Elite Credit-Card Fight

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JPMorgan Chase is taking aim at American Express' credit card via new offerings aimed at Amex's high-end holders. A look at the duel and what's being included in the cards.

JPMorgan Chase badly wants to cut up American Express' credit card and is attempting to do so by rolling out its own series of attractive cards squarely aimed at AmEx's well-traveled and bejeweled customers. American Express has dominated the top end of the card market for decades, and JPMorgan Chase has a long way to go. But still, folks are sitting up and taking note.

"JPMorgan set out to challenge American Express and take some market share, and it no doubt is further along than other banks," says David Robertson, the publisher of the Nilson Report, a newsletter that follows the credit-card industry. "JPMorgan is putting some distance between itself and other Visa and MasterCard issuers, but gaining share from American Express is a taller order."

Not impossible, however. JPMorgan hired Gordon Smith, formerly a top AmEx executive, in 2007. He promptly moved to simplify the bank's card offerings while going after high-end consumers. Banks issuing credit cards used to make the bulk of their money on credit-lending and related charges, like late fees, but the recession cut sharply into lending activity with card borrowing down more than 15% from the 2008 peak. Tougher federal consumer-protection laws have also eaten into lending profitability.

Which is why much of the credit-card industry, not just JPMorgan, is increasingly focused on the high-rolling consumers who traditionally use American Express charge cards that require balances be paid in full each month. The key here is that JPMorgan, unlike Citigroup and Bank of America, wasn't hammered during the financial crisis, and it pressed its advantage during the downturn.

"Our strategy is broader than American Express," says JPMorgan's Smith. "We have a terrific set of products and unmatched distribution in our 5,500 branches and the best set of cobranded partners anywhere in the industry. We're in a good position to compete in the affluent space."

"JPMorgan has been copying our playbook for years," counters Steve Selwood, AmEx's VP of loyalty and innovation. "They have a long way to go to attract the affluent, spend-centric consumers that we have. American Express has the best products in the marketplace."

JPMorgan's strategy is to go after AmEx on several fronts. In recent years, it has rolled out Visa and MasterCard cards, including Chase Sapphire and Sapphire Preferred, squarely taking on AmEx's Gold Card. The JPMorgan Palladium Visa card, meanwhile, is made of pricey palladium and 23-carat gold and is offered to the bank's elite private-banking customers. That card is getting up in the face of both AmEx's Platinum Card and the hyper-exclusive Centurion, better known as the Black Card.

All this competition is welcome news for consumers. JPMorgan has, for example, cobranded cards with upscale hotel chains like Ritz-Carlton, while it offers possibly the best airline-rewards card anywhere. The Continental Airlines Presidential Plus World MasterCard provides free airport-lounge access for both Continental and United—a perk no longer available to AmEx cardholders. To this, add a sweet $120 credit on bag-check fees for each round-trip ticket purchased with the card, for both the cardholder and a companion. In short, the card that costs $395 a year can quickly pay for itself with avoided bag-check fees in the hands of a regular flier.

It gets better. JPMorgan has no annoying foreign-exchange translation fees on its high-end cards—slap-on charges that have long been an irritant for travelling AmEx cardholders. Since JPMorgan's offerings are credit cards, holders can roll over charges and pay them off at will, unlike AmEx's usual monthly demand for payment in full. That's a nice option to have, even for those who don't need it.

The JPMorgan Select Visa card, meanwhile, has a special chip, common in Europe, which adds extra security. So no surprise that several Wall Street executives laud the JPMorgan cards, with one telling Penta he's most impressed by the concierge and airport-lounge services. Like all things in the modern world, it can be confusing to sort out the various card-benefit programs. To help readers compare the various perks, we've compiled the table below.

American Express responded to the JPMorgan challenge last year by enhancing key features on its $450-a-year Platinum Card, one of the most popular cards among the well-heeled. Platinum now offers a $200 annual credit for bag-check and other fees at the airline of the cardholder's choice, for example, while also eliminating forex-translation fees. In addition, it provides a $100 rebate for the cost of the U.S. Customs' Global Entry program; that feature allows travelers who pose no security risks to speed through airport customs lines. AmEx claims these sweetened benefits contributed to a 76% rise in new Platinum accounts in the first 10 months of 2011 and a 64% increase in upgrades to Platinum from other AmEx cards.

Both American Express and JPMorgan have gained market share in credit-card sales volume since 2007 at the expense of the other industry giants, Citigroup and Bank of America. American Express is coming off a record year for profitability in 2011, as customers' spending volume gained 15%. The bulk of AmEx's revenue comes from the 2%-plus "discount" fee that it charges merchants when cardholders make purchases. JPMorgan's credit-card division had a 58% rise in profit last year. Banks offering credit cards get a more modest interchange fee, close to 1%, but JPMorgan CEO Jamie Dimon has said the bank's card profits are "way up," driven by an increased share of spending volume.

However, JPMorgan faces the long-term challenge of taking the nonexclusive brands Visa and MasterCard and making them special. Besides rolling out its Ultimate Rewards program in 2009, similar to AmEx's Membership Rewards program, the bank improved customer service, including connecting high-end cardholders with a live person for phone inquiries. A built-in advantage: Visa and MasterCard are more widely accepted than American Express, especially overseas.

"Ultimately, no Visa or MasterCard issuer has been able to match American Express' customer service," says the Nilson Report's Robertson. "That's where JPMorgan will have to deliver. On the front end, you have to provide the product and the sizzle, and on the back-end, delivery of customer service. That's not glamorous but it's how you retain customers. It's how you separate a prestige product from an also-ran." Robertson further points out that well-trained customer-service representatives are expensive to get up to speed and retain, and in a downturn banks are tempted to slash this "cost center."

The battle of the cards is intense at the top. JPMorgan Palladium Visa offers world-wide airport-lounge access for the holder and a guest, plus an array of travel and personalized services. It also features a laser-engraved signature of the holder and makes an impact when clanged down on a restaurant table. (The metal in the card alone could be worth the annual fee of $595; plastic is available to customers who want to travel light.)

AmEx's Centurion card, made of titanium, remains the most exclusive, with membership believed to number in the thousands, a fraction of AmEx's 97 million cardholders. Costs are also in another league. New cardholders pay an initiation fee of $7,500 and a $2,500 annual fee. AmEx cardholders need to request a Centurion or be invited to upgrade, but few make the cut. Word is aspirants must charge at least $250,000 annually. Built to impress, some celebrities are known to wave it about. The Website Blackcardsource.com lists more than 30 "known'' cardholders, including Beyoncé Knowles, Britney Spears, Lindsay Lohan, Denzel Washington and Jessica Simpson.

AmEx acts coy when asked about the Centurion's benefits, but they're believed to include upgrades at hotels, as well as elite status in hotel frequent-guest programs and certain rental-car companies. "It opens doors," claims AmEx's Selwood. We suspect Denzel Washington's star power can open doors effortlessly, but for the mere rich, AmEx offers Centurion and Platinum holders access to over 150 special "events" during the year (which they must pay extra for, of course).

AmEx got a few tables at the polo charity event in Santa Barbara, Calif., last summer, attended by Britain's Prince William and his new wife, Catherine. Most American commoners couldn't get past the royal scrum, but Centurion holders filled the AmEx tables at the coveted affair.

At other shindigs, there is usually enough room for Platinum cardholders and, occasionally, Gold cardholders. Centurion customers recently got an opportunity to buy a Grammy package with a backstage tour of the awards show, rehearsal access, tickets to the televised event and invitations to the official after-party. Membership, as AmEx says, does have its privileges.

Rewards programs are another big draw at the top of the market. Both JPMorgan and American Express offer double points and other benefits for certain purchases. The wealthy may not clip coupons, but they do like to collect their points and miles for airline tickets, hotel stays, gift cards and other goodies. "The level of customer knowledge of the program is incredible" says Eileen Serra, president of the high-net-worth business unit at Chase Card Services. "The more points people have, the more they want."

AmEx says it has seen minimal impact from the loss of its United Continental relationship last fall, which cut off access to the combined airline's lounges for AmEx cardholders and complicated the use of AmEx Membership Reward points to purchase the airlines' tickets. (It still offers access to other airline lounges.) We're not sure AmEx got off so lightly in this skirmish.

Lounges are a big deal for frequent travelers. They are a refuge from airport crowds—during layovers or flight delays—and some key airports, like Newark and San Francisco, are dominated by United and Continental airlines. AmEx cardholders are now reduced to buying access to Continental/United lounges directly from the airlines for $475 a year, if they want it.

So no surprise some former Platinum holders tell Barron's they have switched to the Chase Continental card because they travel frequently from Newark and want free lounge access. AmEx is willing to bend a bit to retain cardholders. A CEO of one New York financial company got, for example, a one-time reduction in his annual Platinum fee to $75 from $450 after he threatened to cancel his card.

How this will end, no one knows for sure. What we do know is that the raging card wars may continue for the foreseeable future—and that's nothing but good news for America's goody-buying elite.