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Visa, Inc. (V)

Barclays Emerging Payments Forum

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Darrin D. Peller

Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Darrin D. Peller

Barclays Capital, Inc.

Why don't we go ahead and get started? First of all, I want to thank everyone again for being with us. I'm Darrin Peller, the computer services and IT consulting analyst at Barclays, covering payments and financial technology stocks among others. We're obviously happy to have Visa with us today. We have Bill Gajda, who's the Head of Innovation and Strategy Partnerships for Visa. We also have Jack Carsky floating around in the audience somewhere – yep, there he is on his BlackBerry. But Jack, thanks for being with us.

Why don't we start off as always. I mean, if you guys could pick your handheld devices, we're going to ask you guys a few of these audience response questions. Number one is, do you currently own shares of Visa stock? I think the largest answer was about 30% yesterday with one of the stocks.

Jack, are you saying yes?

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

I'm overweight.

Darrin D. Peller

Barclays Capital, Inc.

Yeah. Both Jack and I are overweight. All right. So, 40% due and they're overweight. 6% they are equal weight, [indiscernible] (2:24) 2%, underweight, 52%. That's actually the highest yet we've had at the conference in terms of ownership.

Next question, what's your general bias towards Visa stock right now? Okay. So, almost 70% are positive on it, 20% neutral, and 11% negative.

So, with that, again, Bill, thanks for being with us today. I know you've been with us couple of times before and met with investors with us before as well. So, look, you always give a great perspective on what's obviously a hot topic in the world right now around digital mobile payments. Really, just the different innovations we see happening across the ecosystem.

QUESTION AND ANSWER SECTION

Darrin D. Peller
Barclays Capital, Inc.

Q

Look, with that, I mean, I really want to hone in and start on mobile just given how much there is to talk about on that. Can you give us a little color on the market first? What is the actual total electronic transactions that are mobile today? What do you think it can become? Maybe just, if you can help us put whatever numbers you have on the topic around transactions originated by mobile online – for online as well.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Yeah. We don't have or publishing those numbers yet for a couple of reasons. One is, it's still early days for most markets in terms of these mobile limitations. And the second one is, we're just starting to implement the flags that would identify this as a mobile transaction as opposed to a plastic transaction or an online transaction, and it's because in so many ways, once you get past the offline environment, to be able to tell whether it's on a big browser or a small browser.

So we're just kind of identifying it now. But there's a couple, I guess, facts that I'd point out. A couple of people have asked, where has NFC really taken off? And as an example, in Australia, it's not mobile but 78% or 79% of all debit transactions are NFC and more than 70% of credit transactions because they fit that infrastructure there.

I would say, generally, we're starting to see – we'd probably talk about host card emulation as an alternative to NFC. We've had more than 200 companies download our HCE specification, they're working with more than 100 HCE implementations and you compare that to just a couple of years ago where we're trying to get those first mobile network operator NFC implementations off the ground and couldn't quite solve the business model.

So, I would say, generally, I think we've hit kind of a tipping point on both how we get on to the wallet, or on to the phone on the one hand, and also a tipping point in terms of where those wallets are going to be accepted.

Darrin D. Peller
Barclays Capital, Inc.

Q

Okay. If we shift gears and just maybe hone in now, Apple Pay. Give us a little color on what your thoughts around it. Obviously, it's been – number one, a lot of fanfare around the announcements last year. How do you think it's going so far? What are you really also hearing from merchants regarding acceptance, because it's been a little slower, I think, than someone have hoped.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right. So, in terms of the number of cards registered and the number of transactions per card, higher than we thought because there is – in the United States, this acceptance gap. There's a limited of places you can use NFC today.

So, in spite of that, consumers are delighted with the experience. They like the biometric authentication which gives them confidence in terms of the fact that they're authenticating themselves before. They like the alerts afterwards. They like the form factor. They like the experience. And so, people are seeking out places to use Apple Pay.

Darrin D. Peller
Barclays Capital, Inc.

Q

Sure.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right. So, from a consumer perspective, we like the uptake particularly given the acceptance gap. At the same time, I think Apple last week announced that they're going to crack a million places that Apple Pay can be used, and that's kind of – if you asked me six months ago, I would have said 350,000 places or 400,000 places, right?

So we're starting to see merchants who have terminals that are NFC-ready turn them on because they see that experience, they see the consumer demand, they see how it speeds up the line at the point of sale. And we think there's probably maybe two million more terminals that are NFC-ready in the U.S. that haven't been turned on.

And so, we could see a significant ramp-up in the acceptance gap. And once that happens, you can use it three places out of every 10 places you want to or four places out of every 10 places you want to. That tends to be the tipping point where you see these systems really take off.

Darrin D. Peller
Barclays Capital, Inc.

Q

And you're not charging yet with the tokenization service that was behind it, right?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

No. No.

Darrin D. Peller
Barclays Capital, Inc.

Q

Okay. So that's something that eventually, you should be able to generate incremental revenue from but...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Well, we've got a price sheet for it and we said publicly that we're not going to charge for tokens through 2015 because we just want to grow the ecosystem and that's our focus right now, implemented Apple Pay, the first one. Samsung Pay will be the second one, launching later this year. We're working on how we can support Google Pay, the internationalization of tokenization coming in the spring in Europe and to other markets.

For us, the biggest advantage of tokens is it allows new open implementations that we wouldn't have thought about with PANS, PANS on apps, PANS on the open, PANS on the cloud. We just wouldn't allow that kind of innovation. But now that it's a token and a token that can be bound to an app, bound to a device, we're going to

see many more different kinds of implementations. And so, it's really allowing that to get at the cash and check base.

Darrin D. Peller

Barclays Capital, Inc.

Q

Yeah.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

So theoretically, we can charge it because there's environments where tokens provide a lot of value. But I think we're going to take a look at it, and we're not searching for them now.

Darrin D. Peller

Barclays Capital, Inc.

Q

One of the things though we've also heard about is that the banks are earning a fee – I'm sorry, rather paying a fee to Apple on a per transaction basis. And it struck us as interesting at first that they want to give us socioeconomics. At the same time though, correct me if I'm wrong, the way to think about it, maybe if you actually end up having your card, let's say your Capital One or Barclaycard for that matter...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Top of wallet.

Darrin D. Peller

Barclays Capital, Inc.

Q

Top of wallet, you kind of – you may be able to attribute less marketing dollars in one place there and then you're done, right? I mean...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right. So I would say there's two things. So if you do believe that through your relationship with your customers and your marketing that you can get to top of wallet, then there is an advantage there. But if you also believe that we are going to see these wallets displace cash and checks...

Darrin D. Peller

Barclays Capital, Inc.

Q

Yeah.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

...then that's another incentive. I mean, that being said, I think it's good that we're going to see an alternative to Apple Pay, in Samsung and Google Pay, in markets like the United States, I think the issuers and consumers are looking for an alternative to Apple Pay that's either Android-based or Samsung-based, and we'll see – so more competition as a result.

Darrin D. Peller
Barclays Capital, Inc.

Q

Yeah.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

And I think that the pricing that's been reported, I think, is still very fluid. I don't think you necessarily see that model implemented in Samsung Pay or Google Pay and so we're going to see continued competition and a lot of choices.

Darrin D. Peller

Barclays Capital, Inc.

Q

Just to illustrate the point, I mean, I was asked this – someone asked me to do this a couple of days ago. If everyone here that has more than three cards in their wallet, whether that includes debit, could raise their hand, I'd appreciate it. Let's see. I mean, just to illustrate the point, I mean, that has to be over 50%, if not more like 60%-plus. That kind of shows you the benefit of – any bank would love to have those two – the other two cards thrown out, right? And then most – I mean...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Apple's a fairly broad and diverse wallet, so there is incentives because it also has that in-app feature to load more than one card, but I think you're predominantly using one card. I think if you look at broadly what's happening with in-app payments, whether it's that quick service restaurant app or the pharmacy app, you're going to load one card. And so, I think that battle for the top of wallet as we move from a fiscal point of sale to particularly in-app, never mind browser, it's going to be one card, right? And so, top of wallet can be important.

Darrin D. Peller

Barclays Capital, Inc.

Q

So, let's just shift gears. I mean, the point of – we were touching earlier on in terms of you saying going from 1 million levels to potentially 2 million levels of acceptance, there's been a bit of a roadblock in a company, MCX that's been really trying to initiate their own technologies, work with merchants, some pretty big merchants, obviously, whether we have Wal-Mart or Target, that obviously will have some power in the industry. To that point, I just can't see why – how merchants for a long time are going to say, I'm not going to sell you that item if you use that – if you want to use that to pay.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

So, let's park MCX for a second because your first question asked, how the merchants think about it. The merchants, by and large, are now seeing consumer demand and like to support that customer experience. What's happened in markets like Australia as an example, it became a point of competitive differentiation. But if you hadn't turned on pay Wave, then people were going other places because they like that shopping experience.

So, we're going to start to see that in the U.S, and so, merchants, by and large, are going to support Apple Pay and Samsung Pay and Google Pay, and they're going to turn on NFC if they have it. And if they don't have it, they're going to get it.

MCX, and I said this, I'll continue to say it...

Darrin D. Peller

Barclays Capital, Inc.

Q

Do you think that's a near-term event?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Well, how – when did the MCX get formed?

Darrin D. Peller

Barclays Capital, Inc.

Q

Three years ago?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Three years ago. I think they're still talking about QR codes, right?

Darrin D. Peller

Barclays Capital, Inc.

Q

Okay.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Okay. So, I mean, I think consortiums are hard. I think these people compete naturally in almost every other respect, and so getting together to define common standards and a common consumer experience around payments and in-store, I think that's difficult. If they do try to replicate a lot of the capabilities that we talked about in our network, it's not – the costs aren't zero, so what are the benefits? And the thing that I keep on coming back to is, what's the value prop, what is the incentive for a consumer to go, wait, is that an MCX merchant and this works and that doesn't work and it's a QR code?

Darrin D. Peller

Barclays Capital, Inc.

Q

Right. Right. One of the things that we saw we thought was an interesting headline was when PayPal acquired Paydiant recently. What do you think about that deal, I mean, in terms of – wasn't that the technology provider behind MCX?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

It is. And so, I think as an enabling technology, I think Paydiant was interesting for PayPal. Whether that allows PayPal to extend its brand and its service to the point of sale remains to be seen. So, I think, perhaps – and I have no knowledge of this but perhaps, it's still involved with MCX and PayPal is having those discussions with MCX. I don't know if they are or they aren't. But I've said publicly as well several times, I think that PayPal as the service, as the brand, with or without Paydiant has a hard time getting to the point of sale.

Darrin D. Peller
Barclays Capital, Inc.

Q

Right. Right. I mean, PayPal has made an interesting effort across not just physical, but really, they've done still well online and that seems to be potential I would say continue, they're obviously spinning out from [ph] maybe (13:08) coming up. So some different strategies might come to form. Do you see them doing anything notably different that they've already been trying versus what they've already tried to do?

Bill Gajda
SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

I think they're still going to try to crack point of sale because that's still where the volumes are, and I think they're going to do it for a couple of reasons. So, there's no question that PayPal solved a big point of friction 14 years, 15 years ago as e-commerce was taking off. There's a clunky experience and if you don't have some kind of integrated wallet, it's still a clunky experience to do an online payment.

That being said, if you take a look at the – what's happening again in – what's happening as things move from small – or big screen to small screen, there's a lot of little companies that are providing an even more seamless experience on a mobile device that take PayPal to the next level. So I think that their core business is facing a lot of competition if you move to the small screen.

I think in terms of the point of sale, the problem with PayPal is, they've never solved the point of friction like they did in e-commerce. Paying with your card even at the point of sale has been easy for the past 20 years and even more resistance, we did no signature required. Now it's going to be in-app or it's going to be NFC. What does that PayPal brand or experience solve at the point of sale? I just think it's hard for them.

Darrin D. Peller
Barclays Capital, Inc.

Q

Right. Yeah. Make sense. Let's just shift gears, I mean, if you can touch on Samsung Pay for a moment and maybe just add on to your comments around HCE obviously, that goes behind it, security behind it as well and how you think of security on HCE maybe versus what we see with Apple?

Bill Gajda
SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

So, I like Samsung Pay for a couple of reasons. One, I think that as I said, issuers and consumers are looking for an Android-based alternative to Apple Pay because not everyone has an iPhone. Samsung is the largest handset manufacturer in the world and not just handsets. Tablets, PCs, laptops, set-top boxes, white goods, consumer electronics, et cetera and so, they have the potential to extend that payment capability to a broad range of devices.

They've also implemented a technology called MST, based on LoopPay that we both invested in. So Visa was an investor in LoopPay as well, and what that promises to do I think for Samsung is overnight, as they launched, closed the acceptance gap where we're able to use that same device in exactly the same way at kind of 90% of the places you use your Visa card today. So instead of that 1 place of every 10 places or 1 place of every 15 places which is kind of the Apple Pay experience today, I think it's going to be 7 places, 8 places, 9 places out of 10 places once they launched Samsung.

So I think just generally, it's good for the ecosystem. I think that the introduction of the MST technology will help drive a behavior at a broader range of merchants and will actually, I think, incent some merchants to make the investment in NFC, so they can take Apple Pay as well. And so, we'll see hopefully quicker technology adoption.

Darrin D. Peller
Barclays Capital, Inc.

Q

Does the security of MST...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

That's a good question.

Darrin D. Peller

Barclays Capital, Inc.

Q

...as strong?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right. So what we've done and it was – when I invested in LoopPay, we kind of focused on three things. One, get it off the dongle. It had to be embedded in the device, so we worked hard with Samsung to get that LoopPay technology inside the Samsung device. The second thing is, make it tokenized, so you're not putting a pen, right? And two (sic) [three] (16:17), get the banks involved, so that consumers aren't so provisioned.

Darrin D. Peller

Barclays Capital, Inc.

Q

Okay.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

And so, if you look at the way Samsung is going to launch, they've acquired LoopPay, it's embedded on the device. They're using our token service, and the banks, all the big banks have announced that they're involved. Plus, because of our token service, there's going to be a dynamic cryptogram every transaction. So it is going to look, even though the read head is a magnetic stripe reader, it's going to look like an EMV transaction in almost every respect.

Darrin D. Peller

Barclays Capital, Inc.

Q

Okay.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Yeah. So, tokenized. Dynamic. Cryptogram.

Darrin D. Peller

Barclays Capital, Inc.

Q

Security is interesting in that, look, we've seen a lot of breaches and even with Apple, I mean there is a couple of headlines recently of some data that was stolen and used on a phone. I mean, people are blaming different entities, but I think the issuers are taking or are being told that they should be taking the blame. What are your thoughts on that incident, I guess, could you explain what happened there?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right. So, very limited use case, and it's as part of what we call the ID&V process, the identification and verification. And this is that first-time provisioning where someone putting their card into an Apple phone, and the process that there's that point during the provisioning process where you want to ensure that the person who's putting the card in owns that card, and the device they're putting it in is their device. That's the two things that ID&V does.

Most of the banks have done this very successfully, and they do it by, in some cases, a customer service call to do verification. They make you get online and sign on your online banking to complete the verification process. They do a challenge-response on an e-mail or a text message or a phone, right? There's been a couple of banks, and just a couple of banks, that have implemented the ID&V process a little differently that allowed, in some limited cases, people to put cards into that phone that weren't their cards.

Darrin D. Peller

Barclays Capital, Inc.

Q

Right.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

And that's what's happening. So, it's not – no one's hacking the device. No one's taking the tokens off the device. No one's skimming it at the point of sale. It's that point of ID&V where that's happening and we've already worked with these banks that had a bit of problems to close that gap.

Darrin D. Peller

Barclays Capital, Inc.

Q

Okay. Back to security for one second – I mean, HCE, is that as secure as using a secure element? Storing information?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

It will be with a couple of complexities. So, we like hardware-based secure elements because you could have a very persistent PAN, so you wouldn't even need a token. If you've got a hardware-based secure element, a SIM card or something that's embedded on the device like the Apple device, you could put the PAN on it or you put a token on it. It can be very persistent. You never have to switch it out because it's hardware-based and it's on a certified piece of hardware.

When you move it to host card emulation and put it in the cloud, the cloud is very secure because you've literally taken an EMV chip and put it in the cloud, but you still have to have something on the device. And so, you've got out, what we call limited use tokens on a software-based secure element or in the app, and it means that you're constantly looking at that device to make sure that it hasn't been compromised. You're refreshing those tokens every so often, right, to make sure that that's the case.

Darrin D. Peller

Barclays Capital, Inc.

Q

Yeah.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

And so, they're less persistent. There's a bit of technical complexity because you're transmitting new tokens and refreshing them on the device, but in terms of the security, it's that secure.

Darrin D. Peller

Barclays Capital, Inc.

Q

Okay. And let's just shift gears. I mean, look. Visa has been doing a lot of its investments in its own branded technologies as well. One of them is Visa Checkout. How is that tracking in terms of your initiatives around it? And I think this replaced V.me in your mobile wallet plans.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right.

Darrin D. Peller

Barclays Capital, Inc.

Q

Can you just expand on that strategy and rationale?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Sure. So, I mean, V.me was version one of our largely online wallet, and it was developed at a time where we didn't see the mobile phenomena as quickly – take place as quickly as we thought, and so we implemented V.me. And then based on a lot of feedback and in this massive move towards mobile, we basically created a much lighter version of V.me.

So, lighter in terms of hours to implement if you're a merchant as opposed to days or weeks or months because of a much lighter integration, the use of APIs, more web services-based version of Checkout, easier for a bank to implement as well and extend through their mobile banking or their online banking service and promote. And so, we kind of made it a much lighter touch.

We've got, I think, just north of three million consumers who are using it now, more than 100 of the largest e-commerce merchants and, of course, we've been focusing on the biggest volumes, the big e-commerce merchants, some very successful promotions recently, and then we'll be updating everyone on the next quarterly call.

But I just think it's – again, it's, compared to V.me, it's a much lighter, even more issuer-centric implementation than the first one, and just recognize everything that had happened since the first time we implemented it.

Darrin D. Peller

Barclays Capital, Inc.

Q

Right. Just out of curiosity, the economics on a Visa Checkout transaction, are they similar to a traditional offline transaction?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Jack, help me here. I think we provide better economics because of the verification of the...

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

[indiscernible] (21:35).

A

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

Okay.

A

Jack Carsky

Global Head of Investor Relations, Visa, Inc.

[indiscernible] (21:38).

A

Darrin D. Peller

Barclays Capital, Inc.

Okay. So similar to maybe sometimes better. All right. I mean, when we look at that, I just want to touch on when we look at Visa Checkout and really everybody in the ecosystem doing new things, Apple Pay, Samsung Pay, and I know it's not exactly one comparable, but what do you guys see in terms of data? And in the consumer data, you can see at these – from these transactions? Actually, while we're at it, it may help the audience just to give an explanation of what do you guys actually see in a traditional transaction...

Q

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

Right.

A

Darrin D. Peller

Barclays Capital, Inc.

...so data-wise, who sees what?

Q

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

Right. So when you swipe your card, we see every transaction in real-time, and we use that data that we see in real-time to apply a bunch of vectors to it to do fraud management. And so, we know where you are, we've got every merchant, ZIP+4. But we also have all of the historical data everywhere you shop.

And so, we know that if you are at a gas station outside of your ZIP code that you've not been at before, in an area where you haven't shopped before, we can use that as an example to flag those transactions and go for a further point of verification and provide a better fraud score to the bank. So we see every transaction real-time. We analyze it in real-time, literally milliseconds. We compare to all of our historic data, and we provide a fraud score to the bank.

A

Darrin D. Peller

Barclays Capital, Inc.

In terms of what you can actually use that data for going forward, I mean analytics?

Q

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right. So, if you think about it, that – what we call that offline dataset is extremely valuable, right? Because it's the reason why Google is into payments. They hate payments. They've gone through five management teams on payments. But they were in it because they like the data, right?

And the only way for Google to connect what happens when you do that search, if you don't go directly to the website and buy it offline, in most cases you're not, you're buying it at the point-of-sale offline, you have no way to connect, what happens with that search and what happens to the point of sale? No way at all.

The only way they can do it is if you use Google Pay, so they can connect what happens with that search and what happens to the point of sale. So our dataset is arguably very valuable to someone like Google, to a merchant on a macro level. So we use our data to assess merchants in relocating their stores.

Darrin D. Peller

Barclays Capital, Inc.

Q

Sure.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Because we all these data in real-time, we know exactly where every Visa cardholder is and that's using their card in real-time. So we can accurately predict flows, location, time of day, average basket spend, broadly where your competitors are, not individually – we never share that data, but in the category where these traffic flows are. So we can provide a bunch of value-added services to merchants. We could add value to mobile network operators. Mobile network operators have what we call weblog data, virtually every key stroke you put into your phone. But again, what they don't have is the offline data in terms of what happens at the point of sale.

So, we think that the Visa dataset is extremely valuable to a broad range of stakeholders, but we're going to be careful with it, right? Because we can't get it wrong. I mean, whether it's in terms of customer provision, our relationships with the merchants, with the banks, not sharing any competitive individual data with any individual competitor, anonymous aggregation, et cetera. We're going to think very carefully about it, but there's no question that the data that we have will provide a lot of value to our stakeholders.

Darrin D. Peller

Barclays Capital, Inc.

Q

So, the issuer sees who the person is and how much they're spending and where?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Yeah.

Darrin D. Peller

Barclays Capital, Inc.

Q

You guys see the card number and where it's being spent and how much? Merchant sees key level detail obviously, but only what's being spent in their store. The obvious question is really Apple. I mean, they've made a pretty clear

statement that they're not going to see data, A, do you think that's realistically going to happen, stay that way in the next few years, and do their – does their technology even allow for it if they wanted to?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

In the Apple wallet, they could absolutely track the data which is what precisely as I said, why Google got into the wallet...

Darrin D. Peller

Barclays Capital, Inc.

Q

Yeah.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

...so they can track the data. I mean, I'm not going to put words in Apple's mouth, I get into trouble every time I do that, but I think their DNA has been and they've stated publicly that they're not in it for the data, that they're going to protect their consumer in that regard. I think every variation of the model that you'll see implemented will look at data along that broad spectrum where Google's 100% into it, to monetize that data because that's their model. They're an advertiser to the Apples and other wallets. So, say, actually, we're here to sell devices. We're here to provide this vertically-integrated experience, and we're not here to see the customer data.

Darrin D. Peller

Barclays Capital, Inc.

Q

In merchants, is there any concern that from Google, that merchants might push back just given the fact that every part of the reason, I think Apple stayed away from that...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right.

Darrin D. Peller

Barclays Capital, Inc.

Q

...is to enable merchant acceptance.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

And arguably, MCX has raised that as an issue.

Darrin D. Peller

Barclays Capital, Inc.

Q

Right.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

So, from our perspective, where we start, and I said we will be careful about it, it's the consumer's data. So, I'm the less concerned about the various data usage models out there. As long as everyone understands the rules of the road...

Darrin D. Peller

Barclays Capital, Inc.

Right.

Q

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

...that it is double opt-in, permission-based, et cetera, et cetera, that the consumer is actively participating in the usage of that data. That's really where I think about it and I think if you do that, then I think a lot of these models can be supporting [indiscernible] (26:50).

A

Darrin D. Peller

Barclays Capital, Inc.

Let's talk about tokenization moving outside the U.S. Right now, it's – I mean, there are some elements of it outside. We just met with Visa Europe, and they indicated it'll be really launched in Europe in April to us. And I thought it was interesting in that there was a delay. First of all, why was there a delay in the implementation of it?

Q

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

Yeah.

A

Darrin D. Peller

Barclays Capital, Inc.

And then may be just talk a little bit about if we should expect to see a similar model around tokenization.

Q

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

Right. So, I mean, the first thing Visa did when we developed the token spec was we walked across to MasterCard and American Express and said, let's announce this together. Let's have the same standard. This is nothing to compete on. We're going to grow the ecosystem. And they agreed, and so a tokenization standard was born a little more than a year ago.

A

We spent a lot of time, all the networks, doing a lot of things for the first time with Apple Pay. So, the reason why it wasn't turned on internationally immediately is because we were doing a lot of things for the first time. And then you think about it, we launched with the big four banks, five banks. We're now launching dozens of banks a week. But there's thousands of banks, so we've got to turn on in the U.S., right?

Now, we've got Samsung Pay, right? That's a second implementation. Google, not far behind. The implementation of Apple Pay in European markets, tokenization, that's got to be rolled out globally over time.

Darrin D. Peller

Barclays Capital, Inc.

There's just a lot.

Q

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

It's a resource issue. It's literally, anything more and we're just going to fall over.

Darrin D. Peller

Barclays Capital, Inc.

Q

All right. Makes sense. Look. Shifting gears for a moment. We've seen EMV obviously become a bigger and bigger topic. As we see, we're getting closer and closer to the October 2015 deadline in the U.S. for its rollover here. With that in mind, talk a little bit about, A, is that really going to help adoption to mobile, just given that the rollover of those terminals, the turnover of those terminals might be more NFC-based? And really, where you see us in that progress?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Nice. It's a good question. So, we can't buy a terminal today that's not both EMV and contactless. So, by definition, if you're investing to upgrade into EMV, you're acquiring NFC capability, right? So, I think that is going to drive a lot of merchants to turn on NFC because they're turning on EMV anyways, and it's the same service call and the software flash and a bit of training for their staff and they can have both EMV and NFC and then why wouldn't you, right? Now that you've made the investment in infrastructure, right?

Number two, I don't know how many people spend a lot of time in Europe that kind of dip and PIN. It does get clunkier than tap and go, right? And so, I think there's going to be consumers looking for that opportunity in this EMV environment to say actually you know what, I want to go leapfrog from mag stripe right to mobile because I like tap and go.

Darrin D. Peller

Barclays Capital, Inc.

Q

Sure.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right?

Darrin D. Peller

Barclays Capital, Inc.

Q

Yeah. In terms of the actual security around it, I mean, what is the fraud level that's benefited? What is the fraud level benefit value when you...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

So card-level fraud in EMV is almost zero.

Darrin D. Peller

Barclays Capital, Inc.

Q

Okay. Now, some of that shifts that fraud may shift online though...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

And that's – in fact, we're seeing that in EMV markets where it's just – again, because of all of the dynamic security around EMV, fraud rates at the point of sale or card-based fraud rates at the point of the sale go almost to zero. And so all that fraud, all those efforts do move to online which is why when we think ahead about EMV being implemented, we're spending most of our time going, okay, we know fraud is going to try to move online.

How can we use mobile biometrics, [indiscernible] (30:16), device ID, chip ID, location, MSI, SDN, combination of the above, to take fraud now out of the e-commerce world as well? It's going to get easier when it moves from the big screen, right, and some of the limitations that a browser has to the small screen and all those benefits of a mobile phone.

Darrin D. Peller

Barclays Capital, Inc.

Q

Yeah. Is the chip and PIN versus chip and choice discussion even ongoing anymore? I mean, it feels like – it's more like if it's under a certain size of transaction...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Right.

Darrin D. Peller

Barclays Capital, Inc.

Q

...you're probably fine to just...

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Yeah. So we – I mean, we've long said it's chip and choice. I actually think that ideally, the no-signature require, because think about it, whether it's an NFC transaction or an EMV transaction, I'd like to see whether we're comfortable with those no-signature required levels go up because it takes that last piece of friction out. It literally is tap and go or dip and go as opposed to PIN or signature and I said, we support choice. I just think we want to take all of that and kind of put it in the background and make it as seamless as possible.

Darrin D. Peller

Barclays Capital, Inc.

Q

So may I ask you just technologically, where does the fraud show up on CNP? So back to that again, I mean if you're talking about this fraud from EMV shifting online, where does it – where is the security the weakest? Where in the link?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

I think we spend less time thinking about the individual being compromised online. It really is around the hacks and the mass who are going after the merchant's databases. I mean that's really where the big attacks are. It's not you cloning my card and going online. It's the merchant attacks.

Darrin D. Peller
Barclays Capital, Inc.

Q

Make sense. So shifting gears for a moment, what keeps you up at night? I mean, worries about other technologies out there. I mean we have a big panel on ACH later with Federal Reserve and clearing house and NACHA and [indiscernible] (32:08) Just what are your thoughts on that topic and then really, more broadly, disruptive technologies?

Bill Gajda
SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Okay. So I'll go on record saying that ACH doesn't keep me up at night before your panel and here's why. So, ACH was never designed to be a real-time clearing settlement network, right? So, it was never designed to support 45 million merchants. It was designed to support a few thousand banks, not really real-time, not all the rules in place in terms of dispute resolutions, chargebacks. How do you do international payments because there's some national ACH that look and feel the same, but it's not like they connect in that physical sense or even a contractual sense.

And so, I think that there are long-term disadvantages for ACH to really replicate what we've done at the network level, for further reasons that I just talked about. So, we're going to see continued innovation on both sides, but I just don't see ACH becoming a threat to the networks.

What keeps me up at night? I'm encouraged by the fact that most of the innovation I see right now really does want to use our rails and innovate on the edge. Obviously, Apple Pay is an acknowledgment to that. I think tokenization actually will encourage people now to innovate on the edges and use our rails because they're scalable, they're international, the rules have been written, et cetera. So, I'm encouraged that they don't see any existential threats to the networks.

What I worry about is the pace of innovation. I mean, Visa, as much as anybody in the space, has got to continue to invest to kind of keep up. I mean, that's a challenge for us, is falling behind in terms of billing the APIs so third parties can innovate. So, they're not looking for alternatives, continuing to invest robustly as a network. So, for me, we just can't fall asleep on a switch.

Darrin D. Peller
Barclays Capital, Inc.

Q

Internationally, there's definitely different approaches in more of the emerging – some of the emerging markets for payments beyond what we see in the developed markets, or on NFC for instance, what are some of those that you think sort of stand out that are interesting to you to help penetrate some of that 85% of cash around the world?

Bill Gajda
SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

There's a couple of them. One is that we haven't talked about much is mobile point of sale. So, all of us here are familiar with Square. Sometime this year, Square is going to become the tenth largest merchant anywhere in the Visa network after -

Darrin D. Peller
Barclays Capital, Inc.

Q

[ph] Speaking to panels (34:31).

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Okay. So, you'll probably have an updated number and it'll be way bigger than I said because it always is, I always underestimate. So, if – but if you think about that, Square enabled primarily merchants who only accepted cash and check before. About 85% of it, we figure, is new volume on the Visa network because they've enabled cash and check merchants. So, we look at about 100 Square-like companies around the world. And if we talk about 38 million or 39 million places you can use your Visa card today, it will double to 80 million in five years.

Darrin D. Peller

Barclays Capital, Inc.

Q

Wow.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

So, if you think about that number of acceptance notes – and in most markets outside of the U.S., it's not that long tail of informal merchants. It's the shopkeeper in India that isn't accepting Visa now because the terminal is expensive. It requires 100%-on electricity and 100%-on telephony, or I can have a near-free device, right, and I can accept payments.

And so, we're going to see India, as an example, go from 700,000 acceptance points or 800,000 acceptance points, where we have 300 million cards, 700,000 acceptance points or 800,000 acceptance points to 5 million or 6 million in the next five years. And so, in terms of the displacement of cash and check, mPOS is huge in terms of doubling the number of acceptance points.

I think the second one is the whole area of person-to-person payments. And you talk about emerging markets. That's really – what started these emerging markets to take off was you're able to put money on to a very basic phone using this human ATM, this agent network, and send money.

Darrin D. Peller

Barclays Capital, Inc.

Q

Sure.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

So, workers who came in from the countryside into the cities could send money home to their families in seconds, avoid paying usurious rates to bus drivers, avoid the security issues around cash, avoid the time displacement...

Darrin D. Peller

Barclays Capital, Inc.

Q

Though mostly domestic only.

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Mostly domestic. What we've started to see because of the OCT transaction that we've opened up on our network is the opening up of some of those big cross-border migrant workers. Say Dubai-Philippines, Dubai-Malaysia, Dubai-Pakistan, Russia-Ukraine, and then think about what Facebook announced and what Square's announced

with the new service, the whole idea of social payments. Well, that's the third big cash base. It isn't getting further at that traditional buyer and seller, but I owe you \$20 because you paid for dinner or I'm paying you to babysit or whatever, those social payments that we make every day, those are almost all cash, and I think that's really the next place where you're going to see cash and check displaced.

Darrin D. Peller

Barclays Capital, Inc.

Q

That's great. Why don't I take this time now, we have about four minutes left, to open it up to the audience to see, if there's any questions?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

There's one on this side.

Q

Hi. Could you just talk about like Apple Pay, Samsung Pay, Google Pay, and the rollout of those along with tokenization into Europe's markets beyond Europe, and your expectation there and maybe try to work in China a little bit?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

Work in China? Yeah. So Apple Pay in Western – in markets in Western Europe in April as part of the tokenization launch, Samsung Pay towards the summer here in the United States, and we're looking at markets in Europe and Asia for later in the year, Google Pay later this year as well in the U.S. The tokenization broadly, we're focusing on the markets where it makes sense initially, and then think about those markets as – because the first use case is kind of these mobile wallets at the point of sale. We're looking at some of the sophisticated markets in Asia, looking at Brazil as an example in Latin America. And I think that's – again, just because of the resource constraints that we have, that's going to, I think, fully engage us for the remainder of this year.

In terms of China, obviously, the WTO finding was positive for the networks. We're still waiting for the initial publishing of the rules of the road in terms of how the networks are going to be able to enter China, what it means in terms of local processing, how they're going to define competition broadly in China. Those haven't been published yet. I think there were noises made late last year that they were going to be in 2015. We just don't know whether that's next week or sometime in November, and we just have to wait and see what the Chinese regulator comes back with before we understand how we can enter those markets and how the competitive environment will change there.

Darrin D. Peller

Barclays Capital, Inc.

Q

Makes sense. Other questions? While we're waiting, I mean, I just have a question on Visa's – how does Visa consider different types of acquisitions? We've seen actually both you guys and MasterCard doing a few more tuck-ins, and it's mostly on different types of technology we're seeing. Can you just talk about that?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

I think that will continue. I think we will still look to invest and acquire, so we've been [indiscernible] (39:39) fundamental. We've invested in LoopPay. We're actually going to try to ramp up our startup investments to get in earlier on some of these emerging technologies to guide and learn them. So, we'll be a strategic investor. We get in early to advise them on how to get the scale, to fix their technology, sure we think is promising. And so, you'll see us as a more active investor, nothing transformative. To your point, I think you said tuck-ins, I think it is technology that augments our core business as opposed to something that's transformative.

Darrin D. Peller

Barclays Capital, Inc.

Q

Okay. Any other questions? All right. When we wrap it up there. If everyone could pick up their handheld device, we're going to end up with a few questions. Question number one is, as investors in Visa, what do you consider to be near-term focus: revenue growth, operating margin expansion, EPS growth, or return of capital?

Bill Gajda

SVP-Devices, Platforms & Mobile Operations, Visa, Inc.

A

I imagine you're an investor of Visa and you have an opinion, it's over-weighted, possibly.

Darrin D. Peller

Barclays Capital, Inc.

Q

Revenue growth is by far, number one.

Next question. What investments do you think Visa should make to create the most long-term value for the company: investments in payment security, investments in digital or e-commerce initiatives, international growth, or other?

Investments in international was number one, followed by investments in digital and e-commerce.

Next question. What do you perceive to be the most significant near-term risk or challenge for Visa: number one is industry regulation, number two is macroeconomic slowdown, number three is disintermediation from newer and emerging payment models, and then lastly is pricing power. I can't imagine pricing power is going to take in much.

Macro is obviously the largest with 53%, followed by disintermediation risk with 23%.

Darrin D. Peller

Barclays Capital, Inc.

All right. Bill, well, thank you very much for joining us today. Jack, thank you.

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