, 7%, 8.5%, and 4%, respectively.

Weakness

Credit Quality: Card Business

The company reported a decline in the credit quality of the card business in FY2020, which affected the interest income from card loans and receivables. During the year, its impaired loans and receivables increased 119.3% to US\$3,918 million from US\$1,787 in the previous year. The impaired loans and leases as a percentage of total loans and leases deteriorated to 3.35% from 1.23%. Due to the decline in the credit quality, the reserve for credit losses increased 86.9% to US\$5,611 million from US\$3,002 million, a year ago. Consequently, the coverage ratio for impaired loans and leases stood at 143.21%, as compared to 167.99%.

Cost Efficiency

Amex's cost efficiency declined in FY2020, which affected its profitability. During the year, its efficiency ratio deteriorated to 74.99% from 72.45%, a year ago. The deterioration was due to the higher decrease in net revenue than the decline in the expenses. In FY2020, the expenses fell 14.2% to US\$27,061 million from US\$31,554 million, owing to lower Marketing and business development, rewards, and Card Member services costs, Salaries and employee benefits costs, and other expenses. The net revenue dropped by 17.2% to US\$36,087 million from US\$43,556 million, on the back of lower interest income and non-interest income.

Operational Performance : Card Business

Amex reported a decline in the operational performance of its card business, which affected its revenue. In FY2020, the number of total cards-in-force decreased to 112 million from 114.4 million in the previous year. It included 68.9 million proprietary cards and 43.1 million cards under Global Network Services. The count of basic cards-in-force fell to 91.3 million including 42.2 million in the US and 49.1 million in international operations. The company's average fee per card increased 15.5% to US\$67 from US\$58. Average basic card-member spending also decreased 18.1% to US\$19,972 million from US\$19,972, in the previous year. During the year, the company's net revenue declined 17.2% to US\$36,087 million from US\$43,556 million in FY2019. The decline was due to the 22% lower discount revenue, 34% decrease in other fees and commissions, and 39% fall in other income.

Opportunity

Growing Market for Payment Channels: The US

The growing market for payment channels in the US could provide growth opportunities to the company. According to an in-house report, the number of cards in circulation in the country is projected to reach 1,338.9 million in 2024, which would include 565.5 million debit cards, 750 million credit cards, and 23.4 million charge cards. The transaction value of the channels is forecast to grow to US\$9,793.2 billion in 2024, including US\$4,632.2 billion for debit cards, US\$4,722.8 billion for credit cards, and US\$438.2 billion for charge cards. Growth could be the result of the increasing popularity of contactless cards; the government's efforts to promote electronic payment; and growth in e-commerce due to the Covid-19 pandemic.

Strategic Initiatives

Amex has been taking several strategic initiatives, which could open new growth avenues. In May 2021, it launched the UOB Absolute Cashback American Express Card. The new product offers cashback on all card spend for consumers who want a cashback product that earns them cashback on all card spend while meeting the changing customer needs. In March 2021, the company entered an alliance with Tata CLiQ Luxury to promote luxury consumption in India while providing customers a bespoke shopping experience. In February 2021, it launched the American Express Explorer Credit Card, which enables it to meet the changing needs of clients in Hong Kong while allowing customers to handle most of the spending at home. In the same month, it introduced Business Loans in Australia under its existing business financing product portfolio in partnership with global origination platform, ODX. The initiative diversifies the company's offerings by expanding the business beyond its existing card solutions. In October 2020, Amex partnered with Coupa to allow its American clients to use the American Express virtual Cards as a payment option with Coupa Pay, which is a B2B payments solution. The initiative was in line with its strategy to boost investments in the B2B payments area.

Business Expansion

Amex has been taking several business expansion initiatives, which could drive its growth. In February 2021, it announced its plans to its 16th Centurion Lounge at Reagan National Airport in Washington, D.C., and expand its San Francisco International Airport and Seattle-Tacoma International Airport locations by the end of 2022. The initiative was in line with the company's strategy to expand its lounge footprint globally. In January 2021, Amex opened its 14th Centurion Lounge at Denver International Airport along with a range of amenities, which strengthens its lounge operations. During FY2020, the company also received regulatory approval to start operations in China; and entered several contracts including 16 signed card-issuing agreements with bank partners, and 17 merchant acquiring agreements; which enlarges its scope of operations.

Threat

Basel IV Additional Capital Requirement Norms

"Basel III finalized reforms", which are commonly referred to as Basel IV or Basel 3.1, are expected to be

brought into force in January 2023 in a phased manner. Basel IV norms are in continuation and are complementary to the Basel III norms. The objective of the new norms is to implement a standardized approach instead of internal rating-based models (IRB) to calculate risk-weighted assets in order to identify the required level of capital. Under Basel IV, capital requirements identified under banks' IRB must be at least 72.5% of the standardized approach. As a result, banks have to cover the shortfall by assigning risk-weights to many products that were not considered risky under IRB and raise additional capital for those. To put things into perspective, there was an assessment from the European Banking Authority in December 2019, which suggested that the full implementation of Basel IV will result in about a 24% increase in risk-weighted assets and a shortfall in the capital of about EUR125 billion for European banks.

Rapid Changes in Technology

The company operates in a highly competitive market that is subject to rapid technological changes. Being in the cards and payment processing industry, Amex's business may suffer if it fails to adapt to the changing technological requirements in terms of products and services innovation. The introduction of products and services using new technology or the adoption of new industry standards could make its products and services obsolete or unmarketable. In order to compete effectively, the company has to continuously innovate and introduce new products or services that gain market acceptance. Unless it understands customer requirements, adopts emerging technology and introduces new products and solutions, its business could be adversely affected.

Competition

The company operates in a highly competitive global cards and payment market. It faces competition from all forms of domestic and international payment services providers such as credit, debit, and charge cards networks; issuers and acquirers; bank transfer models; paper-based transactions providers; and emerging alternative, non-traditional payment, and financing providers. A few of its major competitors are JCB Co., Ltd., MasterCard Incorporated, PayPal Holdings, Inc., Visa Inc, and Discover Financial Services, among others. Some of its competitors have a larger presence than the company. Its position could get affected if it fails to provide innovative and advanced solutions. It competes based on factors such as consumers, reputation, technology and innovation, distribution network, security of cardholder and merchant information, service quality, and affiliated financial institutions.

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