

27-May-2015

# Visa, Inc. (V)

Sanford C. Bernstein Strategic Decisions Conference

## CORPORATE PARTICIPANTS

Charles W. Scharf  
*Chief Executive Officer & Director*

---

## OTHER PARTICIPANTS

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

---

## MANAGEMENT DISCUSSION SECTION

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

All right. Good morning. I'm Lisa Ellis, Bernstein Senior Analyst covering payments and IT services. I'm delighted to be joined today by Charlie Scharf, the CEO of Visa. In keeping with the conference theme, the focus of our fireside chat today will be on Visa's strategic opportunities and challenges. And as always, questions from the audience are welcome. Please write them on the note cards and pass them to an usher at the end of our row and they'll run them forward to me.

## QUESTION AND ANSWER SECTION

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

So Charlie, let's start off with some of Visa's strategic global markets. How about China? China recently announced that they'll be opening up their domestic market to foreign players, so what are the next steps for Visa to participate locally in China?

Charles W. Scharf

*Chief Executive Officer & Director*

A

Sure. Yeah. So, I guess let me just start by talking for a second about just our views on the long-term opportunity and the keywords there are long-term opportunity for us. So just as a refresher, today we cannot compete in the domestic marketplace in China. We have a significant business in China today, but it is either issuing cards or co-branding cards alongside China UnionPay for those cards to be used for Chinese travelers outside of China. Great business, business is growing extremely well. It's enabled us to build really strong and deep relationships with a very broad number of Chinese banks.

But when people think about China, they think about the opportunity inside the country. The State Council announced, I guess it's almost a month ago now, that they will be opening up the domestic marketplace to competition. What they announced was a process that companies could go through both domestic, Chinese domestic companies, as well as foreign companies in order to get a license in order to process as we do.

I would describe what they announced as it's certainly – it's a huge step forward, because it does lay out a process, but there are a lot of specifics that we don't yet know. We expect to get more details in the June/July-ish timeframe. We've been very, very active in having dialog with the Chinese government and other partners there about exactly the way they see the market developing, and we very much want to participate in the marketplace. I think we'll have the opportunity to participate in the marketplace, but just recognize that what's being laid out is the process to compete.

So we would expect there to be more clarity, as I said, June/July. You will then be able to apply for a license. Then there will be a period of time to build out the capabilities to satisfy the requirements, some of which we know, others of which we don't yet know. And so it seems like the earliest you'd be able to participate domestically, if you were one of the first people to get a license, would be the end of next year.

And again, that's all positive, it's all interesting, but there is a long tail here of us building a business in the marketplace. There's a lot that we need to do even beyond the application process. We don't have the kind of acceptance that UnionPay has today who we have to compete with. And so these are things which, when we think about what the opportunity is, we say, listen, it's great that we're going to have access to the marketplace, but we need to build our capabilities there over a long period of time and recognize that that's how we'll get paid, not in the short term.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

Good. And talk a little bit about China UnionPay, because with the opening of the domestic market it might imply that UnionPay will start to compete more aggressively globally against Visa. How are you starting to see them outside of China?

Charles W. Scharf  
*Chief Executive Officer & Director*

A

Absolutely. And we have a very – the relationship that we have with UnionPay, it's an interesting one because we partner with them in many of the cards that are issued in China, so those cards can then be used outside of China. Every time I go to China, I meet with the UnionPay people. We have, I would describe it as, a very good working relationship at this point. But they're also very, very clear, both they as China UnionPay and the Chinese government that they want China UnionPay to be one of the big significant global Chinese companies.

So as they built their business within China and they've used ourselves and the other networks to build the business outside of China, they continue to build their acceptance capabilities outside of China as well. So whether you're right over here on Fifth Avenue or Madison Avenue and you're walking up the street, you'll likely see in the stores UnionPay accepted signs, when couple of years ago, you didn't. You'll see the same thing in many other places around the world which are significant tourist destinations for the Chinese travelers. And so that's been the case, it's growing, and we would expect that to continue to grow.

And then, the question is, well, when do they start issuing cards, which then make them very significant competitors for us in markets away from the Chinese travelers. And that's a different story. It's an ambition. The places for them where it's most logical to go are places where there are significant Chinese population outside of China, because then those cards could be used everywhere within China when they go back and visit as well.

But that's a very different kind of conversation having with an issuer than you have with a merchant. When you got a merchant, you say, you should accept our cards because we're then going to open up this new set of potential customers for you, which might not be able to come in and use a credit or debit product and, by the way, we're going to price it really cheaply for you, that's not a hard thing for merchants to decide to do. For an issuer, it's very, very different.

Whether you're going to an issuer like Bank of America here in the United States or some in another part of the world, there you're saying, don't issue a Visa card with all the capabilities that I know Visa has and that I trust, all the security standards, all the things that the consumer likes about the card, but issue a China UnionPay card instead. That's a very, very different kind of conversation and requires a very significant leap for [ph] them to take (06:42) because they're entrusting their client's relationship to UnionPay as opposed to Visa. And that's something which we welcome the competition, but feel very comfortable in our capabilities.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

All right. Well, we can't leave China without asking about Alipay.

Charles W. Scharf  
*Chief Executive Officer & Director*

A

Yeah.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

What's the status of your relationship with Alipay?

Charles W. Scharf  
*Chief Executive Officer & Director*

A

Alipay is a – I'm not sure what relationship means. Alipay has built a great business, effectively building a network inside China in the online space. They have clear plans to be in the physical space within China and that is what it is. And that's competition for any other network that participates in the local Chinese marketplace.

The success that they've had within China has been because they've really built an alternative network over a long period of time building these connections with banks within China. And the way that they've constructed the network and the way the transaction works, they've gotten Chinese consumers comfortable with that. It's very different once you leave China in terms of, again, what the competition is, what the network business looks like and what consumers have access to.

So we have ongoing conversations with Alipay. And it'll be interesting to see how they choose to go about benefiting Alibaba in the world outside of China. We can either be competitors or we could enable them, but that's to be seen, and it's not completely clear at this point.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

All right. Well, moving around the world, let's go to Europe. You know I have to ask.

---

Charles W. Scharf

*Chief Executive Officer & Director*

A

Yeah.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

So is there anything – any new news to tell us on the status of the Visa Europe Put Option?

---

Charles W. Scharf

*Chief Executive Officer & Director*

A

No.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

All right.

---

Charles W. Scharf

*Chief Executive Officer & Director*

A

Just very briefly for everyone, I'll try and keep it brief. When Visa merged the entities around the world and ultimately went public, we needed the approval of Visa Europe to do that. As part of that negotiation, we wind up with something which appears very one – lopsided, because it is, which is they have a put to us, but we don't have a call. We can only call if they do terrible things to the brand, which they won't do. It's highly unlikely that – they won't do.

So they have this put. There's an established mechanism to figure out what the pricing is, but they need an 80% vote of their board in order to exercise the put. Getting 80% of anyone to do something is a hard thing, let alone Europeans. And we would love them to exercise the put. We think it's the right thing for the European banks to get access to our broad set of capabilities over a long period of time.

We certainly think it's good for us strategically, but we don't control it. And so, we work very, very closely with the Visa Europe management team to do everything we can to appear as one to global clients, and give them access to our capabilities. We'd rather have a Visa Europe which is very strong, which we help enable, that we ultimately pay more for, because the price we pay is tied to their earnings capacity, than the opposite. But honestly, they need to vote and there's not a lot that we could do other than run a great company and say, that's what I want to be a part of.

Lisa D. Ellis

Sanford C. Bernstein & Co. LLC

Q

Thank you. Before we leave Europe though, can you comment a little bit on the regulatory environment in Europe, both how you think that market will evolve now that the EU has passed the recent payment regulation; in particular, what's going to happen with all the domestic switches? And then maybe a little bit more broadly, because the antitrust suit against MasterCard has been back in the press, and sort of that component of the regulatory environment as well.

Charles W. Scharf

Chief Executive Officer & Director

A

Yeah. So there's – as you described, Lisa, there's a lot of regulatory activity in Europe today. In terms of what it ultimately means for networks like ultimately ourselves so we can compete there or for Visa Europe, hard to say in terms of how it will play itself out. I think if we had to say today, it's probably something like a neutral, maybe a slight positive. Although again, I just want to make clear, since we're not there today, we're not the experts in it as others who compete there.

There's tremendous opportunities for growth. There's not the widespread acceptance that you see. And as acceptance costs come down, driven by this regulation, there's a lot more reason for merchants to want to accept our products. There is a lot of opportunity to grow the business, certainly on the credit side, across the markets. And also, I want to point out that while it appears that there's significant reductions because you just think of the 20 basis points and 30 basis points, a lot of the markets were already priced at a very, very low level.

When you've got that kind of pressure on interchange levels, the ability for stand-alone networks to build and invest becomes very difficult. And so obviously, the benefits that we have are that we get to build capabilities that can be deployed across the world and everyone across the world gets the benefit of that. So I'm sure we'll talk about some of the other countries where we compete, but we compete with local switches in many, many places around the world. And we don't compete on price, we compete based upon capabilities, and the same thing would happen in Europe.

Lisa D. Ellis

Sanford C. Bernstein & Co. LLC

Q

Can you comment on antitrust? I think that regulatory angle raised a few eyebrows now that it came back around. Has that ever come up in the context of Visa?

Charles W. Scharf

Chief Executive Officer & Director

A

We have – it's public, we've got similar suits that we're engaged in as is Visa Europe and they'll play themselves out.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

Fair enough. All right, let's move around the world to Brazil. Talk a little bit about the strategy in Brazil. I think their card penetration is maybe around the 20% level compared to over 50% in the U.S. So what does Brazil look like?

Charles W. Scharf  
*Chief Executive Officer & Director*

A

Yeah. So Brazil is an interesting place because it's obviously large, it's volatile, but it's a significant market for us today. The market today, as you point out, the 20% is volume, payment card volume is on cards today, of which we have about a 50% share across all competitors. But more interestingly, I think when you just think about that 20% is, 60% of the population has cards today. So the opportunity to continue driving the penetration of our products is very, very significant, both in driving more spend to people who have cards today, as well as enabling people that don't have our products today in the marketplace, which is that 40% of the population.

There too we compete with local networks like Elo. It's a competitive marketplace, as we've seen, with the Itaú relationship migrating to MasterCard. But again here, we view ourselves as having the best products in the marketplace. We've got deep and strong relationships. We've competed with these smaller networks. And the capabilities that we're building, especially in the e-commerce space, do distinguish us certainly versus the local networks.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

Good. And how about we use India as an example of an even more emerging market, where I think card penetration is in the low-single digits at this point, but yet, a domestic network like RuPay has started to gain pretty material traction. So talk a little bit about the dynamic in India.

Charles W. Scharf  
*Chief Executive Officer & Director*

A

India – so it's interesting. I guess I'll start with India is a small market for us today, but when you look at growth rates, it's growing very, very well. But the issue for us is can we take this relatively small market that's growing very well and figure out how to – working with India to create some step functions not just for us, but for all of the electronic payments companies out there.

As you point out, 4% or so of the payment volume is on our cards; another 8% or so is on other electronic cards. So you got 88% of what exists in India is in the world of cash and check. And so this is an example where we really don't think about the opportunity as us versus RuPay versus a competitor. We think about all the things that we all need to do either individually or working jointly with the Indian government, with the banks in order to drive acceptance out there, drive penetration of our products, so we can migrate more towards these products.

Something like 30% of what gets done in e-commerce is done in the rural parts of India today. Our products in e-commerce are far superior to local networks. And as e-commerce becomes more and more important and the rural populations become more and more important, they need products like ours. It's not easy. It's challenging. The government does care about RuPay and we understand that. And so we're – again, that's not a question of us or them, it should be how we all do things together and all prosper from it.

But there too, I think it's a – you got to think about it a little bit like China for very different reasons, it's a complicated place to do business. It's not the easiest place to get things done. But over a long period of time, I wouldn't say three to five years, I'd say well beyond that, it should be a great opportunity for us.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

Terrific. Let's just shift gears a little bit to some of the other strategic areas for Visa. One of – your merchant relationships have been a really big focus ever since you became CEO. Can you just give us a bit of kind of – you've been in the seat for a couple of years, how do you feel about the progress you've made with direct-to-merchant relationships and what does that strategy look like?

Charles W. Scharf

*Chief Executive Officer & Director*

A

Yeah. I feel – so just back up for a second. We were owned by the issuers for our first 45 to 50 years of our existence. The benefit that we provide to the world of commerce is we sit between the issuers and their customers who use our cards and the acquirers and the merchants. And so in order for us to be as successful as we can possibly be, we want the people over here who issue our products and use our products to want to do that and we have people on the other side to want to accept our products.

And the reality is, when I got to Visa, almost all of our effort was dedicated towards working with issuers day in and day out. Our value proposition for merchants was focused on acceptance. It was you get access to the entire credit line, you get access to the entire bank account, you don't have to have all this infrastructure, deal with cash and check, and that should be a good enough reason for you to want to accept our products.

Over a – as countries and companies are emerging, they get that. And we see it in the developing world, where people gladly pay what it costs to use our products as well as the developed world here where we see emerging companies want to use square and pay the 2.75% price, which is very, very clear to them because they understand what the value is. Over a period of time, you've got merchants sitting there saying, well, what are you doing for me, because it appears to be very, very expensive. And the argument of well you get access to the bank account and credit line, that isn't enough any more.

And so we're very, very focused on taking the capabilities that we have and building other capabilities to show up at a merchant and say don't accept us just because it's better than cash and check, accept us because we're actually going to help you build your business in a way which is better than either using cash or using someone else's network. That's a huge mind shift change inside Visa. It's a huge organizational change.

So we now have a significant merchant organization inside the company, which is global, where we house all the capabilities that we can go to a merchant and have that kind of conversation with them. The capabilities and the products that we're building out, you're just starting to see come to marketplace. They take a period of time to do it, but they include things like fraud detection tools, where we've rolled out something called Visa Transaction Advisors, where we go to gas stations and we provide them risks scoring and that has reduced their fraud by 25%.

We go to merchants and we say, we can do work for you to help you understand what value you're getting from your digital advertising. And there are plenty of people that will tell you what happens in terms of how many clicks you get, but there are really very few, if any, who could tell you whether it results in something actually turning into a sale. We can do that for you. We've done things for merchants where we just make their lives easier. An example, which I referred to recently is, things like airlines where every time you purchase something from an airline, it effectively shows up as an airline ticket. The reality of the number for those that fly frequently, there are

more transactions that are non-airline ticket with airlines today than there are the actual airline ticket or the ancillary fees in terms of numbers of transactions.

And so to help the airline understand their own business, we're creating separate product codes. So things like that we've never had that kind of conversation where we're talking to them about helping them understand and analyze their business to help them figure out how to grow and whether it's in providing the actual service or creating the infrastructure for them in a way that we would've never had the dialog in the past.

So it's things like that which you're starting to see in the marketplace, but I also just think about this – this is a long-term build. It took us 20 years to get in a position with the merchants where they didn't think that we were adding enough value. You just don't stand up and say, we want it, we want to add value, look at these couple of examples that we're doing for others. We need to go merchant by merchant and we need to show up and provide them that value, ultimately, which is going to help them ultimately sell more, which something like Visa Checkout does as well.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

Good. And do you consider a lot of these services that you were describing kind of part of the account management function or do you intend to directly monetize them?

---

Charles W. Scharf

*Chief Executive Officer & Director*

A

I think firstly – first and foremost, the most important thing is to support the price that we have in the marketplace. And the things that we're doing, you could say, well, why don't you charge for every one of those things because you're not doing them today and just think about the conversation I just had especially on the merchant side, as we've got merchants that question the value that they're getting from the size of the merchant discount rate.

And so we do have the ability to provide a lot more value and that is job number one. That doesn't mean that if we provide clear, incremental value like Visa Transaction Advisors where we can clearly reduce their fraud that we shouldn't share in that in some way, but that's not the reason to do this, and I wouldn't think about these capabilities as additional revenue drivers. We make plenty of money doing what we do, as people point out to us all the time, both in the public and for the people who we have contracts with and the conversation we want to have is, yeah, it's because we're providing all these things for you.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

All right. So you raised Visa Checkout, so let's transition over to some of the digital initiatives that Visa has under way and we'll start with Visa Checkout. Talk a little bit about how the deployment of Visa Checkout is going.

---

Charles W. Scharf

*Chief Executive Officer & Director*

A

It's going extremely well. I just – and I'm sure we'll talk more about our broader digital efforts. So just to put it all to perspective, we think about what we have to do is be as successful in the digital world as we've been in the physical world, both as a defensive mechanism because commerce is moving to digital platforms, either in addition to physical or in lieu of. And that for us is therefore a place that we have to be. We also know that as

commerce moves to digital platforms that provides just incremental opportunity for us to take advantage of transactions that would've been cash transactions before.

Visa Checkout is one piece of that. It's not the entire strategy that we have. It is in a browser or in an application-based solution where you wind up on a checkout page. One of the great things that we've done for years and years has been to provide easy, broad acceptance. That's not been the case in the online world for us. If you wanted to use our products online, you had to input your account number and billing address and shipping address and CVV and expiration date. And as devices get smaller and smaller, it gets far more difficult to do.

So the opportunity for us to create something which is easier to use is something that the consumer really wants. And if it helps merchants actually get more transactions actually closed when they're put into the shopping cart, that's something that they very much want to do. And what we're seeing in terms of the 4 million or so consumers that we have signed up and the merchant acceptance that we have is people starting to see that value. But there's a lot more for us to do, but the value proposition is becoming extremely clear to them.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

And what are the types of things you're doing with issuers or on the merchant side to encourage them to begin adopting Visa Checkout?

---

Charles W. Scharf

*Chief Executive Officer & Director*

A

Yeah. I personally on this one would spend more time. We have a debate internally on this, because we're a network and you need users and you need acceptors. So you need the issuers as well as you need the acquirers and the merchants. But ultimately, we really need the merchants to accept our products before we can broadly go tell consumers, this is a product that you can use in as many places as you want.

Ultimately, what you've got to prove to the merchant is, it's good for them. So what we did is we created the product. We created a product which is easy to integrate. We created a product which we think is going to help them ultimately sell more. And we just released some statistics which say that when people use Visa Checkout, the 70%, which is about two-thirds more than when people just use traditional means, actually wind up paying for a transaction once they put things in a cart 22% faster than traditional means and they buy about 7% more.

So we can talk all we want to merchants about co-marketing and these things that we are doing to help them help their brand and help build their business, but ultimately what they want to do is, when someone puts something in a cart, is they want it paid for. And to the extent that we can show them that our product does that, there's no greater thing that we can do. And so the facts speak for themselves. And by the way, our numbers are higher than what you see for all the other competitors out there.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

You recently announced that Visa Checkout is now tokenized. How does that change things?

---

Charles W. Scharf

*Chief Executive Officer & Director*

A

It's not tokenized yet.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

Okay.

Charles W. Scharf  
*Chief Executive Officer & Director*

A

We are in the process of tokenizing it. It will be tokenized by the end of the summer or so. And listen, what it does is it makes the transactions more safe and secure. And so if you have the opportunity to buy something and you've got a series of ways to do it today, where the account number is moving throughout the ecosystem, you're going to have less comfort than if it's tokenized. So it certainly creates the opportunity for a perceived better experience for the consumer.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

And so more broadly, what are the advantages, in your view, of Visa Checkout versus, say, PayPal or other third-party services?

Charles W. Scharf  
*Chief Executive Officer & Director*

A

Well, first of all, in terms of the actual user experience will translate to how they compare to all the rest out there. And so we can talk about our user experience, why we think it's better than other things that exist out there, which we do. When you go to a checkout screen, if you've been there before, you actually don't see a big Visa button. You see your card with the card art and it shows the issuer's name, as you're used to seeing it in your wallet and it shows our brand as well. When you think about the light boxes that we use, which means you don't have to leave the shopping site to go to another site, which you wonder what's going on. What you have is the commerce site is still there behind you, our light box comes up.

We have all those things that we can certainly talk to why our experience is better. Ultimately, it's proving itself out in the numbers. But the thing that I think is important for us is we're not doing this, we're not building Visa Checkout and investing in Visa Checkout because we want to take business from PayPal or anyone else. That's not the way we think about it.

I go back to what I said before, which is commerce is moving from the physical point of sale either to the digital channel on its own or digital in conjunction with the physical point of sale and merchants want a network to have capabilities that can assist them across all those different channels, and that's the opportunity for us. It's the opportunity to take advantage of all that commerce that exists and we think that there's really no reason why people should not be using our solution.

Remember, even for a PayPal, something like half the transactions are still on general purpose cards, which, we're like half of those transactions. And so why would you want to use your Visa card through someone else's wallet? And the reason why is because it's been a better experience than they've been able to do in the past. That's not the case as we sit here today with Visa Checkout and with these other mobile commerce experiences that you're starting to see. So again, I think a byproduct of what we're doing is better competition with others out there, but it's to take advantage of the digital opportunity.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

Good. And are we going to start to see Visa differentiating your offer through Visa Checkout compared to like through an alternative third-party service, meaning fee rates or fraud detection services or encryption services?

Charles W. Scharf

*Chief Executive Officer & Director*

A

Yeah. I think some of that stuff is to be seen. I think, certainly, the conversation that we have with merchants around Visa Checkout is to create a different experience. Whether it is something that's promotional or something, again, which drives – which it becomes clear to the merchant that because they did this with us, it creates more sales for them. But it's – so, we're doing Visa Checkout because it's so important broadly for us. But just in terms of how it plays to the merchant strategy, it becomes a very, very different kind of conversation.

Historically, our conversation with merchants was with the assistant treasurer's office, which was very focused on acceptance and acceptance costs. We're talking about building all these other capabilities, but at the same time, we now have Visa Checkout. The conversation with Visa Checkout isn't one about acceptance costs. The conversation that we have on Visa Checkout is about selling more and it's the proof points that exist in the marketplace, and it's marketing ourselves along with them. And so, it's a real proof point in the marketplace around, we want to establish this very different kind of relationship with you.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

Good, all right. Before we move off the merchant-related initiatives and the online-related initiative, I will layer in one from the audience, which is, over time, what are the implications of both your merchant initiative and then things like Visa Checkout for your relationship with the merchant acquirers?

Charles W. Scharf

*Chief Executive Officer & Director*

A

It's a great question. And so, I guess, let's just be really clear, which is we love our business model. We love the way we interact with acquirers around the world and we love the fact that we can leverage the issuing community to then have our products pass-through through all of their relationships, right? We have 2.5 billion cards outstanding. We're accepted at 36 million-ish physical points of acceptance, plus another 5 million-plus mobile points of acceptance. We can't do that on our own. We have 10,000-ish, 10,500 people. That's not what we're tooled for. We're tooled to be a B2B franchise that relies on the issuing and the acquiring community.

And so as we've talked about building our merchant efforts, we've done in a way very, very openly, talking with acquirers about what we're doing and why we're doing it. What we're doing does not intend in any way, shape or form to cut the acquirer out of the economic proposition. In fact, it should just be the opposite.

If you sit here and believe that merchants have choices, they're thinking about whether or not they want to drive business towards a traditional network like us or do something totally different, things that we could do to add value to create the stability of that relationship and ultimately grow it is ultimately good for an acquirer as well. And that's the way acquirers see it broadly. What we have to ensure we do is to continue to have the dialog with acquirers so that there's no surprise, they understand what we're doing and why we're doing it.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

All right. One last one on Visa Checkout.

Charles W. Scharf  
*Chief Executive Officer & Director*

A

Yeah.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

Would you consider working with MasterCard, with MasterPass and Visa Checkout together much in the same way you did with Apple Pay to compete more aggressively against Pay Pal and other third-party services?

Charles W. Scharf  
*Chief Executive Officer & Director*

A

I think – listen, we compete with MasterCard as we compete with American Express and UnionPay and others around the world. And nothing that we do with them should stand in the way of competition that either issuers or merchant sees. And so we won't do anything which infringes on that dynamic. That is important to exist in the marketplace and that's the reality of who we are.

Where we do work with MasterCard and American Express and the other networks around the world is around on standard-setting. And that is what we did not with Apple, but we did it with tokenization, which is just like historically when our businesses was set up and when EMV happened, that when we create these ways of doing business, we want to create standards so it's easy for issuers, acquirers and merchants to integrate ourselves as well as the other networks that exist out there.

So things that relate to security and things that relate to standards, we want to work with the industry on, but we do it because it's easier and good for clients out there. And so to the extent that there was something that was standards-based, which the merchant community or the issuer community would both sit there and say, that's a good reason to do something, that would be a reason to work together, otherwise, it's about competition.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

All right. Switching gears over to the in-person mobile offering, so Apple Pay, Samsung Pay, et cetera. Why don't you give us the latest and greatest rollouts there?

Charles W. Scharf  
*Chief Executive Officer & Director*

A

Well, the only significant rollout to this point, I guess, is Apple Pay, which has been – the way I think about it, I think it's been hugely successful. And I don't personally think about the success based upon the numbers of transactions that are going through it today or the number of cards that are registered on Apple devices.

The important part about Apple Pay to us is a real proof point in the marketplace for people broadly to say everyone's been talking about mobile. People have been talking about mobile as a solution without a problem. And all of a sudden, what they see is an experience that really is better than what they have. And it's – Apple is so good at doing that time and time again, and that's what they've done. And as they've done that, you get the whole world thinking about, okay, we now need to think differently about when we want to bring things to marketplace.

Part of their ability to do that was us working with them on tokenization, because Apple Pay and the other things that you're going to start to see in the mobile marketplace wouldn't exist without tokenization. So that was an important stepping stone to enable what these things are. But the idea that Apple Pay exists is the catalyst for

everyone getting products to marketplace, of which you're going to see a significant number between now and the end of the year.

Apple Pay itself, I think we've got 5 million or 6 million tokens provisioned on Apple phones, something like 70% of the transactions or so where the cards are Visa cards today that exist in wallets. And the adoption rate will grow over a period of time. There's not a lot of NFC acceptance here in the United States today. We knew that. They knew that. But we also know that with EMV coming, merchants across the country are replacing terminals and almost all the terminals today come with NFC capabilities. So we would expect to see real usage grow within Apple Pay at the same time that we're starting to see other experiences grow at the same time of which Samsung have said they're one who will be in market.

---

Lisa D. Ellis

Sanford C. Bernstein & Co. LLC

Q

Good. How viable – as Apple Pay has gained a fair bit of momentum and now Samsung Pay is coming for the Android ecosystem, how viable, in your view, are the retailer-specific applications, MCS generally and then specific retailer ones?

---

Charles W. Scharf

Chief Executive Officer & Director

A

I guess what I would say is, there are private label products in the marketplace today. We compete alongside them and have for many, many years. In fact, private label cards existed before our business existed, right? One of the big reasons why we're in the business today is because there were these private label products where the merchants managed their own credit and their own processing and they said, hey, that's not our business, let's do something else.

The reason why we're successful is because of the fact that we've got this open loop nature, the fact that we've got broad acceptance, because that we have products working with our issuers that consumers want to use. And I was thinking – back to when I got into the banking business, the retail banking business at Bank One.

I got to Bank One in 2000, took the retail job in 2002, everyone was talking about getting rid of bank branches and Internet banking, and many people tried to – people started closing bank branches back then and the reality is consumers didn't want that. You can't tell consumers what they want unless it really is better for them. And so we believe that our products are better than all the other closed loop individual store products that exist, albeit that they'll all – there's a place for all of them.

---

Lisa D. Ellis

Sanford C. Bernstein & Co. LLC

Q

All right. Why don't we switch over to P2P? Can you update us a bit? Again, P2P has been in the press because of MasterCard launched their Send offering. So can you give us an update on your initiatives related to P2P?

---

Charles W. Scharf

Chief Executive Officer & Director

A

Sure. I talked about this on our last earnings call. It's just when we think about the opportunities that we have, clearly, the world is growing, clearly, there's still a lot of cash that exist in the world in traditional commerce. Clearly, as the world develops, products like ours provide great opportunities and as commerce moves to digital platforms, again, cash does not work. And so we've got these embedded opportunities in what people think of as our traditional product set.

A place where we haven't had broad participation up till now has been P2P. The capabilities that we have just in terms of our card coverage and the network capabilities that we have make it an obvious place for us to want to do business. And so we are working with a series of – I'll describe them, ecosystems that exist out there, the Facebook one is public where they've started a pilot, where they're creating P2P capabilities inside Facebook that are powered by the traditional networks including ourselves.

And there are series of things that we need to do to continue building out the full suite of capabilities, which are basically push capabilities on a real-time basis across all the interoperable networks that exist. So it is a big opportunity. We've got, I would say, three quarters of the capabilities built today. And between now and the end of the year, the rest of the suite will be built out. And just like in the mobile space, you'll start to see more P2P capabilities that leverage our infrastructure here in the marketplace.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

So one unique aspect to me about the Facebook announcement is that that is, as you just said, powered by debit essentially. So it's a way for you to use your debit products for a P2P offering. Is that sort of the strategy? Should we expect to see more of that particularly online where it's essentially a debit powered back end?

Charles W. Scharf

*Chief Executive Officer & Director*

A

Yeah, absolutely. I think whether it's debit or anything where there is clear store value that exists inside the card, again, those products exist, those relationships exist. The issue is today the way they're used is they're used in a pull basis consumer to business. And so there's no reason why the infrastructure that exist and those core cards that exist around the world can't be used for a debit-to-debit transfer on a push basis.

And when you think about what the Fed is talking about or you think about why people would want to do that, you can go create a whole separate system or something that doesn't exist in the marketplace to try and do that. Or you could to people and say, you have your debit card. If you – if I want to go pay Lisa, why don't I just go send you \$5 off my debit card to your debit card, it's something that people know and it's something that they trust. So we think that we're a likely place for a significant amount of that transaction business to flow.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

And are you...

Charles W. Scharf

*Chief Executive Officer & Director*

A

Can I just say ...

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

Yeah. Go ahead.

Charles W. Scharf

*Chief Executive Officer & Director*

A

And the one thing I think we've got to think about – and this is something that you always have to remember with what we do for a living, is very often you as a consumer don't always see the work that we're doing. So we've got no problems being the power that sits behind something which is delivering something directly to a consumer, whether it's a bank, whether it's a merchant or whether it's a Facebook of the world. And so we don't need to have a product in the marketplace that has a big fancy Visa brand around it as opposed to what exists in our traditional business, which is something which leverages the Visa mark and the Visa infrastructure.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

And are you – the most lucrative piece of P2P is typically the cross-border P2P. Are you – do you have a strategy around going after that piece of the market?

---

Charles W. Scharf

*Chief Executive Officer & Director*

A

Yeah, again, I think it's all hinged on the same thing. It's continuing to build out these internal push, real-time capabilities that we need to have. And then, obviously, the benefits that we have are transactions that run through our ecosystem, run through the banks, runs through all of the controls that banks know how to deal with today.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

Talking about P2P is actually not a bad transition into the commercial market. Can you talk a little bit about – commercial market is one of these where it seems like an enormous opportunity and yet here we are like 40 minutes in and we still haven't talked about it yet. So why don't we talk a little bit about commercial?

---

Charles W. Scharf

*Chief Executive Officer & Director*

A

Yeah. Listen, commercial is – first of all, I should start just by being clear. Our commercial business is growing at higher growth rates than the rest of our business, our consumer business. So we have – we're in the business as are the other material networks. It's important and growing. But it's a little like when we talk about India or we talk about China, we can say it's growing, but we also know the opportunity is much, much, much, much larger than exists today.

And so the question is, is there a broader opportunity? We think there clearly is. This is one of those where I know everyone wants to know exactly what we're thinking about. The moment we start talking about it, we're thinking about A, B, C, D, E, F, and we think it's really, really big, well, that just like tells the world what we're doing and isn't the smartest thing to do when you're running your business.

But I would say that the business historically has been focused on T&E and procurement cards and things like that, corporate travel and whatnot. And we still have an opportunity to do a better job versus our competitors than we've done and you're starting to see that in those growth rates, but there's a much, much broader set of commerce that's occurring that we think could benefit from our network capabilities.

Our products aren't necessarily designed for it today, and that's the work that we're doing. So hopefully, we'll have more to talk about as we continue to build the capabilities. But it is one of the big opportunities along with P2P.

---

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

Yeah. What are the barriers in the commercial market? That's a lot of – a question I get often.

Charles W. Scharf

*Chief Executive Officer & Director*

A

Listen, we don't have – there's got to be a reason for people to want to do it, right? And so while we've got a lot of interconnectivity, the products themselves aren't designed for the size transactions and the types of merchants that would be on either side of this. So really, in our mind, it comes to this product design conversation that we first have to tackle. And then the question is how do you get distribution of those products, because it's not necessarily you going out and calling on every one of these commercial players.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

Got it. I know you now have interchange categories, for example, for large dollar value commercial payments. Is that sort of a first step? Is that how we should think about it, a building block?

Charles W. Scharf

*Chief Executive Officer & Director*

A

It is. And that's – when I think about product design, that's part of it. Again, the way we think of it, there's got to be – when you go talk to commercial parties, you have to convince them there's a reason why doing something through our network is better than what they're doing today. And that doesn't really exist on a broad basis today.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

All right. Just taking a step back, we've now talked about, I think, eight or nine or 10 distinct market opportunities for Visa, all arguably quite compelling, from geographic to the digital to the commercial as we just were mentioning. How would you prioritize your strategic initiatives?

Charles W. Scharf

*Chief Executive Officer & Director*

A

So we talk about these over and over again inside the company. And the things that – we categorize them as we talk about building broader and deeper partnerships inside the company, a big part of which is building these relationships with merchants that we've talked about. But it's not being a service provider, it's being a true payments partner to help everyone who we view as our client build their business. We talk about taking advantage of the digitization of commerce. So all the things that we're doing in checkout space, tokenization [indiscernible] (48:17), those are clearly all things that are directed towards taking advantage of the opportunity.

And it's openly supported by the security that exists inside the network. And so, it's something that if you were to say, what's your biggest risk? We think a lot about the risks that exist. We think a lot about potential disintermediation and competitors, things like that. But the biggest risk we have is real security breaches inside of our network. People use our products because they trust them. They use our products because they believe they're going to work. And so the work that we're doing day in and day out to build our own internal capabilities are really – are that strategic for us. So they're part of that list.

Away from that, we have three others, which are about evolving our own technology infrastructure to support all the things we want to do. It's about building the kind of workforce that we need to build in this day and age to take advantage of these interesting opportunities that exist. And it's about continuing to expand access to our products and services across the globe.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

All right. So on the topic of risks, so you just mentioned the security risks that are ever-looming. But I do have a question from the audience around you've survived litigation, regulation and technology risks just in the last few years. So right now, what are the biggest risks facing Visa I'd say probably beyond the ever-present security risks?

Charles W. Scharf  
*Chief Executive Officer & Director*

A

Yeah. So – again, just to be clear, I would put security – if I put security at the top of the list, I think there's a long gap until you get to the things which could potentially disintermediate us, which I would put legislation, regulation, competition from local networks, competition from UnionPay and the other online service providers that exists out there.

But all the things that we talked about up till now are all the reasons why we think our competitive position becomes stronger not weaker. The things that we're doing – anyone can build a switch. If we think of what we do for a living, we're a network, we're a switch. In this day and age, that's not the hardest thing to build. It gets harder if you actually want to have access to 2.5 billion consumers and 35 million to 40 million merchants across the world. But that too can be built over a period of time.

But the leg-up we have on everyone in addition to that are the capabilities that we have embedded in the network. We're not a dumb network that just switches transactions. It's the analytics, it's the fraud scoring, it's all the work that we do to make that transaction valuable because it runs across the network, which everyone else also has to catch up on.

Lisa D. Ellis  
*Sanford C. Bernstein & Co. LLC*

Q

Right. So you did list regulation there first off, so I do want to push on that a little bit because I have a number of questions also from the audience around that. Given that sort of empirically if you look back to the Durbin Amendment in the U.S., interchange-related regulation really hasn't had any meaningful effect on your debit fees, your debit yield rates. What – but yet, regulation always seems like the sort of ever-looming risk or presence. What is it about regulation that you feel like actually impacts your business as a risk?

Charles W. Scharf  
*Chief Executive Officer & Director*

A

So I think the biggest fear – you're right. People, when they think about regulation, they think about what it's going to do directly to our portion of the MDR that we receive. The biggest fear that I have when it comes to regulation is that we do things which – we do things, meaning that governments do things or legislators do things, which stop the willingness of people that participate in a payment system to invest in it.

And so, we're able to build the kind of capabilities that we have because we make money from it. Issuers are willing to put money into payments programs because they make money from it. The moment you start saying that these things have to be cost based or you drop what the potential earning stream is to something that people aren't willing to invest in them, that over a period of time endangers us, because we need our cards in the marketplace and we want people to use and accept them.

And so, ultimately, what we've seen is even as they – as rates had become legislated or regulated, there are still things that people could do to drive value in what – because what the payment products actually do for them inside their businesses. But that's the bigger fear as opposed to just the direct impact on our fee.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

All right. So what gets you the most excited when you wake up in the morning?

Charles W. Scharf

*Chief Executive Officer & Director*

A

Well, I think the most exciting thing for us is just that...

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Q

About Visa, by the way.

Charles W. Scharf

*Chief Executive Officer & Director*

A

About Visa, yeah. This is a – we really believe this, which is that the opportunities that we have with Visa today are bigger than they were five years ago or bigger than they were when we went public. We always like to talk about the amount of cash that exist in society today, the number is \$11 trillion or so today and it was \$8 trillion a bunch of years ago, so there's more cash to disintermediate than ever before. But the most exciting thing for us is we have more ways to do it.

We didn't have the proliferation of mobile devices, we didn't have commerce moving in to these digital platforms where cash and checks don't work the way our products work. And so as we think about the opportunity is bigger and the tools are even bigger. And so our ability to do things very proactively to impact that given who we are in the size and scope and where we can drive some of these things, that's the exciting part. And so it's exciting as it was a couple of years ago. It feels more exciting today because of that.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Terrific. Thanks, Charlie. I think we'll leave it there.

Charles W. Scharf

*Chief Executive Officer & Director*

Terrific. Thank you.

Lisa D. Ellis

*Sanford C. Bernstein & Co. LLC*

Thank you. Thanks, everyone.

Charles W. Scharf

*Chief Executive Officer & Director*

Thank you, everyone.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2015 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.