

HSBC CREDIT CARD REWARDS PROGRAM

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INTRODUCTION

It was May 2005, and Louisa Cheang, Head of Marketing Asia Pacific, was developing her 2006 marketing strategy for HSBC's credit card products. Over the past 10 years, HSBC's credit cards had gone from being rated worst to rated best by Hong Kong consumers. In the past six years, HSBC cardholders had increased their purchases by an average of 24 per cent per year. The average growth rate in cards in circulation was 13 per cent per year, and the customer attrition rate had fallen by an average of one percentage point per year (see Exhibit 1). HSBC now held the leadership position in the Hong Kong market in both the number and value of transactions. The current issue was how to sustain HSBC's success.

The credit card market was vitally important to HSBC because of the profitability of the category, but also because of its role in acquiring new customers and building customer relationships. Customer acquisition was facilitated by the low entry barriers associated with the product and the fact that the credit cards could be tailored to specific target segments, such as young adults. Once a consumer adopted an HSBC credit card, HSBC was able to develop a profile of the person that could be used to cross-sell other products, such as investments and insurance. The extensive card spending data that was generated also formed a basis for the customer relationship management (CRM) system, which was useful in customer segmentation and targeting.

THE CREDIT CARD MARKET IN HONG KONG

Credit card use was growing rapidly in Hong Kong. From 1998 to 2003, the number of transactions increased by 112 per cent whereas the value of transactions increased 68 per cent. The main factor driving growth was the wider acceptance of credit cards in retail outlets, such as supermarkets, and the ability to

settle low-value transactions, such as those under HK\$50.¹ Other factors, such as the growth of e-commerce, which accounted for less than one per cent of total transaction value in 2003, were thought to fuel further growth. However, growth in the total number of cards was slowing and actually declined in 2003 by 0.2 per cent. Research indicated that existing cardholders held approximately three cards, but used only one or two frequently. Cards that were not frequently used were at risk of being cancelled. The market was forecasted to grow by between four and five per cent per year for the next five years on transaction volume, and the number of cards issued was expected to grow at two per cent or less. Summary statistics on the growth of the Hong Kong credit card market are contained in Exhibit 2.

Competition within the Hong Kong market was highly concentrated, with 82 per cent of transaction volume in 2003 accounted for by five card issuers. With the exception of American Express, card issuers were banks that held Visa and MasterCard franchises. Market share information on the major issuers is included in Exhibits 3 and 4. Any bank or financial institution could become a franchiser by fulfilling eligibility criteria related to the use of the brand, card design and operating rules. Franchisers then differentiated their cards on the basis of positioning, pricing, features and customer acquisition strategies. All banks issued platinum, gold and classic cards to cater to customers at different spending and income levels.

Card issuers were increasingly developing card products targeted at narrow market segments such as females, youth, affluent consumers, frequent travelers and cardholders who carried balances for long periods of time. Issuers were also targeting customers on the basis of their affinity with employment, educational or social groups. For example, the IEE Hong Kong Affinity credit card offered a pre-approved line of credit to members of the IEE (Institute of Electrical Engineers). The card was free with no annual card fee. Each time a cardholder used the card, the issuing bank (i.e. the Bank of East Asia) contributed 0.35 per cent of the purchase amount to the IEE.

Visa and MasterCard provided the infrastructure to process customer transactions. Specifically, the companies provided a worldwide information network linking customers, banks and merchants through satellite linkages. In return, they were paid a fee proportional to their transaction volume and a percentage of sales as a franchise royalty.

Issuing banks and organizations generated income through fees charged to both merchants and their customers. Merchants paid the issuing banks an average discount of 1.5 per cent of the purchase price of goods and services purchased with a credit card. If a customer purchased an item for \$10, the merchant would submit an invoice to the acquiring bank and receive \$9.85 in return. From the \$0.15 received, the acquiring bank would have to pay the bank that issued the card an interchange fee, and cover its expenses related to customer acquisition. The card issuer would bill the customer \$10. The card issuer would make additional income on purchases that were not paid for during the billing period. Interest rates on financed purchases in 2005 were between 24 per cent and 34.49 per cent.

COMPETITION

Competition within the credit card market was fierce. See Exhibit 5 for an overview of the major competitors and Exhibit 6 for a summary of their credit card strategies. With the exception of Citibank and American Express, all major competitors had a significant retail bank presence in Hong Kong. Banks

¹"Financial Cards in Hong Kong, China," *Euromonitor*, May 2004.

focused on their existing customer base as the primary target market for their credit card products, and market shares tended to follow each bank's retail market share.

Other factors that were associated with success in the credit card market could be found in HSBC's yearly tracking study. Each year, HSBC conducted a survey of approximately 2,000 current credit cardholders in Hong Kong. The telephone survey was designed to provide a comparison between HSBC and its direct competitors on brand image, features and benefits. HSBC was rated highly in terms of brand familiarity (Exhibit 7), credit card value perceptions (Exhibit 8) and perceptions of the rewards program (Exhibit 9). The study also included an indication of the credit card attributes that were most important in affecting impressions of HSBC (Exhibit 10).

HSBC

Headquartered in London, HSBC was one of the world's largest banking and financial services organizations. In 2005, HSBC had more than 9,800 offices in 77 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. HSBC offered a comprehensive range of financial services, including personal financial services; commercial banking; corporate, investment banking and markets and private banking.

The HSBC Group was named after The Hong Kong and Shanghai Banking Corporation Limited, which was established in 1865 to finance the growing trade between Europe, India and China. Thomas Sutherland, a Scot who was then working for the Peninsular and Oriental Steam Navigation Company, realized that there was considerable demand for local banking facilities in Hong Kong and China. He helped to establish the bank, which opened in Hong Kong in March 1865 and in Shanghai a month later.

Soon after its formation, the bank opened agencies and branches around the world. Although that network reached as far as Europe and North America, the emphasis was on building up representation in China and the rest of the Asia-Pacific region. HSBC was a pioneer of modern banking practices in a number of countries. In Japan, where a branch was established in 1866, the bank acted as adviser to the government on banking and currency. In 1888, it was the first bank to be established in Thailand, where it printed the country's first banknotes. By the end of the century, the bank was the foremost financial institution in Asia.

HSBC was positioned as a global bank that leveraged its local expertise to better serve its customers. In 1997, HSBC did not have an integrated or unified brand image. Rather, it was a collection of regional brands, including "HongkongBank" in the Asia-Pacific Region. In 1998, HSBC undertook a global branding strategy under the tag line "Your world of financial services," and began to prominently display the hexagonal logo as part of its branding approach.

In the second phase of its global branding campaign from 2001 to the present, HSBC has positioned itself as "The world's local bank" to emphasize the bank's global size and reach, and its understanding of and adaptation to host country markets and cultures. HSBC leveraged its expertise across 77 country markets to provide financial solutions backed by the highest ethical standards and supported by advanced information technologies.

HSBC'S CREDIT CARD BUSINESS

HSBC was a Visa/MasterCard issuer that targeted its diverse customer base with a variety of credit cards, and emphasized the best usage features and a reward program (see Exhibit 11). Credit cards were marketed to HSBC customers through direct mail and the retail branch network. HSBC also viewed its credit card accounts as an important customer acquisition tool, and used both television and print advertising throughout the year (see Exhibit 12).

HSBC used demographic information about customers' income and life stage to segment the market. Customers within each segment had to be qualified in terms of their credit rating, and would differ significantly in terms of their profitability, based on whether they were transactors or revolvers. Transactors were customers who used the card as a convenience or to build reward points, but would pay back their balance at the end of each month. Revolvers were customers who used a high percentage of their credit limit and carried a balance from month to month.

In order to target each segment appropriately, HSBC offered a wide variety of credit card types. Like most issuers, HSBC offered Classic, Gold and Platinum designations for different income levels. HSBC also offered specialized products, such as a Renminbi Gold or Classic Visa card, and a co-branded JCB Gold card that provided customers with personal assistance benefits as JCB Plazas and JCB Desks worldwide. HSBC also marketed the iCAN card, which offered double reward points for online purchases and cash rebates for reward points. It also provided a secure virtual card account for easier control and management of online spending.

HSBC also had partnerships with Hong Kong merchants on a range of retailer cards. Depending on the type of card held (i.e. Classic, Gold, Premier or Platinum) customers could apply for two or more retail cards. Each retail card would offer cardholders specific benefits, such as store discounts, complimentary parking, free delivery, pre-sale invitations and complimentary gift-wrapping services. HSBC partnered with prestigious retailers who had a strong customer base and their own loyalty program. The partnerships enabled HSBC to tap into the retailer's customer base and acquire new customers, as well as generate incremental spending from existing HSBC card holders.

MANAGING THE REWARDS PROGRAM

The rewards program was the responsibility of the marketing department, which controlled aspects of the program such as the types of reward partners, the number and types of rewards, and redemption levels. The effective operation of the program required support from Regional Card Systems (RCS), Group Purchasing Unit (GPU) and the Customer Service Department (CSD). Managers from these departments met with marketing personnel to generate ideas, identify potential problems and suggest solutions for current problems. The program was updated quarterly, and major changes occurred on a yearly basis.

RCS worked with marketing to implement enhancements and changes to the rewards program, such as the introduction of a new redemption partner or rewards feature. When such changes occurred, RCS worked with information technology (IT) to ensure that the change was integrated with customer service systems and other credit card-related systems, such as phone banking and the Internet. Finally, changes needed to be understood by retail banking personnel to ensure that program features and benefits could be explained to customers who visit HSBC branches.

GPU was responsible for the procurement of the redemption items. GPU confirmed the list of redemption items produced by Marketing. GPU also handled the contractual aspects of the transactions, such as actually signing the deal and securing fulfillment services from the outsourced party.

The CSD was responsible for many of the daily operational aspects of the program:

- Processing redemption orders received via fax, mail and branches. Orders received through Internet banking and telephone (automated phone banking) were automated.
- Fulfillment of redeemed coupon/gift items and mailing of redemption letters/coupons to customers.
- Monitoring and managing inventories of redemption items and coupons.
- Providing reports on program results such as redemption orders and rates.
- Working with redemption centre/hotline staff on special redemption cases handling.
- Monitoring call centre and redemption centre performance.

The important role of Customer Service in the day-to-day operation of the reward program was illustrated by an issue that arose in July 2004. Unexpected demand for a Samsung vacuum cleaner that was featured in July 2004 resulted in an out-of-stock position. Unfortunately, the supplier could not fulfill HSBC's back orders because it had ceased production of the item. Marketing sourced a similar vacuum from Sanyo as a replacement but it also quickly sold out, necessitating the use of a third brand of vacuum. With each stock-out and each replacement brand, CSD and Marketing worked together to contact affected customers to advise them of the changes. Some customers would not accept the replacement brands and canceled their orders.

PROGRAM EVOLUTION

1995 to 1996 — The Early Years

HSBC introduced its first point-based loyalty programs in 1994, in response to bonus-point programs introduced by Chase and American Express. The initial program enabled card holders to redeem points for a limited number of branded household products. Given that issuers were perceived to have uniform interest rates and fees, issuers used reward programs to differentiate their offerings.

In HSBC's initial program, cardholders earned bonus points by using their credit card for purchases. Bonus points were accumulated in the card account until expiry (ranging from one to three years), and could be used to redeem against a selection of items from the bonus-point catalogue. The first programs had high redemption thresholds targeted at high-end customer segments. As a result, gifts available were mostly branded merchandise and luxury goods. HSBC also offered cardholders the option of converting their bonus points into air miles on a select number of airlines. The reward program generated some excitement because of the novelty and significant levels of marketing support. However, early programs were restrictive in the sense that all points unspent after a two-year period would expire.

1997 to 1998 — The Downturn

Problems for the HSBC credit card program started to surface in mid-1997. Practical items, such as electrical appliances, were the most redeemed but often went out-of-stock because of supply issues. HSBC did not have guaranteed supply contracts with vendors. Also, some of the most popular redemption items became outdated and unattractively priced before the year-long program ended. In particular, prices of

consumer electronics often fell dramatically soon after the launch of a rewards catalogue because of short product life-cycles and fierce retail competition. HSBC customers faced long waiting periods for redemptions because the Operations Department (now called the CSD) was not sufficiently staffed to handle the increasing redemption volumes. Finally, competitors began offering cash vouchers and items with significantly lower redemption thresholds than HSBC. As a result, customer dissatisfaction and complaints, due to the bonus point program, increased.

HSBC management became disillusioned with the program because of the huge costs involved, and the difficulties associated with measuring program success. They also anticipated increased complaints because when customers' points all expired on the same date (Dec 31, 1997), the rewards program would be overloaded causing delays and stock-outs.

Withdrawal from the program was seriously considered because the rewards program was a visible source of customer dissatisfaction and complaints. Also, credit cards were seen as a limited growth area that was outside of HSBC's strategic focus. However, a decision was made at the end of 1997 to extend the validity of points for one more year to the end of 1998, to buy time to develop a longer term strategy. To eliminate stock-out problems, no new catalogue was issued in 1998. Instead, 10 reward items were offered for redemption of 50,000 points and more. Complaints started to pour in, as most customers found the choices limited and unattainable with the high point requirements. To rectify the situation, six more reward items from mass-appeal merchants (including a supermarket) were added to the program in August 1998, with minimum threshold lowered to 25,000 points. Operations were geared up to handle the expected surge in redemption volume upon point expiry towards the end of 1998. As a result, redemption orders could be processed with a reasonable lead time, minimizing customer complaints.

Nevertheless, the program remained uncompetitive because of the limited selection of rewards. A number of card issuers also started launching direct cash-rebate schemes and instant redemption systems. The latter was enabled by chip-based card technologies that recorded the bonus points earned on each card transaction. Bonus points could be converted into a cash credit to offset a card purchase when the chip interacted with point-of-sale (POS) terminals installed at participating merchants. By the beginning of 1999, customer perceptions of HSBC's rewards program dropped to rock bottom, with both the program and the HSBC credit card considered among the worst in the Hong Kong market.

1999 to 2001 — Recovery

Louisa and her management team recognized that a rewards program had become a "must-have" feature for both customer acquisition and retention in the Hong Kong market. It was particularly critical to execute the program properly given the limited budget assigned to HSBC's credit card portfolio. HSBC began aggressively expanding its market share through large-scale acquisition and usage campaigns in 1999. The goal was to improve the rewards program's competitiveness as well as customer satisfaction. Focus group research confirmed that rewards programs were a key driver of customer usage and loyalty. From 1999 to 2001, HSBC struggled to regain its position in the market.

New rewards catalogues were issued in 1999 and 2000. The 1999 catalogue carried 46 cash vouchers and a limited selection of merchandise, whereas the 2000 catalogue widened the range of merchandise. The cost per point, or funding ratio of the rewards, remained largely unchanged to meet cost containment objectives set by senior management. A new bonus point expiry logic was also introduced in 1999, whereby points were set to expire within the cardholder's card expiry month, eliminating processing bottlenecks caused by the fixed date expiry. The change minimized customer complaints due to long processing lead-time.

Focus group research in February and March 2000 indicated that perceptions of HSBC's program remained negative. "Unattractive rewards program" was one of the top reasons for not using the HSBC card. Most customers did not know what the program had to offer, and their impression of the program was strongly influenced by the program in 1998 when no catalogue was issued after the 1997 catalogue expired, and only 10 cash vouchers were offered for redemption.

Customers' perceptions gradually improved, as indicated by research in early 2001. Cardholders saw improvement in HSBC's catalogue but considered it no different from others in the market. Overall reaction to bonus-point catalogues in general was lukewarm, and most consumers claimed that they preferred direct cash rebates or instant cash back. A number of key players realized that the cost of the bonus point program created a burden on their bottom line, and started to cut back on the funding ratio to reduce costs. Some issuers also began mailing the catalogue only to select customers.

From 2002 to 2005 — Best-in-Town

A new program launched in 2002 featured a wide range of attainable, practical items with the aim of increasing appeal to the mass customer base. New features were introduced to enhance the richness and attractiveness of the program, including:

- Rewards Multiplier, which offered redemption discounts to cardholders based on the length of their relationship with HSBC
- Cash Multiplier, a cash-rebate scheme for cardholders who achieved a specified spending level
- Special of the Month items for redemption with 40 per cent discount on the points required to redeem the item
- PointShare, which allowed the pooling of points from friends and family to redeem higher value items
- Quarterly redemption boosters featuring new redemption items

Although not all new features in the 2002 program were equally well received, customer perceptions of the program showed significant improvement during the year. In April 2002, cardholders in Hong Kong rated HSBC's rewards program as the best in the market. Louisa and her group had achieved this rating with no increase in the cost to HSBC per reward point. In other words, customer perceptions were successfully changed without an actual reduction in the point requirements

In the two years that followed, the marketing team continued to identify ways to further enhance the program through ongoing monitoring and focus group research. An online redemption service was launched in 2003 to provide instant approval of redemption requests submitted via HSBC's website. This new service helped to boost redemption results by making it easier for customers to redeem their points. By the end 2004, more than 40 per cent of items were redeemed online. A second innovation was the ability to pay income taxes using the HSBC credit card. The feature not only enabled HSBC customers to delay their payment for the grace period of the credit card, but they also generated reward points for doing so.

The program was supported with a television advertising campaign that began in early 2003. A 'Best-in-Town' proposition was used, based on quantitative research that identified HSBC as the category leader.

The Future

Louisa thought that the competitive scene, both in terms of loyalty programs and the market overall, would intensify in several key areas. First, issuers were increasingly focused on gaining a larger share of receivables rather than on acquiring new customers. Current loyalty programs typically did not affect the level of debt held by customers, but rather affected the number of transactions that were made using the card; typically, customers would substitute the use of their credit card for cash, cheques or debit cards. It was expected that competition would increase for customers who maintained a balance (i.e. revolvers) rather than paying off their card completely each month.

Second, loyalty programs were becoming a very significant cost for all issuers because of larger numbers of redemption items and bigger rewards for a given level of spending. Many issuers had cut back substantially on the level of advertising in 2004, apparently to reduce costs (see Exhibit 14). Some issuers were cutting costs by simplifying their catalogues or by replacing them with leaflets. Despite the fact that few cardholders kept and used the catalogues that had been mailed to them, recent focus group research indicated that catalogue design was an important determinant of a reward program's appeal. Louisa thought that issuers would be forced to move away from labor-intensive catalogue-based programs toward cash-based programs in the form of either instant point-redemption at participating merchants' outlets or a direct cash credit into the card account. Citibank had just launched a Cash-Back Visa card offering direct cash rebates on spending. With the impending migration of credit cards from magnetic stripes to chips, it was possible that instant redemption programs would, at some point, become the norm in the market. Louisa wondered if there would come a time when instant rebates would completely replace redemption catalogues and what the implications would be for HSBC's business. Could HSBC introduce redemption service fees or enrolment fees to cover part of the cost?

A third concern was that loyalty programs were becoming a standard feature for every credit card. With all major issuers offering a rewards program, consumers were becoming less excited about the feature. Also, the rewards programs themselves were becoming extremely complex and difficult to understand (see Exhibit 13 for a comparison of the rewards programs for the major competitors). Louisa wondered if HSBC would be able to maintain its current success given the current reliance on the reward program as a differentiator. Currently, major issuers were stepping up their use of promotional gifts and sweepstakes to acquire customers. American Express, for example, was giving new cardholders an "elegant 16-piece porcelain tableware set" if they spent more than HK\$2,000 during the first two months of card issuance. Louisa was concerned that issuers were becoming overly reliant on promotions to stimulate customer acquisitions and spending.

Louisa's objective was to maintain HSBC's leadership position in terms of both market share and customer perceptions. She also wanted to increase the balances of revolvers who were good credit risks. She believed that the rewards program would be instrumental in achieving these objectives. The challenge was to develop a strategy that did not significantly increase her marketing costs.

Exhibit 1

**HSBC CREDIT CARD PERFORMANCE IN HONG KONG
1999 to 2004
(as percentage change from previous year)**

	Year-on-Year Change					
	1999	2000	2001	2002	2003	2004
Total annual cardholder purchase	2	32	21	21	36	32
Average cards in circulation	2	25	34	7	3	5
Average annual purchase per card	0	6	(10)	12	31	26
Attrition rate *	0.3	(3.4)	2.4	(4.4)	(3.1)	0.1
No. of redemptions **	(51)	36	182	87	120	13

Note:

* Represents change in percentage points.

** Points were reset in December 1998, after which points expire on a two-year rolling basis according to card expiry month.

Source: Company files.

Exhibit 2

**HONG KONG CREDIT CARD MARKET STATISTICS
(1998 to 2004)**

	1998	1999	2000	2001	2002	2003	2004
Number of transactions (millions)	105.4	126.5	170.9	206.8	219.2	223.6	
Transaction value (HK\$ millions)	101,003	114,132	141,917	163,204	168,100	169,781	
Number of cards in circulation (millions)	6.8	7.9	9.5	11.4	11.3	11.3	12.0 (Visa and MasterCard Only)
Number of accounts (millions)	4.1	4.8	5.9	7.2	7.1	7.2	10.9 (Visa and MasterCard Only)

Source: Euromonitor and HSBC for 2004.

Exhibit 3

**NUMBER OF TRANSACTIONS
PERSONAL CREDIT CARDS IN HONG KONG
(2001 to 2003)**

	2001		2002		2003	
	(millions)	% Share	(millions)	% Share	(millions)	% Share
HSBC	46.8	24.4%	49.1	24.2%	50.0	24.1%
Hang Seng Bank Ltd.	23.7	12.4%	28.1	13.8%	33.9	16.4%
Standard Chartered Bank Ltd.	30.3	15.8%	31.7	15.6%	31.7	15.3%
Bank of China	26.2	13.7%	30.2	14.9%	30.6	14.8%
Citibank NA	21.7	11.3%	23.3	11.5%	24.1	11.6%
Bank of East Asia	14.2	7.4%	13.8	6.8%	12.1	5.8%
DBS Bank (Hong Kong)	12.8	6.7%	12.0	5.9%	10.2	4.9%
Others	16.2	8.4%	15.0	7.4%	14.7	7.1%
Total	191.9	100.0%	203.2	100.0%	207.3	100.0%

Source: Euromonitor

Exhibit 4

**VALUE OF TRANSACTIONS
Personal Credit Cards in Hong Kong
(2001 to 2003)**

	2001		2002		2003	
	(HK\$ millions)	% Share	(HK\$ millions)	% Share	(HK\$ millions)	% Share
HSBC	28,458	21.5%	29,865	21.9%	30,272	21.9%
Hang Seng Bank Ltd.	23,543	17.7%	24,612	18.0%	24,569	17.8%
Standard Chartered Bank Ltd.	13,654	10.3%	16,355	12.0%	19,430	14.1%
Bank of China	17,341	13.1%	18,604	13.6%	19,188	13.9%
Citibank NA	15,336	11.6%	17,662	12.9%	17,819	12.9%
Bank of East Asia	11,383	8.6%	10,611	7.8%	9,014	6.5%
DBS Bank (Hong Kong)	7,007	5.3%	6,786	5.0%	5,956	4.3%
Others	15,939	12.0%	12,185	8.9%	11,714	8.5%
Total	132,661	100.0%	136,680	100.0%	137,962	100.0%

Source: Euromonitor

Exhibit 5**MAJOR COMPETITORS****American Express**

American Express Company was a global travel, financial and network services provider. The Travel Related Services (TRS) division included the Company's card, travel, merchant and network businesses, as well as the Travelers Cheque and other prepaid products and services. TRS's global network services business focused on partnering with third-party financial institutions that issued American Express-branded cards accepted on the Company's merchant network. American Express operations in Hong Kong had traditionally focused on charge cards, but was gradually expanding toward credit cards. American Express had few branches in the area.

Bank of China

Established on October 1, 2001, Bank of China (Hong Kong) Limited (referred to as Bank of China [Hong Kong] or BOCHK) was a locally incorporated licensed bank. Bank of China (Hong Kong) had approximately 300 branches, more than 400 ATMs and other delivery channels in Hong Kong. BOCHK offered a comprehensive range of financial products and services to retail and corporate customers.

Citibank

Citibank (Hong Kong) was part of the global consumer group of Citigroup, and offered a wide variety of services including corporate banking, consumer banking, private banking, investment banking and asset management. Citibank offered its services in more than 3,000 locations in 98 countries and territories throughout the world. Citicorp's consumer business operated full-service consumer franchise including branch and electronic banking, credit and charge cards and private banking, with a focus on providing total wealth management services for the middle to affluent segment.

DBS

DBS was the largest bank in Singapore and the fifth largest banking group in Hong Kong, measured by assets. DBS was involved in consumer banking, treasury and markets, asset management, securities brokerage, equity and debt fund raising. DBS was a strong regional competitor, which serves corporate, institutional and retail customers through its operations in China, India and the Asia Pacific region. After the acquisition of Kwong On Bank, a small local player, in December 1998, DBS had grown rapidly in the retail banking business in Hong Kong over the past five years, with increasing market share and expanding branch network.

Hang Seng Bank Limited

Hang Seng Bank was a subsidiary of HSBC, though it operated as a direct competitor. Hang Seng offered a full range of personal financial services, as well as commercial banking, corporate and institutional banking and treasury services. With its head office in Hong Kong, Hang Seng Bank was the second largest bank in terms of market capitalization, with 150 branches and automated banking centres. It was very strong in the over-50 market, but lagged significantly in the growing 25 to 35 age category. To overcome this problem, Hang Seng Bank was focusing on online banking.

Exhibit 5 (continued)**Standard Chartered Bank**

Founded in 1859, Standard Chartered had a long history in Hong Kong. It had a global operations that provided banking and other financial services from more than 500 offices in more than 50 countries. Standard Chartered emphasized growth markets, such as Hong Kong, as well as emerging economies in the Middle East, Africa, and the Asia\Pacific region. Much of its growth was through acquisitions, such as the purchase of Grindlays in the Middle East and South Asia and the associated Grindlays Private Banking business in 2000 for US\$1.34 billion from the Australia and New Zealand Banking Group Limited. In November 2000, Standard Chartered acquired Chase Manhattan Card Company Limited and the Hong Kong-based retail banking business of The Chase Manhattan Bank for US\$1.32 billion. The deal gave Standard Chartered the rights to the Manhattan brand, which had strong equity with Hong Kong's young professional market.

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Exhibit 6

SUMMARY OF CREDIT CARD COMPETITIVE STRATEGIES

Card Issuer	Tag Line	Positioning	Target Market	Distribution	Advertising & Promotion
HSBC	"The very best for you"	A global credit card that brings you the best value in town (usage and rewards programmes)	Mid- to upper-income segment (with different products targeting different segments)	<ul style="list-style-type: none"> - Branch network - Direct mail to internal base cross-selling) 	Continuous promotions year round supported by integrated advertising
American Express		Lifestyle credit card with a travel and entertainment focus.	Mid- to upper-income segment	<ul style="list-style-type: none"> - Direct selling through roadshows - Direct response advertising with direct mail support - Direct mail to external base 	Primarily below-the-line; above-the-line mainly using print
Bank of China (BOC)	"Imagine...Your Life in a New Perspective"	Mass product with no clear positioning	Grassroot/Mass-market	<ul style="list-style-type: none"> - Branch network - Direct mail to internal base (cross-selling) 	Continuous promotions year round supported by integrated advertising (mainly small campaigns)
Citibank (Citi)	"Citibank Credit Card – A Moment For Yourself"	Relationship product providing quality service	Mid- to upper-income segment	<ul style="list-style-type: none"> - Direct selling through roadshows - Branch network (small) - Direct mail to external/internal base 	Primarily below-the-line; above-the-line mainly using print except for new product launch
DBS		Mass product offering value for money	Mass (price-sensitive, pragmatic)	<ul style="list-style-type: none"> - Direct selling through roadshows - Branch network (medium) - Direct mail to external/internal base 	Occasional large scale advertising campaigns (both acquisition and usage)
Hang Seng Bank (HASE)	"Excel, exceed"	Mass product with comprehensive offerings (follower of HSBC)	Mass (skewed towards younger, more affluent consumers)	<ul style="list-style-type: none"> - Direct selling through roadshows - Branch network (small) - Direct mail to external/internal base 	Continuous promotions year round supported by integrated advertising
Manhattan	Classic – "The World of Exclusive Benefits", Gold – "The Ultimate Gold", Platinum – "Quintessence of Privileges"	Lifestyle credit card with focus on shopping and dining	Young people who want to enjoy life and stay on top of things	<ul style="list-style-type: none"> - Direct selling through roadshows - Direct response advertising (print/radio) with direct mail support - Branch network (medium) - Direct mail to external/internal base 	Large-scale advertising campaigns during spending season (focusing on usage); radio and below-the-line during the rest of the year
Standard Chartered (SCB)	"I believe choices add colours to life"	Mass product with no clear positioning	Mass	<ul style="list-style-type: none"> - Direct selling through roadshows - Branch network (medium) - Direct mail to internal base (cross-selling) 	Few promotions and little advertising

Exhibit 7

FAMILIARITY WITH KEY CREDIT CARD ISSUERS

Base: All cardholders (N=2,139)

	Apr 2003 (N=2,048)					Familiar %	Apr 2004 (N=2,048)					Familiar %
	DK	OK	A	QF	VF		DK	OK	A	QF	VF	
HSBC		15	37	30	18	85		9	43	30	18	91
HASE	1	24	47	17	11	75	20	44	25	11	80	
SCB	1	46	33	15	5	53	1	44	40	10	5	55
CITI	5	53	25	14	3	43	7	54	23	13	3	39
DBS	3	59	30	9	2	38	4	56	24	12	4	40

Legend:

- Don't know that it issues credit cards (DK)
- Only know that it issues credit cards (OK)
- Average (A)
- Quite familiar (QF)
- Very familiar (VF)

Source: Company files (data disguised).

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Exhibit 8

PERCEPTION OF "OVERALL OFFERS GOOD VALUE"

Base: All cardholders (N=2,139)

Top 2 boxes (Strongly agree/Agree)

	Sep 2001 %	Apr 2002 %	Nov 2002 %	Apr 2003 %	Apr 2004 %
HSBC	34	36↑	50↑	52	58↑ (52)
HASE	31↓	35	49↑	49	56↑ (47)
SCB	27	28	31↑	34	36 (29)
CITI	28↓	33↑	33	35	31 (31)
DBS	NA	NA	25	28	30↑ (26)

Note:

¹ Excludes "Refused/Don't know" and those who are not aware of the respective card issuers.

↑ Indicates a significant increase compared to the previous year.

Source: Company files (data disguised)

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Exhibit 9

PERCEIVED "BEST REWARDS PROGRAM"

Base: All cardholders (N=2,139)

Best Rewards Program

	Apr 2003 %	Apr 2004 %
HSBC	29	36 ↑
HASE	16	18
DBS	6	5
SCB	6	4 ↓
CITI	4	4
BOC	3	4
Others	10	2 ↓
None	11	10 ↓
Don't Know	18	20

Source: Company files (data disguised).

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Exhibit 10

RELATIVE IMPORTANCE OF ATTRIBUTES IN INFLUENCING OVERALL IMPRESSION OF KEY CREDIT CARD ISSUERS

Base: All cardholders¹

	Overall Market (Based on 5 major card issuers)	Overall Impression of HSBC
<p>Higher Importance</p>  <p>Lower Importance</p>	<ul style="list-style-type: none"> • Good service • Welcomed locally • Attractive and exclusive benefits • Attractive rewards/bonus points program • Innovative functions/benefits/promotions • Prestigious • Generous credit limits • Competitive interest rates • Suitable for young people • Widely recognized globally • Well-designed & good looking 	<ul style="list-style-type: none"> • Good service • Attractive rewards/bonus points program • Welcomed locally • Attractive and exclusive benefits • Innovative functions/benefits/promotions • Generous credit limits • Prestigious • Competitive interest rates • Widely recognized globally • Suitable for young people • Well-designed & good looking

Note: ¹ Excludes "Refused/Don't know" and those who are not aware of the respective card issuers. The relative importance of the attributes is derived by correlation between overall impression and individual attributes.

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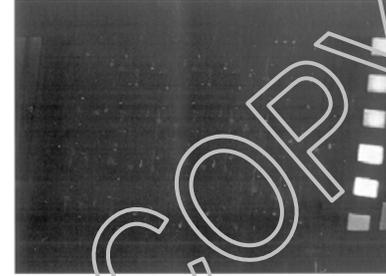
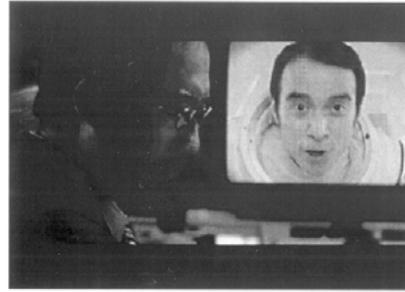
Exhibit 11

HSBC PRODUCT LINE
(2005)

Products	Product Name	Features
Generic Cards	<ul style="list-style-type: none"> - Classic Visa/MasterCard card - Gold Visa/MasterCard card - JCB Gold card - HSBC Premier MasterCard card (credit card under total wealth management proposition) - Platinum Visa card - iCAN card (with virtual account targeting young segment) - Renminbi Gold/Classic Visa card 	<ul style="list-style-type: none"> - 56-day interest-free repayment period (45-day for Platinum) - Global cash access through the Visa/MasterCard network - Hertz rental discount - Bonus Points / Mileage Programme - Lost card protection (against fraudulent charges) - 24-hour customer service
Co-branded/Affinity Cards	United Mileage Plus Visa Gold card	<ul style="list-style-type: none"> - Basic Gold card features - Bonus Points are automatically converted to UA miles
Private Label Cards	<ul style="list-style-type: none"> - Lane Crawford card (high-end department store) - le Saunda card (shoes chain) - city'super card (Japanese grocery store) - CODE card (fashion group under the brand of Antepima) - Dickson card (lifestyle brands managed under the Dickson Group, including Seibu) - Morning Star Traveller Plus card (local travel agency) 	<ul style="list-style-type: none"> - Special discount/privileges on purchases

Exhibit 12

TELEVISION COMMERCIAL (AUGUST 2004)



V/O: 報告總部,
V/O: Over...Over!

V/O: 我哋發現好多香港人心跳加速。
The heart beats of many Hong Kong people are getting quicker and quicker..

因為人人都趕住去換,
... because they are rushing to redeem their prizes provided by...



「獎賞天地」嘅禮品。
... the Rewards points programme.



滙豐信用卡獎賞計劃 全城最受歡迎
HSBC credit card Reward points programme is the most popular in town.

Super 滙豐信用卡獎賞計劃 全城No. 1
簽賬越多 獎賞越多
Super: The No. 1 Reward points programme in town. Spend more and get more rewards.



Super: 滙豐 環球金融 地方智慧
Super: HSBC The world's local bank

Source: Company files.

Exhibit 13

REWARDS PROGRAM COMPARISON

Card Issuer	Points Calculation and Expiry	Fee Waiver	Cash Credit	Number of Rewards	Traveler Program	Insurance Program	Reward Value / Spend Ratio		
							Minimum Redemption Threshold	Fee Waiver	Cash Coupon (HK\$100 Supermarket voucher)
HSBC	HK\$1=1 point (Rolling for every two years according to card expiration date, three years for HP)	Classic: (\$220): 40,000 pts Gold: (\$480): 80,000 pts Platinum: (\$1,000): 150,000 pts	Yes 27,000 pts = HK\$100	213	3 Frequent Flyer Programs - Asia Mile : 12pts = 1mile - United : 12pts = 1mile (will be terminated in Jun 05) - Kris Flyer : 12prs = 1mile	HSBC Insurance Travel Insurance 1-5 Days Single Trip Travel Insurance (Area 1) Points: 24,000pts Points+Cash: HK\$78 + 5,000pts 6-8 Days Single Trip Travel Insurance (Area 1) Points: 27,000pts Points+Cash: HK\$88 + 5,000pts 1-14 Days Single Trip Travel Insu	Points 500 points = \$50 Kee Wah Bakery Discount Voucher (With purchase of HK\$200 above) Points + Cash 20,000 points + HK\$120 = Moulinex Exotic steamer AMA3	0.55% for classic 0.6% for gold 0.66% for Platinum	0.4% (Parknshop) 25,000 points
American Express [1]	HK\$1=1 point (No Expiry Date) HK\$1=3 points for Triple Plus members (enrolment fee: \$240p.a.)	NIL	Yes 35,000 pts = USD20 Travelers Cheque	234	7 Frequent Flyer Programs - Asia Miles 12pts = 1mile - KrisFlyer 12pts = 1mile - Enrich 12pts = 1mile - Royal Orchid 12pts = 1mile - Dynasty Flyer Program 12pts = 1mile - Virgin Flyer Club 12pts = 1mile - Mabuhay Miles 12pts = 1mile 3 Hotel Programs - Pr	1-5 Days Single Trip Travel Insurance (Area 1)	Points 3,000 pts = American Express Coffee Mug (Online Exclusive) Points + Cash 5,000 pts + \$2,660 = ANA Return Ticket to Tokyo/Osaka - Econ	NIL	0.37% (Parknshop/Welcme) Points: 27,000 points
Bank of China	HK\$1 = 1 point (15 month validity; card expiry date; transferable btw Principal and Supplementary cards)	Classic: (\$220) : 20,000 Gold: (\$550) : 40,000	NIL	71	4 Frequent Flyer Programs - Asia Miles : 12pts = 1mile - Air China Companion : 8pts = 1mile - Golden Swallow Club : 12 pts = 1 mile - Sky Pearl Club : 8pts = 1 mile	Points: 24,000pts	Points 5,000 pts = Mc Donald's / KFC \$20 Coupon Points + Cash 3000pts + \$65 = Fitted Sheet Set	1.1% for Classic 1.375% for Gold	0.5% (ParkNshop/Welcme) Points: 20,000 points
Citibank	HK\$1 = 1 point (rolling for every two years & cut off in January) Catalog has to be picked up at the redemption center	50% Fee Waiver Classic: (\$250) : 18,000 pts Gold: (\$550) : 46,000 pts Platinum: (\$1,200) : 125,000 pts 100% Fee Waiver Classic: (\$220) : 37,000 pts Gold: (\$550) : 92,000 pts Platinum: (\$1,500) : 250,000 pts	NIL	111	4 Frequent Flyer Programs - Asia Miles : 12pts = 1mile - Royal Orchid Mileage : 13pts = 1mile - WorldPerks Mileage : 13pts = 1mile - KrisFlyer : 12 pts = 1mile 1 Hotel Program - Priority Club Worldwide : 6pts = 1pt (Handling fee applies - \$50 for every 5	Points+Cash: HK\$78 + 5,000pts	Points 15,000points = Baby Clips / Slim Radio /AMC Movie Ticket 10,000points= Chinese Typing Software (Online redemption only)	0.59% for classic 0.60% for gold 0.60% for platinum	0.4% (Wellcome) Points: 25,000 points

Exhibit 13 (continued)

Card Issuer	Points Calculation and Expiry	Fee Waiver	Cash Credit	Number of Rewards	Traveler Program	Insurance Program	Reward Value / Spend Ratio		
							Minimum Redemption Threshold	Fee Waiver	Cash Coupon (HK\$100 Supermarket voucher)
DBS	HK\$1 = 1 point (1 year validity; card expiry date) HK\$1 = 2 points for overseas spending (Generic cards) HK\$1 = 3 points for overseas spending (Platinum cards, no expiry date for points)	50% Fee Waiver Classic: (\$250): 14,000 pts Gold: (\$550): 31,000 pts Platinum: (\$1,200): 37,000 pts 100% Fee Waiver Classic: (\$250): 28,000 pts Gold: (\$550): 61,000 pts Platinum: (\$1,200): 133,000 pts	NIL	10	3 Frequent Flyer Programs - Krisflyer : 12pts = 1mile - Asia Mile : 12pts = 1mile - Eastern Mile: 8pts = 1 mile (Handling fee applies - \$100 for each redemption)	Aviva - Home Insurance - Domestic Helper Insurance - Travel Insurance - 1-5 day travel insurance Points: 20,000pts	Points 20,000 points = 1 to 5 days Travel Insurance	0.89% for classic 0.9% for gold 0.9% for platinum	0.43% (Parknshop) Points: 23,000 points
Hang Seng Bank	Cash Dollar HK\$250 = \$1 Cash Dollar (Valid for 15 Months) Fee Waiver HK\$1 = 1 Fee Waiver Point (1 Year ; card expiry date) Travel Miles \$1 Cash Dollar = 20 Travel Miles(HSB) (Valid for 36 Months)	HK\$1 = 1 pt Separate Program as Cash Dollars 50% Fee Waiver - Classic (HK\$240) - 10,000pts - Gold (HK\$540) - 20,000pts 100% Fee Waiver - Classic (HK\$240) - 20,000pts - Gold (HK\$540) - 40,000pts	Yes \$1 Cash Dollar = HK\$1 (Only at 700 Selected Merchants)	94	NIL	NIL	Cash Dollars \$34 Cash Dollars (i.e. 8,500 pts)= Osim Eye Mask	1.2% for Classic 1.35% for Gold	0.4% \$100 Cash Dollars = 2 X HK\$50 Wellcome/ParkNS hop Coupon
Manhattan	HK\$1 = 1 point (2 year validity for generic and gold card, 3 years for Platinum; points expired on card expiry day) HK\$1 = 2 points for overseas spending (Platinum, gold cards)	NIL	Yes 36,000 points = HK\$100 20,000 points = HK\$100 (For Platinum/Gold Card)	90	NIL	NIL	Points 500 points - Sorabol Korean restaurant \$100 discount voucher upon spending of \$200 or above	--	0.4% (Parknshop) Points: 25,000 points
Standard Chartered	HK\$1 = 1 point HK\$1 = 2 points (For Options Smart card at partnered merchants) (3 year validity; co-branded cards - 1 year validity; points expired on card expiry day)	50% Fee Waiver Classic: (\$250): 20,000 pts Gold: (\$550): 50,000 pts Platinum: (\$1,800): 163,500 pts 100% Fee Waiver Classic: (\$250): 40,000 pts Gold: (\$550): 100,000 pts Platinum: (\$1,800): 327,000 pts	Yes 200 points = HK\$1 (Esprit & Options Smart Merchants)	97	1 Frequent Flyer Programs - Asia Miles 12,000pts = 1,000miles (Handling fee applies: \$50 for every 5,000 miles conversion ; min. charges=HK\$50, max. charge=HK\$300)	NIL	Points - 500 points = Hipo Fant / Kee Wah / Mexx / Timberland Conditional Coupon - 6,000 points = Winnie the pooh glass bowl with lid Cash + points \$15 + 2,000 = Small Winnie the pooh Glass bowl	0.625% for Classic 0.55% for Gold & Platinum	0.4% (Wellcome) Points: 25,000 points

Exhibit 14

SHARE OF VOICE TREND BY KEY CREDIT CARDS

2002			2003		03 vs 02	2004		04 vs 03
Brand	\$'000	%	\$'000	%	Variance %	\$'000	%	Variance %
HSBC	55,020	15.0	63,311	14.0	+15	63,727	14.0	+0.5
BOC	23,286	6.0	39,018	9.0	+68	59,194	13.0	+52.0
Hang Seng	52,435	14.0	58,105	12.0	+11	42,658	10.0	-27.0
DBS/Compass	1,368	0.4	33,380	7.0	+2,340	42,192	10.0	+%
Citibank	10,674	3.0	23,912	5.0	+124	28,507	6.0	+19.0
Manhattan	19,368	5.0	39,924	9.0	+106	27,448	6.0	-31.0
SCB	6,128	3.0	41,450	9.0	+576	15,107	3.0	-64.0
Compass	-	-	15,257	%	-	12,399	3.0	-19.0
Others	194,151	53.6	162,889	35.0	-16	119,642	38.0	-30.0
Total ('000)	362,430	100.0	461,989	100.0	+27	447,981	100.0	-3.0

Notes: Figures are based on estimated actualization
Remarks: Top 10 based on 2004 spending

Source: AC Nielsen Adquest