



Thomas Cook Group Limited
and
Interpayment Services Limited

A report on the acquisition by the Thomas Cook Group Limited
of the travellers cheque issuing business of Barclays Bank plc



MONOPOLIES AND MERGERS COMMISSION

Thomas Cook Group Limited and Interpayment Services Limited

A report on the acquisition by the Thomas Cook Group Limited of the travellers cheque issuing business of Barclays Bank plc

**Presented to Parliament by the Secretary of State for Trade
and Industry by Command of Her Majesty
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16 February 1995**

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Note by the Department of Trade and Industry

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Part I

Summary and Conclusions

1 Summary

1.1. On 9 November 1994 the Secretary of State for Trade and Industry asked the MMC to investigate and report on a merger situation concerning the acquisition by The Thomas Cook Group Limited (Cook) of the travellers cheque issuing business of Barclays Bank plc (Barclays). The terms of reference are at Appendix 1.1.

1.2. Both Cook and Barclays, through its subsidiary Interpayment Services Limited (ISL), were major issuers of travellers cheques on a world-wide scale. Cook, which issued *MasterCard*-branded cheques, had a 32 per cent share of the UK market in 1994 and ISL, which issued *VISA* cheques, had 17 per cent. The only other issuers of a range of travellers cheques through third party sales agents such as banks, building societies, travel agents and bureaux de change were American Express Company (Amex) with 40 per cent of UK sales and Citicorp with 1 per cent (though it accounts for some 12 per cent of world sales). Thus the merger brought together two of the largest issuers to give Cook about 49 per cent of the UK market.

1.3. The issuers of travellers cheques compete for the business of sales agents who sell them to the end customer. The merger effectively reduced from three to two the number of significant issuers from which sales agents in the UK could choose to receive their supplies. The importance of this reduction in the number of issuers depends on whether travellers cheques are a separate market or whether, as the parties argued, they form part of a wider market which includes all the other methods of making payments or obtaining currency overseas (such as cash, debit cards or eurocheques). We concluded that for the present travellers cheques do constitute a separate market but that this situation may be expected to change as newly-developed electronic products with characteristics similar to those of the travellers cheque are introduced.

1.4. For the majority of sales agents—banks and building societies—there will in future be a choice between Cook and Amex as supplier and we believe, on balance, that these two companies will continue to compete vigorously for the business of banks and building societies.

1.5. However, other considerations affect those sales agents whose main business is as travel agents or bureaux de change. As well as being a travellers cheque issuer, Cook has a major chain of retail travel agents and bureaux de change. Other travel agents and bureaux de change which sell travellers cheques have expressed a number of concerns, among them that Cook may not continue to offer ISL travellers cheques and that Cook's ownership of ISL will allow Cook to acquire commercially valuable information about their business. Prior to the merger ISL, as a subsidiary of Barclays, was not connected with the travel business in any other capacity and so travel agents opting for ISL travellers cheques were not in the position of selling a competitor's product. Now they will effectively have no choice but to offer Amex travellers cheques if they are unwilling to use Cook as a supplier. This provides Amex with the possibility of imposing less favourable terms and the increased costs may then be passed on to consumers. We find that this is an effect of the merger which may be expected to operate against the public interest.

1.6. We recognize that some benefits would arise from the merger, for example a gain in UK employment as a result of functions which ISL carried out overseas being transferred to the UK. However, we do not consider that these benefits outweigh the adverse effect we have identified.

1.7. We have considered what action should be taken for the purpose of preventing or remedying the adverse effect. We recommend that Cook should:

- (a) maintain *MasterCard* and *VISA* as separately branded products and retain ISL as the sole issuer's name on the *VISA* cheques;
- (b) not renew its agreement with MasterCard that 60 per cent (or any other particular proportion) of the cheques issued will be of the *MasterCard* brand; and
- (c) take a number of steps to ensure that sales agents who see Cook as a competitor are protected from the possibility of information about their customers or their business getting into the hands of Cook's retail operation.

These remedies increase the prospects that there will be at least two credible competitors for the business of a full range of sales agents in the UK and therefore that consumers will be protected from the increases in charges that could arise from a lack of effective competition.

1.8. We do not believe divestment of ISL is the most appropriate remedy but if our other recommendations cannot be implemented we see no alternative to divestment as a way of remedying the adverse effect of the merger.

2 Conclusions

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Introduction

2.1. This report concerns the merger of two companies that issue travellers cheques: Cook, with its headquarters in Peterborough, and ISL, formerly a subsidiary of Barclays with its headquarters in Poole.

2.2. Although their headquarters are in the UK the two companies' activities are international. They supply travellers cheques to users both through retail outlets operated by their own groups and through unconnected banks, building societies, travel agents and bureaux de change. These sales agents are located in many countries, as are Cook's own retail outlets. Moreover, since travellers cheques are primarily used by international travellers, the cheques may be cashed or used to make purchases in banks, hotels and shops in almost any country.

2.3. Sales agents generally hold stocks of cheques on trust for the issuer. When a cheque is sold to a user the proceeds are sent to the issuer who holds them in a 'float' until the cheque is presented for payment through the bank clearing system. The typical travellers cheque might be in circulation for about six to eight weeks before it is presented for payment, though some will be cashed quite quickly while others are held for much longer.

The transaction

2.4. Cook announced on 11 August 1994 that it had agreed to purchase the world-wide travellers cheque issuing business of Barclays. Except in Canada, the business was carried on by ISL and its subsidiaries. In Canada it was operated by Barclays Bank of Canada. The transaction was completed on 24 November 1994, some two weeks after the merger had been referred to the MMC.

2.5. The purchase took the form of Cook's acquiring all the issued share capital of ISL. In addition Thomas Cook Group (Canada) Limited acquired the assets and liabilities of the Canadian travellers cheque business carried on by Barclays Bank of Canada.

2.6. The consideration of £[*] represented the value of the net assets of the acquired business. As part of the transaction, Cook obtained the cash and investments of ISL's float. These amounted to about £850 million and so the gross assets taken over clearly exceed the £70 million necessary for the merger to qualify for investigation under section 64(1)(b) of the Fair Trading Act 1973 (the Act).

2.7. Paragraph 1(i) of our terms of reference requires us to say whether the merger was completed in the six months preceding the date of the reference. Since the merger was not completed until after the referral we give a negative answer to this question.

2.8. However, at the date of the reference arrangements were in progress or in contemplation which, if carried into effect, would result in the creation of a merger situation qualifying for investigation.

2.9. Paragraph 2(ii) of the terms of reference asks us, if events so require, whether the actual results of those arrangements are the creation of a merger situation qualifying for investigation. Following completion of the acquisition on 24 November 1994 enterprises carried on by or under the control of Cook have ceased to be distinct from enterprises previously carried on by or under the control of Barclays and the value of the assets taken over exceeds £70 million. We therefore conclude that a merger situation qualifying for investigation has been created.

The market for travellers cheques

Development of the market

2.10. The travellers cheque was introduced towards the end of the last century, with American Express and Thomas Cook as the first issuers. Subsequently a larger number of banks became issuers until the number reached a peak of about 1,000 in the early 1980s. Up to this point, most issuing banks supplied cheques only through their own branches although some also supplied them through independent sales agents.

2.11. Since the early 1980s the number of issuers has declined dramatically to the point where there are now around 100. The majority of banks which have ceased to be issuers in their own right now act as sales agents for the cheques of another issuer.

2.12. There are a number of reasons for issuers leaving the market. First, it is seen in the developed world as a mature market with little room for further growth. For example, the face value of travellers cheques issued in the UK in 1993, at £3.8 billion, was only

*Figure omitted. See note on page iv.

fractionally higher in real terms than the value of those issued in 1986. Issuers who gave evidence to us expect the world-wide market to decline over the coming decade or so from its current level of \$53 billion as other methods of payment such as credit or debit cards and automatic teller machines (ATMs) are increasingly used. They added that to some extent growth in the travellers cheque market in developing countries will offset a faster fall in the USA and Europe.

2.13. A second reason for issuers leaving the market is the difficulty in maintaining a consistently profitable business. The viability of an issuer depends mainly on the income earned from investing the float. This in turn depends on the prevailing level of interest rates and on the average length of time that cheques are in circulation (and funds are therefore available for investment). A better return can also be earned on a float which is mature (or 'well-seasoned'), with a relatively stable underlying level matched by a well-designed portfolio of investments.

2.14. By comparison, little investment is required to be a sales agent for another issuer's cheques and charges to consumers are not affected by changes in interest rates. Thus there are fewer risks for the sales agent, particularly at times like the present when interest rates are low. This is one factor which led to Barclays' decision to sell its issuing business to Cook.

Brands

2.15. *American Express*, *VISA* and *MasterCard* are the three global brands which dominate payment systems around the world. Their logos appear on credit cards, debit cards and travellers cheques issued by a variety of banks, building societies and other organizations. They are also displayed on the windows and doors of shops, hotels, restaurants etc as an indication that products of the particular brand are accepted there; and they are displayed on ATMs and in banks to indicate that cash can be obtained with those products.

2.16. Of the three brands, *American Express* is the longest standing and its products are all operated by Amex itself or by joint ventures in which it participates in particular countries. Amex advertises widely to end users and it competes to have banks and other retail outlets supply its cards or travellers cheques. Apart from the joint ventures in which it participates, it does not license others to use its brand name on their products. Thus the brand and the issuer are synonymous in the case of *American Express*.

2.17. Unlike Amex, Visa International Service Association (Visa) and MasterCard International Incorporated (MasterCard) are both organizations owned by banks. They do not issue any products themselves but license their members to use the relevant brand name on their products. Both are of more recent origin than Amex. Initially launched as card organizations, it was not until 1979 (*VISA*) and 1981 (*MasterCard*) that their brands were applied to travellers cheques. As well as the name and logo of the appropriate brand a *VISA* or *MasterCard* travellers cheque will also display the name of the issuing bank or its travellers cheque subsidiary.

2.18. Carrying a recognized brand is important to those who supply payment cards or travellers cheques because it gives an assurance of acceptability of the products for making payments or drawing cash all around the world. Moreover, this is achieved without the individual issuer having to negotiate arrangements with every outlet or to keep them up to date with specimens of the cards or cheques they should accept. Using one of the recognized brands also facilitates a world-wide service for replacing lost or stolen cards or travellers cheques.

2.19. For travellers cheques the world-wide market shares of the main brands in 1994 were estimated to be: *American Express*—45 per cent, *VISA*—26 per cent, *MasterCard*—18 per cent. Of the remainder, much the most important brand is *Citicorp* with about 7 per cent of the market. Like Amex, Citicorp does not license other issuers to use its brand name. As well as travellers cheques bearing its own brand name Citicorp also issues *VISA* cheques; as a result its total share of the world market is of the order of 12 per cent.

2.20. Cook was an issuer of *MasterCard* cheques before the merger and ISL issued *VISA* cheques. Cook intends to continue with both brands after the merger and so there will be no direct effect on the market shares of these brands as a result of the merger itself. Before the merger Cook's agreement with MasterCard precluded it from issuing travellers cheques of any other brand but this has now been modified to a new requirement that at the expiry of the agreement in 1997 not less than 60 per cent of the cheques issued by Cook throughout the world will be of the *MasterCard* brand. This represents the current proportion. The agreement is intended to prevent Cook from switching existing *MasterCard* customers to the *VISA* brand.

Issuers

2.21. Prior to the merger there were four issuers which supplied travellers cheques in a range of currencies through third party sales agents on a global basis: Amex, Cook, ISL and Citicorp. In addition there are a number of issuers which do not supply cheques through third party sales agents but sell them only through their own branches and others which supply cheques only in one currency or only in one country. National Westminster Bank Plc (NatWest) is an example of these 'niche players'—it issues sterling-denominated *VISA* travellers cheques which are sold only in its own branches. The market shares and brand affiliations of the main issuers are shown in Table 2.1.

TABLE 2.1 Estimated world-wide market shares of travellers cheque issuers in 1994

Issuer	Total market share	Brands				
		American Express	VISA	MasterCard	Citicorp	Other
Amex	44.6	44.6	-	-	-	-
Cook	16.4	-	-	16.4	-	-
ISL	13.7	-	13.7	-	-	-
Citicorp	11.8	-	4.7	-	7.1	-
Others*	13.5	-	8.0	1.8	-	3.7
	100.0	44.6	26.4	18.2	7.1	3.7

Source: Table 4.3.

*Issuers which supply only through their own branches or which supply only in one country or one currency.

2.22. Following the merger between Cook and ISL there will be a reduction in the number of issuers willing to supply third party sales agents from four to three and Cook will increase its market share of total travellers cheque sales on a world-wide basis from 16.4 to 30.1 per cent. It will still have a lower share than Amex whose share is nearly 45 per cent.

2.23. In the UK the market positions of the main issuers are very different. As shown in Table 2.2, both Amex and Citicorp have smaller shares. Citicorp's share is around 1 per cent and it is not viewed by sales agents as a major player in the UK. Following the merger Cook's share will increase from 32 to 49 per cent and there will effectively be a

reduction from three to two in the number of issuers regarded as willing to supply third party agents.

TABLE 2.2 UK market shares of travellers cheque issuers in 1994

<i>Issuer</i>	<i>Market share*</i> %
Amex	40
Cook	32
ISL	17
Citicorp	1
Others†	<u>10</u>
	100

Source: MMC, based on data from the companies.

*Share of estimated total sales of travellers cheques at face value.

†Includes NatWest's sales of VISA sterling travellers cheques which it issues for sale through its own branches. They account for about 7 per cent of the market.

2.24. The main issuers compete with each other by seeking the business of sales agents. They can do this by increasing the level of commission and other incentives paid to the agent, by offering an improved service for the delivery of cheques or by emphasizing to the agent the high quality of the service offered to the end customer (for example, world-wide acceptance and a 24-hour trouble-free refund service if the cheques are lost or stolen). The issuers also promote their brands nationally and contribute to the costs of joint advertising with agents. Competition between issuers has resulted in their paying a commission to sales agents (typically up to 0.5 per cent of sales) where previously the agents paid a 'return commission' to the issuer.

2.25. Cook has indicated (see paragraph 7.25) that, while ISL will continue to have a separate sales force for its VISA cheques, ISL's offers to sales agents will be co-ordinated with those for Cook's MasterCard-branded cheques. Thus, the existing choice of brands will continue to be available to sales agents and consumers but there will not be competition between the terms offered to sales agents for Cook's two brands.

2.26. We understand that the travellers cheque issuing businesses of Amex and Citicorp are regulated in the USA. In the UK the issuing of travellers cheques does not as such come under any specific system for regulating financial services. In practice, however, all the issuers of travellers cheques are either banks or subsidiaries of banks; this means that under the EC's system of consolidated banking supervision Cook (including ISL) falls to be supervised in Germany as part of its parent company's group. Cook's parent, Westdeutsche Landesbank Girozentrale (WestLB), has given letters of comfort to MasterCard and, since the merger, to Visa which undertake to keep Cook in sufficient funds to meet its obligations to these organizations. WestLB has also provided a letter of comfort directly to Cook which undertakes to ensure that Cook's liabilities will be met. We were shown German legal opinions saying that these letters were enforceable under German law. There are additional safeguards through Visa and MasterCard for cheques issued by their members.

Sales agents

2.27. There are many sales agents which offer travellers cheques to the end customer through their retail outlets. About half of all sales are through banks with the remainder split between travel agents, bureaux de change and building societies. Over recent years the market share of the banks has declined as building societies and travel agents have

entered the market. These new agents have seen cheques and foreign currency as an opportunity to sell additional services to their customers, many of whom value the opportunity for one-stop shopping for all their travel or financial needs. Amex has been particularly successful in recruiting building societies since liberalization of the regulatory regime allowed the societies to expand their services.

2.28. Most sales agents have relatively small sales of travellers cheques though Cook's retail travel agencies and bureaux de change are a large supplier of Cook's cheques and Barclays is a large supplier of ISL's cheques through its branch network. There are two principal methods by which sales agents meet demands from their customers. Some sales agents hold stocks of travellers cheques so that they can supply them to customers immediately ('stockholding agents'). This would be the normal method for larger bank branches and the major chains of travel agents and bureaux de change. Other sales agents, which may not have the facilities or knowledge to handle foreign currency transactions at their outlets, prefer not to hold stocks of travellers cheques but to rely on ordering cheques (and foreign currency) to meet specific customer requests. Both Amex and Cook offer such a service to sales agents. In Cook's case the service, known as TRAMS, will supply *MasterCard* travellers cheques and foreign currency in 24 hours pre-packaged in a folder which the sales agents' staff can hand to the customer in exchange for a sterling amount calculated by Cook. Amex supplies cheques (and foreign currency) to a number of building societies on much the same basis.

2.29. As an alternative to dealing directly with the issuer of travellers cheques a sales agent may opt for supply by a 'wholesaler' of cheques. Barclays Currency Services provides such a service both for individual Barclays branches and for third party sales agents. It holds stocks of travellers cheques and foreign currency which can be supplied to retail outlets, again normally pre-packaged to meet individual orders. A number of other wholesalers have recently entered the market to supply small sales agents or to meet the travel needs of large corporate customers on a similar basis.

2.30. When sales agents sell travellers cheques to a consumer who is planning an overseas visit they charge the face value of the cheques plus a consumer commission of, typically, 1 to 2 per cent. The commission is subject to a minimum charge (typically £2 to £4) for small transactions. Following a sale the agent remits the face value of the cheque to the issuer and retains for itself the commission. In addition, if the travellers cheques are denominated in foreign currency the sales agent will normally make an additional profit on the foreign exchange.

2.31. It is difficult for consumers to compare the total cost of purchasing travellers cheques from different sales agents because of variations between consumer commission rates, minimum charges and, in the case of foreign currency cheques, the rate of exchange. Thus the consumer lacks the information necessary to make an informed judgment about value for money. A number of those who gave evidence to us suggested that customers may purchase their travellers cheques from a particular sales agent because the location is convenient or because they have another business relationship with that source, for example it may be the travel agent through which they have booked their holiday or the bank or building society where they have an account.

2.32. As a result competition between sales agents is muted, though it would probably be difficult for a sales agent to make charges that were much higher than the generally prevailing range without losing business. In any event it is clear that competition was not sufficient to prevent a general rise in consumer commissions in recent years and this has taken place despite the increased incentives received from issuers. (We recognize, however, that these trends may also reflect a realization by agents that their travellers cheque businesses had not been profitable.)

Competition with other payment methods

2.33. Travellers cheques are not the only means available to travellers for making payments or obtaining cash overseas. The alternatives include foreign currency taken from the UK, plastic cards (credit cards, debit cards and charge cards) and eurocheques. Foreign currency has high acceptability for most transactions but it lacks the security of travellers cheques and cannot readily be replaced if it is lost or stolen.

2.34. The various types of plastic cards offer a greater degree of flexibility. The traveller does not have to decide in advance the amount and the currencies to be available for spending and his bank or credit card account is not debited until the expenditure is incurred. Most cards can also now be used to obtain cash from ATMs overseas, though this is a comparatively recent development and many consumers may not know about the availability of suitable ATMs in the places they will be visiting. Increasingly, lost or stolen cards can be replaced as readily as travellers cheques. However, the greater flexibility offered by payment cards is seen as a drawback by some travellers (or their employers): they prefer the way in which travellers cheques can be used to set a fixed budget for expenditure. By the same token travellers cheques also limit the holder's losses as a result of fraud if they are lost or stolen.

2.35. Eurocheques, once widely promoted by banks as a means for their account holders to make payments overseas or to draw cash from a local bank, have declined in importance. However, the eurocheque card now has wide acceptability as a Europe-wide debit card for making payments or for drawing cash from ATMs and these uses are replacing its former function as a cheque guarantee card for eurocheques.

2.36. The importance of the reduction in competition among issuers brought about by the merger (see paragraphs 2.22 and 2.23) depends on whether travellers cheques are a separate market or whether they form part of a wider market which includes all the other methods of making payments or obtaining currency overseas. Both Cook and Barclays argued that there is strong competition from other payment systems; they drew attention to decisions by other competition authorities which have accepted this view (see paragraphs 7.54 and 7.55). We believe the right approach is for us to consider the particular circumstances in which the parties to this merger compete in the UK.

2.37. Travellers cheques and the other payment methods described in paragraphs 2.33 to 2.35 each have different characteristics in terms of their acceptability, flexibility, security etc and even when a characteristic is shared it occurs with a different combination of other characteristics. Thus while there is undoubtedly some overlap between the different payment methods none of the alternatives offers all the features of travellers cheques which are valued by their users.

2.38. On the basis of this analysis we believe that if the issuers of travellers cheques were to reduce agent commission, that is commission they pay to sales agents, which could occur if there were a reduction in competition between issuers, the agents would be able to pass on the worsened terms to consumers in the form of increased consumer commission or other charges. In other words, the retail market for travellers cheques is not very price sensitive. Even the parties to the merger accepted that an increase in the price of travellers cheques, unless large, would not lead to more use of the alternatives and, conversely, an increase in the cost of using payment cards would not lead to more sales of travellers cheques. This absence of close substitutes suggests that in the UK travellers cheques are a separate market.

2.39. On the other hand, new products are in development which may become effective competitors to the traditional paper travellers cheques. These could be described as

plastic-based electronic travellers cheques. They will share all the consumer advantages of the paper travellers cheques but with lower operating costs for banks and building societies which wish to become issuers. Barclays has indicated that its agreement with Cook does not preclude it from entering the market with such a product. Moreover Cook's exclusivity agreement with MasterCard is confined to the paper cheque and thus would not prevent an entrant issuing a *MasterCard*-branded electronic cheque. However, it is likely to be some years before these products are in such widespread use that they constrain the behaviour of the issuers of paper travellers cheques. One factor limiting their rate of uptake may be that, although ATMs themselves are quite common, the international networks which allow cards to be used overseas are only now becoming established. It is therefore likely to be some time before facilities are available in all countries in the world, and travellers are confident to rely on them.

2.40. On the basis of this analysis we have formed the view that for the present travellers cheques constitute a separate market but that this situation may be expected to change when the new products are generally available.

The public interest

2.41. The main issue concerning the public interest which we considered in the course of our inquiry was the effect of the merger on competition. It was suggested to us by Cook and Barclays that not only did the merger prevent the closure of ISL but it also had a number of wider benefits for the public interest in that it increased the competitiveness of UK industry and would lead to increases in employment.

2.42. We consider each of these aspects in turn in the following sections before reaching a conclusion on whether the merger operates or may be expected to operate against the public interest. However, we need first to examine the proposition that, if the merger had not taken place, ISL would have closed and that, therefore, any reduction in the number of issuers is not a result of the merger. Although the parties argued that no alternative purchaser could have been found, for reasons parallel to the arguments set out in paragraph 2.74—but applied to Barclays rather than Cook—we are not convinced that this was necessarily the case. In any event, we note that in the spring of 1994 Visa was negotiating with Barclays about the acquisition of ISL, albeit with a view to a later disposal to another party. We therefore reject the proposition that any reduction in competition could not be an adverse effect of the merger.

Competition among issuers

2.43. Cook's acquisition of ISL reduces the number of issuers supplying travellers cheques through third party sales agents by one. The effect of this reduction in the number of competitors depends to some extent on whether travellers cheques constitute a separate market or whether they compete with other payment methods, such as foreign currency or credit and debit cards. We discuss this in paragraphs 2.36 to 2.40 and conclude that travellers cheques do constitute a separate market in the UK.

2.44. The reduction in the number of issuers would not matter so much if the barriers to entry were low, but the evidence is that they are high. The costs of establishing an issuer's business are high, the economies of scale which are available make it costly for a new entrant to compete effectively and profit expectations will be poor for an issuer with a float which is not 'well seasoned', especially at a time of low interest rates. The rapid shrinkage in the number of issuers experienced over recent years also suggests that entry

is unlikely, even for a bank to issue travellers cheques through its own branches. A further barrier to new entry is the agreement between Cook and MasterCard that prevents any new issuer of *MasterCard* travellers cheques from supplying them through sales agents.

2.45. The amount of commission charged to the customer (consumer commission) is set by the sales agent and is not controlled by the issuer. However, if the amount of commission received by the agent from the issuer (agent commission) were cut, as could happen if competition among issuers were to become muted, sales agents' charges to the customer would be likely to rise as agents sought to maintain their profitability. A reduction in competition between issuers could thus be expected to have a detrimental effect on consumers. Consumers could also suffer if a reduction in competition between issuers led to a decline in the quality or variety of the services issuers made available to sales agents, for example the withdrawal of some of the currencies in which travellers cheques are issued.

Effect on banks and building societies

2.46. For the majority of UK sales agents, banks and building societies, there will still be a choice between Cook and Amex; the key question for us is whether or not these two issuers will keenly compete for the custom of agents or whether a 'cosy duopoly' will develop, with commissions paid to agents and other incentives declining and standards of service possibly being allowed to slip. On balance we believe keen competition is the more likely outcome. Travellers cheques, as pointed out earlier, are likely to continue to decline in importance as a means of making international payments, and their long-term future is uncertain. In the circumstances it cannot be in the interests of the two companies to take any action which may hasten the decline of the travellers cheque market by raising prices or reducing standards of service even though, in the short run, any loss of business to other international payment devices may be small. Moreover, in other sizeable markets for travellers cheques (Benelux and Germany would be examples) Cook and Amex have for some time been the only major issuers; the evidence from these countries suggests that Cook and Amex have competed vigorously and that incentives to agents have accordingly been relatively high. If they were to compete less vigorously in the UK one might expect that Citicorp and niche issuers such as NatWest would exert some restraining influence.

2.47. We conclude that with respect to agents such as banks and building societies the merger will not significantly reduce competition in the travellers cheque market.

Effect on travel agents and bureaux de change

2.48. In the UK, travel agents and bureaux de change now have nearly 40 per cent of the retail market for the sale of travellers cheques. Among them is Cook, now the leading UK issuer of cheques. Cook is thus a vertically-integrated competitor to those sales agents whose main business is as travel agents or bureaux de change. A number of them have expressed concern that Cook may use its position as an issuer of travellers cheques to distort competition in their main area of business. Excluding Cook's and Amex's retail operations, the UK market share of travel agents and bureaux de change was around 14 per cent in 1994. Their share has been rising in recent years and there are indications that it will continue to grow as more travel agents begin to sell travellers cheques.

2.49. Prior to the merger ISL, as a subsidiary of Barclays, was not connected with the travel business in any capacity other than as an issuer of travellers cheques. Travel agents did not therefore have any concern that they were selling a competitor's product. Indeed,

the cheques bore the name of ISL, with no mention of Barclays, so that they would be more acceptable to other banks and to building societies (ISL was a 'white label' issuer).

2.50. Although Amex is in the travel agency and bureaux de change business, as well as being an issuer of travellers cheques and payment cards, its 48 retail outlets constitute a comparatively small share of the UK travel and bureaux de change market; it is therefore apparent that sales agents in the UK who are primarily in these areas do not see Amex as a competitor in the same way as Cook. Hence they do not have the same hesitation over doing business with Amex as they do with Cook.

2.51. Whereas for most sales agents in the UK the merger results in a reduction from three to two in their choice of issuer (Cook and Amex), we have noted that for those who are unwilling to use Cook as a supplier there will now effectively be no choice but to sell Amex travellers cheques. This provides Amex with the possibility of imposing less favourable terms on these agents with the result that the costs may be passed on to consumers. Thus the merger may have detrimental consequences for the customers of sales agents which believe they have no acceptable alternative to *American Express* travellers cheques.

2.52. Competitors to Cook's retail operations (travel agencies and bureaux de change) have voiced four fears:

- (a) They do not want to be seen to sell a competitor's products.
- (b) They do not wish to boost the profits of a competitor.
- (c) They fear that information about their clients or the state of their business will be passed to Cook's retail business.
- (d) They fear unfavourable treatment in the travellers cheque business designed to put them at a disadvantage as competitors to Cook's retail activities.

2.53. The first of these can be avoided if ISL's name is kept as a 'white label' issuer. We were told that this is what Cook will do, both at the insistence of Visa and because it is in Cook's commercial interests. However, that situation may change.

2.54. Although competing travel agents and bureaux de change may not wish to boost the profits of a competitor (paragraph 2.52(b)) it may not be unreasonable for them to be faced with that prospect since many travel agents are themselves vertically integrated with package tour operators. Cook is therefore faced, as a travel agent, with having to sell the package tours of its competitors. Overall we do not regard this particular concern as being relevant to our consideration of the public interest.

2.55. The passing of information to Cook (paragraph 2.52(c)) is arguably a serious matter for the travel agents and bureaux de change concerned. One major travel business described the situation as akin to handing over its customer list to a close competitor. Cook told us that it recognized sales agents' sensitivity about the use of information and for that reason a confidentiality clause had been included in many of its agency agreements, although this had not been ISL's practice. Cook saw no difficulty in inserting in all its agreements a clause which would prohibit it from using for any other purpose information obtained in the course of its travellers cheque business about the sales agent or its customers.

2.56. Cook also thought that sales agents' fears may be unfounded since the names and addresses of the ultimate purchaser of travellers cheques were not entered into its

computer database. In many cases addresses were not even received from agents and it would be willing to agree with stockholding sales agents that it would not ask for either names or addresses. However, when agents were supplied through Cook's TRAMS service (see paragraph 2.28) it was necessary for Cook to have the name of the customer (in the few cases where the packages were to be delivered to a customer's home, the address was evidently also required).

2.57. In the light of this explanation the agents' fears may arguably be exaggerated, though we note that Cook's practices and plans could change. Overall, if now or in the future some sales agents are unwilling to do business with Cook because of their concern about the information they may have to supply, whether the concerns are justified or not, this will have the effect of reducing competition among issuers.

2.58. Fears of unfavourable treatment in comparison with Cook's own retail business (paragraph 2.52(d)) raise different considerations. This aspect is of greatest importance for existing bureaux de change which sometimes compete side by side with Cook's own outlets, for example at airports and international railway stations, and for potential new entrants to this market. In relation to the suggestion that Cook will offer unduly favourable terms to its own retail outlets, we have been assured that Cook's travellers cheque business negotiates terms with its retail business on an arm's length basis. In any event, it is difficult to see how Cook would profit from such a strategy since the allocation of costs between the businesses is to some extent arbitrary and additional profits in one business will be offset by reduced profits in the other.

2.59. Although we concluded in paragraph 2.47 that the merger will not significantly reduce competition in the travellers cheque market with respect to agents such as banks and building societies, the position is different with regard to sales agents which compete with Cook's retail operation (that is, travel agents and bureaux de change). As explained earlier, a number of them expressed strong reluctance to rely on an ISL owned by Cook for their supply of travellers cheques (Cook's *MasterCard* cheques, which prominently display the Thomas Cook brand name, would for understandable reasons be regarded as wholly unacceptable), at any rate unless a number of conditions were imposed on Cook and ISL. As indicated above, we are not convinced that all their concerns are justified, and we also note that just before we finished our inquiry a major travel agent (A T Mays) decided to continue to supply ISL travellers cheques despite ISL being owned by Cook. Nonetheless we consider that travel agents and bureaux de change may have reason, first, to feel anxiety in relation to information that may be passed to Cook in the context of their travellers cheque business, and secondly, to seek reassurance about Cook's continued willingness to offer a 'white label' cheque. We further believe that the indefinite continuation of Cook's agreement with MasterCard that at least 60 per cent of its total travellers cheque sales should be of the *MasterCard* brand may result in a worsening of the terms at which ISL cheques are on offer.

2.60. All these factors will encourage travel agents and bureaux de change to turn to Amex, the only remaining issuer unless Citicorp emerges as a more credible competitor than seems likely at present, for their travellers cheque requirements, and this in turn will enable Amex to quote relatively stiff terms (ie low incentives etc) to such agents.

2.61. Travel agents and bureaux de change may attempt to pass worse terms for travellers cheques on to their customers. Cook argued that the individual agent would already have opted for a level of customer commission etc which best met its business needs, and that worse terms from the issuer of the cheques it sold would therefore not be reflected in the consumer paying higher prices. However, we consider that a worsening of the terms on which issuers sell travellers cheques to travel agents and bureaux de change across the board would alter competitive conditions in the market sufficiently for such

outlets to be able to pass the higher cost to the public. We consider that this aspect of the merger can be expected to have detrimental consequences.

Wider benefits of the merger

2.62. Cook has argued that the merger allows it to operate a travellers cheque issuing business which is large enough to benefit from economies of scale and therefore to compete more effectively against Amex, the world leader in travellers cheques, and against alternative international consumer payment devices. This, in Cook's view, will not only bring benefits to purchasers of travellers cheques in the UK but will provide further material benefits to the UK by creating a more competitive UK-based global business and by increasing employment in the UK as Cook moves some of ISL's overseas activities to Peterborough.

2.63. This argument is based in large part on the assumption that, in the absence of the merger, not only would ISL be closed down but, [

Details omitted. See note on page iv.

].

2.64. Details of the increases in UK employment which Cook expects to arise from its plans for integrating some of ISL's activities into its Peterborough headquarters are given in paragraphs 7.67 and 7.68. In summary, according to Cook there could be a net increase in employment of between 86 and 116 as a result of the merger compared with a net decrease of between 149 and 164 in the short term if Cook had to wind down ISL's business. [

note on page iv.

Details omitted. See

].

2.65. We have no basis for disputing the projected increases in employment if the merger stands. However, the decreases depend to some extent on whether ISL's business would be bought by another purchaser rather than being closed down if the merger were not allowed to stand, on the location of that purchaser, and on which issuer would acquire the business if ISL closed. On balance we accept that the merger would, at a minimum, produce benefits of a little under 100 jobs compared with the alternatives, although we have no way of judging whether this would be a permanent gain.

2.66. To the extent that jobs were created in the UK in processing transactions carried out overseas there would also be an increase in the UK's foreign exchange earnings. However, we would not expect the increase to be other than modest.

2.67. A further benefit for the merger is that it maintains confidence in the *VISA* brand of travellers cheques. ISL issues around 50 per cent of all *VISA* travellers cheques, and we were told that if it had to close this could reduce the viability of the remaining *VISA* cheque business to such a degree that the whole *VISA* travellers cheque programme would collapse. We see some merit in this but are less inclined to accept the argument that because *VISA* would no longer offer a complete range of products to its member banks it was possible that they would turn to a competing payment organization, thus weakening the whole *VISA* brand.

2.68. While these arguments have some merit they need to be balanced against the detrimental effects of the merger in reaching an overall assessment about the effect on the public interest. We discuss this in the next section.

Conclusion on the public interest

2.69. We have discussed the way in which the merger reduces the number of issuers from which UK sales agents can obtain travellers cheques and therefore creates the possibility that worse terms will be available to some sales agents.

2.70. For the majority of sales agents there will still be competition for their services between Cook and Amex. On the basis of evidence of the incentives paid in other countries where these two issuers are the main competitors (see paragraph 7.37) we think it more likely that they will continue to compete vigorously. However, sales agents which compete with Cook's retail operation (travel agents and bureaux de change) will, in the absence of safeguards for any dealings with Cook, be likely to see Amex as their only possible issuer. This could lead to a worsening of the terms these agents are able to offer consumers.

2.71. Our judgment is that this detriment is not outweighed by the benefits discussed in paragraphs 2.62 to 2.68 and we therefore conclude that the creation of the merger situation operates or may be expected to operate against the public interest. The particular effect adverse to the public interest is that discussed in the preceding paragraph, namely a worsening of the terms which some agents are able to offer consumers.

Remedies

2.72. We have considered whether this adverse effect might be remedied by structural remedies involving divestment or by behavioural remedies which limit the way the merged company can operate.

2.73. We put it to Cook that one way to prevent the adverse effect of the merger would be to require Cook to divest itself of ISL. [

Details omitted. See note on page iv.

]

2.74. [

Details omitted. See note on page iv.

]

It is, of course, true that ISL has not been profitable in recent years while it was owned by Barclays. However, the discussion in paragraphs 5.62 to 5.74 suggests that, if operated with an infrastructure and investment policy geared to the needs of a travellers cheque issuer rather than a major banking group, the business could break even or move into profitability were the recent upswing in US and UK interest rates to go further. All in all we do not believe closure of ISL would be inevitable, [*].

2.75. Nor would we, on the other hand, dismiss the risk altogether; [*Details omitted. See note on page iv.*]. In any event divestment seems disproportionate to the adverse effect we have identified. For this reason and because our concerns can be adequately addressed by remedies directed at the behaviour of the merged company we do not recommend that Cook should be required to divest itself of ISL.

*Details omitted. See note on page iv.

2.76. Travel agents suggested to us that a structural remedy which would address the adverse effects relating to competition between Cook's retail operations and other travel agents and bureaux de change would be to require Cook to divest its retail operations. We reject this; it would produce a worse outcome for the consumer because of the reduced choice in the travel agency and bureaux de change markets.

2.77. Another possible structural remedy would be to prohibit Cook from further acquisitions (especially of Citicorp's travellers cheque business) and from entering into joint ventures with other issuers. This would prevent Cook from further increasing its market share in the UK but, more importantly, would increase the prospects of Citicorp remaining as an independent issuer. Although at present Citicorp's market share in the UK is small and it does not appear to be actively seeking new sales agents, it remains a significant issuer on a world-wide basis (with a market share of about 12 per cent). If the UK market were to show signs of a lack of competition it could present an attractive opportunity for Citicorp to expand its activities. This could be an important safeguard for sales agents, especially travel agents and bureaux de change.

2.78. When we put the possibility of a prohibition on further acquisitions to Cook it responded by pointing out that this would allow Amex to acquire the travellers cheque issuing business of any other issuer in the world which decided to withdraw and to do so without having to compete with Cook for the business. Cook believed that such a requirement would place an unreasonable constraint on its competitive strategy in a market which was declining in real terms. In view of the uncertainties about the future of the market we do not believe it would be appropriate for Cook to be prohibited now from acquiring another issuer. However, further merger situations could be the subject of MMC references and Cook is fully aware of the concerns which we mention in paragraph 2.77.

2.79. In paragraph 2.75 we recorded our reservations about requiring divestment of ISL. We have therefore looked for ways of making sure that ISL remains a credible competitor for the business of a full range of sales agents and that Cook is not able to misuse information obtained in the course of any of its travellers cheque issuing businesses. We consider the following to be the most effective and practicable and we therefore recommend that they should be implemented as a way of remedying the adverse effect we have identified:

- (a) Cook to maintain *MasterCard* and *VISA* as separately branded products, and to retain ISL as the sole issuer's name and logo on its *VISA* cheques. This would maintain the 'white label' status which is important to some sales agents. Cook told us that such a remedy could present it with difficulties as a result of events beyond its control. For example, in the light of the development and penetration of alternative payment systems, it was possible that MasterCard or Visa might not continue their travellers cheque programmes or that other issuers might cease to support them. We recognize these uncertainties but if market developments make it necessary an undertaking can always be modified or removed following a review by the Director General of Fair Trading.
- (b) Cook not to enter into a new agreement with MasterCard (after the current agreement expires in 1997) which requires that any particular proportion of Cook's sales of travellers cheques are to be of the *MasterCard* brand. When we suggested to Cook that it might be required to terminate the current agreement it told us that such a requirement might jeopardize its good relationship with MasterCard and was unnecessary because it was almost inconceivable that the current requirement would affect competition between brands in the UK (see paragraph 7.76). Given all the uncertainty we do not think that the agreement is bound to be as harmless as Cook suggested and we therefore regard it as important that competition should not be

constrained in this way indefinitely. However, we recognize that it could be difficult to renegotiate the present agreement and that little damage would be likely to result from it in the short term.

- (c) Cook to introduce and maintain arrangements which prevent information about other travellers cheque sales agents or their customers being passed to its travel or other retail business. This will give sales agents which compete with Cook's retail operations the confidence to continue to regard ISL as a realistic alternative to Amex, thus forestalling the detrimental consequences of the merger identified in paragraphs 2.60 and 2.61.
- (d) Cook to offer sales agents the opportunity to handle their relationship with Cook in a way that does not require them to disclose the names or addresses of their customers. This serves a similar purpose to (c).
- (e) Cook to refrain from asking wholesalers such as Barclays Currency Services (see paragraph 2.29) for information about their customers other than the identity of the sales agent which sold particular travellers cheques to a final customer. This will enable sales agents to deal with wholesalers as an alternative to having a direct relationship with Cook but still to have the assurance of confidentiality provided by (d).

2.80. Although we do not think requiring Cook to divest itself of ISL would be an appropriate remedy, we recognize that there may be no alternative to such divestment as a way of remedying the adverse effect of the merger if any of the remedies recommended in the preceding paragraphs cannot be made the subject of an Order under Schedule 8 to the Act and if Cook is unwilling to give appropriate undertakings.

Part II

Background and evidence

3 Background

3.1. On 11 August 1994 Cook announced that it had reached agreement with Barclays to acquire Barclays' world-wide travellers cheques business. This business was carried on by ISL and its subsidiaries, except in Canada where the business was carried on by Barclays Bank of Canada. ISL was a wholly-owned subsidiary of Barclays. Its business is now solely the issuing of travellers cheques: its previous activities not related to travellers cheques—Barclays International Money Order and Barclaydraft—were transferred to other parts of the Barclays organization before the agreement was concluded for the sale of ISL to Cook. On the advice of the Director General of Fair Trading, the Secretary of State referred the merger to the MMC on 9 November 1994 for investigation and report under the merger provisions of the Fair Trading Act 1973. A copy of the terms of reference is at Appendix 1.1.

3.2. Consumers purchase travellers cheques for the purpose of obtaining local currency abroad and, to a lesser extent, making purchases of goods and services directly with the cheques, while travelling abroad. Travellers cheques are sold through the issuer's retail outlets (if any) or through sales agents, often financial institutions but also, increasingly, travel agents and bureaux de change.

3.3. At one time, a large number of financial institutions offering foreign currency supplies to travellers issued travellers cheques in their own name. The number of issuers has fallen steeply from over 1,000 to less than 100 as issuers have been faced with increasing costs and decreasing revenue. Nowadays the vast majority of travellers cheques carry one of three internationally recognized brand names, *American Express*, *VISA* or *MasterCard*, ensuring world-wide acceptance of the cheques at a very large number of banks and other outlets.

3.4. Cook has been in the business of providing a range of travel and ancillary services since the mid-19th century and has extensive experience in this area.¹ Cook was the originator of the circular note, the precursor of the travellers cheque, in 1874. In its present form the travellers cheque was introduced by American Express in 1891. Since 1981 Cook's travellers cheques have incorporated the *MasterCard* brand and Cook now issues about 90 per cent of all *MasterCard* travellers cheques sold world-wide. Its current agreement with MasterCard runs to 31 December 1997. In 1994 sales of travellers cheques by Cook were estimated at 16.4 per cent of world-wide sales of travellers cheques.

3.5. Barclays started to issue travellers cheques through its own branches in 1928. Since 1979 its cheques have carried the *VISA* brand and during the 1980s and early 1990s it acquired a number of travellers cheque issuing businesses from other banks. In 1989 its travellers cheque issuing business was named Interpayment and it began to compete as a world-wide supplier of cheques through sales agents. All Barclays' travellers cheque issuing businesses (except that in Canada) were then managed by the Interpayment division of Barclays. The Interpayment name—a 'white label'—was chosen so that other banks could sell the cheques without appearing to be promoting Barclays Bank. The Interpayment business was incorporated as Interpayment Services Limited (ISL) on 1 January 1991.

3.6. In 1994 cheques issued by ISL were estimated to account for 13.7 per cent of the world-wide sales of travellers cheques (and about 50 per cent of all *VISA* cheques). In the year to mid-1994 about

¹For instance, during Lord Wolseley's attempt to rescue Gordon at Khartoum in 1884. 'Lord Wolseley, having assembled this heterogenous force in Egypt, travelled up to the course of the Nile supplied with coal, rations and river steamers by Thomas Cook the travel agents.' (Page 511, *Heaven's Command*, James Morris, Faber & Faber 1973.)

60 per cent of ISL's sales of *VISA* travellers cheques in the UK (and about 12 per cent world-wide) were sold through Barclays branches.

3.7. Apart from Cook and ISL, there are only two other issuers whose travellers cheques are widely available through third party sales agents: Amex and Citicorp. Their 1994 shares of world sales are estimated at 44.6 per cent and 11.8 per cent respectively. Amex's share of the market is smaller in the UK than its share in many other countries. Estimated UK market shares in 1994 are: Cook 32.4 per cent, ISL 17.1 per cent, Amex 39.5 per cent and Citicorp about 1 per cent. There remain a few banks which issue travellers cheques for sale only through their own branches, for example NatWest. Thus the merger reduced the number of significant issuers from four to three world-wide and from three to two in the UK.

3.8. Operating conditions for issuers of travellers cheques became more difficult in the early 1990s, chiefly because of low interest rates and keen competition which resulted in increased agent commissions and other incentives for sales agents. ISL incurred significant operating losses each year from 1990. The company embarked on a programme of cost-cutting in 1992/93 but even after this programme had been completed ISL was unable to establish a budget for 1994 achieving a break-even position. Barclays was unsuccessful in finding a buyer for ISL and in January 1994 decided to exit the travellers cheque issuing business and to close down ISL. Barclays told us that it will continue to sell the conventional travellers cheque through its own branches as a sales agent but not as an issuer.

3.9. Barclays also notified Visa of its intention to close down ISL. Visa expressed to Barclays its concern that ISL's exit from the business would jeopardize the entire *VISA* travellers cheque programme since ISL was by far the largest *VISA* issuer. It asked Barclays to defer implementation of the closure plans while it pursued alternatives.

3.10. As an interim solution Visa itself commenced negotiations to acquire ISL, but in June 1994 it introduced Cook as a potential buyer. On 9 August 1994 Cook signed a contract to buy ISL; the purchase was not dependent on the approval of competition or other regulatory authorities. Completion was scheduled to take place on 10 November 1994.

3.11. Cook's stated intention is that the two brands, *MasterCard* and *VISA*, would be retained with separate sales forces and marketing strategies. Cook added, however, that there would be common distribution, sales support and processing facilities under the ultimate control of Cook.

3.12. Following the decision to refer the merger to the MMC, completion of the proposed transaction was prohibited by an order under the Act dated 10 November 1994 pending the outcome of the inquiry. This was superseded by a second order, The Merger Reference (Thomas Cook Group Limited and Barclays Bank plc) (No 2) Order 1994, which came into force on 23 November 1994. The second order permitted the completion of the merger subject to a number of conditions aimed at maintaining the legal structure of ISL and keeping its activities distinct and separate. A copy of the second order is at Appendix 3.1. Completion of the acquisition took place on 24 November 1994 when Cook assumed ownership and control of ISL.

4 Travellers cheques

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4.1. In this chapter we first give a description of the travellers cheque business, and then go on to consider the wider market-place in which travellers cheques are sold. While the chapter concentrates on the UK market, it inevitably does so within the context of the world-wide nature of travellers cheques and their suppliers.

Origins and nature of travellers cheques

4.2. Travellers cheques were first introduced by Amex in 1891, although in 1874 Thomas Cook had begun issuing his customers with 'circular notes' enabling them to meet hotel costs and incidental expenses at selected outlets overseas. Travellers cheques, with their system of signature and countersignature, were designed to provide travellers with a secure and replaceable document that a wide range of organizations would be willing to accept in exchange for cash, goods and services. The willingness of Thomas Cook to accept Amex's travellers cheques in its 150 offices around the world from 1909 may have helped to establish the widespread acceptability of travellers cheques.

4.3. Although there appears to be no precise legal definition of travellers cheques, they are generally regarded as a type of negotiable instrument entitling a cheque's holder, provided the countersigning procedure has been properly followed, to payment of its face value by its issuer. The cheques are denominated in predetermined multiples of the currency in question (most commonly US dollars). The purchaser's specimen signature should be added to the cheque at the time of the

purchase, and the purchaser's counter-signature at the time the cheque is encashed by a third party or accepted by a third party as payment. Travellers cheques are a 'pay before' facility (compared with 'pay now' and 'pay later' facilities—see paragraph 4.81), in that users have to pay for the cheques at the time of purchase rather than when they are used. Another 'pay before' feature is that the exchange rate of foreign currency travellers cheques is fixed at the time the cheques are purchased and not when they are used.

4.4. Each travellers cheque carries the name of its issuer. In addition, major sales agents often have their names printed prominently on the cheques they sell and on support stationery, such as the wallets in which the cheques are provided to the consumer. Travellers cheques normally also carry one or more brand names or marks: these may include the proprietary mark of the issuer (for example, American Express, Thomas Cook, National Westminster Bank or Citicorp), and often a brand name or mark licensed from a third party organization (for example, *VISA* or *MasterCard*), or both. An issuer wishing to have its travellers cheques encashed or accepted only at its own retail outlets or those within a limited geographic area (for example, in the issuer's own country) may need to show only its own proprietary mark on them. However, issuers seeking acceptability for their travellers cheques over a broader geographic area need to display on their cheques a trade mark which has world-wide recognition; this may be the issuer's own trade mark (for example, *American Express*) or that of a third party organization (*VISA* or *MasterCard*).

4.5. Examples of travellers cheques are shown in Figure 4.1.

Life cycle of travellers cheques

4.6. The usual life cycle of travellers cheques is shown in Figure 4.2. The issuers of travellers cheques (see paragraph 4.12) arrange for their printing by specialist security printers and ensure that security devices are incorporated, for example, by using watermarks, special inks or elaborate designs. Security numbers are also added during the printing process.

4.7. Once printed, travellers cheques are distributed to a series of distribution centres. From these distribution centres the cheques are then delivered to the sales agent. At all stages of this distribution process the travellers cheques are kept in secure storage. The storage and distribution may be subcontracted to third parties using secure carriers, or it may be done in-house by the issuer itself.

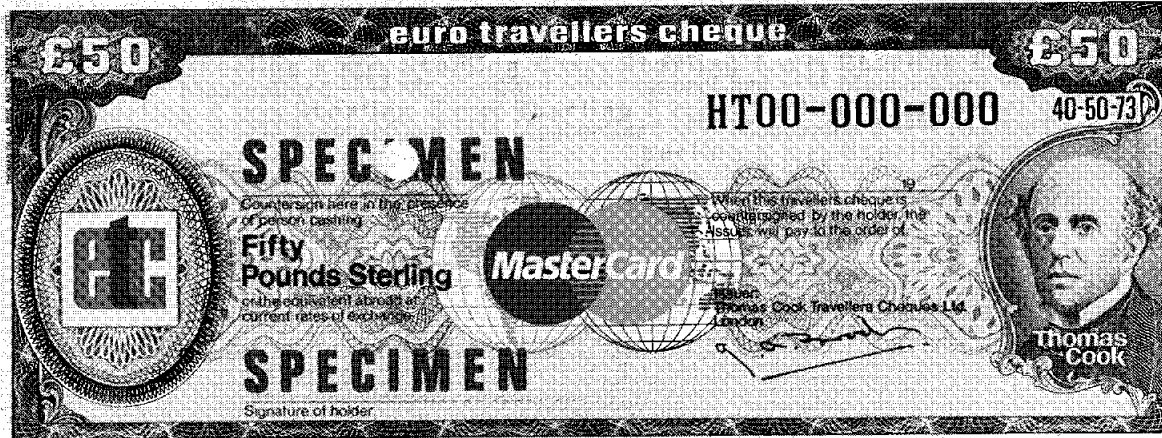
4.8. Once delivered to a sales agent (either centrally or to the agent's individual retail outlets), the cheques are normally held in trust for the issuer until they are sold to a consumer. The consumer pays the sales agent the face value of the cheque plus any commission and foreign exchange charges levied by the sales agent. It should be noted that commission in this context is that charged by the sales agent to the consumer (which we refer to as the consumer commission). This is separate from the commission nowadays paid by issuers to their sales agents as an incentive payment (which we refer to as the agent commission). The sales agent forwards to the issuer the face value of the cheques sold, retaining for itself any consumer commission or foreign exchange charges. The sales agent also notifies the issuer of the serial numbers of the cheques sold by means of a sales advice form, or sometimes electronically, and this information is fed into the issuer's computerized processing system. Cook told us that, while in some cases (but by no means all) the sales advice form included the name and address of the consumer, it did not maintain a record of these names and addresses.

4.9. Issuers make available a help and refund service for consumers whose travellers cheques have been lost or stolen. This service may be operated either by the issuer or by a third party on the issuer's behalf. If preliminary fraud checks show a claim to be valid, a replacement of the missing cheques or payment of the cash equivalent will be arranged with the consumer. In the case of travellers cheques bearing the *VISA* trade mark, a facility known as the 'Visa Global Refund Service', contracted out by Visa to the State Street Bank and Trust Company in Baltimore (USA), is available to provide emergency assistance to purchasers of *VISA*-branded travellers cheques. For *MasterCard*-branded cheques, the world-wide refund service is operated by Cook at Peterborough (UK) in accordance with MasterCard's guidelines. Amex operates its own refund arrangements through a series of regional centres, including one in Brighton which handles all refunds in Europe, the Middle East and Africa.

FIGURE 4.1

Specimen examples of travellers cheques

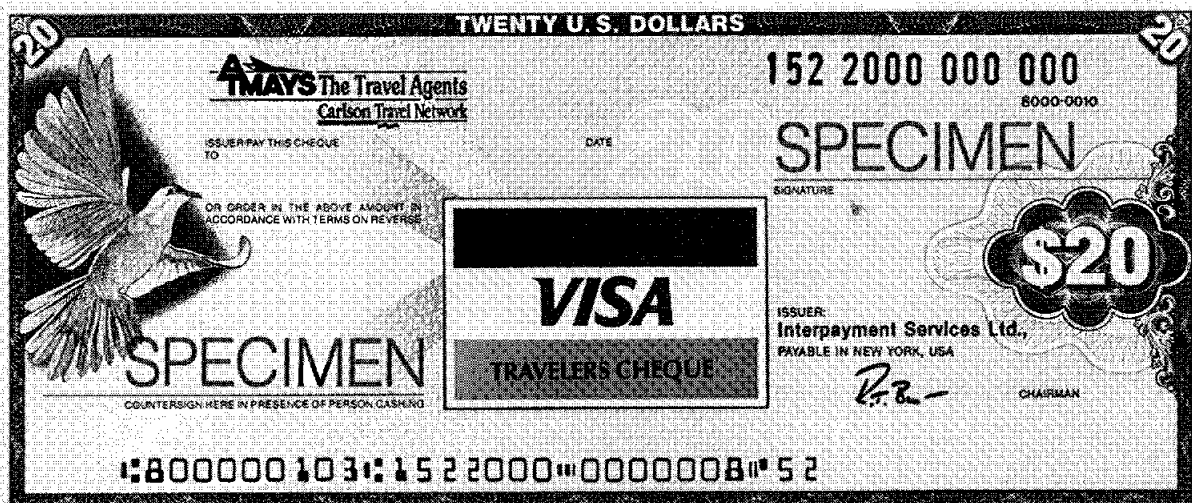
MasterCard travellers cheque issued by
Thomas Cook Travellers Cheques Ltd, London



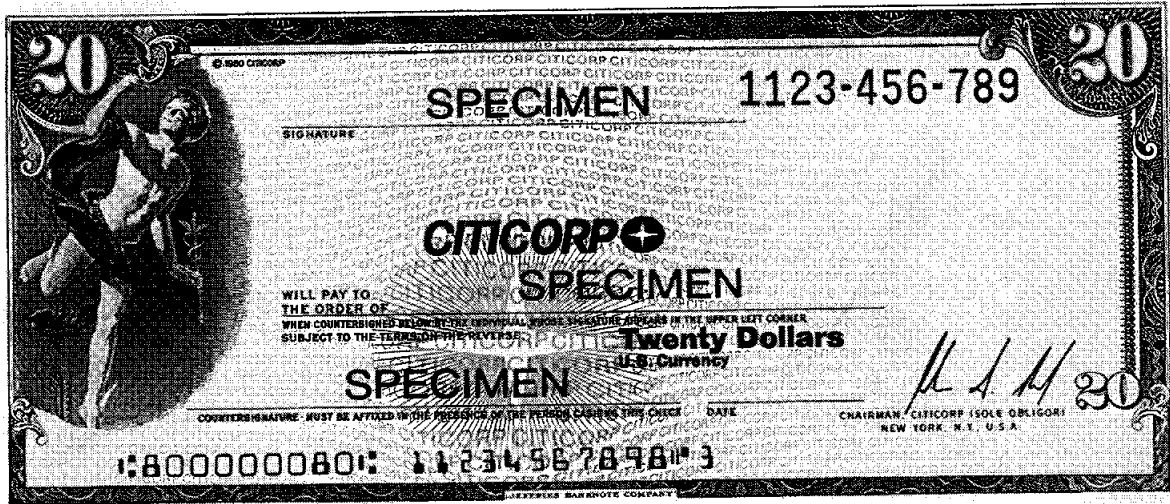
⑈018306⑈ 40 50 73 00000000 15

Please, no writing or stamping in this space

VISA travellers cheque issued by
Interpayment Services Ltd, New York



CITICORP travellers cheque issued by
Citicorp, New York



American Express travellers cheque issued by
American Express Travel Related Services Company Inc, New York

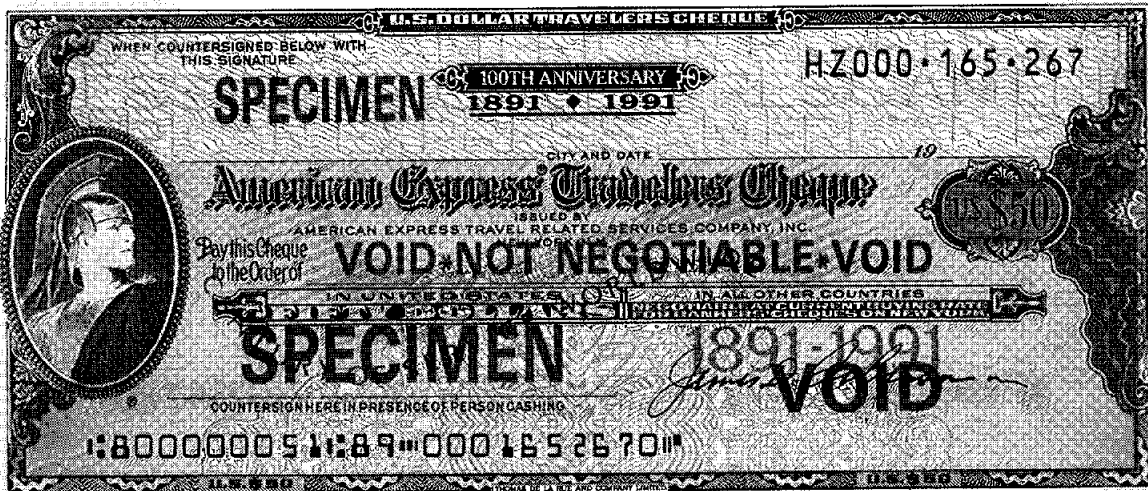
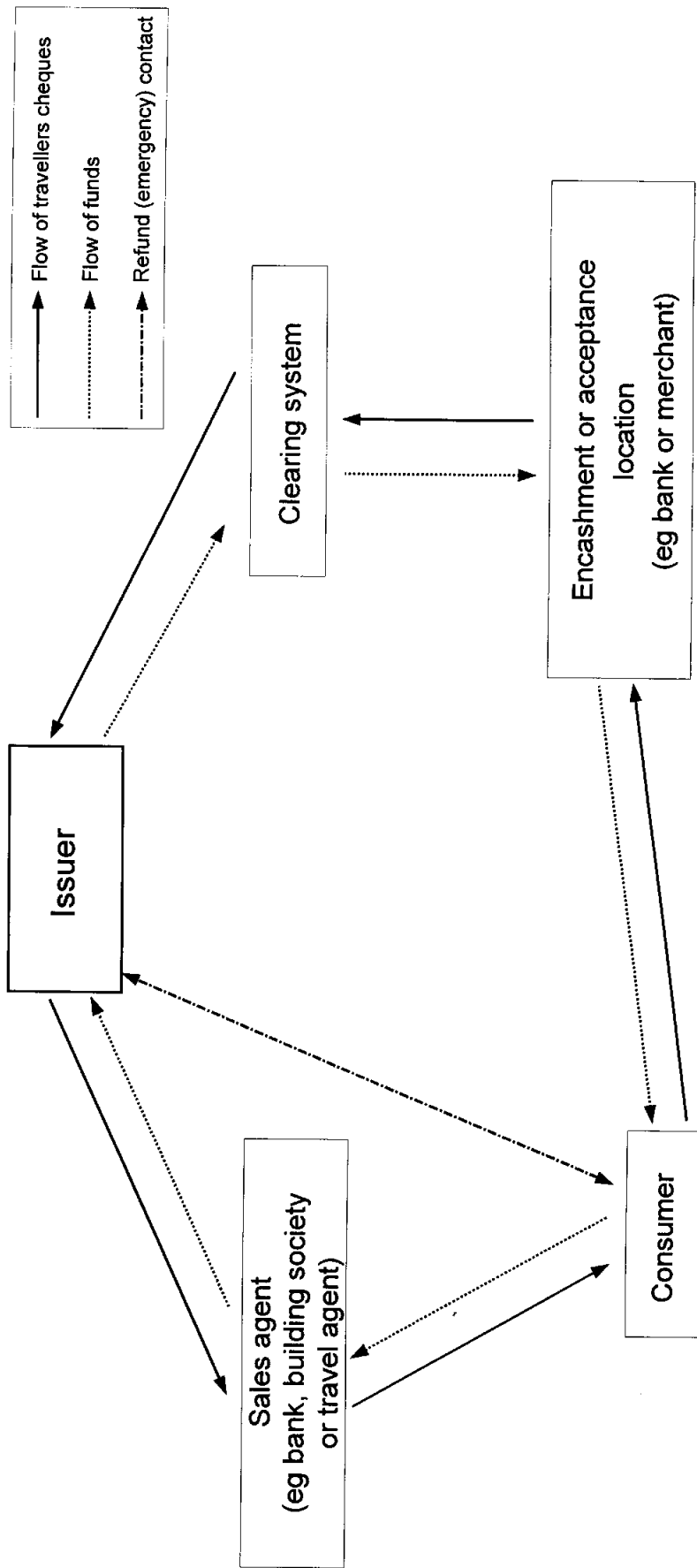


FIGURE 4.2

The life cycle of travellers cheques



Source: Cook.

4.10. The banks or shops which encash travellers cheques or accept them in payment for goods or services will typically use the normal bank clearing system to receive funds from the issuer or the issuer's paying agent for a particular currency.

Main participants in the travellers cheque business

4.11. Apart from the travelling public (ie the consumers), the three main participants in the travellers cheque business are the issuers, their sales agents which retail the cheques to consumers, and lastly the banks, bureaux de change, shops, hotels etc which encash the cheques or accept them in payment for goods or services.

Issuers

4.12. The issuer is the person who issues the travellers cheques and is obliged to pay the face value of the cheque in accordance with the agreement between the issuer and the purchaser. The principal activities of travellers cheque issuers are:

- arranging for the printing and storage of the cheques and for their secure distribution to retail outlets;
- keeping appropriate records of cheques issued, sold and subsequently presented for payment;
- receiving and investing the proceeds of sale of cheques (known as the 'float');
- marketing the cheques, for example, through point of sale support, advertising and promotional campaigns;
- arranging for the payment of encashed cheques or cheques accepted by merchants; and
- providing a refund service for the assistance of consumers whose cheques have been lost or stolen.

An issuer wishing to sell travellers cheques through third party outlets, known as sales agents, will also need to establish and support a network of such sales agents. Apart from the basic obligation to honour all issued travellers cheques which have been properly presented for payment, any of these various activities can be subcontracted to other companies.

4.13. Following Amex's lead in the 1890s, several banks began issuing travellers cheques under their own proprietary brands in the early part of the 20th century. The number of issuers around the world then grew, reaching a peak of about 1,000 separate issuers in the early 1980s. Most major banks issued cheques only for sale through their own retail branch networks and in their own currencies, but some also supplied their cheques to independent sales agents (typically other banks, but sometimes travel agents and bureaux de change).

4.14. Despite the arrival of the *VISA* and *MasterCard* brands for use by issuers on their travellers cheques, there has been a significant decline since the early 1980s in the number of issuers, both world-wide and in the UK. Many banks have withdrawn from issuing travellers cheques altogether and instead now act as sales agents for another issuer. Table 4.1 provides examples of banks which have ceased to issue travellers cheques over the last ten years and have become sales agents for other issuers. It is estimated that there are now fewer than 100 issuers world-wide. A number of current travellers cheque issuers are listed at Appendix 4.1. The majority only issue travellers cheques in their local currencies and through their own branches or those of their correspondent banks in other countries. Eighteen of the issuers listed in Appendix 4.1 issue *MasterCard* travellers cheques; the number of *VISA* issuers has fallen from a peak of 40 to 23 at present (counting the five 'Interpayment' issuers in various countries as one issuer). The only *VISA* issuers offering travellers cheques in a variety of currencies through independent sales agents on a world-wide basis are ISL and Citicorp.

Cook is similarly the only significant issuer of *MasterCard* travellers cheques for sale through third party agents world-wide.

TABLE 4.1 Banks ceasing to be issuers of travellers cheques, 1984 to 1994

UK:	Standard Chartered Bank (became an agent for ISL) TSB Bank plc (became an agent for ISL) Midland Bank plc (became an agent for Cook) Barclays Bank PLC (became an agent for ISL)
USA:	Chase Manhattan Bank NA (became an agent for ISL) Bank of America National Trust and Savings Association (became an agent for ISL) Wells Fargo Bank NA (became an agent for Amex) Bank of Hawaii (became an agent for Citicorp)
Canada:	Bank of Montreal (became an agent for Cook)
Australia:	Westpac Banking Corporation (became an agent for Cook's Australian dollar cheques) Australia and New Zealand Banking Group Limited (became an agent for ISL)
Hong Kong:	The Hongkong and Shanghai Banking Corporation Limited (no longer sells its own Hong Kong currency travellers cheques)
Spain:	Banco Atlántico SA (became an agent for Cook's Spanish peseta cheques) Banco Bilbao Vizcaya (became an agent for Cook's Spanish peseta cheques)
France:	Crédit du Nord (became an agent for Amex)

Source: Cook.

4.15. The decline in the number of issuers partly reflects the growing recognition on their part of the relatively poor returns being earned. Many banks, including some which had previously offered their cheques for sale through third party agent networks (for example, Chase Manhattan Bank and Bank of America), also realized that it had become more profitable to act as agent for another issuer. We were told that many banks, whilst keen to offer their retail customers travellers cheques, felt that they no longer wished to be involved in the administratively complex and increasingly expensive business of operating as an issuer.

4.16. Despite this general trend, we understand that some banks still find it viable to issue travellers cheques for sale within their own retail branch networks. In that case they do not need a sales force and associated central management team; they do not have to pay sales incentives or incur the other expenses of maintaining a sales agent network; brand acceptance and refund facilities can be provided by Visa or MasterCard; and processing can be contracted out to a third party (both Cook and ISL provided such processing facilities for third parties). Ultimately, small 'in-house' issuers may be willing to operate their travellers cheque business at a slight loss because of the benefits they expect for other parts of their retail business (for example, being able to offer their customers a range of products with common branding).

4.17. While the name of the issuer is always shown on travellers cheques, it is usually in small print and consumers are generally unaware of the issuer's identity. Brand markings, and the identity of sales agents if shown, are more prominently displayed on the cheques. The value of travellers cheques to consumers depends on both the cheques' widespread acceptability and the ease with which consumers can obtain refunds in the event of loss or theft (wherever that loss or theft takes place). Acceptability rests on confidence that the cheque will be honoured, and this in turn depends on the world-wide reputation of cheques and their issuers in relation to the prompt payment of encashed cheques. The need to establish and maintain a world-wide reputation has led to the emergence, since about 1980, of three principal global travellers cheques brands—*American Express*, *VISA* and *MasterCard*.

4.18. Two of these brands, *MasterCard* and *VISA*, are owned by payment organizations, namely Visa International Service Association (Visa) and MasterCard International Incorporated (MasterCard). The *VISA* travellers cheque programme was started in 1979. This was at the request of various members of Visa, who asked for permission to include the *VISA* brand markings on their proprietary travellers cheques for greater world-wide recognition and acceptability. In agreeing to set

up its travellers cheque programme, Visa took responsibility for cheque design standards, for insurance against counterfeit cheques, for world-wide acceptance and awareness and for a refund service.

4.19. MasterCard launched its travellers cheque programme in 1981. Under this programme, it licensed its members to use the *MasterCard* brand markings on their travellers cheques. Cook became a *MasterCard* issuer in 1983. Under contract to MasterCard it also provides cheque processing facilities and a refund service for other *MasterCard* issuers at its centres in New Jersey (USA) and Peterborough (UK).

4.20. The *VISA* and *MasterCard* brands, as well as *American Express* (see next paragraph), give travellers cheque users confidence that the cheques will be recognized and honoured throughout the world. They also provide the security of an international refund service. However, Visa and MasterCard are not themselves issuers of travellers cheques: they license the use of their trade marks to those of their members that wish to issue the cheques. Both organizations require their members to comply with certain standards, for example the maintenance of swift and reliable emergency replacement services and aspects of the design of the cheques. Issuers pay fees to the payment organization for the right to use its brand name and to benefit from the acceptance generated both through generic brand advertising and through the promotion and widespread use of other products using the brand.

4.21. Amex owns *American Express*, the third major brand, and is itself an issuer of travellers cheques bearing that brand name. While Amex does not generally license its brand to third party issuers, it is a participant in a number of joint venture companies in various countries with 'partner' banks. In such cases, the joint venture company issues travellers cheques in the local currency in a format licensed by Amex. For example, *American Express* sterling travellers cheques are issued by Travellers Cheque Associates Ltd, a UK joint venture between Amex, Lloyds Bank and the Royal Bank of Scotland. A similar joint venture in France, Société Française du Chèque de Voyage (SFCV), was established by Amex and a consortium of French banks (including Crédit Lyonnais SA, Caisse Nationale de Crédit Agricole, Crédit Commercial de France SA and Banque Nationale de Paris SA) for issuing French francs travellers cheques. Under these arrangements each joint venture participant sells the joint venture's cheques through its own retail network of branches and sales agencies. In some cases bank participants also sell *American Express* travellers cheques denominated in other currencies, and sometimes other brands of travellers cheques.

4.22. As all three of the major travellers cheque brands also appear on various widely used payment cards, the brand owners have a considerable interest in maintaining the reputation of their brand when used on travellers cheques. Aspects of the regulatory environment in which travellers cheque issuers operate and associated consumer protection matters are outlined in paragraphs 5.30 to 5.41.

Sales agents

4.23. Issuers of travellers cheques must have a network of retail outlets through which to sell their cheques to consumers. While most smaller issuers confine themselves to their own branch networks for this, a few larger issuers rely for a significant part of their sales on third parties such as banks, building societies, bureaux de change, credit unions, post offices and travel agents. These third party sales agents sell travellers cheques for a variety of reasons, such as the desire to offer a full range of products to their customers or as an additional source of revenue.

4.24. Third party sales agents vary widely in the volume of cheques they sell. In 1993 ISL's top five agents world-wide accounted for about 37 per cent of its world-wide sales, and its top five UK agents accounted for about 91 per cent of its UK sales. In Cook's case the equivalent figure for world-wide sales was about 31 per cent, and the equivalent figure for its UK sales was about 87 per cent. The top sales agents world-wide (by value of cheques sold) for Cook and ISL include:

[*Details omitted. See note on page iv.*]

[

Details omitted. See note on page iv.

]

4.25. In recent years the major issuers have competed for new business by seeking to expand their networks of agents. This can only be achieved in three ways:

- by seeking agents new to travellers cheque sales;
- by persuading existing agents to change their issuer allegiance; or
- by acquiring the travellers cheque business of other issuers (see paragraph 4.14).

Encashment or acceptance locations

4.26. Travellers cheques are widely accepted throughout the world. They can be either encashed, usually at banks and bureaux de change, or used to pay merchants for goods or services. There are typically no contractual arrangements between acceptance or encashment agents and the issuer since the acceptor of the duly countersigned cheque can simply send all encashed cheques (via their banks if they are not banks themselves) to the issuer or paying agent for that particular currency. Travellers cheques are cleared through the usual bank clearing system.

Consumers

4.27. In general, travellers cheques are used by business and personal travellers to obtain cash or make payments for goods or services abroad. But they have other uses, including obtaining cash or making payments in the traveller's home country and, for those living in countries where inflation rates are high, as a means to store wealth in a more stable currency. Foreign currency and travellers cheques are the only international payment devices suitable for all these uses (see paragraph 4.93).

4.28. A survey commissioned by Mintel International Group Ltd (Mintel), which was carried out in late 1992,¹ showed that about 57 per cent of people surveyed used travellers cheques when travelling abroad from the UK. The survey also found that people in the C2, D and particularly the E social groups relied more heavily on travellers cheques and foreign currency (as compared with credit cards and sterling currency) for making payments when travelling abroad than did the AB and C1 groups. The survey also showed that young people (aged 15 to 19) were less likely than older age groups to use credit cards and sterling currency, as were women compared with men and single people compared with married people.

¹*Tourists and their money*, MINTEL Personal Finance Intelligence, Volume 2, 1993.

Development of the travellers cheque business

4.29. In the past, sales of travellers cheques grew as international travel increased. Within the USA travellers cheques have always had an important role for domestic travellers because federal banking legislation limits the ability of travellers to use their ordinary bank account cheque books (but not their payment cards) out of their home states. In recent years, however, total world-wide sales (in current prices) of travellers cheques appear to have levelled out, and perhaps even shown a slight decline. There are no audited figures for world-wide sales of travellers cheques. Table 4.2 shows estimates of annual sales from 1980 to 1993 based on the face value of the cheques sold.

TABLE 4.2 Estimated world-wide sales of travellers cheques (at face value), 1980 to 1993

Year	US\$ billion				
	Amex	MasterCard*	VISA	Other	Total
1980	15.2	3.4	2.4	12.4	33.4
1981	14.6	3.6	3.5	12.4	34.1
1982	13.4	4.1	5.0	12.4	34.9
1983	14.2	4.8	6.2	12.3	37.5
1984	15.1	5.0	6.5	11.9	38.5
1985	16.1	5.7	7.1	11.9	40.8
1986	18.7	6.4	7.5	11.8	44.4
1987	22.0	7.6	8.7	11.8	50.1
1988	23.5	9.0	10.6	10.6	53.7
1989	24.1	9.1	11.5	11.1	55.8
1990	25.3	9.8	13.7	9.3	58.1
1991	22.6	10.0	15.8	7.9	56.3
1992	24.0	10.4	16.8	6.6	57.8
1993	23.6	9.9	14.5	5.0	53.0

Source: MMC, based on data from Amex and Visa.

*MasterCard-branded travellers cheques were not issued before 1981. The figures shown for MasterCard for the early 1980s include travellers cheques issued under the *Thomas Cook* brand name (Cook began issuing MasterCard-branded travellers cheques in 1983).

4.30. In North America and Western Europe paper-based travellers cheques are a mature product. It is generally recognized that the opportunities for continued growth in sales of travellers cheques principally arise in relation to travel to and from other parts of the world. As Cook notes in its 1993 Annual Report:

Even as the travellers cheque market in North America matures and growth slows in Western Europe, ... in developing countries, demand for travellers cheques is growing strongly The real growth potential for travellers cheque business lies in the Pacific Rim, the Middle East, Africa, Latin America, the Caribbean and South America.

4.31. The growing range of alternative personal international payment systems competing with travellers cheques is described later in this chapter (see paragraphs 4.62 to 4.84).

The travellers cheque business today

4.32. Travellers cheques are now very much a world-wide business, though market conditions differ from country to country. Since there are no audited figures for world-wide sales it is impossible to give with certainty either the size of the market or the market share of each brand. Cook drew our attention to estimates in *The Nilson Report*, published in the USA. This shows total estimated world-wide sales (on a face value basis) of travellers cheques in 1994 to be US\$55 billion. As Table 4.3 shows, travellers cheques sold under the *American Express* brand now account for an estimated 45 per cent of world-wide sales, *VISA*-branded cheques for about 26 per cent, *MasterCard*-branded cheques for about 18 per cent and other brands for the remaining 11 per cent. Between them, Cook's and ISL's sales amount to about 30 per cent of world-wide sales of travellers cheques. The other major

issuer is Citicorp, whose share of the world-wide market in 1994 was about 12 per cent (with its own brand of travellers cheques at about 7 per cent and its *VISA*-branded cheques at about 5 per cent).

TABLE 4.3 Estimated world-wide market shares of travellers cheque issuers, 1994

Issuer	per cent of total sales at face value					
	Total market share	American Express	Brands			
			VISA	MasterCard	Citicorp	Other
Amex*	44.6	44.6	-	-	-	-
Cook	16.4	-	-	16.4	-	-
ISL	13.7	-	13.7	-	-	-
Citicorp	11.8	-	4.7	-	7.1	-
Others†	<u>13.5</u>	<u>-</u>	<u>8.0</u>	<u>1.8</u>	<u>-</u>	<u>3.7</u>
	100.0	44.6	26.4	18.2	7.1	3.7

Source: MMC estimates, based on data in *The Nilson Report*, Issue 577, August 1994.

*Amex and the joint ventures in which Amex has an interest.

†Issuers which supply only through their own branches or which supply only in one country or one currency.

4.33. Figure 4.3 shows the trends in estimated market shares of world-wide sales between 1980 and 1994 for the three main brands. The share held by the *American Express* brand remained in the range 40 to 45 per cent during this period, except for the years 1982 and 1983 when its share was about 38 per cent, and 1984 when it was about 39 per cent. The share of *VISA*-branded cheques rose from about 7 per cent in 1980 (shortly after they were launched) to reach a peak of about 28 per cent in 1991 and 1992, and falling back to about 26 per cent in 1994. The share held by *MasterCard*-branded travellers cheques has risen steadily from their launch in 1981 to about 18 per cent by 1994. During the period since 1980 the share held by brands other than these three main brands fell from about 37 per cent to around 9 or 10 per cent by 1994.

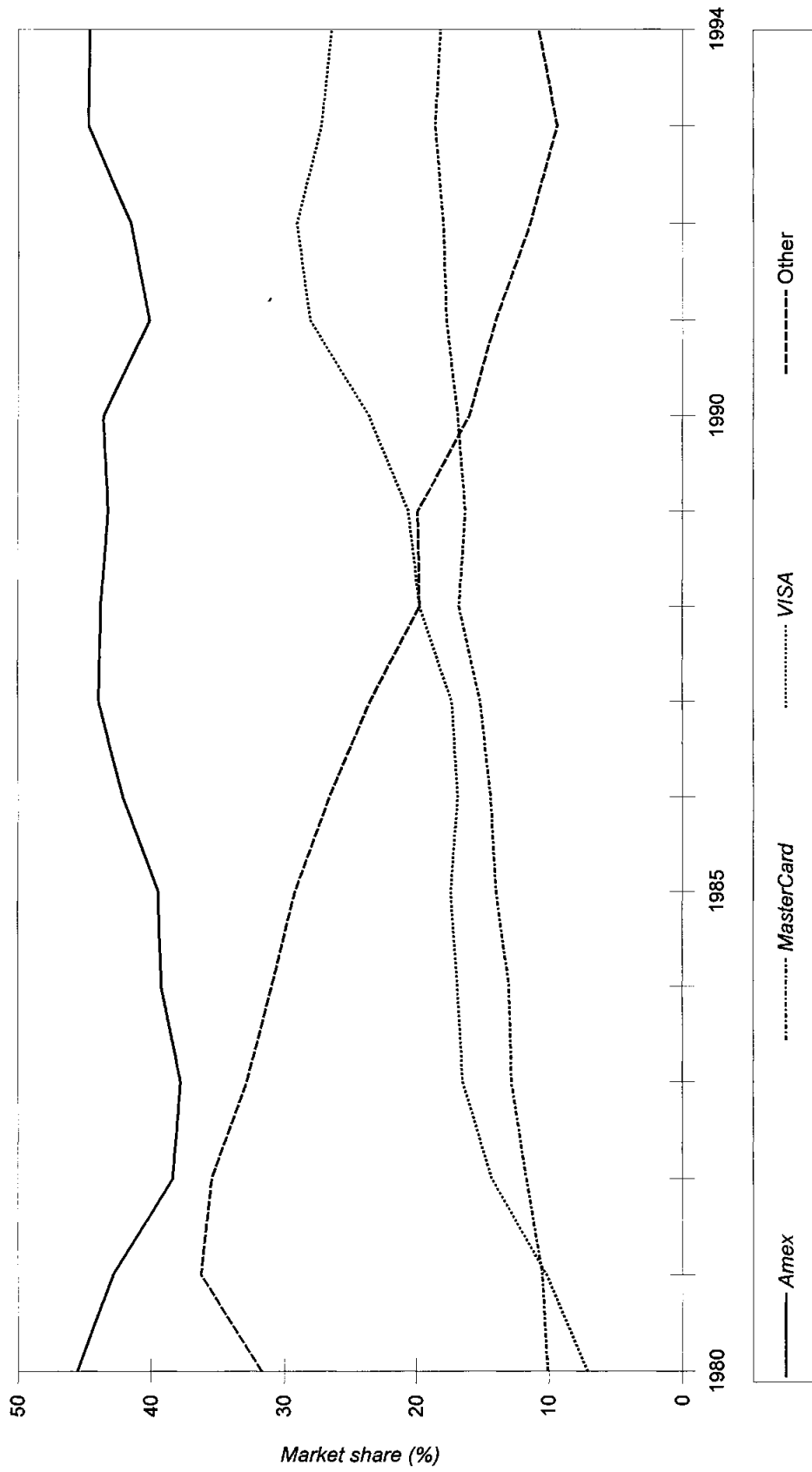
4.34. There are clear regional differences in the sales of the main issuers. In the USA *American Express* is by far the leading brand, with the next largest share being held by *VISA*-branded cheques. In Canada, where *VISA* cheques have been growing at the expense of *American Express*, total sales are now broadly shared between *VISA* and *American Express*. In Latin America sales are broadly shared between the *American Express*, *Citicorp* and *VISA* brands. In the Asia and Pacific region the main brands are now *VISA*, *MasterCard* and *American Express*. In the remaining areas (Europe, the Middle East and Africa) the largest shares are held by *American Express* and *MasterCard*, with *VISA*'s share having fallen in the last few years.

The travellers cheque business in the UK

4.35. Table 4.4 shows the estimated sales of travellers cheques in the UK for each year from 1986 to 1993. Between 1986 and 1990 sales rose by about 50 per cent (from £2.5 billion to £3.7 billion). This represents an increase of about 16 per cent in real terms. Since 1990 the face value of sales has increased only slightly, but in real terms this represents a decline to about the level of 1986. Information for the years 1990 to 1994 that we obtained from the main issuers in the UK suggests that the Mintel figures shown in Table 4.4 may understate the growth in the UK market in the last few years (see Table 4.5).

FIGURE 4.3

World-wide sales of travellers cheques: market shares by brand



Source: MMC, based on data supplied by Visa, Cook and Amex.

TABLE 4.4 Estimated total sales of travellers cheques in the UK, 1986 to 1993

	At face value		Deflated by the retail price index	
	£bn	Index	£bn	Index
1986	2.5	100	2.5	100
1987	2.7	108	2.6	104
1988	3.0	120	2.7	108
1989	3.4	136	2.9	116
1990	3.7	148	2.9	116
1991	3.6	144	2.6	104
1992	3.6	144	2.5	100
1993	3.7	148	2.5	100

Source: Mintel, June 1993.

4.36. UK consumers buy their travellers cheques in three main currencies (sterling, US dollars and Spanish pesetas), though other currencies are available from a number of issuers. If a major issuer does not issue cheques in a particular currency, it could choose to obtain them from a bank based in the country concerned so that it can offer its sales agents a full range of currencies.

4.37. Estimated UK market shares for the main issuers for the years 1990 to 1994 are shown in Table 4.5, together with figures for 1986. Total sales figures, shown in the last row of Table 4.5, suggest that UK sales have grown slightly, in nominal terms, each year since 1991. Amex told us that *American Express*, the leading brand in the UK, increased its share of sales from 34 per cent in 1986 to almost 38 per cent by 1994. It believed its figure for 1986 was a good deal higher than that implied by the Mintel data (as shown in Table 4.5), and that its figure for 1994 was a little lower than we estimated it to be (see Table 4.5). Cook's share is shown to have declined from 38 per cent in 1986 to 30 per cent or less in the early 1990s, but it recovered a little in 1994 to 32 per cent. Other *MasterCard* issuers with sales in the UK include Mitsubishi Bank and Dai-ichi Kangyo Bank, but between them they have sales amounting to well under 1 per cent.

TABLE 4.5 Travellers cheques: UK market share estimates by issuer, 1986 and 1990 to 1994

Brand and issuer	per cent					
	1986	1990	1991	1992	1993	1994
<i>American Express</i> : Amex*	22	34.6	33.6	35.6	35.3	39.5
<i>MasterCard</i> : Cook†	38	29.5	29.3	30.8	29.5	32.4
<i>VISA</i> issuers	23	22.4	24.6	29.7	31.3	26.9
of which: ISL	N/A	21.1	21.8	25.7	22.1	17.1
Others	N/A	1.3	2.8	4.0	9.2	9.8
Others	17	13.5	12.5	3.9	3.9	1.2
Total	100	100.0	100.0	100.0	100.0	100.0
Size of market (£m)	2,500	3,726	3,599	3,766	3,823	3,990

Sources: 1986, Cook (based on Mintel data); 1990 to 1994, MMC estimates (based on data from the companies).

*Amex and its various joint ventures.

†*MasterCard* issuers other than Cook account for well under 1 per cent of the UK market.

4.38. The share held by issuers of *VISA*-branded travellers cheques increased from 23 per cent in 1986 to reach 31 per cent in 1993, but it fell back in 1994 to about 27 per cent. The main *VISA* issuer in the UK is ISL, whose share rose from about 21 per cent in 1990 to reach almost 26 per cent in 1992, but then fell back to 17 per cent by 1994. The two other issuers of *VISA* cheques based in the UK are NatWest, which issues sterling *VISA* cheques through its retail branches and accounts for about 7 per cent of the UK market, and Bank of Scotland, which similarly only issues sterling cheques, with a market share of about 2 per cent. About nine other *VISA* issuers, based outside the UK, supply non-sterling cheques in the UK (mostly through correspondent or affiliated banks in the UK), but their total sales account for only slightly above 1 per cent of the UK market. Of these, Citicorp is by far the largest, with a market share in the UK of just over 1 per cent.

4.39. Travellers cheques are now sold broadly through two main types of outlet in the UK, with banks and building societies accounting for about 60 per cent of sales and travel agents and bureaux de change for virtually all the remainder (see Table 4.6). Up to the early 1980s most travellers cheque sales (80 per cent or more) were through bank branches. Since then sales through building society branches and through travel agents and bureaux de change have become much more significant. By 1994 sales through banks had fallen to 49 per cent of the total, whereas sales through building societies had grown to about 11 per cent and sales through travel agents and bureaux de change had grown to about 39 per cent.

TABLE 4.6 Estimated shares of sales of travellers cheques in the UK according to type of agent, 1993 and 1994

	1993				1994				per cent
	Amex	Cook	ISL	Total*	Amex	Cook	ISL	Total*	
Banks	48	24	74	52	41	29	74	49	
Building societies	27	6	...	11	25	5	1	11	
Travel agents and bureaux de change	23	67	25	35	32	64	25	39	
Other	2	3	...	2	2	2	...	1	
Total	100	100	100	100	100	100	100	100	

Source: MMC, based on data from the issuers.

*Total includes all issuers.

Note: ... Less than 0.6 per cent.

4.40. The top four travel agents in the UK (as measured by their shares of the 1994 inclusive tour market) are Lunn Poly Ltd (part of the Thomson Travel Group and by far the largest travel agent with about 26 per cent of the UK market), Cook's retail operations (with about 14 per cent of the UK market), Going Places (with about 13 per cent and owned by Airtours plc) and A T Mays (a subsidiary of the large US travel company Carlson Holdings Inc with a share of 5 per cent of the UK market). Lunn Poly has not so far sold travellers cheques but it is a potential seller, while the others have received supplies from Cook (in the cases of Cook's own retail operations and Going Places) or from ISL (in the case of A T Mays). Cook also has the biggest bureau de change operation in the UK (with 583 locations). Important competitors include Amex, Travelex UK PLC, Lenlyn UK and Chequepoint UK Limited.

4.41. Amex and its joint ventures now account for about 86 per cent of travellers cheques sold through building societies, and about one-third of sales through banks, travel agents and bureaux de change. In 1994 travellers cheques issued by Cook accounted for about 54 per cent of all sales through travel agents and bureaux de change (overwhelmingly those owned by Cook, including outlets located in Midland Bank branches and at ports and airports), for about 20 per cent of sales through banks and about 14 per cent of sales through building societies. The sales breakdown for ISL travellers cheques was somewhat different: in 1994 they accounted for about 25 per cent of sales through banks, 11 per cent of sales through travel agents and bureaux de change and for less than 1 per cent of sales through building societies.

4.42. The figures for 1994 show that travellers cheques issued by Cook and ISL combined came to roughly 64 per cent of sales through travel agents and bureaux de change, 45 per cent of sales through banks, and 14 per cent of sales through building societies. If sales of *MasterCard* and *American Express* travellers cheques through travel agents and bureaux de change operated by Cook and Amex respectively are excluded, the UK market share of travel agents and bureaux de change falls from 39 to 14 per cent.

Financial aspects

4.43. The investment income generated by the issuer's float accounts for almost all of its income from its travellers cheques business (see paragraph 5.47). The float consists of the cash received by the issuer from the sale of travellers cheques which have been sold but not yet redeemed. The longer the period between the receipt of funds by the issuer and the time when the cheque is presented to

the issuer for payment, the greater the income from the resulting float (see paragraph 5.61(b)). Amex, together with its joint venture issuers using the *American Express* brand, has the highest annual sales volumes of any brand, and its float is currently about US\$5 billion, which is about one and three-quarter times the combined floats of Cook (at about US\$1.6 billion) and ISL (at about US\$1.2 billion).

4.44. The amount of income generated by the issuer's float is largely determined by prevailing interest rates and the mix of investments made. Issuers would normally hold a mix of longer- and short-term assets in order to maximize investment income and maintain the capital value of the float, while remaining able to fund payments on their travellers cheques as they are presented. During the late 1970s interest rates rose sharply in the USA (for example, on three-month treasury bills they rose from about 5 per cent in 1976 to 14 per cent in 1981), but have since declined particularly between 1989 and 1993 (reaching less than 4 per cent in 1993, but showing a slight increase since). Interest rates in the UK on three-month treasury bills were already above 10 per cent in the mid-1970s, then showed some decline to 1978, but increased sharply to over 15 per cent in 1980. UK rates then fluctuated from year to year up to 1992 (mostly in the range 10 to 13 per cent), but have since fallen to about 6 per cent. These recent falls in interest rates have significantly reduced investment yields from the travellers cheque issuers' floats (see also paragraph 5.49).

4.45. The interest-earning life of the issuer's float can be extended by requiring selling agents to remit the sales proceeds as soon as possible after the travellers cheques have been sold to consumers. For larger-volume agents, this will typically be done within one day, but for lower-volume agents it can take up to a week or longer. Issuers have no influence over the timing of encashment of cheques or over their final presentation to the issuer for payment.

4.46. Until the late 1970s it was common for sales agents to pay a 'return commission' to the issuer, typically 0.25 to 0.33 per cent of the face value of the cheques sold. During the mid-1980s growing competition between issuers for sales agents led to these payments by agents being replaced by payments by the issuers to the agents. There are still some return commissions, typically in countries with particularly high security risks or short float lives or on travellers cheques denominated in currencies which represent a small proportion of the global market or are generally unprofitable (for example, because they have a short float life). However, the level of income issuers generate in this way is now very small in comparison with the overall cost of incentive payments made by issuers to their agents. As well as the income due from issuing their own travellers cheques, both Cook and ISL receive payments from other issuers for whom they carry out processing on a contract basis.

4.47. As well as the volume-related commissions, lump-sum additional payments may also be made to sales agents. These payments, which can be significant to issuers, might typically include business development support, marketing and staff retraining costs and initial signing-on or retention fees.

4.48. Sales agents' incentives now represent a significant proportion, as much as [*] per cent, of an issuer's total costs (see paragraphs 5.64 to 5.70). The level of these incentives is a key element in the negotiations between an issuer and a sales agent. In some extreme cases the level of commission, together with amortized signing-on or retention fees, can be as high as 1 per cent of the face value of the cheques sold. In 1994 they amounted on average to the equivalent of about [*] per cent of cheque sales.

4.49. Issuers may sell or redeem travellers cheques through any retail outlets they may own. Otherwise they arguably have little influence on the cost of travellers cheques to the consumer. When buying travellers cheques the consumer pays the sales agent the face value of the cheques plus, usually, a consumer commission which is set by the agent and consists of a small percentage of the face value, often subject to a minimum amount. The charges imposed by sales agents in the UK have generally increased over recent years.

4.50. In addition to the consumer and agent commissions they receive on travellers cheque sales, sales agents also benefit from selling foreign currency travellers cheques at a different exchange rate from that at which they purchased the currency. Again, the size of this margin is determined by the

*Figures omitted. See note on page iv.

sales agent. The sales agent normally remits only the face value of the cheques to the issuer while retaining both the foreign exchange margin and consumer commission. We were told that there was no correlation between the level of incentives paid by issuers to their sales agents and the consumer commission, etc, charged by the sales agents to their customers.

4.51. In most countries financial institutions levy a charge when encashing travellers cheques, though in some cases the charge is not levied separately but is hidden in the foreign exchange margin. Merchants accepting travellers cheques in return for goods and services increasingly levy charges in the form of poor exchange rates. It is less common for them to charge a separate handling fee. These fees are generally outside the control of cheque issuers, and do not generate any additional income for the issuers.

Competition in the travellers cheque business

4.52. Competition in the supply of travellers cheques, both in the UK and world-wide, takes place at two distinct levels: between issuers and between sales agents. Cutting across these two levels is competition between the three main brands *American Express*, *VISA* and *MasterCard*. Competition between those issuers which sell through third party sales agents generally takes the form of striving to attract new sales agents and retain existing agents, though Amex also competed by engaging in a consumer advertising programme (see paragraph 4.54, and also paragraph 4.21 where Amex joint ventures are mentioned). Issuers compete for sales agents through several different means, including:

- increasing the level of sales incentives paid to the sales agent;
- reducing the handling and administration burden borne by the sales agent through, for example, point-of-sale processing facilities and just-in-time deliveries;
- contributing to the costs incurred by a sales agent when changing from one issuer to another;
- signing-on fees;
- emphasizing to the agent the level of service provided to consumers, for example a rapid global refund service; and
- supplying point-of-sale and other marketing information, and contributing to joint marketing programmes.

4.53. Sales agents generally prefer travellers cheques which bear one of the three major brands having world-wide recognition or, in the case of the less commonly used currencies, cheques issued by a major institution in the country in question. In general, it is not difficult for a third party sales agent to switch from one issuer to another. We were told of a number of cases where major agents had recently changed issuer; some examples are shown in Table 4.8. In 1993 these included ISL's losses in the UK of its TSB and Going Places accounts, Cook's loss in the USA of its Wells Fargo Bank account and Amex's loss of the West Bromwich Building Society account. Costs that sales agents incur in changing from one issuer to another are now likely to be offset, at least in part, by the acquiring issuer. The willingness of issuers to increase sales incentives or to contribute towards these transfer costs may be a reflection of the attractiveness to issuers of increases in sales volume.

TABLE 4.8 Major agent moves between issuers, 1989 to 1994

Year	Agent	From	To
1989	Leeds Permanent Building Society	Cook	Amex
1991	Yorkshire Bank PLC	ISL	Cook
1991	Girobank plc	ISL	Cook
1991	A T Mays Ltd	Amex and Cook	ISL
1992	Bristol & West Building Society	Amex	Cook
1993	West Bromwich Building Society	Amex	Cook
1993	Going Places	ISL	Amex
1993	Wells Fargo Bank	Cook	Amex
1993	TSB Bank PLC	ISL	Cook

Source: Cook.

4.54. The parties said that issuers competed directly for the business of consumers only to a limited extent. They argued that the issuer generally had little influence on the price paid by the consumer for the travellers cheques. Although there was some advertising by issuers aimed at consumers, this was principally an attempt to get consumers to express a brand preference when buying travellers cheques. Such advertising is thus likely to be carried out by the brand's owner rather than by the cheque issuer. Amex has traditionally invested quite heavily in advertising its travellers cheques, including television and press campaigns in the UK. ISL's advertising to consumers has been principally in support of the *VISA* brand rather than the ISL name, and, as with Cook's advertising, it is mainly in the form of point-of-sale advertisements in the sales agents' premises, and can be viewed as part of the issuer's service to the sales agent. Table 4.9 compares the advertising expenditure (excluding the provision of point-of-sale and other marketing materials) of Cook and Amex on travellers cheques between 1990 and 1994 in the UK. It indicates that Amex spent almost £5 million on advertising its travellers cheques in the UK during the five years up to 1994, compared with less than £0.2 million by Cook. However, Amex pointed out that Cook had also spent significant sums on advertising its foreign currency payments products generally (which include travellers cheques) and other travel-related services.

TABLE 4.9 Advertising expenditure on travellers cheques, 1990 to 1994

	£'000					
	1990	1991	1992	1993	1994	Total
Amex	709	12	792	1,515	1,867	4,895
Cook	112	13	-	14	-	139

Source: Cook, based on Register MEAL data.

4.55. Sales agents compete for consumers' business through a variety of different means, including:

- the consumer commissions they charge and exchange rates they offer their customers;
- the opening hours, convenience and speed of point-of-sale service; and
- the extent to which they offer travellers cheques on demand in a range of currencies and denominations.

In principle, when choosing which brand of travellers cheques to buy and where to buy them from, people should compare the total costs involved in both purchasing and encashing the different travellers cheques, including any differences in consumer commissions and foreign exchange spreads. In practice, such a comprehensive comparison would be very difficult, and consumers are generally not aware of the exact costs involved in using travellers cheques. Indeed, for this and other reasons the general view in the industry is that, within a reasonable range, consumers are not particularly sensitive to changes in consumer commission charges and other costs involved in using travellers cheques. However, Amex added that in its view consumers increasingly compare the costs of using travellers cheques with the costs of other payment alternatives.

Entry

4.56. We also considered the prospects for new issuers to enter the travellers cheque market. Some potential entrants (for example, banks) would have access to appropriate retail networks, and membership of one or both of the two recognized payment organizations (*Visa* and *MasterCard*) would provide members both with international brand recognition and global acceptance, and, equally important, access to a refund service. Cook told us, though, that in March 1991 it had been appointed as the sole *MasterCard* issuer licensed to operate a third party sales agent programme for *MasterCard* travellers cheques (subject to a few minor exceptions for certain national and regional sales programmes in operation at the beginning of 1991). *MasterCard* remained free to license new issuers for *MasterCard* travellers cheques provided that they sold their cheques only through their own outlets.

4.57. There are, however, obstacles to entry. The most significant is that a new issuer would need to establish a float which would build up gradually over many years. While the new issuer was establishing a mature float it would be bearing full operating costs and could expect to make substantial losses in the earlier years. An entrant acquiring an existing issuer would overcome this problem. The second principal obstacle, applicable only to issuers wanting to sell cheques through a third party network rather than simply through their own outlets (and, perhaps, those of correspondent banks), would be the costs of the sales incentives needed to establish a field network. Issuers' costs are examined in more detail in paragraphs 5.62 to 5.74.

4.58. New entry would be undertaken against a background of a relatively static market and significant levels of business could only be attained by sales being taken from existing issuers. An entrant would also know that it would be very much swimming against the tide; as already mentioned, over the last 10 to 15 years the number of issuers has declined dramatically as issuers have found the role of sales agent more profitable. Moreover, the travellers cheque has a limited and uncertain life expectancy.

4.59. A development in the last year or so in the UK has been the emergence of new distribution channels acting as intermediaries between issuers and sales agents, ie 'wholesalers', which offer cheques to smaller agents that either do not wish to stock travellers cheques or foreign currency or wish to stock only a limited range for supply 'on demand' to their customers. Examples of these intermediary suppliers include Barclays Currency Services, Corporate Foreign Exchange plc and Fexco (the Foreign Exchange Company Limited).

4.60. This service is similar in many respects to the travel money services offered by Cook (which refers to it as TRAMS) and Amex. The supplier provides individually packaged foreign currency and travellers cheques ordered in advance by an individual consumer at (say) a branch of a bank, building society or travel agent. The retailer would expect to receive similar treatment to stockholding sales agents with respect to agent commission and possibly signing-on fees or other incentives. The non-stockholding sales agent would, however, earn little if anything on the foreign exchange transactions involved. Against this, non-stockholding retailers would have the advantage of lower costs, because they would not need to stock, and provide secure facilities for, a range of currencies and travellers cheques or incur foreign exchange risks. However, they would evidently only be able to supply their customers with their foreign exchange and travellers cheques if they had ordered it in advance.

4.61. In Cook's view smaller travel agents in particular like a TRAMS-type service, because, Cook said, it offered the availability of full ranges of foreign currency and travellers cheques without the retailer needing to hold stocks and incur the associated costs. Although ISL had not provided such a service, both Cook and American Express had offered it for some time; these two issuers now faced competition from the new intermediary suppliers mentioned in paragraph 4.59.

Alternative personal international payment systems

4.62. Travellers cheques are only one of a number of international consumer payment devices. Other means available to travellers include cash, payment cards (credit cards, debit cards and charge cards), ATM cards (used in cash machines), eurocheques (within Europe) and postcheques. Work is also taking place to develop new prepayment cards and rechargeable smart cards, which might be regarded as having the characteristics of electronic card-based travellers cheques. The following paragraphs describe the main alternatives to travellers cheques.

Cash

4.63. Most travellers take some cash abroad with them, either in their home currency to be changed into the local currency abroad, or in the relevant foreign currency. Cash is a convenient means of payment, and some travel expenses may have to be paid for in local currency. Cash has traditionally been viewed as the least secure form of payment, and travellers tend not to rely solely on cash to the exclusion of other payment devices. However, with the increasingly widespread use of ATMs, travellers are taking less cash with them when they travel abroad.

Payment cards

4.64. Payment cards can be used to pay for goods and services abroad, and can also be used to obtain cash from banks, from other participating outlets and from participating ATMs. Traditionally three main types of payment card are recognized: credit cards, charge cards and debit cards. Increasingly, cards are being offered to consumers which combine the credit or debit function with an ATM function. The number of payment cards in use has continued to increase. For example, in September 1994 there were more than 376 million *VISA* cards in circulation world-wide with a sales volume of over \$590 billion, as well as (at December 1993) 210 million *MasterCard* cards with a sales volume of about \$320 billion.

4.65. Credit cards allow the holder to pay for goods or services on presentation of the card. The participating retailer subsequently collects the amount due from the financial institution which handles its card transactions (which may or may not be the issuer of the card). The retailer is usually reimbursed daily or weekly. Periodically the card issuer sends the cardholder a statement listing all the card transactions made and requesting payment of at least part of the accumulated total. Holders of credit cards are allowed to carry part of the bill forward to the next statement (but in so doing they also accumulate interest charges). In addition, all credit cards can be used to obtain cash over the counter at bank branches and most can be used in participating ATMs, though the user may incur additional costs by obtaining cash in this way.

4.66. Debit cards were first introduced by Barclays in April 1987 and there are now almost as many in use in the UK as there are credit cards. They enable the holder to make payments which are debited directly to his or her current bank account either immediately or after a delay of up to three days. With the continued world-wide expansion of on-line ATM networks, debit cards branded by Visa (for example, *VISA DELTA* or *VISA PLUS*) or MasterCard (for example, *Maestro* or *CIRRUS*) can now fairly easily be used by travellers to obtain cash or pay for goods and services in many countries.

4.67. Travel and entertainment cards, or charge cards, such as *American Express*, *Diners Club* and some *VISA* and *MasterCard* cards, allow the cardholder to 'pay later' in the sense that he is not required to pay for the expenditure incurred until the card issuer presents him with his monthly statement of expenditure. In contrast to credit cards the cardholder is then expected to pay in full. The number of charge cards in issue in the UK is only about 5 per cent of the number of credit cards.

4.68. One advantage of plastic cards is their flexibility: cardholders do not have to determine before going abroad the amount of money they need to take with them. In contrast, those using travellers cheques must decide the value of cheques to be purchased and pay for them in advance of travelling. Many card issuers now also operate card replacement and emergency services, so offering a facility similar to the emergency replacement feature of travellers cheques. For example, Amex provides for 24-hour Global Assistance through 2,000 offices world-wide, offering emergency funds and a replacement card within a day. General advice on local medical or legal services is also available, along with assistance in getting a new passport and contacting relatives at home. Visa provides a Global Assistance Service (GLAS) for its member banks world-wide offering similar card replacement and other emergency services. *Barclaycard* also provides a similar service, International Rescue, which offers a cash advance of up to £500 and emergency assistance, as well as the direct delivery of a replacement card anywhere in the world within 24 hours.

4.69. First introduced in the UK in 1967, ATMs are now widespread throughout the world. There are several ATM networks which provide for international card use. These include *VISA/Plus*, *MasterCard/CIRRUS*, *American Express*, and *EUFISERV* (a Brussels-based ATM network). Many credit cards are now also usable in ATMs. For example, by 1994 *VISA* cardholders had access to more than 200,000 ATMs (compared with 44,000 in 1989) in 85 countries world-wide. A Mintel report published in June 1993 noted that ATMs now accept an increasing variety of plastic cards, including cheque guarantee cards, credit cards, eurocheque cards, and debit cards. Mintel measured the number of ATMs and participating bank branches in some of the most popular travel destinations and the results are shown in Table 4.10.

TABLE 4.10 Number of bank branches and ATMs by country, 1991

Country*	Bank branches			ATMs		
	MasterCard	VISA	eurocheque	MasterCard	VISA	eurocheque
France	12,000	16,070	31,350	2,420	3,420	1,200
Spain	N/A	39,920	27,300	1,700	4,350	6,600
USA	17,400	73,600	-	41,860	28,640	-
Irish Republic	920	1,030	790	220	190	-
Greece	500	640	2,530	-	100	-
Germany	9,700	880	73,000	700	260	2,500
Portugal	1,300	1,000	1,850	750	610	800
Italy	13,810	23,050	14,000	580	970	3,000
Canada	270	6,950	-	2,200	6,760	-
Australia	400	5,090	-	190	610	-
New Zealand	N/A	730	-	N/A	60	-

Source: Mintel Personal Finance Intelligence, Volume 2, 1993.

*Ranked according to the number of visitors from the UK.

4.70. An article in *Mortgage Finance* in October 1994 reported that, while in the USA ATMs may have taken over from travellers cheques, in Europe the use of ATMs by travellers has grown more slowly. However, the article went on to say that the number of cross-border transactions at ATMs in Europe was now about 15,000 to 20,000 a month, and usage across borders had been increasing by 100 per cent a year.

eurocheques

4.71. The *eurocheque* system was set up in 1968 on the initiative of several European financial institutions. The aim was to meet the need for international payment systems resulting from the growth of tourism and business travel within Europe, by making available a means of payment which consumers could use both in their own country and elsewhere in Europe. Originally the issuing institutions supplied their customers with cheques and cheque guarantee cards in a uniform format which could be used to obtain cash from any bank participating in the *eurocheque* system or to pay retailers in local currency for goods or services.

4.72. The *eurocheque* system is now moving from a paper-based cheque system, in which the *eurocheque* card was simply a cheque guarantee card, to a largely card-based system in which the *eurocheque* card itself is becoming a multi-function card. This card, usually branded *edc* (for European debit card), can be used within Europe to obtain cash from banks and ATMs, and also as a debit card to pay for goods and services.

4.73. The number of ATMs accepting *eurocheque* cards grew from about 600 in 1984 to about 60,000 by 1992. According to Eurocheque International, in 1992 there were 388,000 overseas ATM transactions which involved the use of *eurocheque* cards issued by UK banks. The value of these transactions exceeded £32 million.

4.74. In September 1992 Europay International SA (Europay) was formed from the merger of Eurocard International and eurocheque International. Europay seeks to co-ordinate the development of payment systems on behalf of the European banks which are its shareholders. Eurotravellers cheque International (etCI) is a separate company, with no formal association with Europay, which licenses the *etc* brand name which appears on *MasterCard* travellers cheques issued in Europe. Europay and etCI products (together branded as *Europackage*) cover the following segments: 'pay before' (travellers cheques), 'pay now' (ATM and debit cards and eurocheques), and 'pay later' (credit and charge cards). One or more products are available in each of these three segments, either on a 'Europe-only' basis or on a world-wide basis.

Postcheques

4.75. Postcheques are only available through Girobank in the UK. They enable the holder to withdraw cash from over 90,000 post offices around the world. The main disadvantage of Postcheques is that they cannot be used to pay for goods or services.

New prepaid and rechargeable cards

4.76. New card-based payment systems have recently been developed or are in the course of development. The prepaid card is a card which has been given a 'store of value' which can be drawn down at an encashment location or by the retailer using an electronic device (the phone card is a common example). Such cards may assume the characteristics of an electronic travellers cheque, being used internationally to obtain cash (in the local currency) from ATMs and to pay for goods and services at merchants. Such cards may be reloadable through ATMs or point-of-sale terminals. Visa is developing a card on these lines called *VISA Travel Money*. The card was tested at the 1994 Winter Olympic Games in Lillehammer, Norway, and is currently undergoing pilot trials in the UK, USA and Mexico. Similarly, MasterCard has plans to launch a prepaid card in the near future.

4.77. Developments are also under way which will enable cards to be recharged with varying amounts of money. One such card is the *Mondex* card. This is sponsored largely by the NatWest and Midland banks and is to be tested in the Swindon area in 1995. The *Mondex* card will be able to store monetary values in five currencies; as well as using the card to make purchases, it is envisaged that one holder will be able to transfer money to another using a special telephone. Market research in the UK indicates that 38 per cent of consumers would use such an 'electronic purse' if it were generally available.

4.78. These developments, amongst others, led the EC authorities in Brussels to commission a study 'on the legal and regulatory aspects of the issue and use of pre-paid cards (multi-sector electronic purses and wallets)'. In its contract notice (*OJ* 1994 C166/13), the EC Commission described the products in the following terms:

A new generation of payment cards is beginning to appear on the market in several EC countries. Unlike its predecessors, the charge card, the credit card and the debit card, the pre-paid card resembles cash in many respects. An electronic store of value is loaded onto a microchip contained within the card. Developments under way, or planned, indicate that there is considerable potential for the replacement of significant volumes of cash by the pre-paid card. In the present state of preparations for EMU and in particular the transition to a single currency, it seems likely that the pre-paid card could play an important role as a retail cross-border payment instrument, denominated in ECU and national currencies, as appropriate.

Consumer choice

4.79. Travellers have certain performance requirements for international payment devices and will choose between them according to the extent to which the different systems meet a particular traveller's needs. Travellers' principal requirements include: value for money, ease of use, convertibility, flexibility, security, availability of replacement funds in an emergency and budget control and auditability. While, clearly, travellers have a range of payment devices from which to choose, the various alternatives are not perfect substitutes for each other. Each has slightly different benefits or disadvantages for the consumer.

4.80. The choices made by individual consumers will be determined by a number of broad factors. For example, security, and the ability to acquire a rapid replacement, are important aspects for travellers. Traditionally, travellers cheques have been seen as the most secure payment device, because of the ease and speed with which they can be replaced if lost or stolen. However, growth in the numbers of ATMs has meant that travellers can rely more extensively on using cash without the security risk of having a large sum stolen, since they can regularly replenish relatively small amounts of

cash. The risk of loss of the payment card remains, but the growth in emergency services provided by card issuers such as Amex and Barclaycard or organizations such as Visa and MasterCard means that cards now offer security features similar to those previously enjoyed uniquely by travellers cheques.

4.81. One of the advantages which ATMs and payment cards offer the traveller is that, unlike travellers cheques, they do not require him or her to 'pay before' for what may be a speculative amount of expenditure. The traveller either 'pays now', at the time that expenditure is incurred, or, in the case of credit and charge cards, is able to 'pay later'. The traveller who purchases travellers cheques loses interest on the money paid in advance or incurs the cost of an overdraft facility, even though the travellers cheques purchased for the trip may not all be used.

4.82. Travellers want to be able to use their means of payment with the greatest degree of ease. One early competitive advantage of travellers cheques was their widespread acceptability: retailers and suppliers of goods and services did not need to enter into any agreement to accept a travellers cheque in payment. However, with payment cards becoming increasingly acceptable globally, but particularly in the USA, Western Europe and Japan, and the expansion of the international ATM networks, cash and payment cards can also claim to offer the cardholder ease of use. One added advantage which ATMs offer the traveller is that they operate mainly on a 24-hour basis while, in comparison, banks able and willing to cash travellers cheques usually have limited opening hours. Bureaux de change have longer opening hours, but they are generally not open for 24 hours a day.

4.83. Payment cards allow travellers to monitor exactly what expenditure has been incurred, where, and on what terms, through monthly statements. On the other hand some travellers prefer to budget for their journey by purchasing travellers cheques for a fixed amount in advance.

4.84. Developments in international payment devices are regularly reported by the press. This keeps many consumers informed about the choices available to them. For example, some consumers may have been influenced by the 'best buy' advice given in the *Which? Holiday Money Report* of June 1994 that 'When travelling, never rely on just one way of paying. Depending on where you're going, and for how long, it's best to take a mix of cash, travellers cheques, eurocheques or plastic cards'. *Which?* added that 'Credit, debit, charge and gold cards are often the cheapest and most convenient way to pay on holiday, but don't rely on them completely'.

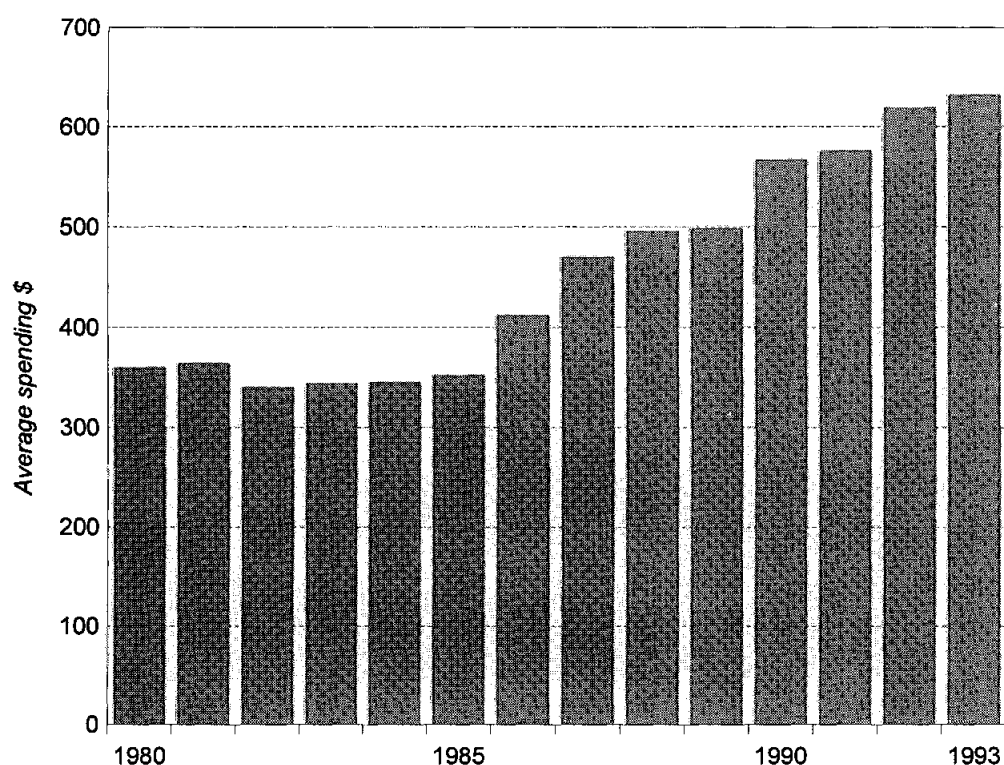
Travel destinations and travel trends

4.85. Because of the growing availability of alternatives some observers have predicted a rapid decline in the use of travellers cheques. In fact, as indicated earlier (see paragraph 4.37), the value of travellers cheques issued each year has tended to rise, at least in nominal terms. However, this needs to be set against the growth in tourism both world-wide and by UK residents.

4.86. The total value of travellers cheque sales depends both on the number of travellers and on their individual expenditure requirements. With few exceptions, the world-wide number of tourist arrivals has grown every year since at least 1960 (the only years showing a decline in tourist numbers in the last 35 years were 1982 and 1991). In 1993 there were three times as many tourist arrivals as in 1970, and 1.7 times as many as in 1980. As shown in Figure 4.4, while there was little change in average tourist spending world-wide between 1980 and 1985, average spending by tourists has risen each year since 1986.

FIGURE 4.4

World-wide tourism receipts: estimated expenditure per tourist, 1980 to 1993



Source: MMC, based on WTO data.

4.87. We compared total annual tourist expenditure data with travellers cheque sales, as estimated by Visa, over the same period (see Figure 4.5). In 1980 travellers cheque sales amounted to \$33.4 billion, or about 32 per cent of total estimated tourist expenditure that year.¹ While the share of travellers cheques in total tourist expenditure rose between 1980 and 1983 (reaching 37 per cent that year), it has declined year by year since then to under 17 per cent by 1993.

4.88. In 1994 there were about 37 million visits abroad by UK residents (about 50 per cent higher than the figure for 1986). Between 1986 and 1994 overseas expenditure² by UK-based travellers more than doubled, from about £6.1 billion to about £13.5 billion. Over the same period UK sales of travellers cheques increased by 60 per cent, from £2.5 billion in 1986 to about £4 billion in 1994. Figure 4.6 shows how the increase in travel expenditure by UK consumers has outstripped the growth in sales of travellers cheques. One of the UK's main commercial banks told us that it estimated that about 70 per cent of overseas expenditure by UK-based travellers was travel money (ie foreign exchange and travellers' cheques). As a rough guide, therefore, both travellers' cheques and payment cards each may now account for about 30 per cent of all UK travellers' expenditure abroad, with the remaining 40 per cent being accounted for by sterling or foreign currencies.

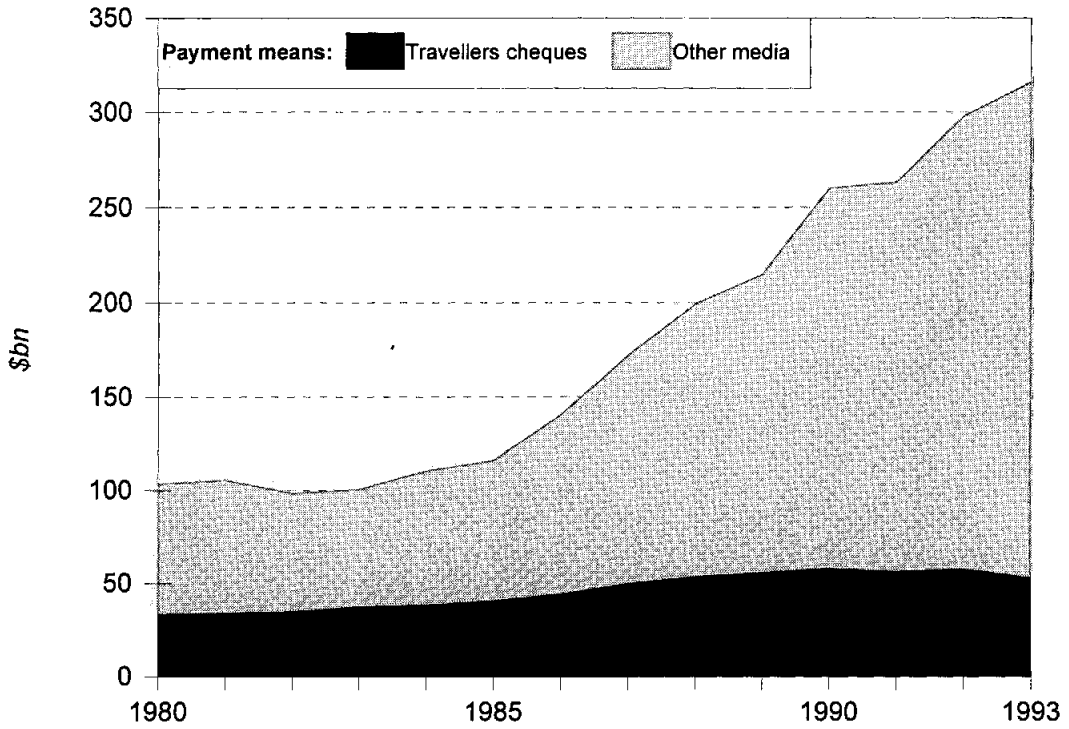
4.89. A report commissioned by Cook from MORI, based on surveys of UK consumers in the early part of 1994, found that rather than 'a dying product, soon to be taken over by the use of plastic', travellers cheques were 'holding up well, the main reason being the perceived security of the product'.

¹We used tourism data published by the World Tourist Organisation (WTO). It defines international tourism expenditure as expenditure by visitors (including leisure, visiting friends and relatives, business and professional, health treatment, etc, but excluding periods of paid employment in foreign countries), including any prepayments made for goods or services received in the destination countries and any payments to foreign carriers for international transport.

²The expenditure figures exclude payments for air and sea travel to and from the UK. For inclusive tour travellers, the figures also exclude estimates of the return fare element in the tour price.

FIGURE 4.5

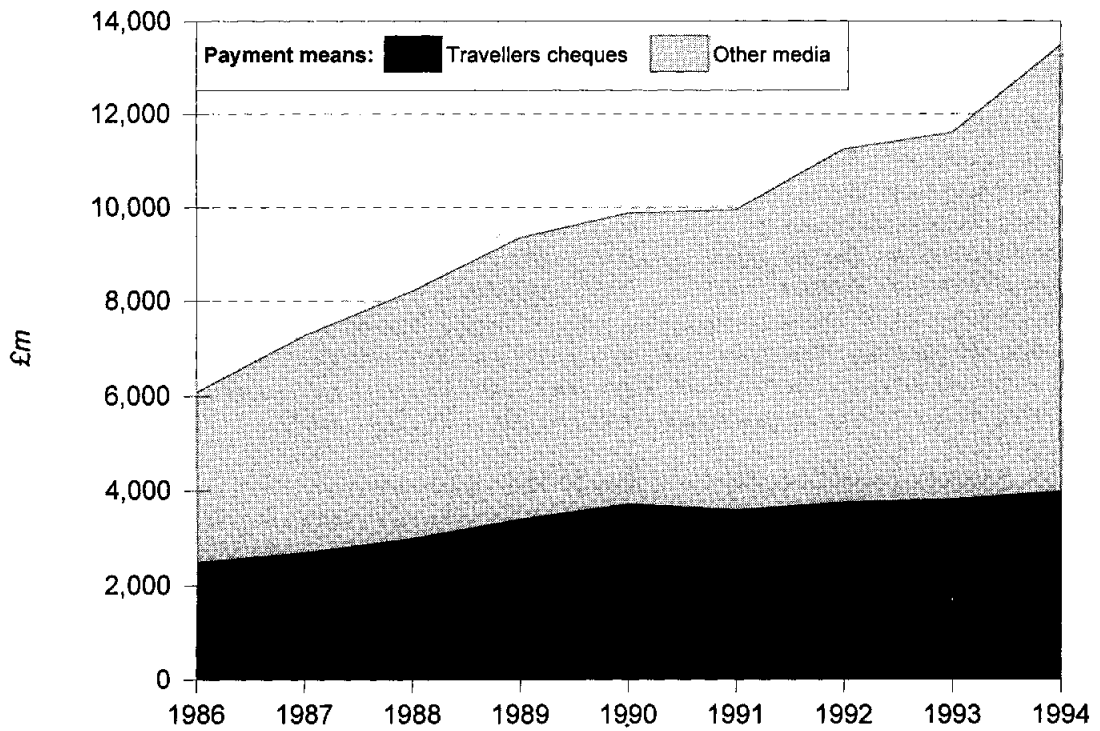
World-wide sales of travellers cheques and world tourism spending, 1980 to 1993



Source: MMC, based on data from WTO and Visa.

FIGURE 4.6

UK sales of travellers cheques and UK tourists' expenditure, 1986 to 1994



Sources: Total overseas expenditure: CSO's *Business Monitor*, MQ6; travellers cheque sales: Mintel for 1986 to 1989 and Table 4.5 for 1990 to 1994.

Among the people who had taken a holiday abroad in the previous three years, 61 per cent had used foreign currency, 48 per cent sterling travellers cheques, 32 per cent a credit card, 23 per cent had taken sterling cash and 19 per cent had used foreign currency travellers cheques. However, the survey also found that credit cards were increasing in popularity as a means of making payments while abroad. Respondents were asked about the payment devices they saw themselves using more over the next five years or so than they had in the past, and 24 per cent said that this was the case for credit cards, 18 per cent cited sterling travellers cheques, 12 per cent foreign currency and 8 per cent foreign currency travellers cheques.

4.90. The exact make-up of each traveller's choice of payment devices depends to some extent on the country of destination. The top 12 destinations (in terms of numbers of business and leisure visits) for UK travellers in 1992 were France, Spain, the USA, the Irish Republic, Greece, Germany, the Netherlands, Portugal, Italy, Cyprus, Austria and Switzerland. Holiday travellers (excluding visits to family and friends) accounted for almost 70 per cent of the total. About 57 per cent of all UK travellers' expenditure abroad was accounted for by EC countries, with a further 11 per cent by other Western European countries and 15 per cent by travel to the USA and Canada. Only 17 per cent of UK travellers' expenditure abroad was devoted to travel to other countries. Cook suggested this showed that over 80 per cent of UK travellers' visits are to countries where payment card acceptance and ATMs are widespread.

4.91. A research study into the world-wide travellers cheque market, conducted by P-Four Consultancy Ltd (P-Four) for Cook in early 1993, reported that while the short-haul and cross-border travel sector (that sector of the travel market which implies a less promising future for travellers cheque usage) was forecast to grow by 3.9 per cent a year on average to 2005, the long-haul travel sector (a better prospect for travellers cheque usage) was expected to expand by about 5.8 per cent a year.¹ The key trends identified in the report were:

- (a) travel would become more important among all consumers;
- (b) the proportion of the UK population taking holidays would grow;
- (c) independent and adventure holidays would become more important;
- (d) sales volumes for package tours would decline;
- (e) short break holidays would become more important; and
- (f) holidays for the mature person would become more numerous.

However, while we found that opinion appeared to be divided as to whether or not there would be an increasing demand for travellers cheques, P-Four's conclusion was that travellers cheque sales world-wide would grow on average by about 3 per cent a year to 2000. This compares with an annual growth figure of 3.1 per cent over the ten-year period beginning in 1991 mentioned in *The Nilson Report*, No 495, March 1991. P-Four's expected growth rate was based on increased travellers cheque usage in Africa, the Far East and Latin America, and assumes that these countries do not bypass travellers cheques and move straight to plastic cards.

The relevant market

4.92. We considered the impact of alternative personal international payment devices on the demand for travellers cheques. Both Cook and Barclays argued that there was in fact strong competition from these other payment systems (see paragraphs 7.47 to 7.56). While noting, however, a number of decisions by other competition authorities supporting their views (see paragraphs 7.54 and 7.55), we considered it appropriate to base our assessment on the particular circumstances in which the parties to this merger compete in the UK.

¹*Thomas Cook: findings and conclusions from a global positioning study*, P-Four, April 1993.

4.93. As a general observation, consumers do have a wide and growing choice of payment devices which can be used internationally. However, while each device has a number of attributes in common with other devices, each has its own distinct features. At the very least there is an important distinction to be made between the 'pay before', 'pay now' and 'pay later' devices. Furthermore some devices (notably cash and travellers cheques) are generally regarded as being widely accepted throughout the world, while others have limited usage outside major holiday or business travel destinations. Many of the comments we received from third parties stated or implied that UK travellers still regarded other forms of international payment available to them as complementary, rather than as generally acceptable substitutes for paper-based travellers cheques.

4.94. In these circumstances, and given also the problems which travellers have in comparing prices (see paragraph 4.55), it is not surprising that we have been told that the retail market for travellers cheques is insensitive to price changes. Both Cook and Barclays told us that, at least within reasonable ranges, increases or decreases in the price of travellers cheques (ie consumer commission and encashment charges) did not lead to significantly more or less use of plastic cards and other alternative payment devices. We noted, too, that few of the sales agents we contacted reported any significant effect on their sales of travellers cheques as a result of changes in the consumer commissions they charged.

4.95. As to the future, as already mentioned, new products are in development which appear to have the potential to become significant effective competitors to traditional paper travellers cheques. We noted in particular plastic-based electronic travellers cheques. These will share all the consumer advantages of the paper travellers cheque but with lower operating costs for issuers. In particular, refund and replacement facilities are likely to be shared with those for plastic cards generally.

4.96. The two world-wide payment organizations, Visa and MasterCard, will ensure wide acceptability, and the probability is therefore that financial institutions eligible to belong to Visa and MasterCard (in the UK, banks and building societies) will be able to issue such cheques. We note in this context that the agreement for the sale of ISL to Cook does not preclude Barclays from launching such new products. We also understand that Cook's exclusivity agreement with MasterCard is not a bar to new entrants using the *MasterCard* brand on such cards. However, it is likely to be some years before these new products are in widespread use.

5 The companies concerned and their financial performance

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Introduction

5.1. The companies involved in the merger are ISL and The Thomas Cook Group Limited. This chapter gives a brief description of the companies together with an overview of their financial performance.

The Thomas Cook Group Limited

History and development

5.2. Cook is a global travel and financial services company based in the UK. The business originated in 1841, whilst the original company Thomas Cook and Son Limited was incorporated in 1924. Following a period of foreign and government ownership the company was privatized in 1972 and sold to The Automobile Association, Trusthouse Forte and Midland Bank in equal shares. Midland Bank acquired the entire share capital in 1974 from the other shareholders. In 1992 Midland Bank sold 10 per cent of Thomas Cook to Westdeutsche Landesbank Girozentrale (WestLB) and 90 per cent to TBG Touristik Beteiligungs GmbH & Co KG (at that time 100 per cent owned by LTU Lufttransport Unternehmen GmbH & Co (LTU)).

5.3. The current owners of Cook are TBG Touristik Beteiligungs GmbH (90 per cent), a wholly-owned subsidiary of WestLB, and LTU (10 per cent). LTU is itself 34.3 per cent owned by WestLB.

5.4. Cook's ultimate parent WestLB was established on 1 January 1969 by the merger of Landesbank für Westfalen Girozentrale, Münster (established in 1832), and Rheinische Girozentrale und Provinzialbank, Düsseldorf (established in 1854). The State of North Rhine Westphalia owns

43.2 per cent of WestLB, the remaining 56.8 per cent being held by four other shareholders comprising two regional savings banks and two regional authorities. WestLB is a major German bank which provides commercial and investment banking services regionally, nationally and internationally to public, corporate and bank customers. In addition, WestLB provides correspondent and clearing services to the Sparkassen (savings banks) and the state bank of North Rhine-Westphalia. At 31 December 1993 the WestLB Group had total assets of approximately DM332 billion.

5.5. In addition to Cook, WestLB has subsidiaries in the UK involved in wholesale banking, corporate finance and loan syndication and to a small extent fund management. The corporate finance activities are carried on by West Merchant Bank Limited.

5.6. Cook is one of the world's leading international travel financial services companies. It has three main lines of business: leisure travel, foreign exchange and travellers cheques. Cook sold its corporate travel business to American Express for US\$[*] million in September 1994 following a strategic review which concluded that the profitability of corporate travel management would, as a stand-alone business, decline substantially in the short term.

5.7. Leisure travel principally involves the sale of tour operators' products through Cook's retail branch network. Out of a world-wide total of 784 retail outlets, Cook's key geographical presence is in the UK (374 locations) and Canada (278), with the other principal outlets being in Australia (53) and Germany (44). In addition to its retail travel business Cook has a limited amount of long-haul tour operating activities as well as some specialist overseas inbound activities.

5.8. Cook has 937 retail foreign exchange locations world-wide with the majority being located in the UK (583), the USA (115) and Australia (65). These locations are situated in high streets (721), often as part of Cook travel agency outlets, airports and ports (116) and in the UK in Midland Bank branches (100). Although the principal activity is retail foreign exchange, that is providing foreign currency services directly to the public, Cook also operates a wholesale foreign exchange service for hotels, casinos etc as well as providing commercial foreign exchange services such as the sale of drafts and other payment products to small and medium-sized companies. Foreign exchange and leisure travel are managed as an integrated business which, through its retail outlets, also acts as a sales agent for the travellers cheque operation.

5.9. The travellers cheque business is operated by the Financial Institution Services division of Cook, and unlike leisure travel and foreign exchange is managed globally rather than on a country-by-country basis. The travellers cheque business operates through a network of 43 sales offices which are spread over 39 countries and which supply travellers cheques to sales agents around the world. The main processing operation of the travellers cheque business is based in Peterborough, UK, with other processing sites located in the USA, Australia, France and Japan. Central management of the travellers cheque product is based in London and Peterborough.

5.10. The consolidated operating results and balance sheets for Cook for the years 1990 to 1993 are summarized in Tables 5.1 and 5.2 respectively.

5.11. During 1993 Cook purchased 15 per cent of the issued share capital of Owners Abroad Group plc, the tour operator and charter airline group.

Cook's travellers cheque business

5.12. Cook's travellers cheque business utilizes some 3,500 sales agents in over 150 countries. Its travellers cheques are sold in about 80,000 outlets world-wide. Cheques are currently issued by Cook in ten different currencies; Table 5.3 shows the values of cheques in each currency sold in 1993, broken down by currency.

*Figure omitted. See note on page iv.

TABLE 5.1 Cook: summarized consolidated operating results, 1990 to 1993

	As at 31 December				£ million
	1990	1991	1992	1993	
Turnover	405.5	429.6	486.5	595.6	
Cost of sales	(275.7)	(305.8)	(340.6)	(423.5)	
Gross profit	129.8	123.8	145.9	172.1	
Distribution and administrative expenses	(88.9)	(102.4)	(114.7)	(137.0)	
Income from associates	0.1	0.4	0.2	-	
Operating profit	41.0	21.8	31.4	35.1	
Interest payable	(13.4)	(12.9)	(6.2)	(3.5)	
Profit before taxation	27.6	8.9	25.2	31.6	

Source: Cook accounts.

TABLE 5.2 Cook: summarized consolidated balance sheets for the years 1990 to 1994

	As at 31 December				£ million
	1990	1991	1992	1993	1994*
Fixed assets	85.1	92.1	88.2	97.0	[
Intangible assets	3.4	3.0	2.6	2.2	
Investments in associates and fixed asset investments	1.6	1.2	0.6	37.1	
	90.1	96.3	91.4	136.3	
Stocks	6.3	6.3	7.5	7.5	
Debtors	193.4	187.0	232.3	259.2	
Investments	777.0	811.0	1,083.3	1,042.1	
Cash	75.7	124.0	151.8	160.9	
Total current assets	1,052.4	1,128.3	1,474.9	1,469.7	
Total assets	1,142.5	1,224.6	1,566.3	1,606.0	
Trade creditors	186.1	236.1	263.4	297.0	Figures omitted.
Other current liabilities	62.5	56.4	92.9	104.2	See
Bank and short-term loans	125.7	134.8	76.1	56.3	note on
Travellers cheques awaiting redemption	680.0	696.1	1,028.4	1,010.8	page iv.
	1,054.3	1,123.4	1,461.0	1,468.3	
Long-term liabilities†	7.5	9.5	7.8	64.1	
Net assets	80.7	91.7	97.7	73.6	
Called up share capital	45.0	60.0	60.0	60.0	
Profit and loss account reserve	6.5	2.7	15.9	(7.0)‡	
Revaluation reserve	16.5	16.3	12.0	12.1	
Sundry reserves	4.7	4.7	-	-	
Shareholders' funds	72.7	83.7	87.9	65.1	
Minority interests	8.0	8.0	9.8	8.5	
	80.7	91.7	97.7	73.6]

Source: Cook annual report and accounts.

*Unaudited pro forma balance sheet.

†Bank loans, liabilities under finance leases and provisions for liabilities and charges.

‡During 1993 Cook wrote off approximately £25.2 million of goodwill on acquisitions made during the year causing the profit and loss account reserve to become negative.

TABLE 5.3 Analysis of Cook 1993 sales by currency

	Local currency '000	£ equivalent '000	%
US dollar	[
Sterling			
Deutschmark			
Australian dollar			
French franc			
Canadian dollar			
Spanish peseta			
Dutch guilder			
Others*]

Figures omitted.
See note on page iv.

Source: Cook 1993 Management accounts.

*Swiss franc, Japanese yen, Hong Kong dollar and ECU.

5.13. The principal processing location for Cook travellers cheques is in Peterborough though there is some residual processing at smaller locations in Princeton, Melbourne, Paris and Tokyo. In order to reduce unit costs, Cook's policy has been to centralize its processing wherever possible. As a result, in recent years substantial processing activity has been transferred from Canada, the USA, Australia and France to Peterborough. Cook also subcontracts certain specialist functions such as cheque redemption to third party banks. Additionally, Cook provides processing and other services to the other issuers of *MasterCard* travellers cheques but fees from these activities are quite insignificant in relation to Cook's turnover.

5.14. The operating results and balance sheets for the years 1990 to 1994 of the Cook travellers cheque business are summarized in Table 5.4.

TABLE 5.4 Cook's travellers cheque business: summarized operating results

	Year ended 31 December					£ million*
	1990	1991	1992	1993	1994 (estimate)	
Sales	5,226	4,997	5,689	5,476	[
Turnover	85.1	83.1	82.8	84.4	‡	
Operating profit	22.1	15.9	6.9	8.8		
Exceptional items†	(3.9)	(2.5)	3.4	6.0		
Profit before tax	18.2	13.4	10.3	14.8]	

Source: Cook.

*All amounts translated using 1994 exchange rates.

†Exceptional items comprise the costs of closing a processing centre in Princeton, USA, capital gains and exchange gains or losses.

5.15. In Table 5.4 (and subsequent tables) sales represent the face value of all travellers cheques sold during the year expressed in sterling. Turnover comprises investment income derived from the cash float and a small amount of commission paid by sales agents as well as fees for processing other issuers' cheques.

‡Figures omitted. See note on page iv.

Interpayment Services Limited

5.16. Prior to the merger ISL was part of the Barclays group. The ultimate parent company of the Barclays group is Barclays plc, a non-trading investment holding company whose shares are quoted on the London, Tokyo and New York stock exchanges. Barclays plc owns the entire issued ordinary share capital of Barclays Bank plc, the main operating company of the group. The Barclays group has a number of principal business units. Prior to completion of the sale to Cook ISL was part of Barclays' Global Services, itself part of the Corporate and Institutional Banking Services division. As at 31 December 1993 Barclays had total assets of £166 billion and in the year to 31 December 1993 reported a profit before tax of £664 million.

5.17. Barclays began issuing travellers cheques in the UK under its own name in 1928. In 1979 the VISA brand was added to its travellers cheques as part of the close relationship developed between Barclays and Visa across a range of products. During the 1980s and continuing into the early 1990s Barclays acquired the travellers cheque issuing business of a number of other banks including Standard Chartered, Trustee Savings Bank, Chase Manhattan and most recently in 1991 Bank of America with the intention of increasing its volume and its share, as issuer, of total travellers cheques sales world-wide.

5.18. Barclays supplied third party sales agents with travellers cheques prior to the setting up of the Interpayment brand name in 1989. The purpose of the creation of Interpayment was to enable Barclays to issue 'white label' travellers cheques, ie a cheque bearing the neutral name 'Interpayment' as the issuer so as to make them more acceptable to other banks, which may have been unwilling to sell cheques bearing the Barclays name. ISL was incorporated as a separate legal entity on 1 January 1991. The establishment of ISL coincided with a new drive to expand the business's network of sales agents internationally.

5.19. As well as handling Barclays travellers cheque issuing business, ISL was also responsible for the International Money Order and Barclaydraft businesses. These businesses were transferred to another subsidiary of Barclays prior to the sale of ISL to Cook.

5.20. The travellers cheque business was, prior to completion, carried on principally by ISL and its wholly-owned subsidiaries:

- Interpayment Puerto Rico Limited;
- Interpayment Services Deutschland GmbH;
- Interpayment Australia Limited;
- Servicios Interpayment de Venezuela CA; and
- Interpayment Services (Malaysia) SMD-BHD (which was not trading actively and has not been transferred to Cook).

5.21. In France the business was operated through Interpayment Chèque Bleu SA which has five shareholders: ISL, which holds 85 per cent of the shares, Crédit du Nord (5 per cent), Crédit Industriel et Commercial de Paris (3.36 per cent), Crédit Industriel D'Alsace et de Lorraine (3.32 per cent) and Société Lyonnaise de Banque (3.32 per cent). The French banks' shareholdings have not been affected by the sale of ISL to Cook. In Canada the issuing of travellers cheques was carried on by Barclays Bank of Canada, a wholly-owned subsidiary of Barclays Bank plc, although profits were for the account of ISL.

5.22. ISL has five principal operational centres. They are located in the UK (Poole), the USA (New York), Canada (Toronto), Australia (Paramatta) and France (Paris). These centres, together with the separate regional sales offices situated around the world, are responsible for the operations described in Table 5.5. The table also indicates the number of employees engaged in each of these functions immediately prior to completion of the merger.

TABLE 5.5 Allocation of management and employees of ISL

	<i>Number of employees</i>						
	<i>Poole</i>	<i>New York</i>	<i>Toronto</i>	<i>Paramatta (Australia)</i>	<i>Paris</i>	<i>Sales offices</i>	<i>Total</i>
Printing/storage and distribution	10	9	5	-	1	-	25
Sales and sales support	14	9	7	1	6	126	163
Marketing	12	3	1	1	-	-	17
Data entry/sales ledger reconciliation	82	81	8	-	2	-	173
Computer system operations	5	17	1	1	-	-	24
Finance/funds flow management	26	11	6	2	5	-	50
Refunds	-	58	5	1	3	-	67
Personnel	5	2	2	2	1	-	12
General	<u>10</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18</u>
Total	164	198	35	8	18	126	549

Source: Barclays.

5.23. ISL issues cheques in six currencies: US dollars, £ sterling, Australian dollars, Canadian dollars, Deutschmarks and French francs. Table 5.6 shows the breakdown of ISL sales in 1993 by currency.

TABLE 5.6 Analysis of ISL sales by currency for 1993

	<i>Local currency '000</i>	<i>£ equivalent '000</i>	<i>%</i>
US dollar	[
Sterling			
Canadian dollar			
Australian dollar			
French franc			
Deutschmark			
]

*Figures omitted.
See note on page iv.*

Source: Cook.

5.24. Printing of cheques is undertaken by Harrisons & Sons Limited in Wycombe and three overseas printers. Distribution is managed through 15 stockholding sites world-wide. A number of functions were outsourced to Barclays by ISL including computer centre operations and management of the general ledger. The world-wide emergency refund service is currently outsourced by ISL to the Visa Global Refund Service (GRS) which is operated by State Street Bank based in Baltimore.

5.25. The summarized operating results of ISL's travellers cheque business for the years 1990 to 1994 are set out in Table 5.7.

TABLE 5.7 ISL's travellers cheque business: summarized operating results, 1990 to 1994

	Year ended 31 December				£ million
	1990	1991	1992	1993	1994 (estimate)
Sales*	3,995	4,002	5,814	4,629	[
Turnover	44.7	56.5	64.1	56.5	
Total costs	(47.8)	(75.8)	(74.7)	(69.0)	
Operating loss	(3.1)	(19.3)	(10.6)	(12.5)	
					†
Float write-back	19.0	21.0	6.0	7.0	
Capital gains	-	-	10.0	-	
Provisions	-	(11.0)	(16.0)	(3.6)	
Profit/loss before tax	15.9	(9.3)	(10.6)	(9.1)]

Source: Cook.

*ISL sales figures for 1990 to 1992 include an estimate for sales of French franc cheques of £100 million in each year. Cook told us that it was unable to obtain precise figures.

5.26. ISL adopts an accounting policy whereby outstanding travellers cheques which have not been encashed are written back to the profit and loss account after a certain period of time (usually four years). Cook, in common with all other major issuers of travellers cheques, adopts a policy whereby the liability for uncashed cheques is retained on its balance sheet indefinitely. Upon completion of the merger ISL changed its accounting policy to follow that of Cook.

5.27. The capital gains shown in Table 5.7 arose as a result of the liquidation in late 1992 and early 1994 of the swaps portfolio which formed part of the assets held by ISL. As discussed more fully in paragraph 5.61, ISL liquidated its entire remaining swaps portfolio in early 1994 as one step in its planned wind-down of the travellers cheque business.

5.28. The provisions shown in Table 5.4 for 1991 and 1992 related to stock write-downs and certain unrecoverable assets identified by the directors of ISL which were written off. The provision in 1993 related to Project Streamline, a rationalization programme intended to improve profitability by reducing the incentives paid to sales agents and cancelling unprofitable agreements with sales agents. The provision recorded in 1994 was to cover the costs of the wind-down of the business which ultimately did not take place.

5.29. Consolidated balance sheets for ISL's travellers cheque business for the years 1990 to 1993 are set out in Table 5.8.

† Figures omitted. See note on page iv.

TABLE 5.8 ISL's travellers cheque business: summarized consolidated balance sheets for 1990 to 1994

	1990	1991	1992	1993	1994 (estimate)
<i>£ million</i>					
<i>Fixed assets</i>					
Tangible and intangible assets	0.8	1.4	1.4	1.2	[
Investments	<u>252.3</u>	<u>379.8</u>	-	-	
	253.1	381.2	1.4	1.2	
<i>Current assets</i>					
Stock	9.2	9.8	10.6	8.6	
Debtors	117.0	141.8	174.9	160.1	
Cash at bank and in hand	<u>187.3</u>	<u>168.0</u>	<u>703.6</u>	<u>740.1</u>	
Total current assets	313.5	319.6	889.1	908.8	
<i>Current liabilities</i>					
Creditors	23.8	28.9	38.7	14.6	
Travellers cheques awaiting redemption	<u>510.8</u>	<u>647.6</u>	<u>826.3</u>	<u>875.5</u>	
Net current (liabilities)/assets	(221.1)	(356.9)	24.1	18.7	*
Total assets less current liabilities	32.0	24.3	25.5	19.8	
Non-current liabilities	-	-	-	<u>0.3</u>	
Net assets	<u>32.0</u>	<u>24.3</u>	<u>25.5</u>	<u>19.5</u>	
<i>Represented by</i>					
Share capital	2.5	7.0	9.4	9.4	
Share premium	-	0.7	0.7	0.7	
Profit and loss account	29.7	(12.8)	(20.4)	(46.7)	
Other reserves	<u>(0.2)</u>	<u>29.3</u>	<u>35.7</u>	<u>56.0</u>	
Shareholders' funds	<u>32.0</u>	<u>24.2</u>	<u>25.4</u>	<u>19.4</u>	
Minority interests	-	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	
	32.0	24.3	25.5	19.5]

Source: 1990 to 1993: KPMG due diligence report prepared on behalf of Visa. 1994: Cook.

Regulatory environment and consumer protection

5.30. The travellers cheque issuing business of Cook is not subject to direct supervision in the UK under the terms of either the Banking Act 1987 or the Financial Services Act 1986. However, prior to the merger, ISL, as a subsidiary of Barclays, came under the consolidated supervision of the Bank of England.

5.31. On the other hand Cook and its travellers cheque issuing subsidiaries, as subsidiaries of WestLB, are indirectly subject to prudential supervision by the German Bundesaufsichtsamt für das Kreditwesen (Federal Banking Supervisory Office—FBSO) under the EC Banking Regulation Directives. Under the First and Second Banking Directives¹ Cook's parent WestLB, a credit institution, is regulated by the FBSO as its home state regulator. The EC Own Funds Directive² and EC Solvency Ratio Directive³ set a minimum capital adequacy level for credit institutions of 8 per cent (ie a bank's 'free capital' must represent at least 8 per cent of its risk-weighted assets). For these purposes WestLB is classified as a credit institution.

*Figures omitted. See note on page iv.

¹Council Directive 77/780/EEC, dated 12 December 1977 (OJ 1977 L322/30), and Council Directive 89/646/EEC, dated 15 December 1989 (OJ 1989 L386/1).

²Council Directive 89/299/EEC, dated 17 April 1989 (OJ 1989 L124/16).

³Council Directive 89/647/EEC, dated 18 December 1989 (OJ 1989 L386/14).

5.32. These directives are supplemented by the EC Consolidated Supervision Directive¹ which lays down the rules for consolidated supervision of credit institutions and financial institutions and is due, we understand, to be implemented in Germany by December 1995. For the purpose of this directive and those described in paragraph 5.31, a travellers cheque issuer is deemed to be a financial institution. However, until the EC Consolidated Supervision Directive is implemented in Germany Cook is not subject to consolidated supervision.

5.33. In the USA there is regulation of travellers cheque issuers in between 30 and 40 states. The state laws generally require the issuer to demonstrate financial responsibility by maintaining a prescribed net worth, posting a performance bond and/or investing an amount equal to outstanding cheques sold in the USA in a mixture of secure and diversified investments. Issuers of travellers cheques are not *per se* regulated in any other major country.

Arrangements between the issuers and brand owners

5.34. Under the *MasterCard* travellers cheque rules the issuer and all other *MasterCard* travellers cheque issuers guarantee payment of *MasterCard* travellers cheques provided that the prescribed acceptance procedures are followed, although the primary liability falls on the company whose name appears on the cheque as issuer (eg Thomas Cook Travellers Cheques Limited). Should a member become unable to honour *MasterCard* travellers cheques issued in its name, we understand that MasterCard would assume responsibility for meeting the resulting liabilities.

5.35. In that event MasterCard would then seek to recover any payments made from any insurance taken out by, or any guarantors of, the failed issuer. In the case of Cook, WestLB has not issued a formal guarantee to MasterCard in respect of Cook's obligations to MasterCard for reasons relating to banking capital adequacy, but has given two statements of support which say that WestLB undertakes to maintain Cook's solvency. The first of these, a general comfort covering various subsidiaries including Cook, is contained in WestLB's annual report. The second is provided to MasterCard specifically in connection with the issue by Cook of *MasterCard* travellers cheques. In the course of 1994 Cook obtained legal opinion in Germany which stated that both letters of comfort would be legally enforceable on WestLB in the event that Cook was unable to meet its liabilities.

5.36. Any payments made by MasterCard on behalf of an issuer unable to meet its obligations can, at MasterCard's discretion, be recovered by means of an assessment on all other participating *MasterCard* travellers cheque issuers.

5.37. We were told that the arrangements between ISL and Visa are similar to those between Cook and MasterCard. In common with MasterCard, Visa guarantees the payment of any validly issued *VISA* travellers cheque so long as it has been negotiated in good faith and properly presented for payment. Visa told us that its guarantee was effectively supported by the other members (including card-issuing members) of the Visa organization under the terms of its by-laws relating to the allocation of losses.

5.38. We were told that prior to the merger Barclays did not formally guarantee the liabilities of ISL, its subsidiary, but instead issued a letter of comfort to Visa.

5.39. As a result of the merger Cook's total liabilities on outstanding travellers cheques will have risen from just over £1 billion to more than £1.9 billion, with a matching increase in the float; WestLB has provided a letter of comfort addressed to Visa on the same terms as the letter to MasterCard referred to in paragraph 5.35 to cover obligations on *VISA* cheques issued by ISL. The respective guarantee arrangements between the issuing companies (Cook and ISL) and the brand owners (MasterCard and Visa) will be unchanged.

5.40. WestLB has also given specific letters of comfort direct to Cook undertaking to keep Cook's travellers cheque issuing subsidiaries (including ISL) always in sufficient funds to meet their liabilities

¹Council Directive 92/30/EEC, dated 6 April 1992 (*OJ* 1992 L110/52).

to the holders of travellers cheques. We have seen these letters and a legal opinion saying that WestLB's undertakings are legally valid and binding under German law.

5.41. Cook operates a policy whereby the travellers cheque floats for all currencies except sterling are held in separate currency portfolios to ensure that sufficient funds are available to honour the travellers cheques as they are used by the purchaser and presented to the issuer for payment. In general travellers cheque funds have been kept separate from funds relating to other parts of the Cook group. However, sterling funds have been pooled with funds from the non-travellers cheque businesses to improve the efficiency of cash management. Cook told us that, although the funds were pooled, the ownership of the funds (ie travellers cheques versus other businesses) was clearly identified and tracked. Cook added that it was currently assessing whether separate portfolios would be maintained for float funds in all currencies.

Comparison of profitability

5.42. Over the past five years Cook and ISL have experienced differing fortunes. Cook's travellers cheque business has remained profitable although profits have declined whereas ISL has made an operating loss throughout. The overall trend in profitability and the differing fortunes of the parties can be explained by examining the economics of the travellers cheque issuing business and the cost bases of Cook and ISL.

5.43. The costs of an issuer of travellers cheques can be broken down into five categories:

- *Incentives*: Payments made directly to sales agents by the issuer either in the form of a commission dependent upon the level of sales or one-off payments as an inducement for the agent to offer, or continue to offer, the cheques of a particular issuer or for marketing support.
- *Product costs*: Printing costs, losses from fraud and fees paid to MasterCard or Visa (these costs are largely variable and depend upon the volume of cheques sold).
- *Field costs*: Costs associated with the regional sales and marketing operations including support and administration of regional sales forces.
- *Processing*: The costs of data processing, paper handling, reconciliation functions and refund services. The processing of travellers cheques is complex and involves more steps than the processing of a normal cheque.
- *Central*: Overhead costs associated with head office as well as the costs of investment management.

5.44. In Table 5.9 the total operating costs of Cook and ISL for the years 1990 to 1994 are broken down into these five categories.

TABLE 5.9(a) Cook: breakdown of total costs, 1990 to 1994

	1990		1991		1992		1993		1994 (estimated)	
	£	% of sales	£	% of sales	£	% of sales	£	% of sales	£	% of sales
Sales	5,226	100	4,997	100	5,689	100	5,476	100	[
Turnover	85.1	1.63	83.1	1.66	82.8	1.46	84.4	1.54		
Incentives	[
Product costs										Figures omitted.
Field costs										See note on page iv.
Processing costs										
Central costs*]	
Total costs	<u>63.0</u>	<u>1.21</u>	<u>67.2</u>	<u>1.34</u>	<u>75.9</u>	<u>1.33</u>	<u>75.6</u>	<u>1.38</u>		
Operating profit	22.1	0.42	15.9	0.32	6.9	0.12	8.8	0.16]

Source: Cook.

*Until 1992 processing and central costs were not separately identified.

TABLE 5.9(b) ISL: breakdown of total costs, 1990 to 1994

	1990		1991		1992		1993		1994 (estimated)	
	£	% of sales	£	% of sales	£	% of sales	£	% of sales	£	% of sales
Sales	3,995	100	4,002	100	5,814	100	4,629	100	[
Turnover	44.7	1.12	56.5	1.41	64.1	1.10	56.5	1.22		
Incentives	[
Product costs										Figures omitted.
Field costs*										See note on page iv.
Processing and central costs†]	
Total costs	<u>47.8</u>	<u>1.20</u>	<u>75.8</u>	<u>1.89</u>	<u>74.7</u>	<u>1.28</u>	<u>69.0</u>	<u>1.49</u>		
Operating loss	(3.1)	(0.08)	(19.3)	(0.48)	(10.6)	(0.18)	(12.5)	(0.27)]

Source: Cook.

*In 1990 processing and central costs have been combined with field costs.

†Processing and central costs cannot be broken out separately.

5.45. The trend in profitability of Cook and ISL is illustrated in Figure 5.1.

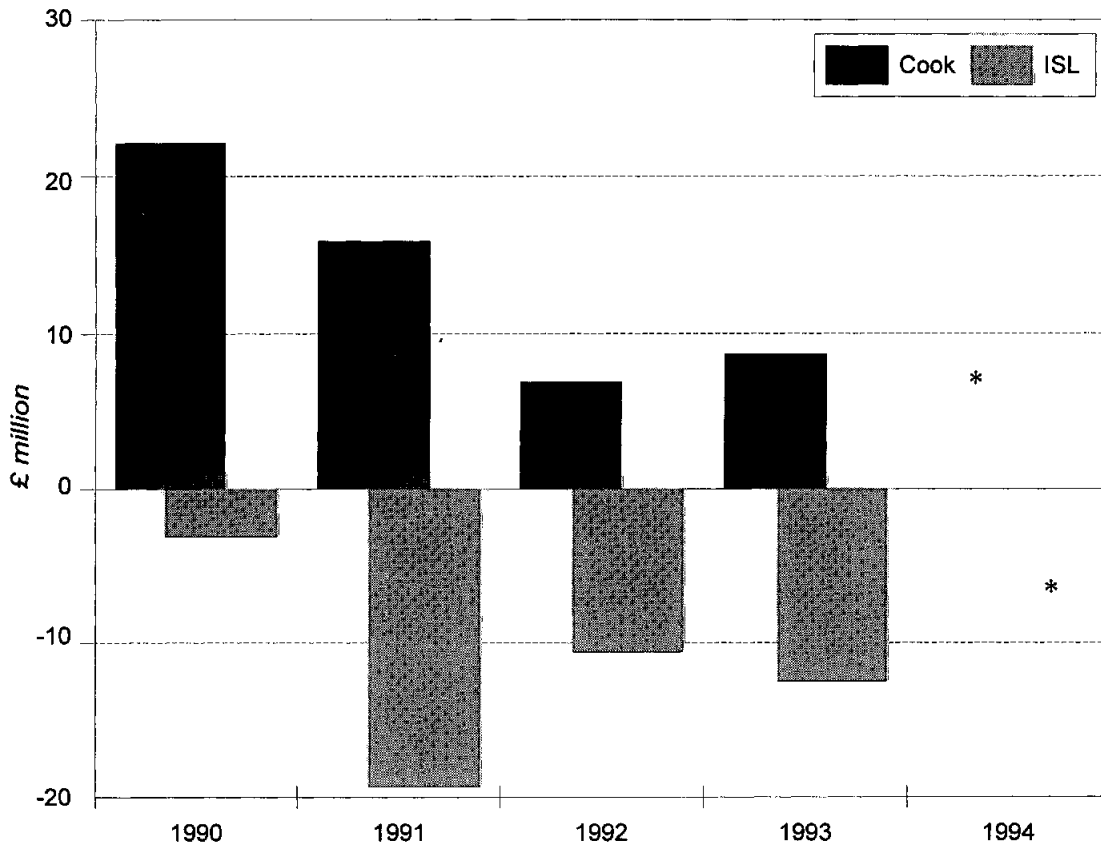
5.46. In the following paragraphs we explain the reasons for the differing fortunes of Cook and ISL in respect of turnover (paragraphs 5.47 to 5.61) and costs (paragraphs 5.62 to 5.74).

Turnover and management of the float

5.47. As mentioned earlier (paragraph 5.15), turnover largely comprises investment income derived from the cash float together with a small amount of commission paid to Cook and ISL by sales agents (return commission) and processing fee income. Such return commissions are typically only payable in the case of cheques which are unprofitable, for example because they are in a currency representing

FIGURE 5.1

Cook and ISL: comparison of operating profit, 1990 to 1994



Source: Cook.

*Details omitted. See note on page iv.

a small proportion of global sales (eg Spanish pesetas) or having a short cheque life or because they are sold in countries with particularly high security costs.

5.48. The float consists of the proceeds of sale of travellers cheques (ie an amount equal to the face value) which have been sold but not yet redeemed. Typically the float is held in the currency of the original cheque (no foreign exchange risk is taken) and invested in the same currency (ie US dollar travellers cheques sold world-wide create a US dollar float which is invested in dollar instruments). Interest earned on the float provides the issuer with almost all its revenue which is therefore a product of interest rates and the average interval between issue and redemption. Interest earnings are influenced by interest rates as well as by the mix of investments held. The art of managing a float is to maximize returns while minimizing risk, always ensuring sufficient liquidity to fund encashments as they occur. The float life is optimized by ensuring that the selling agents remit the sales proceeds as soon as possible after sale. An issuer has no influence over when the consumer encashes his cheques and when the cheque is presented to the issuer for payment.

5.49. The manner in which the cash float is invested and managed is critical to the success of an issuer of travellers cheques. As illustrated in Appendix 5.1, world-wide interest rates have been comparatively low (in nominal terms) over the past three to four years and this has had an adverse impact for both Cook and ISL; yields and therefore profitability have been lower than was the case during earlier periods of higher interest rates.

5.50. The travellers cheque business is partly seasonal following the pattern of tourism in the countries where the cheques are sold. Sales (and therefore size of float) peak in the summer months falling to their seasonal low in December and January. The nature of the business ensures that—assuming a given annual total of cheques sales—over time an underlying fixed cash float will form, with

issues equalling redemptions. This underlying float can be invested over the longer term (up to ten years) despite the fact that the average float life for a particular cheque is under two months. Consequently only a small proportion of the total float needs to be held in readily marketable short-term investments to cope with short-term fluctuations.

5.51. Both ISL and Cook have accordingly sought to place much of their floats in longer dated investments to achieve higher returns than would otherwise be available through short-term deposits. However, ISL and Cook have historically adopted different strategies regarding the type of instrument used to invest the float.

ISL's strategy

5.52. The underlying strategy of the ISL portfolio had been to provide a low-risk stable return. The float was placed short-term with Barclays and interest rate swap contracts were purchased to fix the rate of return over a longer period. These deposits were mixed with a number of fixed-term deposits giving differing maturities and rates. The Barclays Group Treasury determines the investment policy for all Barclays business. Within the parameters set by the Group Treasury, ISL was free to choose the deposits in which its float was invested, although all investments were made with Barclays.

5.53. Barclays told us that its decision to invest in short- to medium-term deposits as opposed to, for example, corporate bonds was influenced by UK banking regulation. If Barclays had wished to purchase a portfolio of risk-bearing instruments, such as bonds, on ISL's behalf a portion of the Barclays equity would have had to have been applied notionally to these investments for Bank of England reporting purposes, thereby reducing the return which Barclays could earn in other parts of its business. Barclays felt this was unacceptable for a non-core business such as ISL and therefore concluded that ISL's float should be invested in term deposits of between three and seven years.

5.54. The composition of the ISL float at 31 December 1993 is shown in Table 5.10. Barclays told us that the composition of this float was typical except that the level of funds placed overnight with Barclays had usually been lower at around £40 million.

TABLE 5.10 ISL: investment of the cash float as at 31 December 1993

<i>Amount</i>	<i>Interest rate</i>	<i>Expiry</i>	<i>Description</i>
<i>£m</i>			
[<i>Details omitted. See note on page iv.</i>		
]			
<i>US\$m</i>			
[<i>Details omitted. See note on page iv.</i>		
]			

Source: KPMG due diligence report prepared on behalf of Visa.

[*Details omitted. See note on page iv.*]

5.55. ISL also earns investment income on its Canadian dollar float held on its behalf by Barclays in Canada and on the small floats it holds in Australian dollars, Deutschmarks and French francs. In January 1994 Barclays liquidated the ISL swaps portfolio as part of its planned wind-down of the business. Thereafter until completion of the sale to Cook ISL's float was placed on short-term (12

months or less) deposit reflecting the uncertainty caused by the ongoing sale negotiation with first Visa and then Cook.

Cook's strategy

5.56. Cook stated that its approach to the management of its float had been and continues to be to maximize revenue, subject to an acceptable level of risk and the maintenance of adequate liquidity. The float was managed as an investment portfolio by Cook and placed with a variety of different institutions, in contrast to the ISL float which has been placed exclusively with Barclays. This policy has arguably allowed Cook to invest in a wider range of investments than ISL whose portfolio was dictated to a large extent by the needs of Barclays. Cook's investments include OECD government bonds, zone A bank bonds, corporate bonds, Eurobonds and certificates of deposit. German banking regulation does not yet require WestLB to consolidate Cook within its reported position and therefore WestLB does not face the same constraints as Barclays regarding capital adequacy. This means that, unlike ISL, Cook's investment strategy is not affected by the requirements of its parent.

5.57. All of Cook's investments were described as first class credit risks. For example, bonds must have a rating of at least A and in practice almost all are rated at least Aa. Off-balance-sheet instruments (forward rate agreements (FRAs) and swaps) are used to a limited extent to hedge the future rate of investment income or to protect the capital value of the portfolio. The investments held by Cook as at 30 November 1994 are set out in Table 5.11.

TABLE 5.11 **Cook: investment of the cash float at 30 November 1994**

	<i>£m</i>	<i>Proportion of total float %</i>		<i>Off- balance-sheet instruments</i>
				<i>Currency units m</i>
<i>Sterling</i>				
Deposits	[*]		FRAs	115
Eurobonds]	[*]	Swaps	10
<i>US dollar</i>				
Deposits	[Swaps	50
Deposit notes			Futures	90
Corporate bonds				
Collateralized asset backed				
Collateralized mortgaged				
obligations	*			
Yankees				
Eurobonds				
Federal agencies				
Municipals]	[*]		
Canadian dollar	[[Swaps	10
Deutschmark				
Dutch guilder	*	*	Swaps	5
Australian dollar			Swaps	21
Spanish peseta				
Total]]		

Source: Cook.

5.58. The floats held in the five minor currencies are invested in a mixture of deposits, corporate bonds and Eurobonds. Approximately 30 per cent of the total portfolio is due to mature in the next 12 months. The remainder is invested for longer periods with approximately 35 per cent not due to mature for between six and ten years.

5.59. Cook's French franc portfolio was invested on Cook's behalf by Société Générale. A three-year fund management agreement with Société Générale ended in December 1994 and from 1995

*Figures omitted. See note on page iv.

investment of the French franc float has reverted to Cook. Investment of this float was subject to the same strategy and guidelines as the other portfolios. At 30 November 1994 the value of the French franc portfolio was approximately £38 million which was invested in bank deposits (13 per cent), domestic bonds (45 per cent), mutual funds (6 per cent) and bank and Treasury bills (36 per cent).

5.60. Over the past five years Cook has consistently achieved a higher turnover to sales ratio than ISL, as illustrated in Table 5.12.

TABLE 5.12 Cook and ISL: turnover to sales ratio, 1990 to 1994

	<i>percentage of sales</i>				
	1990	1991	1992	1993	1994
Cook	1.63	1.66	1.46	1.54	[*]
ISL	1.12	1.41	1.10	1.22]

Source: Cook.

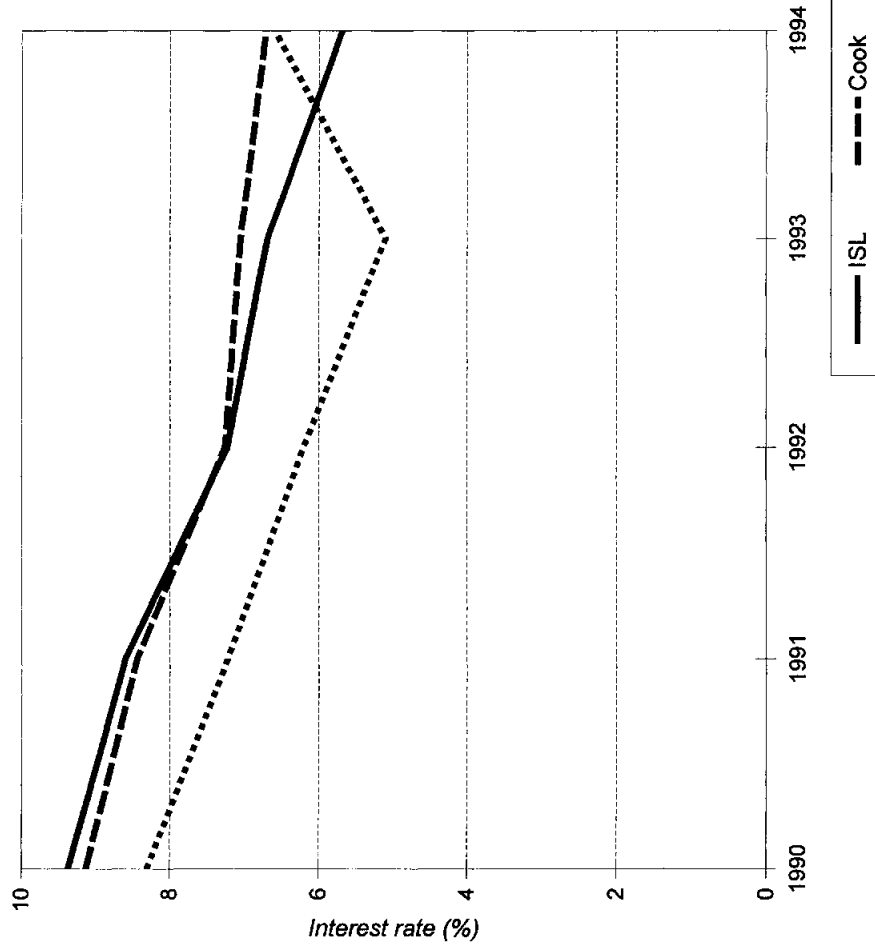
5.61. The level of turnover expressed as a percentage of sales is determined by two factors: yield and float characteristics. These are discussed further below:

- *Yield.* Float yield is the measure of the interest earned on the float over the period of a year. The yield for a particular year represents the average return that the float has earned across all investments during that year, normally split by currency. Figure 5.2 illustrates the yields earned by Cook and ISL on their US dollar and UK sterling floats over the past five years compared to market interest rates. These graphs show that until 1993 both Cook and ISL achieved a yield higher than long-term (five-year) deposit interest rates. ISL's yields in 1994 have been decreased substantially due to the decision of Barclays management to liquidate the swaps portfolio in January 1994 as part of the wind-down of the business. Despite creating a capital gain of some £36 million, this decision exposed ISL to short-term US dollar and sterling interest rates with no protective hedge. Barclays told us that if the swaps portfolio had not been encashed ISL's yield in 1994 would have been marginally higher than that of Cook.
- *Float characteristics.* The composition of the float influences the revenue that can be earned from it. The important characteristics of a travellers cheque float which affect the returns generated by Cook and ISL include:
 - (a) *Currency mix.* A relatively higher proportion of ISL's sales of cheques, and therefore of its float, has been in US dollars (approximately [*] per cent of the float) compared with Cook ([*] per cent on average). Over the past five years US dollar interest rates have been consistently lower than those for many other currencies thus adversely affecting ISL's investment income. ISL's concentration on US dollars stems from its high US market share achieved partly through the purchase of the travellers cheque business of Bank of America in 1991.
 - (b) *Float life.* The period of time between the receipt of funds by the issuer and the point at which the issuer must refund the encashment location when a cheque is encashed is known as the float life. The issuer seeks to maximize the float life and therefore revenue. The float life is influenced by the characteristics of the market in which the cheque is sold. For example, in the USA travellers cheques are often purchased and used to buy goods within the USA within a relatively short space of time with the result that the float life is comparatively short. Barclays told us that the average US float life can be as much as 25 per cent less than that for floats attributable to sales of cheques in other countries. This view was confirmed by Cook. In certain Third World markets many customers will purchase travellers cheques in large quantities in order to hedge against currency devaluation. In such countries float lives tend to be longer than would be typical in an

*Figures omitted. See note on page iv.

FIGURE 5.2(a)

Cook and ISL: comparison of average US dollar yields, 1990 to 1994

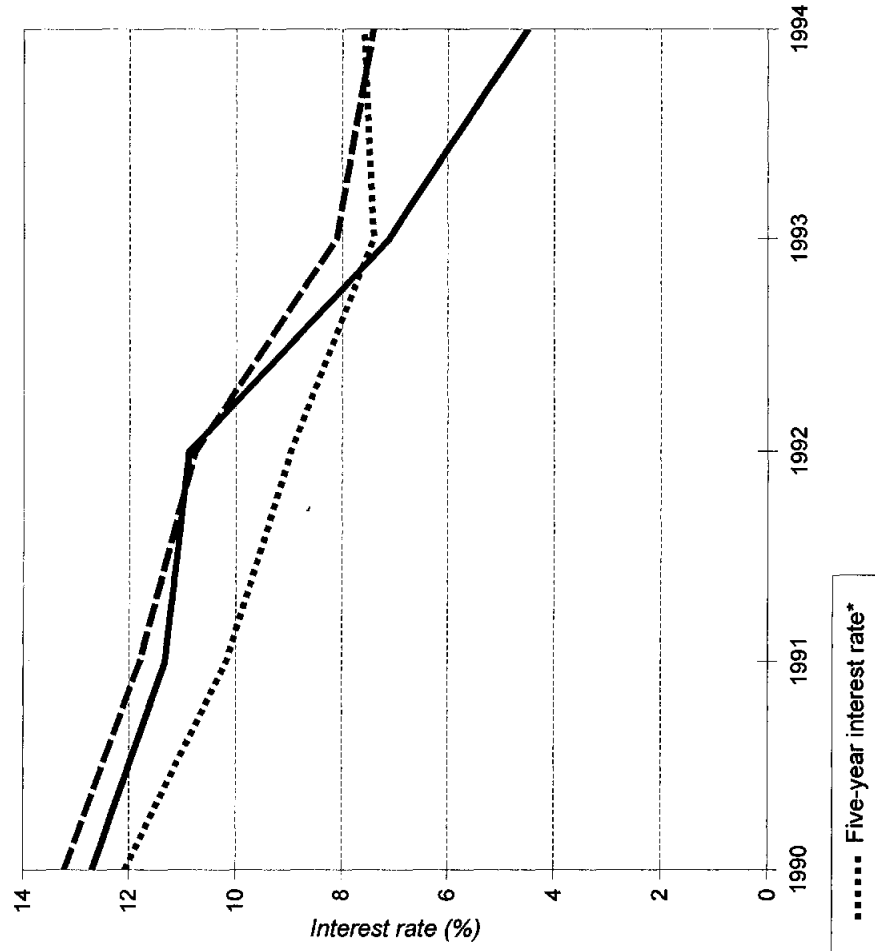


Source: Cook and Barclays.

*Five-year interest rate taken as the yearly average mid-market five-year money market rate.

FIGURE 5.2(b)

Cook and ISL: comparison of average sterling yields, 1990 to 1994



OECD country. Cook has a higher proportion of its cheque sales than ISL in these countries. Float life is also dependent upon the time taken by the sales agent to remit the sales proceeds to the issuer. For large-volume sales agents this will typically be done within one day. For lower-volume agents, this can take up to a week or longer.

Costs incurred by Cook and ISL

5.62. Table 5.9 shows the total costs incurred by Cook and ISL broken down into the principal categories of operating cost incurred by an issuer of travellers cheques. The table illustrates that ISL had a consistently higher cost base than Cook measured in unit cost terms (ie cost as a percentage of sales value). This is most easily explained by examining each of the types of cost in detail highlighting the differences between Cook and ISL.

5.63. Certain types of cost (eg processing) will vary with the number of cheques processed. However, in the absence of a detailed breakdown of cheques processed, we have applied the face value of cheques sold as a suitable denominator.

Agent incentives

5.64. Agent incentives are the largest single element of an issuer's costs comprising as much as [*] per cent of the total cost of the business. The level of incentives (ie sales commission and amortized signing-on fees) as a percentage of sales for both parties is shown in Table 5.13.

TABLE 5.13 Cook and ISL: level of agent incentives as a percentage of sales, 1990 to 1994

	percentage of sales				
	1990	1991	1992	1993	1994 (estimate)
Cook	[
ISL			Figures omitted. See note on page iv.]

Source: Cook.

5.65. The level of incentives as a percentage of sales paid by Cook and ISL rose steadily to reach a peak in the early 1990s as issuers (and ISL in particular) attempted to increase volumes by encouraging sales agents by means of incentive payments. However, the overall level of incentives has fallen back in the last two years as Third World markets where incentives are typically low have developed, though in the case of ISL this has also been due to a change in policy away from aggressive bidding over incentives (see paragraph 5.70). [*Details omitted.*
See note on page iv.]

5.66. The level of incentive is negotiated individually between the agent and the issuer and in extreme cases may be as high as 1 per cent of the face value of cheques sold. The actual level of sales incentives is calculated by reference to a range of different formulae. In addition to the incentive, sales agents may be offered payments in relation to business development support, marketing and staff retraining costs and signing-on fees. These can result in significant extra payments being made to agents by issuers.

5.67. Table 5.13 shows that in 1994 incentives paid by both Cook and ISL amounted to slightly less than [*] per cent of annual sales. However, this does not mean that the two companies necessarily offer similar levels of incentives to their sales agents. The overall incentive figure for ISL is affected by the relationship between ISL and Barclays whereby no incentive is paid by ISL on sales of travellers cheques through Barclays' branches. Cook currently pays an incentive of approximately [*] per cent to Cook retail outlets (travel agents and bureaux de change) on US dollar and sterling

*Figures omitted. See note on page iv.

travellers cheques with no incentives for other currencies except the Spanish peseta for which a return commission of [*] per cent is paid. Between 1990 and June 1994 incentives on US dollar and sterling cheques were [*] per cent and between [*] per cent and [*] per cent respectively. In each year from 1990 to 1993 Cook also paid a marketing incentive of £[*] to its retail travel business.

5.68. Barclays is ISL's largest customer, accounting for approximately [*] per cent of ISL's UK sales and [*] per cent of world-wide sales in 1994. If an average incentive of [*] per cent had been paid on these sales ISL would have incurred additional incentive costs of approximately £[*] and its incentives would have risen to a total of [*] per cent of sales. [

Details omitted. See note on page iv.

]

5.69. This analysis suggests that on average Cook bears lower incentive costs than ISL. This can be explained largely by the different geographic distribution of sales between Cook and ISL. Cook has a high proportion of its sales in regions where incentives are generally lower, such as Africa, Asia/Pacific and Latin America. In comparison ISL has a greater reliance upon the USA and Canadian market where the incentive levels are particularly high.

5.70. The recent reduction in ISL's incentive costs as a proportion of sales can be partly explained by the fact that in an attempt to improve profitability, ISL embarked on a rationalization programme (Project Streamline) in mid-1992. This focused on reducing significantly the number of agents and sales locations, in particular those situated in the USA. In addition the size of the North American management team was cut. On a global basis a target was set to reduce the agent incentive costs by 50 per cent during 1993. However, because of competitive pressure from both American Express and Cook, this target was not reached. In fact, in the UK the attempt to reduce incentives contributed to the loss of two major agents, TSB and Hogg Robinson (Going Places), to Cook and American Express respectively.

Product costs

5.71. Product costs vary in line with volume. The analysis in Table 5.9 suggests that ISL has incurred higher product costs than Cook, although this is partly due to differences in the way in which certain costs in relation to the management of fraud were classified between product costs and central costs. Cook told us that the main reason for the remaining difference was that it bore lower printing costs than ISL due to using fewer cheque-printing companies and longer average print runs, thus achieving lower unit print costs.

Field costs

5.72. The analysis in Table 5.9 suggests that Cook bears a higher level of field costs than ISL. Cook told us that it employed a number of people in the field to carry out activities such as dealing with customer queries, credit vetting, order taking and inventory requirement, but that similar functions were performed by ISL through its central locations. Therefore Cook's higher field costs were offset by additional central costs within ISL. Cook believes that opportunities for achieving economies of scale in field costs will arise as a result of the merger. Each field sales force is backed by an administrative team handling distribution and product support. Cook suggested that a single administration team will be able to service both the Cook and ISL sales forces.

Processing and central costs

5.73. Processing and central costs are largely fixed costs, that is the level of these costs are mostly unaffected by the volume of cheques sold. ISL has incurred substantially higher processing and central

*Figures omitted. See note on page iv.

costs than Cook over the past five years—for example, £[*] ([*] per cent of sales) compared with £[*] ([*] per cent of sales) in 1994. Aside from the classification of field costs discussed above, this can be attributed to ISL's higher fixed cost base.

5.74. ISL had processing facilities in New York (Wall Street), Poole (in Barclays premises), Sydney, Toronto and Paris. In particular, the Wall Street location bears high levels of costs largely due to its location. In contrast Cook's facilities are located in what were described as low-cost sites in New Jersey and Peterborough and Cook has attempted to centralize its operations wherever possible. Cook told us that prior to the merger ISL was regarded as having a relatively high pay structure amongst middle management thus increasing fixed costs. Barclays stated that the pay of its UK ISL employees generally was relatively high because they were covered by agreements with banking unions. Cook expressed the view that ISL's management structure was derived from its membership of the Barclays group as opposed to the needs of the general travellers cheque industry.

*Figures omitted. See note on page iv.

6 The transaction

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The merger situation	6.1
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Integration of ISL into Cook	6.16
Cost reductions	6.20

The merger situation

6.1. On 9 August 1994 Cook signed an unconditional agreement to purchase the world-wide travellers cheque issuing business of Barclays for a consideration of £[
Details omitted. See note on
page iv.]. The consideration was payable in cash on completion which took place on 24 November 1994.

6.2. Barclays' world-wide travellers cheque issuing business was (prior to completion of this transaction) carried on by ISL and its subsidiaries, except in Canada, where the business was operated by Barclays Bank of Canada, although the profit and loss of this business was for ISL's account. Barclays has retained the non-travellers cheque business of ISL, which included International Money Orders and Barclaydrafts.

6.3. The purchase took place through the acquisition by Cook of the shares of ISL. In addition, Thomas Cook Group (Canada) Limited, a wholly-owned subsidiary of Cook, acquired the assets and liabilities of the Canadian travellers cheque business, previously carried on by Barclays Bank of Canada. These separate arrangements for the Canadian business were made for reasons connected with banking regulation in Canada.

6.4. Cook told us that as part of the acquisition it was agreed that for a period after completion, Barclays would continue to provide certain services to ISL including processing and computer services, cheque clearance and settlement and funds transfer in relation to the travellers cheque business. The bulk of these services would be provided to ISL on fundamentally the same terms as if ISL were still part of Barclays. ISL would also be entitled to continue to occupy certain Barclays properties in return for a commercial rent for a period after completion. It was further agreed that Cook would be entitled to receive a continuing supply of VISA Canadian dollar travellers cheques for at least 18 months. These travellers cheques would on their face state that they were issued by Barclays Bank Canada, though the beneficial interest would be for the account of Cook. This interim arrangement was to allow Cook time to secure appropriate regulatory clearances to enable an ISL subsidiary to issue Canadian dollar cheques in Canada.

6.5. We were told that it was a key strategic requirement for Barclays to have the ability to sell travellers cheques which carried its own name (ie Barclays) and the Visa brand and which was not the product of a competitor to its core banking and card businesses. Barclays therefore entered into

a [*] sales agency agreement with Cook/ISL which guarantees the continuing supply of *VISA* travellers cheques to Barclays and under which Barclays will continue the active promotion of ISL travellers cheques in its branches. [*Details omitted. See note on page iv.*]

Background to the transaction

6.6. During the late 1980s and early 1990s ISL undertook a series of acquisitions in an attempt to derive additional economies of scale through increasing the volume of cheques sold. As part of this exercise it purchased the Bank of America travellers cheque business which gave it access to the Bank of America agent base but which did not include the float. The Bank of America business was moved to ISL during 1991 to 1993. It resulted in a significant increase in the size of the sales and associated volumes of cheques handled. However, the Bank of America business was primarily US dollar based and after the date of the acquisition US dollar interest rates fell significantly.

6.7. In mid-1992, in an attempt to improve profitability, ISL then embarked on Project Streamline (see paragraph 5.70), but as a result of competitive pressures from Cook and American Express, this achieved only moderate success.

Project Champion

6.8. In the autumn of 1993 ISL was unable to establish a budget for 1994 achieving a break-even target and the Barclays Global Services Executive rejected ISL's proposed budget which projected a loss of £5.9 million for 1994. As a result, in October 1993 ISL's management submitted a recommendation to the Barclays Global Services Executive that the business be closed and the ISL management was instructed to prepare a closure plan (subsequently dubbed Project Champion). This put forward proposals for the global closing of ISL's third party sales agent travellers cheque business. Project Champion envisaged that Barclays would continue, initially at least, to issue travellers cheques for sale in its own branches, although the desirability of continuing to operate as an in-house issuer was to be kept under review. In January 1994 Project Champion was presented to the Executive Committee of Barclays and approved.

6.9. Barclays stated that it had already explored a number of options before deciding to implement Project Champion. These included retaining the business and improving performance through cost reduction and diversification, but this was felt not to be a viable way forward. The other obvious alternative was the disposal of ISL.

6.10. We were told that because of the need to provide an ongoing processing and payment facility for cheques previously issued, Barclays considered a sale to be the preferred means of exit from the travellers cheque business. It accordingly sought to find a buyer for ISL. During the first quarter of 1993, discussions were held with Citicorp over the possible merger of its business with that of ISL in a joint venture. Based on assumptions used at the time, the benefits were not thought sufficient by either party to justify the costs and risks involved. Citicorp indicated to Barclays that it was not interested in an outright acquisition of ISL. It was felt by Barclays that a deal with Amex would not be feasible due to Visa's inevitable objections and to Amex's dominance of the global travellers cheque business (especially in the USA). Tentative discussions with Cook in early 1994 revealed that Cook was at that stage in negotiations with Citicorp and that it in any event had an agreement with MasterCard which prevented it from acquiring a *VISA* issuer. Since no buyer was found for ISL, Project Champion was approved in January 1994 as the only way of exiting the paper-based travellers cheque issuing business.

6.11. Barclays stated that the following steps were taken as part of Project Champion:

- On 25/26 January 1994 Barclays notified all ISL employees of its decision to exit the business.

*Details omitted. See note on page iv.

- Slightly later in January 1994, Barclays notified Visa of its intention to exit the business.
- On 8 February 1994 Barclays informed key sales agents of its decision by letter.
- ISL undertook detailed planning for the implementation of Project Champion. In view of the number of cheques issued but uncashed it was not possible for ISL to close down immediately. Careful winding down of sales agent relationships would be needed, so as to manage the relationship satisfactorily, recover stocks of unsold cheques, and avoid losses due to fraudulent appropriation of unissued cheques from agents' stocks.

6.12. In March 1994 Visa expressed to Barclays its concern that ISL's exit from the business would jeopardize the entire *VISA* travellers cheque programme world-wide. Visa told Barclays that it felt that without the presence of ISL's sales volume, the *VISA* travellers cheque programme would lose the critical mass necessary to sustain it. *VISA* indicated that ISL's exit would increase the cost of its marketing programmes and refund services to other *VISA* issuers. Visa requested Barclays to defer implementation of Project Champion for a month whilst Visa assessed the implications of the situation.

6.13. In April 1994 Visa expressed an interest in trying to identify a financial institution to continue ISL's business as a going concern. If necessary, Visa indicated its willingness to acquire ISL itself as an interim solution.

6.14. In May 1994 Visa offered (subject to Board approval) to acquire ISL as a going concern, with 30 June 1994 being the original target date for entering into a definitive agreement. Barclays understood that Visa was hoping eventually to sell the ISL business to either Citicorp or Cook. However, in June 1994 Visa introduced Cook as a buyer of ISL and Cook assumed the place of Visa in the contract negotiations; the sale agreement was signed on 9 August 1994.

6.15. The most significant step taken by Barclays prior to suspending Project Champion was to liquidate the portfolio of interest rate swaps held by ISL as part of its investment strategy. The liquidation took place in January 1994 and resulted in a capital gain of some £36 million. In order to provide sufficient liquidity during the run-down, ISL reinvested its float in short-term (less than 12 months) deposits. ISL continued to invest its float in short-term deposits during the period of uncertainty created by the negotiations with Visa and Cook. As a result ISL became more fully exposed to current market interest rates and ISL's float yield declined. This lowered ISL's 1994 revenue significantly.

Integration of ISL into Cook

6.16. Cook told us that the fundamental reason for the purchase of ISL was that by the acquisition and full ownership and control of ISL, it could secure substantial cost savings through achieving economies of scale which would allow Cook to compete more effectively in the global market-place in the future. Without achieving such cost savings Cook felt that its long-term participation in the travellers cheque market might be threatened.

6.17. The largest hurdle Cook had to overcome was to persuade MasterCard to release Cook from its exclusivity agreement. Cook stated that it was able to convince MasterCard that the acquisition of ISL was necessary to allow Cook to maintain its position as a global issuer of cheques. MasterCard agreed to vary the original agreement so as to allow Cook to acquire ISL and through ISL operate a *VISA* travellers cheque programme. This new agreement was subject to a number of conditions as follows:

- (a) ISL is to remain a subsidiary of Cook and, with its subsidiaries, is to be the sole issuer of *VISA* travellers cheques in the Cook group;
- (b) the 'Thomas Cook' name is not to be associated with the ISL issuing business;

- (c) Cook retail outlets are to remain dedicated to the sale, promotion and refund of *MasterCard* travellers cheques;
- (d) the ISL sales force will be separate from the Cook sales force selling *MasterCard* travellers cheques; and
- (e) by the end of 1997, at least 60 per cent of all sales of travellers cheques issued by Cook/ISL will be sales of *MasterCard* travellers cheques.

We were told that no specific arrangements had been made with Visa.

6.18. The key features of Cook's approach to the integration of ISL were described to us as, first, to reduce operating costs through the integration of the operations and central overheads of Cook and ISL, and secondly, to raise revenues by applying Cook's fund management strategy to the ISL float. Cook prepared a business plan for the integration of ISL into Cook with the following principal features:

- (a) dual brands with separate marketing and sales forces were to be maintained;
- (b) duplicate sales offices around the world were to be closed;
- (c) ISL's facilities in New York, Poole, Sydney and Toronto were to be closed, with operations moved to Peterborough, Melbourne and New Jersey;
- (d) duplicate infrastructure and administrative support functions were to be closed down;
- (e) refund services were to be centralized in Peterborough and be available 24 hours a day, 365 days a year (ISL's refund services had operated during New York office hours only); and
- (f) Cook's fund management policy was to be applied to the ISL float.

6.19. According to Cook its business plan for the acquisition envisaged that it would be able to improve the performance of the integrated businesses by approximately £[*] million per annum compared with their combined 1994 out-turn as forecast at the time of preparing the plan. This would be achieved by obtaining cost economies of approximately £[*] million per annum representing a [*] per cent reduction in ISL's existing cost base (see also paragraphs 6.20 to 6.24). In addition, Cook believed it would be able to increase the investment yield on ISL's float by approximately £[*] million per annum. [

Details omitted. See note

on page iv.

] Cook added that it had revised its estimates and currently expected ISL's sales in 1995 to be at a similar level to 1994.

Cost reductions

6.20. Cook stated that the principal cost economies would be realized in three areas: central costs, processing costs and field costs.

6.21. *Central costs.* Cook told us that, because of its existing infrastructure, it would be able to achieve substantial savings in the finance, human resources, operations management, treasury and information technology functions of the combined businesses. Cook expected economies of approximately £[*] million per annum, a reduction of [*] per cent in the relevant ISL costs. Cook announced that it planned to close ISL's five locations by the end of 1995.

*Figures omitted. See note on page iv.

6.22. *Processing costs.* Cook stated that it planned to integrate the central computer processing, data capture, paid cheque processing and refund operations of the two businesses (subject to reaching agreement with Visa regarding the Visa Global Refund Service). Cook thought it would be able to achieve economies of approximately £[*] million per annum, a [*] per cent reduction in the relevant ISL existing costs.

6.23. *Field costs.* The savings in field costs would arise from the integration of sales, marketing, distribution, regional management, stationery and security. Cook would maintain independent sales forces for *MasterCard* and *VISA* brands but they would be supported by combined/integrated functions. ISL had employed around 180 staff in areas described broadly as sales and marketing, of whom 126 were in sales offices. Of these, approximately 50 provided support functions to the sales force and would lose their positions as a result of the merger. Cook also intended to reduce the size of the ISL sales force. Cook believed it would be able to realize savings of approximately £[*] million per annum in field costs, a reduction of [*] per cent on ISL's existing costs.

6.24. [

Details omitted. See note on page iv.

]

*Figures omitted. See note on page iv.

7 Views of main parties

Introduction

7.1. A joint submission was made by the two main parties Cook and Barclays, but we held separate hearings. There was also separate correspondence with them. This chapter includes both joint and individual views of the main parties.

Summary of views

7.2. The parties argued that the acquisition of ISL by Cook would not operate against the public interest. On the contrary, they maintained that the transaction was pro-competitive and was also in the wider UK public interest.

7.3. The parties said that all travellers cheque issuers had been caught in a tight competitive squeeze, between increasing incentive payments to sales agents on the one hand, and declining interest rates on the other. The key elements were:

- The global travellers cheque issuers depended on sales agents for their access to consumers. This dependency, together with the intense rivalry for new agent accounts between the main issuers, continued to drive up the levels of incentive payments from issuers to sales agents.
- With a mature paper-based product losing ground to other international consumer payment devices, travellers cheque issuers needed to invest in new systems, services and products to keep the product relevant and attractive to both sales agents and, ultimately, consumers.
- The reductions in interest rates since the early 1980s had resulted in sharp reductions in returns on the investment of floats, virtually the only source of revenue to issuers.
- The result of these structural shifts in the economics of travellers cheque issuing had been a dramatic reduction in the number of issuers from around 1,000 to less than 100 over the last decade. Many had switched to acting as sales agents, who had secured an increasing share of the revenue derived from the travellers cheque business. Barclays' decision in January 1994 to exit the issuing business by winding down ISL was a further step in this dramatic reduction in the number of issuers.

7.4. As a result ISL had been suffering increasing trading losses. Cook and, Cook believed, Citicorp were achieving at best marginal and declining profits on their travellers cheque issuing business. Significant unit cost reductions, which could only be achieved through economies of scale, were therefore imperative for global travellers cheque issuers to remain viable.

7.5. Through this acquisition, Cook was seeking to create a travellers cheque issuing business of the requisite scale to be able to compete more effectively against Amex and against alternative international consumer payment devices. The acquisition would help Cook to generate the volume required and produce the cost savings to drive down unit costs, thereby preventing the immediate demise of the ISL travellers cheque, removing the very real threat of the consequent collapse of the world-wide VISA travellers cheque programme [*Details omitted. See note on page iv.*]].

7.6. In the parties' view the acquisition not only preserved but enhanced competition amongst issuers, ensuring competitive pricing to sales agents. That enhanced competition and the issuers' need to capture and retain volume would continue to exert upward pressure on incentive payments to sales agents. Moreover, the acquisition maintained for sales agents the choice of selling *VISA*-branded travellers cheques to their customers.

7.7. The parties said that consumers would also benefit from the merger. The increased competitiveness and profitability of the combined business would permit Cook to invest in improving the attractiveness of its travellers cheques and the efficiency of its operations and so extend the life of the travellers cheque as an international consumer payment device for the benefit of consumers. Since the combined businesses would be in a position to compete more strongly for sales agents through increased financial incentives, improved point-of-sale support systems and enhanced marketing support the agents should be able to reduce their costs and improve their service to their customers.

7.8. The parties claimed that the acquisition provided further material benefits to the UK by creating a more vigorous UK-based global business, able to compete more effectively with the two remaining US-based global players. Furthermore, the acquisition secured and increased employment in the UK, as Cook's integration plans entailed moving substantial amounts of ISL's overseas activities to the UK.

Background to the merger

7.9. Barclays said that it had expanded its travellers cheque business during the 1980s and early 1990s. It had made certain acquisitions such as the travellers cheque businesses of Bank of America and Chase Manhattan, and it had also grown organically. Barclays had originated the 'white label' concept of a travellers cheque carrying the ISL name for those financial institutions which competed with Barclays and did not wish to see the Barclays name on their travellers cheques.

7.10. Barclays explained that after this period of expansion its subsequent decision to exit the industry was based on a number of factors. Interest rates were important, and in the early 1990s the view of its economists had been that the trend was towards fundamentally lower interest rates. The case for the acquisition of the Bank of America travellers cheque business had assumed UK and US base rates of around 9 per cent, which would have given a reasonable return. Following attempts to improve the economics of the business in 1992/93 it had become apparent to Barclays that the prospect of lower interest rates in the foreseeable future together with increasing operating costs and competition from other payment devices meant that the business was not viable at its current size.

7.11. Barclays said that one major reason for the substantial losses incurred by ISL's travellers cheque business compared with break-even or profit by other operators was the high level of agent commissions payable in the USA where ISL had high sales volumes. Another reason was that the average length of float to sales ratio for ISL's mix of business had been less advantageous, due again to its high sales in the USA where the average float life was relatively low, and where ISL had not acquired the floats of Chase Manhattan and Bank of America when it purchased those travellers cheque businesses. In Barclays' view, given the low margin nature of the business, float life was absolutely critical to the level of revenue generated.

7.12. Barclays said that its decision to exit was not only based on interest rate assumptions, but also on its belief that substantial scale economies were necessary to make its travellers cheque business profitable. It had also taken the strategic decision that ISL was not a core business, and that Barclays no longer wished to be a paper-based travellers cheque issuer.

7.13. Having decided that ISL was not viable in its current form and that it should be sold or closed, Barclays told us that it had sought to find a possible purchaser. Discussions with Citicorp in 1993 over a possible merger of its travellers cheque business with that of ISL in a joint venture had been terminated because the benefits were not thought sufficient by either party to justify the risks and costs involved. Citicorp had indicated that it was not interested in an outright acquisition. It was felt by Barclays that a deal with Amex would not be feasible because of Visa's objections and Amex's dominance of the global travellers cheque business.

7.14. Tentative discussions held with Cook in early 1994 had revealed that Cook was itself in negotiation with Citicorp and also that its agreement with MasterCard at that time prevented Cook from acquiring a *VISA* issuer. Barclays told us that it was not prepared to sell the business to an institution without the specialist skills and knowledge required to run a travellers cheque business of ISL's size. No other potential purchaser had been found, nor had there been any other approaches made to Barclays although it was well known that Barclays had decided to withdraw from the business. Barclays considered it unrealistic to suppose that a new entrant was likely to purchase ISL.

7.15. Having been unable to find a purchaser, and after considering all the other options, Barclays had decided in January 1994 to close the business. Initially it would have reduced its travellers cheque operation to a retail agency for in-house requirements, similar to the NatWest situation, and later it would have taken a decision on whether to continue on that basis or to arrange to sell another issuer's cheques. Visa had been informed of the decision and employees and key sales agents had also been notified. Barclays had recognized that its move would be likely to have a serious adverse effect on the *VISA* travellers cheque programme as a whole; indeed, Visa subsequently told it that without ISL's sales volume the entire programme would lose the critical mass needed to sustain it.

7.16. Barclays said that because of intervention by Visa it had delayed implementing its closure decision in order to allow Visa time to try to find a solution. Visa had considered buying the business itself, though Visa's Board had ultimately decided it would only approve the purchase of ISL if another buyer could be found which would ultimately assume ownership of ISL.

7.17. Having found that Citicorp was still not interested in purchasing ISL, Visa had started to talk to Cook. Cook had indicated that MasterCard would now agree to waive certain aspects of its contract with Cook thus enabling Cook to become a potential purchaser acceptable to both Barclays and Visa. As a result of these discussions Cook was put in touch with Barclays and the final terms of the acquisition were negotiated between the two parties.

7.18. One of Barclays' key concerns in its disposal of ISL had been the issue of reputation. Even with Visa as a possible purchaser, Barclays had had some concerns about the risk to its reputation because Visa was not a travellers cheque business operator and did not have the expertise and skills involved. Barclays had become convinced that Cook was the only realistic purchaser available to operate the business.

7.19. We asked Barclays whether the streamlining programme of 1992/93 could not ultimately have made the business viable. The company explained the steps it had taken and the difficulties it had faced. Printing, distribution and marketing had been rationalized. A reduction in incentive payments had contributed to the loss of two important sales agents. Outsourcing of a number of functions had taken place including US processing, network services, cheque clearance and a major part of the refunds programme. However, it had been decided that the cost and difficulty of outsourcing more of the core processing would be disproportionate to any benefit which might have been gained. Even amalgamating the five operations centres into one would not have generated sufficient cost savings, when the full costs of redundancies, moving costs and changes to transmission lines were taken into account, to alter Barclays' views of the long-term viability and attractiveness of the business.

7.20. Cook also told us about the circumstances that had led it to purchase ISL. It had three key concerns about the long-term future of its travellers cheque business. First, it considered that a paper-based international payment instrument such as a travellers cheque had distinct disadvantages in terms of both handling and administration, and therefore in costs, compared with the increasing range of competing electronic international payment products. Secondly, the profitability of travellers cheque issuers was being squeezed by the dependence of their revenue on interest rates while costs, particularly incentive payments, increased. Thirdly, there was the maturity of the product itself in the face of increasing consumer familiarity with, and preference for, alternative instruments.

7.21. [*Details omitted.*
See note on page iv.

] Cook thought that other major issuers of travellers cheques had come to the same conclusion. It told us that MasterCard, which had not been keen on Cook acquiring an issuer of travellers cheques for its rival, Visa, had realized that to protect its own travellers cheque programme

it would have to allow Cook to proceed with the acquisition so that it could secure the economies of scale that were essential to Cook's survival as an issuer.

7.22. Cook said that only if interest rates rose to 11 or 12 per cent would profits have become acceptable. However, it did not think that interest rates would match this level in the foreseeable future. Cook had therefore come to the conclusion that the only option which would enable it to maintain the viability in the medium term of its travellers cheque business was the acquisition of another global issuer, or the establishment of a joint venture with one. Cook calculated that the acquisition of ISL would produce sufficient quantifiable cost savings to assist it in implementing its strategic objective. [*Details omitted. See note on page iv.*]

7.23. Cook emphasized that the fundamental reason for its acquisition of ISL was that it would secure substantial cost savings which would enable it to compete more effectively in the global market. The acquisition implemented Cook's preferred strategic option to continue as a global issuer of travellers cheques in the medium term, and afforded it the opportunity to develop new financial products to replace in time its travellers cheque business.

Cook's plans for the merged business

7.24. Cook told us that the two key features of its strategy for the integration of ISL were to reduce costs through the integration of the operations and central overheads of Cook and ISL, and to increase revenue by applying Cook's fund management strategy to the ISL float. Cook envisaged that it would be able to achieve cost economies of about £[*] million per year, and to increase the investment yield on ISL's float by almost £[*] million per year. It believed that the full benefit of integration would be realized during 1996 with an incremental profit for the combined businesses of £[*] million, compared with ISL's trading loss of £[*] million in 1994 projected in Cook's business plan.

7.25. Cook was committed to the maintenance of ISL as a major VISA cheque issuer within the Cook group and was contractually bound by MasterCard to preserve the separation of the VISA and MasterCard brands. Separate sales forces would be maintained but they would be managed by the same organization. In general the two sales forces would not compete against each other. The choice of travellers cheque brand usually depended on the sales agent's preference and this would determine which of the two sales forces would compete against the other issuers. [

Details omitted. See note on page iv.

] Cook did not believe that separate sales forces were needed to service two brands. It was the VISA and MasterCard brand differentiation that mattered, not the sales forces.

7.26. Rationalization of the field organization after the merger would involve savings being made in the service and back-up staff. The combined support staff would number about [*] and would deal with both brands, as would the regional management, finance, operations and personnel functions. ISL's operating facilities in New York, Poole, Sydney and Toronto would be closed and operations would be combined in Peterborough, Melbourne and New Jersey. Although the option was open to employees to transfer to Peterborough when the Poole facility was closed, it was felt that few would do so. Refund services would be centralized in Peterborough and would operate 24 hours a day, 365 days a year instead of ISL's former service which operated only during New York office hours.

7.27. Cook told us that Barclays, as an ISL sales agent, had received no incentives from ISL when it was part of Barclays. [

Details omitted. See note on page iv.

]

*Figures omitted. See note on page iv.

Effect on competition

7.28. The parties said that competition amongst issuers centred primarily on obtaining and retaining sales agents, who could readily switch between issuers. Evidence from the UK and overseas showed that sales agents were requiring and obtaining higher levels of incentive payments. Such costs as the sales agents incurred in switching were increasingly likely to be covered by the issuer to whom they moved. They added that the willingness of issuers to pay switching costs reflected the increased competition among issuers for sales volume. In addition to sales incentives agents had recently been further encouraged to substitute one issuer for another by offers of 'sign-on' bonuses, marketing and staff retraining support.

7.29. In the parties' view, sales agents had increasingly held the upper hand in their dealings with the issuers throughout the period of consolidation of issuers and would continue to do so. Sales agents had been able to improve their revenues from issuers over a period in which the financial position of the issuer had been under intense pressure, and at the same time they had been able to increase their receipts from consumers by increasing charges at the point of sale and, in many cases, also when encashing cheques.

7.30. Asked if banks ever contemplated changing issuer, Cook said that banks regularly put out to tender their travellers cheque business in order to ensure that they always received a full market incentive. Provided the incumbent issuer's price and service was adequate then the bank's inclination to change issuer was not strong in view of the upheaval caused by such a change in what, for them, was not a strategic product. However, if a competing issuer offered a significantly higher incentive or if the existing issuer's service had fallen below an acceptable standard a change might be made. Cook quoted the example of the TSB Bank switching from ISL to Cook as a result of inadequate service.

[*Details omitted. See note on page iv.*
] Cook expected there to be continuing pressure for higher incentives in Europe, including the UK, and pointed out that sales agents which sought tenders could often benefit from competition without having to switch issuers.

7.31. We asked Barclays if it was possible that it might at some future time decide to drop ISL as the issuer whose cheques were supplied through its branch network. Barclays said that there were two circumstances in which it might make such a change. One was an unacceptable standard of service on refunding or reduced acceptability because of contraction in the number of VISA issuers since this could lead to dissatisfied customers. The other would be if the incentives offered by ISL ceased to be competitive. If Barclays threatened to switch to another issuer this would represent a loss of two-thirds of ISL's current UK business, and consequently Barclays expected that competition for its account would be extremely vigorous with ISL defending and Amex and others seeking to increase market share.

7.32. The large decline in the number of issuers since the 1980s, the main parties considered, had resulted from a recognition of the increased costs of operating as an issuer of travellers cheques, particularly with a third party sales agents programme and the increasing competition from other payment methods. A number had withdrawn from third party issuing while continuing to issue cheques for sale through their own branch networks. Many banks, however, had given up issuing travellers cheques altogether and had been content to act as sales agent for another issuer. The main parties added that the exodus of banks from issuing and their assumption of the role of sales agents had led to the emergence of a handful of mass, global issuers heavily reliant on economies of scale and dependent on third party sales agents for access to the consumer. This development had contributed to the sales agent becoming a recipient of significant incentive payments as opposed to being a payer of return commissions to the issuer. In the opinion of the main parties there was no prospect of this trend being halted.

7.33. Cook told us that, in theory, it was not difficult for any major institution to enter the travellers cheque issuing business in order to sell cheques through its own branches. In practice, however, issuers were still leaving the issuing business in favour of the more profitable selling agent role. From a strategic point of view it was difficult for Cook to understand why anybody would now want to invest in becoming a travellers cheque issuer selling through independent sales agents in view of the limited life expectation of the product. Furthermore, in order to achieve the necessary economies of scale,

third party issuers (other than those issuing niche currencies) needed high volumes which could only be achieved by selling through an international sales agent network.

7.34. The main parties said that the need to establish and maintain a world-wide reputation had led to the emergence of the three principal global brands, *American Express*, *MasterCard* and *VISA*. Consumers and sales agents preferred travellers cheques bearing one of these brand names for reasons of acceptability and security. *MasterCard* and *Visa* required their members to comply with certain service standards when licensing them to use the brand on travellers cheques.

7.35. Cook indicated that a major difference between the *Visa* and *MasterCard* travellers cheque programmes was that Cook was by far the largest issuer of *MasterCard* travellers cheques world-wide whereas there were currently 23 issuers of *VISA* travellers cheques. *Visa* would allow further issuers to enter the market-place as long as they met its financial soundness rules. Another difference was that *Visa* was responsible for cheque design and bore the costs of any losses sustained by its members due to counterfeit cheques.

7.36. In the main parties' view, *Amex*, through its very much higher volumes and consequently larger core float, had a significant competitive advantage which it deployed vigorously in the battle to capture and retain sales agents. Cook observed, in respect of its own competitive position compared with *Amex*, that whereas Cook's arrangements with *Midland* and *Barclays* were contractual and due to expire in [*] and [*] years' time respectively, *Lloyds Bank* and the *Royal Bank of Scotland* were committed to *Amex* in a joint venture with no time constraints. Furthermore of the remaining seven largest UK sales agents, five were *Amex* agents, one Cook and one *ISL*.

7.37. Asked for evidence that Cook and *Amex* could be expected to compete in the UK rather than allowing the development of a cosy duopoly, Cook pointed out that, although there was virtually a duopoly between *Amex* and Cook in Germany, nevertheless there was very active competition between them for business both with commercial banks and savings banks. Incentive payments were high and Cook competed vigorously with *Amex* on both price and service. Cook also pointed to evidence of competition in other Western European countries where *Amex* and Cook were the main travellers cheque issuers. Cook observed that since 1992 (when *ISL* began to address its cost base and terminate its relationship with a number of less profitable sales agents) effective competition in the UK had been between Cook and *Amex*. Competition for sales agents in the UK remained vigorous and Cook maintained that its acquisition of *ISL* would not diminish what had been for the last two to three years primarily competition between *Amex* and Cook.

7.38. Cook drew our attention to a recent development where companies were entering the UK market as 'intermediaries' supplying foreign exchange and travellers cheques to retailers by direct deliveries in response to individual orders. Two recent arrivals were *Corporate Foreign Exchange* and *The Foreign Exchange Company (FEXCO)*. *ISL* was supplying another, *Travelex*, with *VISA* travellers cheques. Although in existence for some time, Cook said that *Barclays Currency Services (BCS)* had really only become a force in this particular market over the last three months. These intermediaries would supply sales agents with any brand of travellers cheques requested. For example, *BCS* had negotiated a deal with the *Co-operative Bank* to supply it with *Citicorp* travellers cheques.

7.39. *Barclays* said that the principal activity of its *BCS* division was the supply of foreign currency banknotes to the *Barclays* branch network and to other third party customers. In relation to travellers cheques, *BCS* also provided the *Barclays* branch network with an individual order fulfilment service. Because the *Barclays* branch network only held in stock *ISL* sterling and US dollar cheques, if a customer requested *ISL* cheques in other currencies or asked for non-*ISL* cheques, these could not be supplied over the counter and therefore had to be ordered through *BCS*. This arrangement had existed before *ISL*'s sale to Cook and had not changed since. In relation to *ISL* sterling and US dollar cheques, before the sale to Cook, these had been ordered from and supplied by *ISL* direct to the *Barclays* branch network. Since the sale, *BCS* was now the principal interface between *ISL* and the *Barclays* branch network, which meant that the branch network's requirements for *ISL* sterling and US dollar cheques were ordered through *BCS* although they were still delivered to the branches directly by *ISL*.

*Figures omitted. See note on page iv.

7.40. Barclays went on to say that BCS also supplied third parties with the travellers cheques which they required; these might be cheques issued by ISL or by another issuer, depending on the customer's requirements. BCS might either supply a third party with all its travellers cheque requirements or, as an add-on to its supply of currency to that third party, simply provide it with an individual order fulfilment service.

7.41. We asked Cook about the terms on which it supplied travellers cheques to its own retail outlets. Cook said that its sales agent agreements concluded with its retail arm, by far the largest of its sales agents, were negotiated at arm's length. Cook's retail business expected to be treated at least as well as any other agents in the market and they negotiated for and received incentives as high as those paid to any other agents. Cook also said that, because of its own activities in the travel agency and bureaux de change area, relations with other travel agents and bureaux de change were more difficult for Cook than for Amex or ISL, both of which thus had a competitive advantage. Nevertheless, many travel agents chose to obtain their travellers cheques from Cook and there was no reason why they should not continue to do so.

7.42. Cook acknowledged that some travel agents might prefer not to sell travellers cheques bearing the Thomas Cook name since they regarded Cook as a competitor in their travel agent business. In any case, Cook's acquisition of ISL preserved for UK sales agents the choice of 'white label' VISA cheques since ISL would continue to have a separate sales stream. Cook noted that a large travel agent had recently asked for tenders from Amex for *American Express* cheques and from BCS for VISA cheques but had not asked Cook or ISL. Cook also pointed out that there were several bureaux de change prepared to sell *American Express* cheques even though Amex was itself a bureau de change operator in the same way as Cook. Asked whether travel agents saw Amex's retail outlets as competitors in the same way as Cook's, Cook said that, with some 35 high street travel agents in the UK, Amex did compete significantly with other UK travel agents. Moreover, its high street travel shops now offered package holidays as well as services for independent travellers.

7.43. In response to the suggestion that Cook might seek to discriminate against travel agents or bureaux de change in the terms on which it offered them travellers cheques in order to give its own retail outlets an advantage, Cook said that this would not be in its interests since the business would simply be lost to its main competitor, Amex. Moreover Amex would be able to win the business on less than competitive terms and thus Cook would not only lose business it would have liked to have retained in order to secure the necessary economies of scale but it would be favouring a competitor with profitable business.

7.44. Asked about the information passed between a sales agent and an issuer, Cook advised that the sales agent was required to report promptly all sales of travellers cheques. In some cases, but by no means all, this was done by means of a sales advice form which included the name and address of the consumer. Cook did not, however, maintain a record of the names and addresses of those who had purchased its travellers cheques. Moreover, it was common for sales agency agreements to include a clause prohibiting Cook from using or disclosing any information about the customers of the sales agent.

7.45. [

Details omitted. See note on page iv.

]

7.46. In summary the main parties maintained that the nature of competition between global travellers cheque issuers meant that they needed to compete constantly and aggressively for business

irrespective of their share of sales in any particular country. There was no reason to expect that the high share of travellers cheque sales in certain countries resulting from Cook's acquisition of ISL would affect the vigour of competition between Cook and Amex or operate to the detriment of sales agents since the global issuers were dependent on sales agents for access to their customer base to obtain and maintain the requisite sales volume. Cook said that it was of strategic importance to Cook as a global issuer that it retained a substantial position in the UK as its home market.

Competition with other payment devices

7.47. The main parties maintained that travellers cheques form only one part of the market for international consumer payment devices (also known as Personal International Payment Systems—PIPS). They pointed out that other consumer payment devices available to travellers include cash, payment cards, ATM cards, eurocheques and postcheques. Work on the development of new prepaid cards and so-called 'smart' cards, which they claimed will be comparable to electronic card-based travellers cheques, was well advanced. Furthermore they argued that previous considerations of the market for PIPS by competition authorities or courts supported the argument that travellers cheques cannot be examined in isolation from other international consumer payment devices (see paragraphs 7.54 to 7.56).

7.48. Cook said that in terms of relative attractiveness of the various instruments, currently the travellers cheque still had some advantages over others, notably with respect to the ability of the holder to acquire a refund in the case of a lost or stolen cheque. Recently credit and debit card companies had been introducing 24-hour emergency replacement facilities for their customers so that this advantage of the travellers cheque was beginning to be eroded. Perhaps the only real advantage of the travellers cheque over other instruments which still remained was its ability to be used as an instrument for conversion to cash in parts of the world where the banking infrastructure was relatively unsophisticated. In the opinion of both main parties, even the advantage of the travellers cheque as a budgetary mechanism was under threat from the latest plastic card development which provided for the card to 'contain' a finite sum. Through a suitable receptor device or ATM, the holder would be able to establish the balance remaining 'on the card'.

7.49. The parties regarded the paper-based travellers cheque as becoming obsolete in the long term, but found it difficult to estimate how long the cheque was going to take to die. It was a mature product in North America and Europe where demand for travellers cheques was flat and use of plastic cards was growing. In the USA, which currently accounted for almost half of the global market, the relaxation of interstate banking regulations was expected to cause a more rapid decline in the business. In Eastern European countries and in the Far East sales of travellers cheques were more buoyant.

7.50. Cook agreed that travellers cheques were currently an important medium for UK residents. It considered that there would be reasonable UK sales of travellers cheques for the next five years and possibly beyond since consumer habits changed slowly. However, it did not believe it could count on travellers cheques as a long-term strategic product. It was now looking to develop a broader range of products and services that it could sell to its financial institution customers.

7.51. The main parties noted that while total travel expenditure by UK consumers had increased by 92 per cent from 1986 to 1993, the sales of travellers cheques had risen by 48 per cent. Commenting on alternative international consumer payment devices in relation to expenditure overseas by UK consumers, the main parties contended that, on the basis of the data available to them, alternative payment devices were increasing their share of overseas consumer expenditure at the expense of travellers cheques. However, reliable data on the extent of use by consumers of ATMs abroad to obtain cash was not available.

7.52. Cook considered that, while consumers of travellers cheques were not particularly price sensitive at present, there was a limit to their price indifference. Many consumers had the option of choosing to use one or more of an increasingly wide variety of alternative international consumer payment devices in place of travellers cheques. Consumers were becoming more sophisticated in

understanding the cost of the options available to them and would react against a payment device if its price became too high.

7.53. Barclays argued that the advent of the new payment methods such as 'plastic electronic travellers cheques' would open the possibility for banks and others to re-enter the market as issuers of the new products. Barclays said that it had been made clear in the sale and purchase agreement for ISL that Barclays was selling only its paper-based travellers cheque issuing business. Barclays considered that, eventually, these innovations would fundamentally change the structure of the travellers cheque industry by enabling sales agents effectively to become issuers, and it wished to be free to operate in this area.

7.54. The main parties provided evidence about the attitude of other competition authorities in respect of competition between various international consumer payment devices. They noted that in its Uniform Eurocheques decision (*OJ* 1985 L35/43), the EC Commission, dealing with certain arrangements relating to the encashment of eurocheques drawn abroad in local currency, had observed that any person travelling to a foreign country generally had a choice between several means of payment such as cash, travellers cheques, postal payment orders, credit cards, ATM cards and eurocheques. In a later case, *ABI* (*OJ* 1987 L43/51 paragraph 7.1), the EC Commission had stated:

As regards more particularly the agreement on travellers cheques, it should be noted that in fact any person visiting a foreign country generally has the choice between various methods of payment such as currency of the country visited, the country of origin or another country, postal payment orders, credit cards, automated teller machine cards usable in more than one country and eurocheques.

7.55. The main parties also quoted a market definition given in the USA in an anti-trust case, *National Bancard Corporation versus Visa USA*,¹ in which the District Court agreed with Visa's argument that Visa credit cards compete in a market consisting of all payment devices. The analysis of the relevant market was upheld on appeal.

7.56. In a report commissioned by Barclays in 1990, the Washington economists Glassman-Oliver observed that:

Travellers cheques, which are used for a variety of purposes but mostly travel, face competition from a wide array of competing financial products. A traveller contemplating how to finance a trip may prepay all or a portion of the trip or may rely on currency, travellers cheques, credit cards, debit cards or personal cheques

Effect on consumers

7.57. We were told by the main parties that issuers had little or no influence over the cost of travellers cheques to consumers since this was determined by the commission and exchange rate margin levied by sales agents and by acceptance or encashment points. In Cook's view there was not a great deal of price awareness among consumers. People were not entirely aware of what the pricing differences were and this was particularly true of the foreign exchange spread. Hence a change in the level of commission or increase in spread would probably not have any impact on a customer's decision to buy at a particular location, provided that change was within a certain margin of tolerance.

7.58. On the other hand, Cook maintained that the effectiveness of competition between agents was demonstrated by the prices at the foreign exchange bureaux. During banking hours their margins were reduced reflecting competition from banks and other sales agents, whereas out of banking hours there was a wider spread of margins reflecting reduced availability of travellers cheques at these times. This indicated that consumers were price sensitive to the extent that they would not pay a premium if they could buy the product elsewhere on more favourable terms.

¹596F Supp 1231 (SD Fla 1980) aff.d. 779F. 2d 592 (11th Cir 1986).

7.59. Since Cook did not accept that there would be any lack of competition among issuers, even for travel agents and bureaux de change which might be reluctant to supply Cook's cheques, it did not believe the merger would lead to a worsening of the terms sales agents received from the issuer which might be passed on to consumers in the form of higher charges.

7.60. We asked Cook about its internal financial controls on its travellers cheques business. It told us that all travellers cheque funds except those for sterling were kept in portfolios separate from other travel funds. In the case of sterling cheques, Cook's UK travel business surplus funds were amalgamated with the float. However, Cook tracked the ownership of those funds and monitored them monthly. All travellers cheque funds were separately identified and matched against the liabilities. This was an important difference between Cook's policy and that of ISL under Barclays' ownership where ISL wrote back to profit cheques that were more than four years old, whereas Cook never wrote back cheques no matter how long they remained outstanding.

7.61. Cook explained that its investment policy only permits purchases of investments which have a predetermined maturity date (within ten years of purchase) and a predetermined maturity price. Its strategy, Cook said, was to hold these investments to maturity and its management controls were such that any material reduction in sales or any material acceleration of encashments would be quickly identified and would not result in any need to sell investments ahead of their maturity dates to meet liabilities. Cook regarded the portfolio as an investment portfolio, not a trading portfolio, and thus in accordance with UK generally accepted accounting practice it did not show the investments at current market values in its balance sheet, although these were disclosed in the notes to the accounts.

7.62. Cook told us that its travellers cheque issuing subsidiaries would be subject to regulation by the FBSO under the EC Banking Regulation Directives in the same fashion as ISL would have been had it remained in the ownership of Barclays Bank, or indeed had Cook remained in the ownership of Midland Bank. Consolidated supervision by the German regulator through WestLB would commence by the end of 1995.

7.63. Cook said that there were also five legally binding relevant letters of comfort from WestLB. Two were directly to Cook from WestLB, one was to MasterCard, one to Visa and the fifth was a general statement of comfort for the benefit of a number of WestLB subsidiaries, including Cook, embodied within the annual report and accounts of WestLB. Cook added that it was inconceivable that WestLB would not stand behind all its investments and subsidiaries. WestLB was not prepared to enter into guarantees with MasterCard or Visa rather than letters of comfort, since that would have affected WestLB's capital base. From the external German legal opinion that Cook had obtained, it understood that while the letters of comfort did not guarantee a direct payment to a creditor, they committed WestLB to ensuring the continued solvency of the appropriate subsidiary, Cook or any of its subsidiaries, and this would be legally enforceable under German law. However, this legally binding obligation did not require a capital allocation on the part of WestLB.

7.64. Cook also told us that MasterCard, under its Travellers Cheque Rules, assumed responsibility for paying the cheques if any issuer member became unable to honour *MasterCard* travellers cheques. It was a condition of the MasterCard travellers cheque programme that all MasterCard travellers cheque issuers ultimately stood behind each other. If one of them failed and its owner could not be made to provide cover, then the other *MasterCard* travellers cheque issuers would have to do so. If that course of action proved insufficient Cook told us that it expected that MasterCard would approach its card members. Although the card members were not legally bound to support the travellers cheques activity, Cook believed they would do so in order to maintain the credibility of the brand. Similarly, Cook told us that, in the case of ISL *VISA* travellers cheques, Visa guaranteed that it would assume responsibility for paying the cheques if an issuer member were unable to honour them.

7.65. Summarizing the position, Cook said that consumers had the assurance of the following safeguards:

- (a) It was inconceivable that WestLB would not stand behind all its investments and subsidiaries.

- (b) Cook would become subject to consolidated supervision by the FBSO under the EC banking directives, including the own funds and solvency ratio directives dealing with capital adequacy.
- (c) WestLB would in due course be required to maintain 8 per cent of group capital to support Cook's risk weighted assets.
- (d) Consolidated supervision required that the FBSO monitored on a regular basis WestLB's capital adequacy levels which included the capital maintained in respect of Cook.
- (e) ISL's position under Cook's ownership would become no different to its position if it had remained in Barclays' ownership.
- (f) Cook considered that it currently exceeded the EC capital adequacy level of 8 per cent of risk weighted assets. In addition, its liabilities were somewhat less because some cheques would never be presented.
- (g) Cook was supported by five legally binding letters of comfort from its parent, WestLB, in favour of Cook, MasterCard and Visa.
- (h) In any event, Cook's *MasterCard* travellers cheques were guaranteed by MasterCard and ISL's *VISA* travellers cheques were guaranteed by Visa.

Wider UK public interest benefits

7.66. The main parties argued that the acquisition would provide material benefits to the UK by creating a more vigorous UK-based business able to compete more effectively with the other global travellers cheque suppliers. It would enable Cook to continue as a UK-based world-wide issuer of travellers cheques and would give it an expanded network of sales agents.

7.67. As Cook's integration plans entailed moving substantial amounts of ISL's overseas activities to the UK, Cook considered that the acquisition would produce a net increase in employment in the UK, compared with significant job losses if ISL had been shut down as planned by Barclays. The effect on employment if the proposed integration went forward as planned would be as follows:

- loss of 164 jobs as a result of closure of ISL Poole;
- gain of 250 to 280 jobs at Peterborough replacing ISL's non-field staff world-wide; and
- net increase in UK employment of 86 to 116.

7.68. Cook said that if it were faced with a divestment order it would have to wind down ISL. The estimated impact of that scenario would be as follows:

- loss of 164 jobs at Poole;
- gain of 10 to 15 new long-term jobs at Peterborough provided that Cook won the Barclays business; and
- net decrease in UK employment of 149 to 164.

Cook pointed out that the immediate difference in the two scenarios was approximately 250 jobs. [*Details omitted.*

See note on page iv.

]

Views on possible remedies

7.69. Acknowledging that in the main parties' view there were no public interest detriments arising from the merger, the MMC nevertheless asked for Cook's comments on a number of hypothetical remedies.

7.70. [

Details omitted. See note on page iv.

]

7.71. [

Details omitted. See note on page iv.

]

7.72. [

Details omitted. See note on page iv.

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7.73. Cook said that it would, however, be happy to give an undertaking not to acquire the travellers cheque issuing business of any other person without first obtaining the requisite approval of the regulatory authorities. But it would be unwilling to give a general undertaking not to acquire any other person's travellers cheque business because that would enable Amex to acquire another issuer proposing to exit the market without having to compete for it and would set unreasonable constraints on Cook's competitive strategy.

7.74. Cook strongly opposed any suggestion that it should undertake to divest its UK retail travel agency and bureaux de change businesses.

7.75. Asked about a requirement to maintain separate *MasterCard* and *VISA* products, Cook pointed out that it had already assumed an obligation to keep *VISA* and *MasterCard* as separate brands for the period of the existing MasterCard agreement which expired at the end of 1997. It was reluctant to give an undertaking which would last beyond MasterCard's legal commitment to Cook, that is beyond 31 December 1997, because of a number of external factors, notably whether MasterCard and Visa would continue to operate travellers cheque programmes (with or without significant changes), the extent to which other issuers would continue to support the *MasterCard* and *VISA* programmes, and the development and penetration of alternative international consumer payment devices. However, Cook said that it would have no objection to giving an undertaking that it would maintain the *VISA* and *MasterCard* branded travellers cheques as separate products with *VISA* cheques continuing to show ISL as a 'white label' issuer up to the end of 1997.

7.76. In respect of the 60:40 split between *MasterCard* and *VISA* sales, Cook told us that this really only reflected the relative market shares at the present time. [

Details omitted. See note on page iv.]

Details omitted. See note on page iv.

] As the clause applied to Cook's world-wide sales of travellers cheques, its effect on competition in the UK market was bound to be insignificant.

7.77. In relation to a possible requirement not to do anything that would jeopardize Visa's Global Refund Service, Cook stressed that it valued its new relationship with Visa and would not want to put at risk the viability of the refund service. Cook believed it would be able to achieve substantial savings simply by transferring the ISL refund operations to Peterborough. [

Details omitted. See note on page iv.

]

7.78. In respect of an undertaking to supply customized cheques, Cook said that its strategy was to offer such cheques to sales agents in particular currencies if the volume of business in each currency rendered it economic to do so, and it would continue with this policy. It was currently not economically or operationally practicable for Cook to customize cheques provided through the TRAMS service, except for individual agents with substantial volumes, and Cook had not received any demand by TRAMS sales agents for such cheques, other than from Midland Bank.

7.79. In relation to a requirement to continue to offer the same terms to ISL's sales agents as they enjoyed before the merger, Cook said that it regularly monitored the profitability of its own sales agent accounts and would apply similar principles to the ISL customer base. If Cook considered it appropriate to renegotiate any unprofitable business currently held by ISL, those institutions that were not prepared to accept a realistic offer from ISL under Cook still had a number of alternatives. If they wished to continue with *VISA* cheques, but not from ISL, then Citicorp was a global source. There were also the new 'intermediaries' in the UK and finally there was always Amex as the world-wide competitor with the deepest pockets.

7.80. Cook said that a remedy requiring Cook to undertake that its retail outlets would be granted terms no more favourable than those offered to others ignored the fact that travel agents in the UK ranged from large multiple chains to small independents. Cook made clear that its retail arm was its largest travellers cheque sales agent in the UK and that a requirement to offer terms no more favourable than the next largest travel agent or smaller enterprise would distort competition between agents in the sale of travellers cheques. It would also place Cook at a disadvantage compared with Amex which would be subject to no such restriction. Cook added that such a remedy would merely deal with the allocation of revenue between its two divisions and would have no effect on the company's overall performance. Moreover, Cook's retail arm might not be influenced in its customer pricing decisions by the formal inter-group trading arrangements and, Cook pointed out, it was itself competing in the UK with vertically integrated organizations which decided their pricing structure at each point in the vertically integrated chain.

7.81. It was Cook's submission that an undertaking not to introduce cash-on-delivery terms as opposed to payment on sale would be inappropriate as it would preclude Cook from doing business commercially with sales agents who presented a material credit risk. Similarly an undertaking not to levy delivery charges would restrict its commercial flexibility in the negotiation of contracts with sales agents. Moreover, both these remedies would mean that Cook would have to withdraw its TRAMS service to the disadvantage of its customers and to the benefit of Amex.

7.82. An undertaking not to withdraw any products in its range of travellers cheques would not, in Cook's view, be beneficial to competition, and it maintained that it should not be constrained in its commercial strategy when other travellers cheque issuers did not have to meet similar conditions.

7.83. In relation to an undertaking to permit all agents to pay for cheques in the currency of denomination, Cook said that whereas most of its larger sales agents settled in the currency of the travellers cheque, some preferred to pay in their own domestic currency. Most small sales agents would not have the capability of settling in a foreign currency or would find the cost of so doing

through their banks prohibitive; in addition, they would face an exchange rate exposure unacceptable to them. Furthermore, if Cook were required to offer to all UK agents the facility of settling in the currency of the cheque, this would need to be accompanied by appropriate terms which in some cases might mean lower incentives or even return commissions. Furthermore, considerable changes would be needed to the TRAMS service which is based on settlement by direct debit in sterling.

7.84. An undertaking not to charge return commission, Cook believed, would impose unnecessary and arbitrary rigidities on its freedom to negotiate commercially with smaller sales agents in relation to particular products and/or particular markets, in the light of the volumes which it expected an individual agent would sell.

7.85. In respect of an undertaking to refrain from passing any information about sales agents or their customers from its travellers cheque business to its travel or other retail businesses, Cook said that it did not currently transfer information relating to its travellers cheque business to its retail business and would therefore have no difficulty in complying. Additionally Cook stated that it did not record names and addresses of purchasers electronically but might refer to the original sales advice document when a refund claim was made. It felt that it could, if necessary, operate without receiving the names or addresses of travellers cheque purchasers from any of its sales agents and would be able to give an undertaking along these lines.

7.86. With regard to sales through wholesalers, Cook said that although it had not yet decided its final management policy, it envisaged that it would need to know the identity of the sub-agent which effected the sale and the numbers of the cheques purchased for the purpose of validating refund claims. Cook stated that it would not need to be told the name and address of the actual purchaser of the travellers cheques.

8 Views of other parties

8.1. We invited views from travellers cheque issuers and agents, payment organizations, trade and consumer associations, and other interested parties. This chapter summarizes the evidence we received.

Travellers cheque issuers

American Express Europe Limited

8.2. Amex said that it believed competition in the travellers cheques segment of the UK travel payment market was intense and would remain so.

8.3. Amex said that in its view the role of travellers cheques could not be analysed or considered in isolation from the broader travel payments market. Travellers cheques were sold in the UK, unlike the USA, almost exclusively to travellers for use abroad. They competed with cash, credit cards, debit cards, charge cards, cash cards and eurocheques for this market. Amex's experience suggested that with the growth in the number of establishments accepting cards of various kinds and the increasing use of cash cards, usage of travellers cheques had declined. Amex said that it believed this was a long-term trend, that while travellers cheques would still be used, other forms of payment would continue to increase in popularity, at the expense of travellers cheques.

8.4. Amex added that although there were only a limited number of issuers of travellers cheques in the UK (Amex and its various joint ventures, Cook, Visa issuers (ISL, NatWest and Bank of Scotland) and Citicorp), the way in which cheques were distributed and sold led to competition at the retail level between a great many outlets and classes of outlets.

8.5. Amex pointed out that issuers of travellers cheques competed with each other for the distribution services of outlets such as banks, building societies and travel agents. In order to have their products accepted by these outlets the issuers offered incentives based on sales volumes and on other factors. The retail outlets in question held travellers cheque stock on trust for issuers for whom they acted as agents. Thus the financing of the product was carried exclusively by the issuers who were also responsible for the arrangements necessary to secure the redemption of the cheques through a large number of outlets and banks. As a result there was a need for a significant degree of 'back office administration' and computer input.

8.6. Amex said that it only asked its agents to notify it of the customer names and numbers of the travellers cheques issued. This information was sufficient to enable it to provide the customers with its full range of back-up services, if required.

8.7. The financial return to the issuers depended critically on the 'cheque life', ie the average time elapsed between the sale of the cheque and its use and on prevailing interest rates. To this extent, the travellers cheque business was a high-volume/low-margin business and with the current prevailing low interest rates the returns which could be earned were also low. Although it was possible for banks and financial institutions to enter the travellers cheque market if they so wished, present profitability would not attract new entrants. Amex believed that Barclays' decision to dispose of ISL reflected the difficulties affecting all suppliers of travellers cheques in the present economic climate. Amex added that

its own world-wide travellers cheque business was profitable. Amex said that it was difficult to break down its profitability by country but it thought its UK travellers cheque operation was a profitable one.

8.8. Amex explained that retailers of travellers cheques were free to charge (or not to charge) their customers commission. Where the travellers cheque was denominated in a foreign currency, there was also the possibility of an extra margin on the currency conversion spread. Retailers generally paid their suppliers in the currency of denomination of travellers cheques so that, for example, an *American Express* travellers cheque denominated in dollars would be paid for in dollars by the outlet selling it. However, that outlet was free to charge its own exchange rates to its customers. Thus, a product of the same travellers cheque issuer might, in effect, be sold at different prices by different retail outlets. Amex itself had only some 40 retail travel agency outlets in the UK while Cook had in the region of 400 together with a number of bureaux situated in stations, airports and like locations. To this extent, Cook had a significantly higher degree of vertical integration as compared with Amex. Cook's travel outlets were believed to account for over 20 per cent of retail sales of travellers cheques.

8.9. However, Amex said that, were the merger to proceed, it expected no material reduction in the level of competition between it and the other UK travellers cheques issuers (Cook, ISL and Citicorp) in obtaining distribution of products through UK-based sellers including banks, building societies and independent travel agents.

Citicorp International Plc

8.10. Citicorp estimated that it had a 12 per cent share of the world-wide travellers cheque market. However, its travellers cheque business represented only a small part of its world-wide banking activities. Citicorp added that though its share of the UK travellers cheque market was less than 1 per cent it was responsive to approaches to supply additional agents.

8.11. Citicorp confirmed that its world-wide travellers cheque operations were profitable. However, it pointed out that as it was dependent on a float the amount of profit was largely dictated by current interest rates. Interest rates had been low for some time but were now starting to rise again.

8.12. Citicorp said that it sold its own brand of travellers cheques through its own branches world-wide. It also issued travellers cheques under the *VISA* brand. *VISA* travellers cheques represented about 40 per cent of its total travellers cheque sales. Individual sales agents decided whether to accept *Citicorp* or *VISA* brands.

8.13. Citicorp stated that it competed with other major suppliers, Amex, Cook and ISL, to attract new agents. Citicorp's own brand was competitive in terms of its acceptability, refundability and encashability. Agents were offered various incentives, eg differing commission rates and market support, with each agreement being separately negotiated.

8.14. Citicorp pointed out that though its sales of travellers cheques were rising world-wide that growth reflected increased demand in newly developed countries. Substitution of other payment methods was a significant threat in developed markets, particularly the move to greater use of plastic cards. Consumers there were more sensitive to the different prices charged for the use of various payment products available.

8.15. Citicorp thought the proposed merger was unlikely to have a radical impact on the travellers cheque market, particularly as Cook was proposing to run its *VISA* and *MasterCard* brands independently. Viewed in the wide context of the payments products industry the merger did not raise any concerns, though current uncertainty about the market might cause some slight shifting of agents between different brands. Citicorp added that preceding the merger it had been involved in joint venture discussions separately with ISL and Cook but in each case these had foundered.

Lloyds Bank plc

8.16. Lloyds Bank plc (Lloyds) said that until 1981 it had issued its own sterling travellers cheques. The provision of travellers cheques was clearly a service which the majority of its customers required alongside its other retail banking services. However, the product had not been a major contributor to the Retail Bank's overall profitability. In 1981 Lloyds, recognizing that its sterling travellers cheques needed a world-wide brand if they were to continue to be accepted, negotiated to provide Amex sterling travellers cheques. Lloyds said that it had had a strong historical connection with Amex and recognized *American Express* as one of the leading world-wide brands of travellers cheque. Lloyds said that in 1981 it had formed a joint company, Travellers Cheques Associates Limited (TCA), with Amex and Royal Bank of Scotland to issue sterling travellers cheques both for their own use and to supply other providers. TCA managed the issue of travellers cheques for the shareholder but central processing was subcontracted to Amex at its American operations centre. Lloyds argued out that it was now impractical for individual UK banks to contemplate issuing their own travellers cheques without the backing of an international brand name such as *American Express*, *VISA* or *MasterCard*.

8.17. Lloyds said that the travellers cheque market had remained static in recent years. Growth in the travel payment market had been largely taken up by an increasing use of plastic cards. Lloyds thought travellers cheques would still continue to be used as customers recognized that they were relatively risk free and could be quickly and easily replaced if lost or stolen. The change in the mix between travellers cheques, foreign currency and plastic cards was likely to continue with growth in the use of plastic as the technology improved and customer confidence of international usage increased.

8.18. As to competition amongst issuers, Lloyds said that issuers competed amongst themselves to attract sales agents by offering varying commission and incentive arrangements. Similarly, sales agents competed amongst themselves for customers by charging differing fees and commission rates. Lloyds added that a few years ago it had increased charges to customers but sales had declined and Lloyds had decided to bring its rates back in line with the market.

8.19. Lloyds thought that the merger would not affect the market significantly. It said that it saw the merger more in the context of an outsourcing arrangement with Cook and a sharing of an infrastructure rather than the issue of differing brand names. The merger was more likely to effect Barclays' own internal provision of travellers cheques than the market as a whole.

National Westminster Bank plc

8.20. NatWest said that it had been issuing travellers cheques, in sterling denominations only, under its own name for a long time. In 1992 it had changed to issuing *VISA*-branded travellers cheques, but again only in sterling. NatWest sold *American Express* travellers cheques in US dollars and Canadian dollars, Swiss francs and Japanese yen denominations and Cook's *MasterCard* travellers cheques in Australian dollar and Spanish peseta denominations.

8.21. NatWest pointed out that travellers cheques had particular advantages that continued to be valued by travellers, eg their safety, refundability and travel budgeting features. For these reasons, NatWest saw other forms of international payments available to travellers as complementary rather than as generally acceptable substitutes for travellers cheques.

8.22. NatWest added that issuers competed through advertising, commission rates and on their customer service record. NatWest said that any new entrant seeking to set up a travellers cheque issuing business could now only do so through an agreement with one of the three major brand owners (Amex, MasterCard or Visa) which gave the new entrant access to a readily recognized brand name and an established refund network.

8.23. NatWest said that it did not see the proposed merger as being against the public interest. On the contrary, the *VISA* brand of travellers cheque could expect to be strengthened by a link to Cook's established refund service.

International payment organizations

Visa International Service Association

8.24. Visa, like MasterCard, an international payment organization to which many of the world's banks belong, said that its role was to provide its members with the key elements of a world payment system, ie a world-wide recognized trade mark and format and operating regulations. These provided an infrastructure for members to conduct business with each other (eg to accept a Visa bank's travellers cheques presented by the public) without the need for bilateral arrangements. Another vital element of Visa's travellers cheque programme was its Global Refund Service which arranged for the refund of lost or stolen *VISA* travellers cheques.

8.25. Visa told us that its travellers cheque programme was started in 1979 following requests from various Visa members to include the *VISA* marque on their proprietary travellers cheques to ensure greater global acceptability. Visa itself did not issue travellers cheques, nor did it sign up sales agents. The Visa travellers cheque issuers themselves administered their businesses, retaining full responsibility for their own profitability. Visa told us that prior to the merger Barclays did not formally guarantee the liabilities of ISL, its subsidiary, but instead it issued a letter of comfort to Visa irrevocably undertaking to ensure, at all times whilst ISL remained a subsidiary of Barclays, that ISL would be able to meet all its liabilities to Visa arising out of its membership of Visa or its *VISA* travellers cheque business.

8.26. Visa pointed out that consumers could obtain means of international payment in many different ways including travellers cheques, payment cards (credit, debit and charge), ATM cards, eurocheques, cash, and bank transfers. Visa thought there was a great deal of competition both within and between the different methods of payment, eg the issuers of *VISA* travellers cheques competed against each other as well as against the issuers of other brands. Visa believed the next ten years would continue to see an increase in the range of consumer payment methods which were available.

8.27. Visa said that there was competition in travellers cheques at three levels: first, they competed with other consumer payment methods; secondly, there was significant interbrand competition between the three main brands (*VISA*, *American Express* and *MasterCard*); and thirdly, there was competition between the different issuers for sales agents.

8.28. Visa explained that it had studied all possible options in an attempt to ensure the continuance of ISL's travellers cheque business. First, Visa had persuaded Barclays to defer the implementation of the closure of ISL to afford Visa the opportunity to find a solution. Visa had held discussions with each of Cook and Citicorp to explore the possibility of either company acquiring ISL. Visa said that it had also considered the possibility of itself acquiring ISL and subcontracting processing to Cook, or acquiring ISL to allow time to find a purchaser at a later date. Visa emphasized that the possibility of Visa acquiring ISL was a very radical option for Visa as it had no experience in the travellers cheque business.

8.29. Visa pointed out that although it was not a party to the acquisition of ISL by Cook, Visa and its members were directly affected by the outcome of the reference. ISL was Visa's principal issuer of travellers cheques and the supplier of *VISA* travellers cheques to Visa members on a global basis. If the MMC concluded that the transaction was not contrary to the public interest this would ensure the maintenance of the *VISA* travellers cheque programme for the benefit of Visa issuers, sales agents and the consumer and more generally for the overall benefit of all Visa members. If the transaction was found contrary to the public interest and Cook was required to divest ISL, there was no realistic purchaser for ISL and the likelihood of a new entrant was remote. Cook might therefore have to close ISL, but this would almost certainly force Visa to terminate its travellers cheque programme.

8.30. Visa believed that Cook's acquisition of ISL was not contrary to the public interest for the following reasons:

- (a) The transaction would ensure the maintenance of the *VISA* travellers cheque programme.

- (b) The *VISA* travellers cheque programme was open to new issuers in contrast to *American Express* or *MasterCard*.
- (c) There would be no reduction of competition at brand level—Cook had negotiated with *MasterCard* to allow it to issue both *MasterCard* and *VISA* travellers cheques and vigorous competition would continue between the *American Express*, *MasterCard* and *VISA* brands.
- (d) Following the acquisition the level of competition between all issuers would remain intense. Visa understood that Cook was maintaining separate sales forces for the *VISA* and *MasterCard* travellers cheques.
- (e) Sales agents would have access to three different brands all offering slightly different services and, through the remaining issuers, different levels of services and incentives.
- (f) Consumers would continue to enjoy their existing choice of travellers cheques. Barclays would as before sell *VISA*-branded travellers cheques world-wide and consumers would continue to benefit from the competition between brands, issuers and sales agents.

Visa concluded by saying that it believed the acquisition of ISL by Cook was pro-competitive and was in the public interest, for the reasons described above.

MasterCard International

8.31. MasterCard said that it thought Cook's acquisition of ISL was good for the travellers cheque industry, for sales agents and for consumers.

Travellers cheque sales agents

Building societies

Woolwich Building Society

8.32. The Woolwich Building Society (Woolwich) said that it first sold travellers cheques in 1982, as part of a wider range of services offered to its customers. Initially it provided only sterling travellers cheques. It now offered travellers cheques in a number of currencies and also foreign currency.

8.33. Woolwich told us that it had opted to sell *American Express* travellers cheques. At the time it had felt that it had a choice of three suppliers: Cook, Amex and Citicorp. Its final choice had been principally influenced by the strength of the *American Express* brand and the fact that *Amex* appeared to be the most appropriate fit with Woolwich's positioning and customer profile. The only details forwarded to Amex were the cheque numbers and customer names. Woolwich periodically reviewed its choice of suppliers. It had not considered ISL as a supplier or been approached by ISL. ISL had not been actively seeking business and it appeared to be losing business in recent years.

8.34. Woolwich thought travellers cheque suppliers competed with each other on the financial terms offered, on their distribution network and on advertising. Woolwich benefited from joint marketing arrangements with Amex. Woolwich's own promotions were usually limited to promotional leaflets and counter displays.

8.35. Woolwich pointed out that the travellers cheque market had remained relatively static in recent years, mainly because of the recession. Future sales of travellers cheques were likely to be affected by more people relying on plastic cards to obtain money abroad. The rate of growth in the use of plastic cards was, however, difficult to predict. Woolwich added that the travellers cheque market was not particularly price sensitive. Commission rates varied and customers were used to paying a minimum amount. Charges were clearly displayed on the leaflets available or were fully

explained to customers. Customers appeared to be unconcerned at the number of brands of travellers cheque available.

8.36. Woolwich said that the market was unlikely to be adversely affected by the proposed merger.

Halifax Building Society

8.37. Halifax Building Society (Halifax) said that it offered travellers cheques and foreign currency for sale through its branch network. At present these services were provided through an arrangement with Amex. Halifax had no plans to launch its own brand of travellers cheques or to make arrangements to supply foreign currency from stock but expected to continue to offer such services by arrangement with one of the major suppliers.

8.38. Halifax pointed out that there were three major travellers cheque issuers in the market: Amex, Cook and ISL. The merger had reduced this number to two. Nevertheless, Halifax argued that as long as two major issuers remained in the market it would continue to have a real choice of supplier. Realistically, Halifax said that it had always seen its choice as being between Amex and Cook, with the ISL name not being powerful enough.

8.39. Halifax considered that the merger could bring positive benefits by strengthening Cook's position in the UK and as a world-wide supplier of travellers cheques. Also, if the merger went ahead Halifax expected that the ISL name would be maintained and the *VISA* marque would still have a presence in the travellers cheque market. The result of this might well be a strengthening of the ISL name and this could benefit retailers of travel money such as Halifax. UK sellers would continue to have a choice of three major brands (albeit from only two suppliers) with the weakest of the three perhaps becoming stronger. Halifax added, however, that it recognized the possibility that, in due course, Cook might abandon the *MasterCard* brand and issue ISL travellers cheques showing the *VISA* marque, which would effectively reduce the number of suppliers available back to two.

8.40. Halifax concluded by saying that it had no objection to the merger. It would not have any detrimental impact on the choice of suppliers that Halifax had as a seller of travellers cheques and foreign currency.

Nationwide Building Society

8.41. Nationwide Building Society (Nationwide) said that it fully supported the need for vigorous competition and the need for customer choice in the travellers cheque market. Nationwide, as a provider of travellers cheques, also wished to have a choice of suppliers to ensure that its ability to obtain a competitively-priced service was maintained. As long as Cook and Amex continued to provide travellers cheques in the UK, Nationwide believed that that choice was available. Nationwide pointed out that from the general public's point of view there were many retailers of travellers cheque services, including most banks and building societies, and differing product offerings. Nationwide thought the proposed merger would therefore not adversely affect the public interest.

National and Provincial Building Society

8.42. National & Provincial Building Society (N&P) said that it had no objections to the proposed merger. N&P considered that the customer could choose from any number of retailers offering travellers cheques. The retailer, not the supplier, set the price both in terms of commission rate and the ability to vary the exchange rate. N&P added that whilst the merger would obviously reduce the potential number of suppliers it would be looking for a supplier who would provide operational and marketing support. The *VISA* travellers cheque brand had not been promoted for some time in the UK and N&P was unlikely to consider supplying *VISA* cheques.

Northern Rock Building Society

8.43. Northern Rock Building Society (Northern Rock), currently a sales agent for Cook's *MasterCard* travellers cheques, said that it was not opposed to the merger. Northern Rock did not believe the merger was against the public interest given that there would still continue to be a number of prime issuers of travellers cheques world-wide. Northern Rock added that with the growing use of plastic cards and the increasing accessibility of ATM systems throughout Europe and North America, it expected that the utilization of travellers cheques would contract during the next five to ten years and that a rationalization of prime travellers cheque issuers would take place.

Coventry Building Society

8.44. Coventry Building Society said that generally it would not oppose the merger given that there was another strong player in the UK travellers cheque market, namely Amex. The presence of two strong players would ensure that competition would continue in the market.

Banks

Bank of Scotland

8.45. Bank of Scotland, which offers both *ISL/VISA* and *American Express* travellers cheques, said that it had no concerns about the proposed merger.

Clydesdale Bank PLC

8.46. Clydesdale Bank PLC (Clydesdale) said that in recent years it had moved from a position of selling travellers cheques from both Cook and Amex to a sole supply agreement with Cook. Clydesdale said that it believed the travellers cheque to be a declining product and this would result in overcapacity in the market relatively soon. As a result costs would increase and these would have to be passed on to sales agents and customers alike. In these circumstances, Clydesdale said that it would have no objection to seeing the number of suppliers reduced to two as it believed this would add to their efficiency and would still give a measure of comfort to sales agents.

Midland Bank plc

8.47. Midland Bank said that it was the largest supplier of Cook's *MasterCard* travellers cheques in the UK.

8.48. Midland Bank stated that although the proposed merger would represent a reduction in choice, it was important that there was a strong competitor to Amex in the travellers cheque market. Without strong competition, one issuer could emerge as the only supplier of travellers cheques which would not be satisfactory for the consumer.

Yorkshire Bank PLC

8.49. Yorkshire Bank, a sales agent for Cook's *MasterCard* travellers cheques, said that it had no concerns regarding the proposed merger.

Bureaux de change

Travelex UK PLC

8.50. Travelex UK PLC (Travelex) said that it had major concerns about the proposed merger which it believed was not in its own or the public's interest. Travelex pointed out that the sale of travellers cheques formed an important and distinct market for its activities. The proposed acquisition would have an adverse effect upon the already limited degree of competition amongst issuing companies. This would be to the significant disadvantage of the travellers cheque market, bureau de change operators and customers in the UK, the EC and world-wide.

8.51. Travelex explained that until the merger, the effective choice of issuer had been between only three major companies, Cook (*MasterCard*), ISL (*VISA*), and Amex. A further significant, if less important, issuer was Citicorp, which held around 12 per cent of the market world-wide. However, it had been widely reported and rumoured that Cook had been involved in talks with Citicorp which could result in Cook also acquiring this business. Unless Cook's purchase of ISL was reversed this position could only worsen and, given the overwhelming market shares held by Cook, Amex and ISL, the choice of supplier would effectively be reduced to two.

8.52. The only alternative issuing company to Cook would thus be Amex. The opportunity for fair negotiation with Amex in these circumstances would be extremely limited. Any consequent increase in charges would be likely to be passed on to the public.

8.53. Travelex added that it also had reason to fear the proposed acquisition because of its experience with Cook in other areas of its business. The Cook group world-wide already had considerable power in the travel, bureau de change and travellers cheque markets. On several occasions in recent years it had had cause to suspect that this combination of influence might have been used against it to ensure an unfair competitive advantage. If Cook's acquisition was allowed then its potential to exert undue pressure would become even greater.

Chequepoint UK Limited

8.54. Chequepoint UK Limited (Chequepoint) also had grave concerns about the implications of the merger. Chequepoint pointed out that Cook was its main competitor. Cook had within the last few years taken a decision to enter the bureau de change market in an aggressive manner and had massive resources at its disposal for this purpose. Chequepoint complained that several incidents since then had illustrated that it could not expect Cook to exercise a dominant market position in a particularly sensitive manner.

8.55. Chequepoint said that its main concern was the effect of the merger on the provision of foreign currency and travellers cheques to independent travel agents. Small travel agents without adequate infrastructure were not able to run their own 'in-house' bureau de change and bought in this service. Many independent travel agents were obliged to use Cook (or to a lesser degree Amex) for their currency and travellers cheque requirements as the local banks did not generally offer this service. Such agents therefore did not go to Cook, one of their main competitors, out of choice. To compete in this market bureau de change had to be able to offer a comprehensive service to independent travel agents which also included the provision of travellers cheques.

8.56. Chequepoint said that it feared that if Cook's acquisition of ISL was allowed to stand it would be frozen out of the market by both Cook and Amex who would then dominate the market between them. This situation was exacerbated by the fact that Amex refused to supply competing bureaux de change with its own travellers cheques. In such a scenario it was not only the bureaux de change which would suffer but also the independent travel agents who would be forced to buy travellers cheques from Cook or Amex, their competitors in the travel business on any terms that Cook or Amex chose to dictate.

8.57. Chequepoint concluded by saying that if Cook was allowed to enlarge its share of the travellers cheques market it would exercise a stranglehold on a vital service whose supply was essential to the independent travel agents and, not least, to bureau de change operators.

Travel agents

A T Mays Ltd

8.58. A T Mays, currently a sales agent for ISL's *VISA* travellers cheques and until 1991 a sales agent for Cook's *MasterCard* travellers cheques, was concerned that the merger would adversely affect competition by reducing the number of travellers cheque suppliers to just two. A T Mays was particularly concerned that the referral to the MMC would affect ISL's current trading position as the operation had already been run down in preparation for its sale to Cook. However, it had recently renewed its supply agreement with ISL, as now supported by Cook.

The Travel Company Limited

8.59. The Travel Company pointed out that if the proposed merger went ahead it would leave only two key suppliers in the market, Cook and Amex. Inherently, the opportunities for price fixing in such a market would be far greater. The Travel Company added that it believed key travellers cheque suppliers cross-subsidized their profits arising in this area against losses in other parts of their business, including business travel.

8.60. The Travel Company was concerned that independent suppliers of travellers cheques would be charged a fee for ordering travellers cheques, which would ultimately have to be passed on to the consumer. The market situation might also mean that independent suppliers of travellers cheques and currency could be squeezed out of the market through unfair pricing. Again, the consumer would suffer as a result.

Other travel agents

8.61. A travel agent chain said that it opposed the merger for the following reasons:

- (a) The merger would restrict the maintenance and promotion of competition in the UK travellers cheque issuing market. A duopoly position where two companies of almost equal strength dominated almost 96 per cent of the market was unhealthy. An industry structured in this way would probably lead the two participating companies to conclude that their most profitable strategy would be to maintain the status quo, with neither company attempting to win business from the other. This would allow the companies to cut costs by reducing service levels, cutting investment in marketing and technology, while introducing and dictating new business terms and operating procedures to their selling agents. The duopoly would be protected against competition from new entrants by the present high barriers to entry.
- (b) The proposed merger would damage the interest of consumers. Customer choice would be restricted to travellers cheques issued by only two companies. A likely reduction in competition amongst the two companies would reduce service levels which could result in delays, loss of co-operation and inefficiency in reissuing lost or stolen travellers cheques and, in the extreme, could even result in the reduced availability of travellers cheques to potential customers. A duopoly of suppliers could dictate new business terms to selling agents which might result in increased commission charges to customers. Similarly, a reduction in investment in technology could lead to a reduction in efficiency amongst suppliers, which might also adversely affect commission rates.
- (c) The proposed merger would reduce the development of new products and services in the market. Cook and Amex could reduce their input into research and development once competition was reduced.

- (d) The acquisition would seriously jeopardize the structure of the travellers cheque distribution network which would be against the interest of the consumer. Travel agents would be unwilling to sell a competitor's (Cook's) products and would therefore have only one alternative for supply, Amex. Amex might make unreasonable demands or restrict its distribution amongst travel agents. (A motive could be to allow Cook to dominate the travel agency distribution sector in return for Amex's own dominance in the building society sector and other distribution sectors.)

8.62. This travel agent concluded by saying that the public interest would be better served if Barclays sold its shareholding in ISL to any company other than Cook or Amex and it recommended that the proposed merger should not be allowed.

Other sales agents

8.63. Another agent said that it had no major concerns about the merger and did not believe it was against the public interest. However, it added that since there were currently only three main suppliers of travellers cheques in the UK the merger would reduce the market choice for retailers. It could lead also to less competitive margins for sales agents in the future.

Trade unions

Banking Insurance and Finance Union

8.64. The Banking Insurance and Finance Union (BIFU) said that from the start of talks about a possible merger Barclays and Cook had agreed to conduct negotiations with BIFU and other relevant unions on the basis that the Transfer of Undertakings (Protection of Employment) Act 1981 was applicable to the sale of the business. This meant that Cook had inherited all the rights and obligations of Barclays towards the staff, and in particular, the company was obliged to maintain jobs and terms and conditions of employment. BIFU pointed out that the interests of 140 employees were directly affected by the sale of the business. Cook's decision to relocate ISL's operations from Poole to Peterborough had meant even more uncertainty and disruption for individual members of staff and their families.

8.65. BIFU said that more than 60 staff had been redeployed to other local jobs by Barclays, and of the 82 ex-Barclays employees remaining, a further 40 or more were still seeking redeployment through this route. Although this option would remain open for several more months BIFU said that it was concerned about the future prospects of employees still applying for redeployment because some parts of ISL were relocating earlier than others.

8.66. BIFU added that in its dealings with Cook, Cook had used its best endeavours to respect the interests of staff, and this was encouraging for its future relationship with those persons who had chosen to remain with ISL.

H H LIESNER (*Chairman*)

C M BLIGHT

P BRENAN

R HALSTEAD

J S METCALFE

A J NIEDUSZYNSKI (*Secretary*)

16 February 1995

Terms of reference and conduct of the inquiry

1. On 9 November 1994 the Department of Trade and Industry sent to the MMC the following reference:

Whereas it appears to the Secretary of State that it is or may be the fact that

(a) a merger situation qualifying for investigation, as defined in section 64(8) of the Fair Trading Act 1973 ('the Act'), has been created in that

(i) enterprises carried on by or under the control of Thomas Cook Group Limited have, within the six months preceding the date of this reference, ceased to be distinct from enterprises carried on by or under the control of Barclays Bank plc (a body corporate incorporated in the United Kingdom), and

(ii) the value of the assets taken over exceeds £70 million;

(b) arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation as so defined in that

(i) enterprises carried on by or under the control of Thomas Cook Group Limited will cease to be distinct from enterprises carried on by or under the control of Barclays Bank plc (a body corporate incorporated in the United Kingdom), and

(ii) the value of the assets to be taken over exceeds £70 million.

Now, therefore, the Secretary of State, in exercise of his powers under sections 64, 69(2) and 75 of the Act hereby refers to the Monopolies and Mergers Commission ('the Commission'), for investigation and report within a period ending on 16 February 1995, the following questions:

1. (i) whether a merger situation qualifying for investigation has been created as a result of the matter described in paragraph (a)(i) above, and
(ii) if so, whether the creation of that situation operates or may be expected to operate against the public interest;
2. (i) whether arrangements are in progress or in contemplation as described in paragraph (b)(i) above which if carried into effect will result in the creation of a merger situation qualifying for investigation;
(ii) if events so require, whether the actual results of these arrangements are the creation of such a situation; and
(iii) if so, whether, in either case, the creation of that situation may be expected to operate or (if events so require) operates against the public interest.

In relation to the questions in paragraphs 1(i) and 2(i) and (ii) above the Commission shall exclude from consideration one of paragraphs (a) and (b) of section 64(1) of the Act if they find the other satisfied.

9 November 1994

(Signed) CHARLES BRIDGE
An Assistant Secretary,
the Department of Trade and Industry

2. The composition of the Group of members responsible for the present investigation and report is indicated in the list of members in the preface. Mr J Evans and Mr A L Kingshott were originally appointed as members of the Group but subsequently withdrew through separate conflicts of interest. Mrs C M Blight was appointed in their place.

3. Notices inviting interested parties to submit evidence to the MMC were placed in the *Financial Times*, *Financial Adviser* and *Travel Trade Gazette*.

4. In addition we sought evidence from travellers cheque issuers and agents, international payment organizations (MasterCard and Visa), bureaux de change, travel agents, trade and consumer associations, trade unions and other interested parties. Written evidence was received from many of these parties and we held hearings with seven of them.

5. We received joint and separate submissions from Cook and Barclays and held hearings with both parties.

6. Members of the Group, accompanied by staff, visited Cook's travellers cheque operations at Peterborough.

7. Some of the evidence obtained in the course of our inquiry was of a commercially confidential nature and our report contains only such information as we consider necessary for a proper understanding of our conclusions.

8. We should like to thank all those who helped us in our inquiry, particularly Barclays and Cook.

Statutory Instruments

1994 No. 2953

MONOPOLIES AND MERGERS

The Merger Reference (Thomas Cook Group Limited and Barclays Bank plc)
(No. 2) Order 1994

<i>Made</i>	<i>22nd November 1994</i>
<i>Laid before Parliament</i>	<i>22nd November 1994</i>
<i>Coming into force</i>	<i>23rd November 1994</i>

Whereas:

(1) the Secretary of State, in exercise of powers conferred on him by sections 64, 69(2) and 75 of the Fair Trading Act 1973(a) has on 9th November 1994 referred to the Monopolies and Mergers Commission for investigation and report the matter of enterprises of The Thomas Cook Group Limited and enterprises of Barclays Bank plc ceasing to be distinct enterprises and the matter of arrangements which, if carried into effect, would so result; and

(2) in the opinion of the Secretary of State the carrying on of the activities mentioned in Article 2 of this Order constitutes action which is intended to prevent the prejudicing of the reference or the taking of action under the said Act which may be warranted by the Commission's report on the reference:

Now, therefore, the Secretary of State, with a view to preventing the doing of things which might prejudice the reference or impede the taking of any action under the said Act and in exercise of the powers conferred on him by section 74 of the said Act hereby makes the following Order:

1.—(1) This Order may be cited as The Merger Reference (Thomas Cook Group Limited and Barclays Bank plc) (No. 2) Order 1994 and shall come into force on 23rd November 1994.

(2) For the purposes of this Order—

- (a) 'control' has the same meaning as in section 65 of the Fair Trading Act 1973;
- (b) 'Interpayment travellers' cheques' means travellers' cheques issued by ISL or by Barclays Bank of Canada and bearing the 'Visa' trade mark under licence from Visa International Service Association;
- (c) 'ISL' means Interpayment Services Limited and any subsidiary thereof;
- (d) 'issuer' in relation to a travellers cheque means the person named as the issuer on the face of the cheque who assumes an obligation to pay the face value of the cheque in accordance with the agreement of purchase between the issuer and the purchaser;
- (e) 'sales agent' means a person who has agreed to sell travellers' cheques issued by a third party as agent for that third party and 'sales agency' shall be construed accordingly;

(a) 1973 c.41.

- (f) 'sales force' means persons who solicit sales agents and develop and maintain sales agency relationships;
- (g) 'subsidiary' has the same meaning as in section 736 of the Companies Act 1985;
- (h) 'TCG' means The Thomas Cook Group Limited and any subsidiary thereof other than ISL;
- (i) 'travellers cheque' means an instrument identified as a travellers' cheque on its face or commonly recognised as a travellers cheque and denominated in a money multiple of sterling or other currency with provision for a specimen signature of the purchaser to be completed at the time of purchase and a counter-signature of the purchaser to be completed at the time that the travellers cheque is encashed by a third party or accepted by a third party as payment;
- (j) 'Visa Global Refund Service' means the facility operated by, or by a third party on behalf of, Visa International Service Association which provides emergency assistance to purchasers of travellers' cheques bearing the 'Visa' trade mark in the event of the loss or theft of those travellers cheques.

2.—(1) Subject to paragraphs (2) and (3), when ISL has become a subsidiary of TCG or TCG has acquired the assets of ISL, TCG and ISL shall—

- (a) maintain the existing legal structure of ISL;
- (b) maintain ISL as an issuer of Interpayment travellers' cheques in the full range of currencies currently issued;
- (c) not use the Thomas Cook name or 'MasterCard' trademark in conjunction with Interpayment travellers' cheques or the marketing of any business carried on by ISL;
- (d) not use the 'Visa' trade mark in conjunction with any travellers' cheque issuing business carried on by TCG;
- (e) maintain, keep distinct and separately invest the funds of ISL in so far as those funds represent the monies received in respect of Interpayment travellers' cheques sold and awaiting redemption;
- (f) keep a distinct and active sales force for Interpayment travellers' cheques and retain separate point of sale technology for Interpayment travellers' cheques at the premises of sales agents selling such travellers' cheques;
- (g) pursue a distinct and active sales promotion policy for Interpayment travellers' cheques and not use the Thomas Cook name in connection with the sales or marketing of Interpayment travellers' cheques;
- (h) not terminate (other than in the ordinary course of business) existing sales agency contracts between ISL and third parties for the sale of Interpayment travellers' cheques;
- (i) not solicit existing sales agents of ISL to become sales agents for travellers' cheques bearing the Thomas Cook name;
- (j) continue to use, for the purpose of processing and storing data about Interpayment travellers' cheques and sales agents of ISL ('the relevant data'), the existing data processing system used by ISL and licensed from Arab Financial Services Company E.C. and keep separate the relevant data and the system;
- (k) continue to subscribe in respect of Interpayment travellers' cheques to the Visa Global Refund Service for the initial handling of refund claims.

(2) Paragraph (1) (b), (f), (g) and (h) shall not apply in respect of the activities of Interpayment Chèque Bleu S.A.

(3) Paragraph (1) (i) shall not apply to the extent that TCG may solicit sales agents in respect of French franc travellers' cheques bearing the Thomas Cook name.

3. The Merger Reference (Thomas Cook Group Limited and Barclays Bank plc) Order 1994(a) is hereby revoked.

22nd November 1994

Michael Heseltine
Secretary of State,
Department of Trade and Industry

EXPLANATORY NOTE

(This note is not part of the Order)

This Order requires Thomas Cook Group Limited ('TCG') and Interpayment Services Limited ('ISL') to keep ISL's main activities separate from those of TCG once TCG has acquired control over ISL. The merger of TCG and ISL has been referred to the Monopolies and Mergers Commission.

The Order, unless previously revoked, will cease to have effect—

- (a) 40 days after the Commission's report is laid before Parliament, or
- (b) on the failure of the Commission to report within the period allowed.

This Order replaces The Merger Reference (Thomas Cook Group Limited and Barclays Bank plc) Order 1994 (S.I. 1994/2877), which is revoked.

(a) S.I. 1994/2877.

APPENDIX 4.1
(referred to in paragraph 4.14)

Issuers of travellers cheques world-wide, as at end of 1994

Travellers cheque issuers include, but are not limited to:

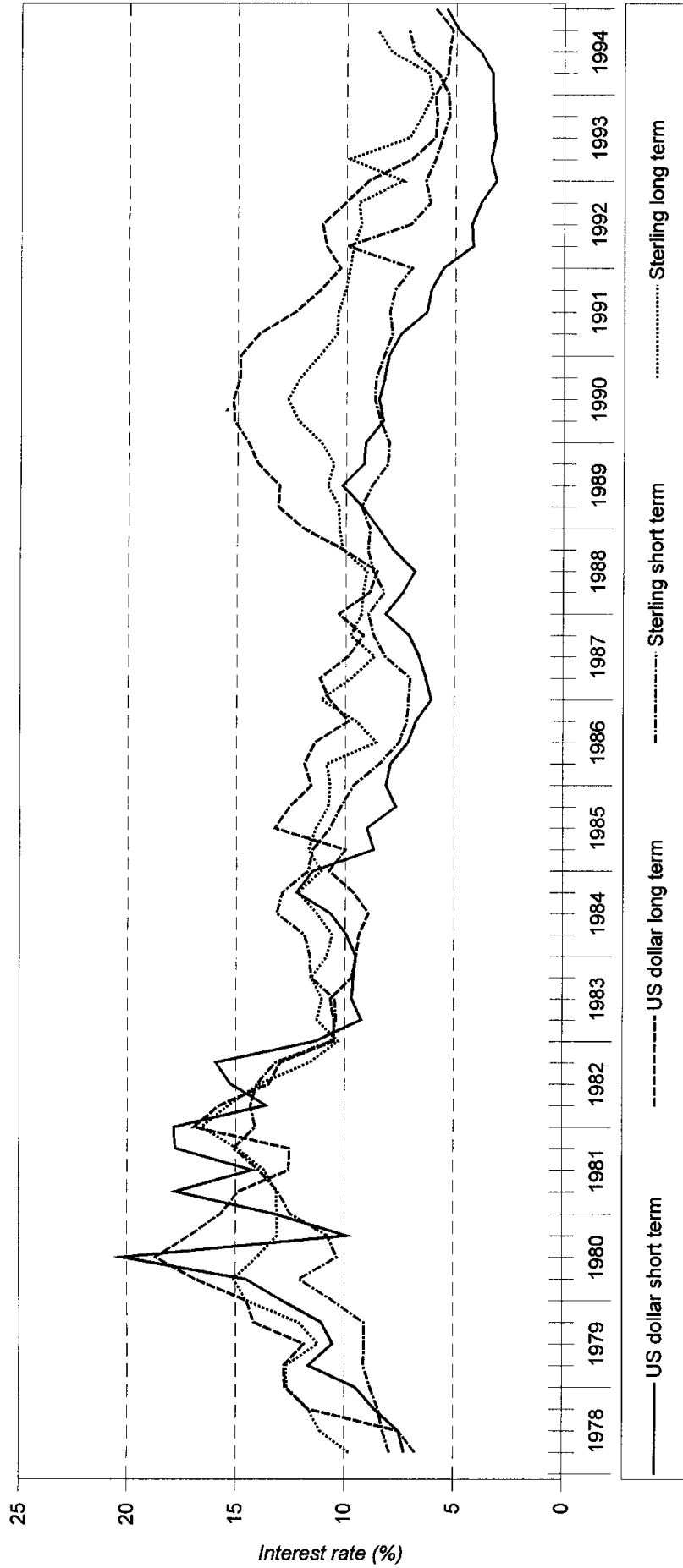
American Express Travel-related Services Company Inc
Aminit Limited, Israel
BAC International Bank, USA
Banamex/CA Commerce, Mexico
Banco Atlántico SA, Spain
Banco do Brasil SA, Brazil
Banco Nacional de México, Mexico
Banco Pinto & Sotto Mayor, Portugal
Banco Popular de Puerto Rico, Puerto Rico
Bank Central Asia, Indonesia
Bank Internasional Indonesia, Indonesia
Bank of Cyprus Limited, Cyprus
Bank of A Levy, USA
Bank of New Zealand, New Zealand
Bank of Scotland, UK
Bank One, Arizona NA, USA
Bank One, Utah, USA
Citadel Federal Credit Union, USA
Citicorp, USA
Citizens Commercial & Savings Bank, USA
Credito Union CA, Venezuela
The Dai-Ichi Kangyo Bank Limited, Japan
First Bank Holding Co, USA
Hang Seng Bank Limited, Hong Kong
Interpayment Services Ltd (and its subsidiaries), UK
Italy (standard design Italian lira cheque, issued by several banks)
Japanese Travel Bureau, Japan
Korea Exchange Bank, Korea
Lippo Bank PT, Indonesia
MashreqBank PSC, UAE
The Mitsubishi Bank Limited, Japan
Nanyang Commercial Bank Ltd, Hong Kong
National Westminster Bank Plc, UK
NationsBank NA, USA
NBD Bancorp Inc, USA
Norwegian Banks Service Bureau, Norway
OnBank NA, USA
One Valley Bank NA, USA
Overseas Chinese Bank, Singapore
The Sakura Bank Limited (in association with Thomas Cook)
Santa Barbara Bank & Trust, USA
Saudi Riyal Travellers Cheque Company (SRTC: Amex and various Saudi Arabian banks)
Signet Banking Corporation, USA
Société Française du Chèque de Voyage (SFCV: Amex and various French banks)
The Standard Bank of South Africa Limited, South Africa
The Sumitomo Bank Limited, Japan
Swiss Bankers Travellers Cheques Centre (SBTCC: a consortium of Swiss banks)
The Thomas Cook Group Limited, UK
Thomas Cook Inc, USA
Travellers Cheque Associates Ltd (Amex, Lloyds Bank and the Royal Bank of Scotland), UK

Truckee River Bank, USA
Union Bank of Norway (Sparebanken NOR), Norway

Source: Cook.

APPENDIX 5.1
(referred to in paragraph 5.49)

US dollar and sterling interest rates, 1978 to 1994



Source: Cook and ISL.

Notes:

1. Short-term interest rates taken as the mid-market three-month money market rate, measured quarterly.
2. Long-term interest rates taken as the mid-market five-year money market rate, measured quarterly.

Glossary

Note: In the context of this report the following words or phrases are to be interpreted as shown. In other contexts they may have other meanings.

Agent commission	Commission or other payments paid by issuers to agents selling travellers cheques. Sometimes referred to as incentive payments . May be related to the value of travellers cheques sold and may be pro rata or stepped according to the volume of cheques sold.
ATM	Automatic teller machine. Generally provided by banks or other financial institutions, ATMs provide cash in local currency to holders of plastic cards of various types. Coverage is largely limited to OECD countries.
Brands	Throughout this report travellers cheque brands (eg <i>VISA</i>) are printed in italics to distinguish them from issuing organizations.
Consumer commission	Commission or other payment paid by consumers to agents selling travellers cheques. It may be calculated as a percentage of the face value of the cheques sold or it may be a flat fee. If foreign currency cheques are bought the agent may take an additional commission on the foreign exchange transaction.
CSO	Central Statistical Office.
FBSO	Federal Banking Supervisory Office in Germany (Bundesaufsichtsamt für das Kreditwesen).
Float	The funds held by the travellers cheque issuer for the period between receipt of sales monies from the agents which sold the cheques and the presentation of the cheques for payment.
Interest rate 'swaps'	A means by which a company can exchange the interest income from deposits with a variable interest rate for interest income at a fixed interest rate. This enables the company to protect itself against adverse movements in interest rates.
Incentive payments	Paid to agents by issuers in order to secure or retain their travellers cheque business with those agents. May be paid on signing the agency agreement, pro rata to sales of cheques, or both.
IPO	International payment organization. Examples are Visa and MasterCard which license their brand marks <i>VISA</i> and <i>MasterCard</i> to issuing companies and others for acceptability and credibility reasons. Membership is drawn from the banking sector.
Issuer	A company that creates travellers cheques and is ultimately responsible for their repayment.
MasterCard	MasterCard International Incorporated (owner of the <i>MasterCard</i> brand).
OECD	Organization for Economic Co-operation and Development. Members include countries from Western Europe, North America, Australasia and the Far East.

PIPS	Personal international payment systems. A generic term which includes travellers cheques and plastic cards of all types.
Plastic cards	A general term covering credit, charge and debit cards.
Stockholding sales agent	Sales agent which carries stocks of travellers cheques for supply on demand by consumers.
Third party issuers	Issuers (such as Cook and ISL) which supply travellers cheques, not only to retail outlets which are part of the same company, but also to third party agents such as banks, travel agents, bureaux de change etc, for selling on to consumers. Sometimes they supply cheques that have been customized with the name of the agent displayed prominently on the cheque.
TRAMS	Travel Money Services. A mail order service for travellers cheques and/or foreign currency provided by Cook to non-stockholding sales agents, including banks, building societies and travel agents.
Visa	Visa International Service Association (owner of the <i>VISA</i> brand).
White label cheques	Travellers cheques issued in the neutral name of a subsidiary company created for this purpose, and thereby made acceptable for sale through agents which, in other lines of business, are in direct competition with the issuer (eg Interpayment Services Limited as a subsidiary of Barclays Bank).
Wholesaling	The provision of foreign currency and/or travellers cheques to sales agents as an intermediary between issuer and agent.
WTO	World Tourism Organisation.



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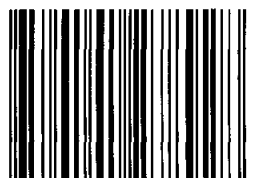
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