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# Visa, Inc. (V)

Sanford C. Bernstein & Co. Strategic Decision Conference

## CORPORATE PARTICIPANTS

Alfred F. Kelly  
*Chief Executive Officer & Director, Visa, Inc.*

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## OTHER PARTICIPANTS

Lisa Dejong Ellis  
*Analyst, Sanford C. Bernstein & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

Lisa Dejong Ellis  
*Analyst, Sanford C. Bernstein & Co. LLC*

All right. Good morning. Welcome and thanks for joining us this morning, bright and early. I'm Lisa Ellis, Bernstein's senior analyst covering payments and IT services for Bernstein. And I'm very delighted to be joined today by Al Kelly, the CEO of Visa.

I'm keeping with the conference theme. The focus of our fireside chat will be on Visa's strategic opportunities and challenges. As always, questions from the audience are welcome, write them on the cards that are on your chairs and hand them to one of the ushers who will pass them forward to me.

## QUESTION AND ANSWER SECTION

Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So, let's open up. Al, welcome. Thanks for joining us.

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

Thank you.

Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Today happens to mark exactly your six months anniversary as CEO of Visa. And I know you've spent much of the last six months on the road meeting with customers, partners, and employees. So, based on what you've learned over the last six months, what are the three or four areas that you personally are going to focus on?

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

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Well, first of all, it's great to be with you, Lisa. Thank you and thank you to everybody for being here. It has been a bit of a whirlwind although, in many ways, kind of an interesting and neat way to join a company as CEO because I've been on the board for three-plus years, so I was familiar with the executive team and part of the strategy development of the company and et cetera. So, it's a nice way to enter. That said, it's very different being in the seat than being in a board chair.

I would say, based on my travelling, that there's three things that I'm chiefly focused on right now. One is talent and leadership. I'm a huge believer that you've got to have the right team on the field, and I'm trying to assess in, in all regions and in all areas of the business, where we've got strength and where we could be stronger. And, for the most part, I've been – one of the things I didn't get a view of as a board member was the people out in the regions and out in the countries. And I've actually been quite impressed. We've got a lot of very tenured, very connected, very passionate people out in the field. But I want to make – Visa is less than 10 years old as a public company and a lot of our talent processes are, I would say, relatively immature, and I'm putting a lot more of a premium on making sure that, from everything, from recruiting to career development, career path things, how we do performance management, et cetera, is enhanced and matures over time. And I also believe deeply that people join companies and they leave leaders.

And so, we're putting a real premium on leadership and working on training people. I've actually – it's a real passion of mine. I've actually taught leadership classes at Visa already to directors and vice presidents. So, talent and leadership is clearly a priority.

Second is growing the payments pie. We're in a unique space in payments where we don't necessarily every day have to go out and battle for a fixed share of a pie. The opportunity in payments to just grow the pie is enormous. And I think, as the CEO, one of my big job is to be working hard with the company and our clients to figure out how to take advantage of growing that pie in payments. And so – and with the explosion of digital, we have a real opportunity to really take it to a new level.

The third thing I think is really important is that we have to continually be adding value for clients and with clients. And when I say clients, I'm talking about our bank partners as well as acquirers, as well as merchants, and that last category of merchants is probably an area that Visa hasn't paid as much attention to in its 10 years or 9 years as a company as I'd like to see us do going forward. And so, making sure, in my mind if we're continually adding value then we're going to be a go-to player and we're going to be a central – continue to be a very central part of the payments' ecosystem. So, I think continuing to make sure that we press the value lever very hard for all of our constituent groups is very important.

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Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

All right. And as you've – if you'd say, if we roll the clock forward three years to five years, what do you think the AI Kelly era at Visa is going to look like?

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Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

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Well, it's going to be a Visa era not an AI Kelly era. It's about the team not about me. So, I hope, five years from now, whatever I'm about to say is make Visa better and then I'm setting a platform for people coming after me to do it even better than that. I think that, as we think about the next five years, first and foremost, I want to make sure that we're part of driving many more acceptance points and many more payment credentials out in the marketplace. There is tremendous opportunity to add dramatically to the number of acceptance points. But I'm actually using the word acceptance points on purpose. I am not saying merchant locations because I think as e-commerce continues to evolve and the Internet of Things comes along, you're really going to see us move from a language about merchants to more of acceptance points. And I'm using payment credentials on purpose because it doesn't really matter what the form factor is, the reality is there'll be many very different ways to actually pay, and I want to see both those go up.

Second, I want Visa to continue to be known as a digital thought leader and solutions provider. The digital space is opening up enormous opportunity for the entire payments ecosystem. And I think that one of our roles is to be looking two years or three years ahead and being a thought leader for and with our clients as we all continue to think about how to take advantage of that growth.

Third, I want Visa to be more of an open company. I think we're moving in that direction, but the payments world and the payments ecosystem is quite unique in that there are a tremendous amount of interdependencies and companies that are friends are also foes and there's a lot of frenemies in the space in payments and, again, as I think we get into a digital world, there'll be new players and that will be coming in and our front door is open.

We want to talk to anybody and everybody who thinks that they can add value to the payments ecosystem. And we want to make sure that where we think it makes sense, we embrace people as partners. I think that having a more open mindset about who can help and where they can help and where they can add value can only be good for their entire ecosystem and to the degree that it's good to the entire ecosystem, in my mind, all boats rise, our clients do better, we do better, et cetera.

So, those would be I think three things that I'd like people to say about – if they look back three years to five years from now, more acceptance points and more payment credentials. Boy, Visa is a real thought leader and solutions provider in digital and they really have an open mindset and want to be a great partner to a large group of constituents.

Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

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All right. We're going to come back to a number of those topics in a moment. But, first, let's spend some time on Europe. Certainly, the most memorable event noted Visa's recent history was the acquisition of Visa Europe closed almost a year ago now. So, to just level set, can you just briefly recap the strategic rationale for that deal, the major value-creation levers and where we are right now in capturing those? Where we are in that journey?

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

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Certainly. So, when people ask me about M&A, I think they tend to forget we actually did the best and biggest deal we could do, which was buying Europe 10 months ago. In late 2007, when this idea of the association, somewhat stimulated by some regulatory pressures around the world as interchange tax came under the spotlight and people started to realize that the banks that own the associations were setting interchange when they were the larger recipient of it. The decisions were made by banks around the world to decide to take the company public.

The banks that own Europe, because of the single European payment area, despite that at that time that they might be better off being independent and operating under CEFA in Europe, but at the time of the Visa moving public, an agreement was put in place between Visa, Inc. and, at that time, Visa Europe that, in essence, could have put agreement that Visa Europe could only sell themselves to Visa, Inc. at a point in time where they wanted to do so. And honestly, from the time I joined the board till the time of the transaction, there were lots of discussions, fits and starts, and sometimes we get intensive day and sometimes, when it get very intensive day and then finally the deal came together last summer.

I would say that we're off to a very good start largely benefiting from the fact that we have a playbook from – moving from an association model to a commercial enterprise model from the 2008 work around the world but for Europe.

So, we're using that model. On the expense side, we've gone through both the people and process rationalization, which has resulted in less duplication of efforts, more streamline processes and a better expense profile, which will help raise our margin in Europe over time.

We're in the midst of phase two related to the expense side of things, which is largely driven by the harmonization of systems. So, the two companies operate in a two different types of systems. We're trying to bring it together into one set of systems that's going to take us through this year into 2018. By mid to the fall of 2018 we're hoping to move – the biggest move is over to Visa, and that the core authorization clearing and settlement system, I hope to get that done by the end of 2018. And then we should start to see benefits from this phase two of the systems harmonization in 2019, 2020.

On the revenue side, we're kind of going bank-by-bank right now and moving them to terms that are more similar to the rest of the world where there are incentives to drive volume on to the network as opposed to a rebate structure that existed under the association model. The other thing we're doing is injecting people and all things Visa into Europe. So, Visa Europe management team is starting to look like our management teams in regions around the world, pretty much – a bit of a melting pot. Our chief marketing officer, our chief financial officer came from Latin America. Our head of HR and our head of product came from the United States. We just recently hired a new general counsel and a new chief risk officer from external companies within Europe. And that's kind of the

model that you'd see if you looked at most of our regions around the world, that's a bit of a melting pot of talent in terms of internal/external nationalities and et cetera.

One of the things we immediately saw in Visa Europe was that they were behind the curve in terms of innovation. So, we're bringing all of the tools into Europe that existed around the rest of the world, Visa Checkout, Visa Direct, Visa tokenization services. And we just opened up, in February, an innovation center in London and it's actually one of our bigger and more interesting innovation centers. And since we opened it, every day we've had clients, either merchant clients or issuer clients coming into those – into the innovation center. And we're also importing, at least on an assignment basis, some talent in to try to help build our innovation agenda. And I think, it's been extremely well received by clients who feel like we're showing them more and being better partners.

So I think that off to a good start, work to still be done. I'm actually searching for a new CEO of Visa Europe. Bill Sheedy who's a 25 year veteran of Visa, he probably knows more about payments in his pinky than I know in my body, he's gone over for six months, and is the acting CEO. I'm spending a lot of time on the search, I've actually seen four people that I like a lot, and they're actually going through second rounds of interviews and reference checking now. So, I think we feel very good about the momentum there.

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Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

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How would you characterize Visa Europe's competitive position and the competitive dynamics in there?

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Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

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I think it's mixed. We have a very strong position – and I think that's a good thing, it's mostly about opportunity, the glass is half full, I think as it relates to Visa in Europe. We have a very strong position in the United Kingdom. I mean, the Europe by the way is not the geography, doesn't make sense to some countries that aren't in Europe that fit into Visa Europe. But I think these 37 different countries and the UK is dominant. So, we're a huge player in the UK, particularly a huge player in the debit space in the United Kingdom. We've got good positions, in France and in Spain. We've got lots of opportunity in Germany, Italy, the Nordics, the Czech Republic.

So, there's an enormous amount of opportunity in Europe. We know our clients well, our client coverage folks have been in and around Europe for a long time. I've been very impressed, met with a bunch of our – about two weeks ago a bunch of our French bank clients, the next day a bunch of our UK clients, and you can see the depth of the relationships that our people have.

Look one of the other things about Europe that is a bit different than the rest of the world is the regulatory overhang there. And we might talk more about that. But let's not kid ourselves, how regulation plays out, it's going to be a bit a factor in how Europe plays out. But, I would say – it's safe to say that we feel very good about the position, I think we're off to a good start. I think we've got good momentum. But frankly, we have a lot of work to do, but I, again, consider that a good thing because the opportunities are well worth the efforts that we have to and we'll put into it.

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Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Yeah. Why don't we go there and while we're on Europe, talk a little bit about the regulatory dynamics there. I mean, the European payments regulators, do you have the stated objective of improving the level of playing field

for payment service providers in Europe, which doesn't at face value at least sound good. So, what's your view on the regulatory environment, how that might evolve and particularly now in the context of owning Visa Europe?

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

Look, when you're in a business like ours, you have to figure out how to work with regulators and work with the rules that are put in place whether you love them, like them or don't like them. I think that much of what's going to play out in Europe is still to be played out. It's very, very early innings. We just went through the scheme processor division, which frankly was culturally disruptive. It's very difficult that we literally have to make people sit in separate spaces, they have to be under – they have that different card assets. We had to reshuffle our space in Europe to accommodate the split between scheme and processing.

PSE-2, there's a number of elements to it. The two that get a lot of attention are the two-factor authentication and the need for financial institutions to open up their accounts to outside parties if that's what consumers request. How well that's going to play out is really early days. We have been working hard and spending a lot of time with both the regulators and our clients. We're trying to make sure that the two-factor authentication doesn't hurt at the point of sales, so we've been able to put some changes in place. I think a transaction under €30 doesn't have to go through two-factor authentication. We're working on making sure that where risk models are strong that, that could potentially be a substitute. And, I think, in fact, our experiences and our tools in the risk authorization area kind of will over time help our clients and I think gives us some credibility when we talk to regulators about it.

The other is the kind of the opening of the accounts. Interesting enough, when I was in Europe, that was three days after – the last time I was in Europe, a couple of weeks ago, was three days after this WannaCry incident. And prior to that, there's lot of concern about security. If we're going to start opening up these accounts, what does that mean, and how do we make sure that we safeguard data, and who's responsible for the safeguarding of data, and if something happens, who's got the liability associated with that compromise?

So, my personal view is the early applications of this are going to be kind of personal asset aggregation, liability aggregations, companies in financial advisory types of roles who were going to go pick from your different accounts and be able to build for you and show you a real time personal income statement and balance sheet.

How it's going to play out in use cases related to payments, I think it's way, way too early to tell. And I think the best thing that we can do is stay very close to our clients. I do think that good customer experience is good customer service, a good strong customer ethic is going to be more important than ever to make sure that you continue to win the hearts and minds of consumers. And we certainly are working with our banks to make sure that we're doing everything that we can to make sure that their experiences – experiences that their customers have with them is as good as they possibly can be because stickiness is going to become increasingly important objective of all these financial institutions.

Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

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All right. Let's go back, back in February you outlined six pillars to your strategy for Visa. I'd like to just hit on a couple of them, so you can bring them a bit more to life. If one of them was deepening partnerships, can you talk a little bit about that? Who do you have in mind?

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

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So the first thing, I'd like to say to about that is, I've stayed with the exact same six pillars of strategy that the company had when I joined, which were formed when I was on the Board and had influence in them. So, we've not changed that strategy. I've done one thing as it relates to how we think about these six pillars and that's recast how we talk about them, because three of them are very foundational. Having the best talent, championing security and transforming technology. And three of them are about growth, deepening partnerships, expanding digital and extending access. So it's really just how we talk about them, but they're same thing. With that as backup, let me answer your specific question about deepening partnerships.

When I look at our competitive situation, I am extremely pleased with the lineup of clients we have around the world. And my number one objective and really what is at the core of this strategy of deepening relationships is that, we wake up every day thinking about how we can help grow the business of the clients we have today. Our mindset is not we sign them up to a long-term deal a year ago or three years ago or five years ago, and we're removing on, and we're just looking for the next hill to climb, the next client to go get. Our focus is really on the 17,000 financial institutions and the 44 million merchants we have, and how can we take those clients and work with them on helping them reduce their pain points, helping them extend access, helping them enhance their product set. For merchants, how can we bring more value in terms of helping them reduce fraud, helping them with better analytics, helping them with tools that allow them to authorize more card-not-present transactions.

And so, yes, we will go look at and answer many competitive RFPs. But those things are cyclical, we don't necessarily control when contracts come up. Sometimes in a particular quarter, there's a lot of them, and sometimes in a particular quarter, there's none of them. Sometimes there's a bunch, a couple of big ones hit at the same time, and then sometimes it's a bunch of small ones.

So the real focus is that, we like our competitive position. We're a market leader in most of the markets in which we do business. And we're there on the back of the relationships that we have today. And so to me the number one priority, more important than going to win the next deal is making sure that the deals we have today, the partnerships we have today are as good as they possibly can be, they're as deep as they can possibly be. And I want to grow with the partners we have, I want to have, as we do in many cases, 20-, 30-year relationships with institutions that are built on trust. And again, we'll go be competitive for the next deal, but it's a secondary priority than deepening the partnerships with the folks we have today.

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Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

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And how about a non-bank or non-traditional partnership?

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Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

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Well, first of all I'd say, we are maniacally committed and focused on the four-party model. And that said, I think that the players in the four-party model need to be open, back to one of my earlier themes, need to be open to other players. And we've developed very good relationships with Samsung, with Stripe, with Facebook, with PayPal. So, there are players that aren't recognized as being kind of in the traditional four-party model that we have forged partnerships with, and we'll continue to, and we will have others as time goes on.

But when we do these partnerships and we look at other players, we do have a few criteria, we try to be very thoughtful. One is we do want people to understand that we are committed to the four-party model. The players that make up that four party model, that have built the infrastructure globally today are very, very important players.



Secondly, we don't like people steering customers. So, we want partners that embrace consumer choice, and that people can use what they want to use at the point of sale and aren't being forced into a particular place.

Thirdly, when we think about partners, we don't want partners who want to embed themselves in the middle of the relationships between our bank issuing partners and their customers.

That's the relationship that they pay to put in place. They've gone through all the expenses associated with acquisition and royalty and rewards and customer service and risk management, et cetera. We don't want anybody getting in the middle of that relationship.

And then fourthly, if somebody is going to partner with us, we would expect them to be a good partner of Visa, which would include some relationship in terms of either processing or running on our rails, if they're going to be a partner of ours.

So as part of my notion of wanting us to be a more open company, I think particularly as the Internet and mobile has changed the landscape a bit or quite a bit in payments, I think that I want to make sure that we and our colleagues in the payment ecosystem are open to new players that can help add value to the payments experience and to the payments ecosystem. But we're going to do it thoughtfully because we want people to be respectful of our clients and their customers.

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Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

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Good. Given you laid out those criteria. So clearly, why don't I jump and ask you then specifically about some of the players with whom so far you do not yet have a well established partnership like Alipay for example, friend or foe.

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Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

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TBD, look, Alipay and others like it, WeChat, another example from China, are helping open the world of e-commerce and I think that's good for everybody in the payment system. I personally think they've gotten a bit of a free pass in China. In that they are operating in an uneven playing field with their Chinese bank competitors. And let's make no mistake about it, Alipay is a bank. And as they move out of China into other markets, I believe they're going to be pressed to get a bank license, if that's the way they're going to compete, that they're going to be subject to the same rules that their competitive banks are subject to, whether that's capital – anything from capital requirements to KYC.

And I personally believe that we all should be fine with competition, it should make us sharper and better, but it must be on an even playing field. And so, certainly one of the things that I'm going to do everything I can and working with our bank clients around the world is to make sure that where there's new competition in the market that the playing field is even. When the playing field is not even that's absolutely and utterly unfair.

I think it's also early innings as well. We'll have to see as some of these entrants get into more regulated markets, they get into markets where there's more long-term established branded players who have great history and reputations in those markets, how consumers really adapt and adopt to what they're offering, and how it works when they get to a market that are more credit-oriented markets versus debit-oriented markets. But I think there's a lot to still play out here. And rest assured, we're watching it closely.

Lisa Dejong Ellis  
*Analyst, Sanford C. Bernstein & Co. LLC*

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And beyond China, what are some of – are there specific geographies that we should be keeping an eye on in the ECR? [Indiscernible] (29:31)

Alfred F. Kelly  
*Chief Executive Officer & Director, Visa, Inc.*

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Well, I think India probably is the next most obvious as it relates to the new entrants. India is a very interesting market to watch. It's much more open, and therefore, I think exciting in the short term. We certainly hope that China opens up. And we think it would be a very exciting opportunity and really good for China if the market opened up to beyond China UnionPay. But you look at India, it is open and they have got RuPay and they've got Paytm. They've got all of the traditional networks. The government is a positively activist government in trying to drive the society toward cashless. For the most part, it is an even playing field or appears to be competitively.

And we're talking about is the very, very early innings where we've seen a 50% rise in merchant locations, since the demonetization on November 8. We continue to see 100% increase year-over-year in terms of our volume, it's still a net with – just shy at 1.4 billion people, the amount of merchant locations they have is really small, the amount of volume that's running is really small.

And so, I think there's a lot of opportunity for multiple players in the market, and we're certainly investing a lot there in terms of people and technology. I think that the industry did a smart thing in terms of very quickly realizing that a non-interoperable standard or non-interoperable situation related to acceptance with QR codes was a horrible thing for the industry, for the country, et cetera. And so, we came together and created a standard QR code, which is interoperable.

And I think that's an important lesson as other emerging markets come into play. No merchant, Walmart, Costco, nobody wants to have multiple POS devices and have to do multiple integration. Never mind kind of a bodega or a very, very small merchant, they're not going to do acceptance of digital electronic payments unless you make it very, very easy for them. And I think that's what we've done with moving to an interoperable standard on QR code, and frankly a standard that – and a kind of a need implementation that doesn't depend on a hard-wired telephony-based technology infrastructure.

Lisa Dejong Ellis  
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

You just mentioned China UnionPay, with the recent U.S.-China trade deal elevated the attention again around UnionPay and the possible opening up of the domestic market in China. Can you talk a little bit about the state of your relationship with UnionPay?

Alfred F. Kelly  
*Chief Executive Officer & Director, Visa, Inc.*

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Well, since I've been in the job in two separate occasions I have met in Davos with the CEO of UnionPay and then I had lunch in Beijing about six weeks ago with the Chairman of UnionPay. So clearly, developing that relationship is important. That said, more important is developing our relationships with the big banks in China and the People's Bank of China, that's the regulator that's ultimately going to make the decision as to whether to grant domestic licenses to networks beyond China UnionPay.

We continue to be both thoughtful and hopeful. I had very, very positive meetings with a number of senior people in the Chinese government when I was over there, including not only the TCOB, but also met with the mayor of Beijing, who very much wants us to have a growing presence there. We're not having a domestic license, we actually have invested ahead in China. We actually have a pretty big office there under a really strong leader. We are in the midst of going down a new path of how we think we might be able to put an application for us to enter the market. I hope that later this year and as part of this draft accord, and it should be very clear that what came up was very early draft kind of language.

So, it's obviously, better to be on the list than off the list, but that doesn't at snap of a finger make it happen. The Chinese are working on the next set of rules as to what would be required of an external company to come in and have a domestic license. So, simultaneous with that we are working on an application process, and we are continuing to invest ahead in terms of technology, and other aspects of what it would take to expand up a business very quickly if we could.

But I view China as a medium- to long-term play, it's not factoring into our 2017 plan, while we haven't started in any kind of full-fledged effort yet, our 2018 planning is not going to factor. Borrowing something that I don't see right now, it's not going to factor into our 2018 planning. This is a long-term play, and with the 1.4 billion people, we need to be patient, and we will be patient, thoughtful and try to be as good listeners as we can to our colleagues and the Chinese government as to the best way to proceed forward.

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Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

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Good, all right. One more on – on more, I'd say the potential risks/opportunities landscape, let's talk a little bit about Amazon. You, Visa, in conjunction with Chase recently launched a pretty high profile cobranded card with Amazon. But then Amazon now at I think roughly \$250 billion in volume is approaching the size of Walmart and about a quarter of the size of Amex. So, as you're looking at the world of digital commerce, how do you think about how your role as a network changes when you're dealing with these very large marketplaces?

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Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

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Well I think first and foremost, what Amazon has done is nothing short of extraordinary, I mean, they have a standard in terms of e-commerce that is just phenomenal. They have to be a very good partner of ours, and a very important partner of ours not only do we, as you talked about Lisa, have the relationship with them and Chase on the co-brand card, but we have millions and millions of cards on file that are Visa cards. And one of the things about Amazon is they are very customer centric and they believe in consumer choice, and they're not trying to steer people in certain direction. So, we have a very good relationship with them. We continue to work to do everything we possibly can to be a very good partner of theirs. And our sense is that, that's the best road to go down, and we're best served by just making sure that we stay close to them and we're serving them well.

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Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

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All right. I'm waiting to the questions, not surprisingly, there are a number here related to the B2B market or maybe if I put a little sharper point on it, what is Visa going to do in response to Mastercard's acquisition of VocaLink?

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Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

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Well, in two words, Visa Direct. We have a fast payments push capability called Visa Direct, and it exists today, and it's working today. And there's many people using it today. That said, it's in its infancy in terms of I think it can be. But today we already have use cases in the shared economy where renters are pushing payments to owners, car services are pushing payments to drivers in the case of Lyft and Uber. We have use cases of insurers making disbursements of claims to claimants. In the gig economy, from individuals to larger companies, we have people making push payments to contractors and freelancers.

And I think what's increasingly happening in the B2B space is that people are looking for – it's typically been ACH and check. And I think it's been underserved by all of us in the payments industry. I think it happens to be a terrific opportunity as I think these folks are starting to look for more value-added services.

We recently announced that, with a few issuers purchasing on Amazon, that we will provide line item detail for them that allows them to align with their general ledger and make life easier for them in reconciling, in essence, their kind of purchase order with Amazon.

So, we are absolutely committed to and have the capability to facilitate push payments and fast payments and don't believe we need to go acquire something to do it. We have the capability right on our network today. So, I think we're in a very good position to take advantage of it.

Now, the work is to get out there by sector because some of the value-added services are different by sector. We have to get out there and start creating value that's beyond just making a quote unquote, fast payment. And we now or we stood up a dedicated team focused on the commercial and B2B space. But I think the good news is that we have a technology solution in place to accommodate it.

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Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Yeah. And what would you – do you have a sense for the timeframe for making, yeah, an expansion into the commercial market and the B2B market, which has sat for a long time sort of out there as this very attractive adjacencies?

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Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

Yeah. I think it's a combination – this comes down to value, one of the things I talked about earlier. I think, if we can create value which, I think, needs to be done and that I feel it needs to be done on a more segmented basis, it's probably different for insurers and healthcare providers and people in the T&E space. And as I said, we've stood up a team now. We're putting money behind it and I think we'll see. There's a little – I see a bit of momentum but, again, this is early innings and I think a downstream opportunity not only for us but for the industry.

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Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

All right. Another set of questions in here is around the value-added services investments of Visa. I know you mentioned upfront in your priorities a number of your strategic priorities are related to, as you said, growth and expansion. But can you articulate maybe more specifically where Visa strategy is in value-added services, which is of course an area obviously that Mastercard focuses on a lot as well?

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

Well, this issue of Mastercard services and what are we doing, I'd love to address it. I mean, first of all, I have probably sat across 150 clients face-to-face, not speakerphone conversations they've had and not once has anybody said to me – not once does anybody raised Mastercard services or asked me why we're not providing to them what Mastercard provides them, not once.

I believe we have the vast majority of the services that Mastercard has. We don't break it out in our P&L. But the reality is that, in many cases, we do get paid for those services. In a lot of cases, we don't get paid for those services.

We do believe that there are services that we should provide as part of our relationship with clients and – again to the idea that if together we can go through co-collaboration or we can go through an ideation session that helps them grow their business, our business is going to come along with it because they are riding on our rails.

So, I have no belief that our services are lacking or inferior in any way, shape or form to Mastercard. I give them a – Ajay and his team a lot of credit. They've kind of established this is a kind of a focus. I think we do it more quietly. And our – and it's just that something – instead of criticism one way or the other, it's just that it's something that we count in a big way. But if – we have hundreds if not thousands of people that work on helping clients around the world every day. That's what they came into work to do every day. That's providing services. And again, some of them we charge for and some of them we don't.

Lisa Dejong Ellis

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Right. One last, big strategic topic we haven't spent a ton of time on it, in the digital space. Talk a little bit about how – what you're doing as Visa changes and evolves when you move from the physical card, physical POS into the digital environment?

Alfred F. Kelly

*Chief Executive Officer & Director, Visa, Inc.*

A

It's a very good question. First of all, I think that there's a higher standard as it relates to security, right? So, if today I lose my phone, I'm flipping out because it's become such an appendage to the – but if all my payment credentials are on it and they're not safeguarded, now I'm even ready to jump off a bridge, so, I think, hence, our push on tokenization. We want to devalue data in the open environment, so that if, in fact, it gets compromised, it is not usable. And there's still a lot of work to do here. There's millions and millions – or hundreds of millions of card on file records that sit out there that are not sufficiently protected, and those, over time, need to be tokenized in some shape or form as well.

Second, generally, when you get to the checkout counter in a face-to-face world, you actually buy what you shop for. In the e-commerce world, there's a huge drop-off from shopping to actually paying and buying. And we are working hard with our clients to try to increase the rate and the flow-through from shop to buy. And Visa Checkout is an example of that and we now have Visa Checkout, we have 21 million enrollees, people who have actually, on their own, taken an action to enroll as opposed to might be eligible for. They're actually enrolled in Visa Checkout. We have it in 23 countries. We have 1,500 financial institution partners that are offering it. We now have 300,000 merchants around this world signed up, and I think it's close to \$200 billion of addressable volume in those 300,000 merchants. So, helping people protect data, the first; second, helping increase the conversion rate from shop to buy.

And then thirdly is authorization. One of the real frustrations I think for everybody, the consumer as well as the issuers as well as the networks, is that the authorization rates in the card not present world are much, much higher than they are in the face-to-face world. And we want to focus hard with our issuing partners and our merchant partners to try to drive up the level of authorization because this is volume that is there for the taking. People have actually now gone to the point of wanting to buy and because of insufficient data, they're in a location that's not recognizable, et cetera, they're not being authorized and they're being declined.

So, one of the reasons we bought CardinalCommerce and closed that deal in January was because they bring a tremendous amount of increased data to the party and some very, very good algorithms that will help drive authorization rates up in the card at present world. And this is something we will remain focused on security. Because we're not home, all of these are still big problems by the way. We put tools in to help, but security, increasing the customer experience, so more people actually become buyers and figuring out how to get authorization rates up are certainly three things in the digital world that need a lot of attention and that we're spending a lot of time on.

Lisa Dejong Ellis  
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

All right. As we wrap up, number one, risks, so what keeps you up at night aside from your jet lags?

Alfred F. Kelly  
*Chief Executive Officer & Director, Visa, Inc.*

A

Cyber security and regulation. The ecosystem and neither which are particularly easy to control. The ecosystem is built on trust. Payments work because they're convenient or they work when they are convenient, reliable and safe. And so, a major cyber security hit or series of them could disrupt the trust that people have in the system, and that's certainly concerning. Therefore, we spend a boatload of time and a heck of lot of money. From the time, I've been on the board, certainly since the time I've been CEO, I had not said no to any information or physical security request because it's so critical and then regulation and the contagion around is just concerning. Look, some regulation makes sense, others make less sense and maybe ultimately aren't good for the end consumer or citizen in a country. So, those two would come to the top of the list.

Lisa Dejong Ellis  
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

All right. And then just in closing, we've covered the gamut in terms of strategic opportunity areas for Visa. As you take a step back, what are the top like one or two areas you think is absolutely essential that Visa captures over the next, call it, three years?

Alfred F. Kelly  
*Chief Executive Officer & Director, Visa, Inc.*

A

I would say that the explosion of the digital world, which is still happening and still will be happening, opens up a continued great opportunity to disintermediate cash and check. So, that's been a huge path of growth in the physical world. It remains so in a more digital electronic world. And I think, secondly, is taking advantage of that explosion to also extend the assets. I'm not happy with 44 million merchant locations and it needs to be a lot higher. I'm not happy with 2 billion people [ph] and that they're (50:45) not really participating in the payments world. We have to figure out how to get them in the payments world.

So, I think there's tremendous opportunity in capturing the explosion of digital to drive much more disintermediation of cash and check and then to extend the assets around the world.

Lisa Dejong Ellis  
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Terrific. Thank you.

Alfred F. Kelly  
*Chief Executive Officer & Director, Visa, Inc.*

Lisa, thank you very much.

Lisa Dejong Ellis  
*Analyst, Sanford C. Bernstein & Co. LLC*

With that, we'll close. Thank you very much, Al.

Alfred F. Kelly  
*Chief Executive Officer & Director, Visa, Inc.*

Thank you, everybody.

Lisa Dejong Ellis  
*Analyst, Sanford C. Bernstein & Co. LLC*

Thanks.

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