

28-May-2015

Visa, Inc. (V)

Cowen and Company Technology Media & Telecom Conference

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MANAGEMENT DISCUSSION SECTION

Moshe Katri
Cowen & Co. LLC

All right. Good morning. And I guess we're ready to start. My name is Moshe Katri. I cover IT & Business Services at Cowen. I am very pleased to introduce our next speaker from Visa. It is Bill Gajda. Bill is SVP of Devices, Platforms and Mobile Operations at Visa. Also with us is Jack Carsky. Jack is in charge of Investor Relations at Visa.

So, what we're going to do during the next 30-35 minutes is just discuss various trends that are related to mobile payments and technology, and then we'll – if we have some time, we'll open it to questions from the audience.

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

Great.

QUESTION AND ANSWER SECTION

Moshe Katri

Cowen & Co. LLC

Q

So, first, I wanted to start by talking about October's upcoming EMV compliance deadline and the associated liability shift. Based on your discussion with merchants, I am curious to know where are we in that compliance phase. And I am talking more about looking at the larger merchants versus the mid-size merchants and SMBs, and obviously there is a very big gap here.

Bill Gajda

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

A

Yeah. So I'd say, first of all, there is a lot of momentum now to replacing infrastructure with EMV across the segments that you mentioned. But it's happening in different ways. I'd say that most of the large merchants are working with most of the large POS terminal manufacturers to upgrade their hardware and software. And I'll say upfront, we're not going to be a 100% compliant by October, but everyone knows that. But we're seeing a lot of momentum from across those segments.

What's interesting though is, we're also seeing EMV transitions create an opportunity for new technology. So we're seeing some middle-market merchants, who had very traditional POS terminals for mag stripe move to mobile point-of-sale that incorporates both contactless and EMV. And so it allows them, as an example, let's say they were a single-lane merchant, now they can have four or five mobile terminals to create kind of a different customer experience and it allows kind of new technologies, new players to move in beyond just the traditional point-of-sale manufacturers.

I'd say the other thing that I think EMV is doing, is accelerating the rate at which return on contactless or mobile NFC payments as well, because you can't really buy a terminal today that isn't both EMV and contactless enabled. And so I'd say that's another kind of benefit that we're seeing from the shift towards EMV compliance by October.

Moshe Katri

Cowen & Co. LLC

Q

And there's clearly a gap in terms of compliance, again, when you look at the Tier 1 larger merchants versus the small businesses, and I think because of that, there is some talk about the retailers or group of retailers asking the networks to push up the deadline. Is that you think feasible?

Bill Gajda

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

A

I would say, A, thankfully it's not one of my areas of expertise, is compliance and what we do with the incentive program. I've heard suggestions that merchants are concerned about the deadline. We've certainly have not given any indication that we're going to extend it beyond October 15. And again, I will not be involved in that decision if we do or we don't.

Moshe Katri

Cowen & Co. LLC

Q

Okay. No, that's fair. Obviously, there's a huge upgrade cycle happening on the merchant level, and I think that was triggered probably couple of years ago by some of the large data breaches, the need for what they call,

integrated payments, NFC push, EMV compliance, and it seems like it's benefiting some of the merchant processing names, some of the merchant processors, we've seen that in their numbers. There's some share shift that's also been going on there as well. What are you seeing on that front? Is the need for integrated payment is real? And then how is Visa benefiting or not benefiting from that trend?

Bill Gajda

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

A

Right, I think it is real. So, again, if you think about, a typical merchant, they've got a physical point of presence; they've got an e-commerce platform. But increasingly, we're seeing kind of the whole transformation of the point-of-sale generally, where I could be at the point-of-sale, but I'm paying in app and picking it up at a window. So I don't have a traditional POS experience. Or in-app payments generally moving from a traditional e-commerce to I really want to do a click and buy, et cetera.

And so I think more and more merchants should be thinking about, if they're not already, this integrated payments, because the lines between card present, card not present, point-of-sale, not point-of-sale, e-commerce, physical location, are all being blurred. And so I'd say that they need to be thinking about it, if they're not already.

The second thing is, I think you're right. I think that some of the processors and other third parties who invested in those integrated technologies are being successful and it also is allowing some relatively new players to expand very quickly. You think about Stripe as an example and what's happened with them is a gateway, or our own company, CyberSource and Authorize.net, where we're providing more of those integrated services to online merchants.

And so, it's again, innovation continues in this space. We see the smart companies that invested a couple of years ago in IP platforms be successful. We've seen new players like Stripe and others come on board that are changing the landscape a little bit. And I think we're going to continue to see that shift as merchants continue to invest in this integrated technology, and they have to do it.

Moshe Katri

Cowen & Co. LLC

Q

And, for Visa specifically? Is that...

Bill Gajda

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

A

Yeah.

Moshe Katri

Cowen & Co. LLC

Q

...and it doesn't mean anything in terms of incremental revenues?

Bill Gajda

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

A

Well, ultimately, it's good for us, because, I think if you think about integrated payments, the more you go towards digital payment strategy anyways, it benefits us because cash gets taken out of the equation. So any time cash becomes digital, whether it's an in-app payment or NFC or a more frictionless e-commerce payment, where all the breakage isn't happening because it's kind of seamless, that benefits us, because we take cash out of the system. So, I'd say, broadly, the digitization of payments helps Visa and the other networks.

Moshe Katri

Cowen & Co. LLC

Q

Okay, I want to move to and talk a bit about Apple Pay. Maybe we can get an update from you on looking at merchant adoption, where are we in that kind of phase, and that – obviously, it's been kind of slow, maybe we've seen some acceleration. And then, maybe you can also talk a bit about what you're seeing on the consumer side of the business in terms of adopting it?

Bill Gajda

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

A

So, I would say that in terms – let me start with the customer experience, where you can use Apple Pay, people love it. They love the consumer experience. They love the fact that they initiate the payment. The fact that they're given additional security because they're authenticating themselves with their thumbprint. They get that immediate receipt afterwards. And you're not taking your wallet out and they use their mobile phone for anything – everything anyways. And so from a consumer's perspective, where it works, people love it. And we've seen a shift where people actually have changed their shopping habits a little bit, that if it works at Whole Foods and not other grocery stores, then they go to whole foods more often just because they can use Apple Pay. And so we're starting to see some of that.

I would say that we've already seen merchants, because of that demand and because what they see coming with Google Pay and Samsung Pay, start to turn on readers that had NFC capability, but they hadn't turned them on, they hadn't trained their staff, they haven't upgraded their software, because we figured there is anywhere between 1.5 million terminals and 2 million terminals that are NFC capable, that haven't been switched on.

So, now we're seeing them switch on, because they've already made the investment. We've already seen as an example, Home Depot indicate that they're going to break away from MCX...

Moshe Katri

Cowen & Co. LLC

Q

Yes.

Bill Gajda

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

A

...and enable it. Now we'd say that's broadly, because of the consumer experience and they don't want to be left behind.

And so I think that we're going to continue to see more and more merchants, except Apple Pay, and not just Apple Pay, NFC generally, because we're going to see competitors to Apple Pay in the market very soon. And I think another thing, that's going to accelerate NFC acceptance at merchants is EMV implementation. I don't know how many people here have been to Europe and done a dip and PIN. Right, it's 9 seconds to 13 seconds, it's not swipe and go. Payments is already really easy in the United States, right? Which is why one of the reasons why NFC was slow to take it off is because payments is easy in the United States.

You go to dip and PAN models, boy, that will prompt consumers to move to tap and go quicker than anything. So, we're going to see that accelerated as well.

Moshe Katri

Cowen & Co. LLC

Q

We're going to talk about tokenization, maybe for about a minute or two, and I want to talk about this in different – kind of different areas. One, is this a real opportunity for the networks in terms of incremental revenues? That's number one. Clearly, you're not charging anything for this year. We had MasterCard yesterday talking about the fact that their pricing sheets for tokenization will get – will get into effect in 2016, but what I think is interesting is how merchants feel about tokenization, especially merchants that use loyalty programs and private label card programs, and I'm assuming there are different ways to kind of make this still work for them.

Bill Gajda

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

A

And we're working on those.

Moshe Katri

Cowen & Co. LLC

Q

Yeah. Yeah.

Bill Gajda

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

A

Yeah, so, let me kind of start at the beginning of the question. So I would say, Visa philosophically sees tokenization as a way to securitize the move towards digital payments and allow us to think much more flexibly about where we'd allow payment credentials, because it is a token, not the PAN. One of the things that was slowing down innovation in this space, because we've been talking about cloud-based payments or credentials in apps for many years, is as long as it was your PAN, your actual account and not a token, we were really uncomfortable, because of the risk of intercept; because of the risk of hacking an application; the fact that it was software based, not certified hardware based.

The minute we introduced tokens, and a token that could be bound to an app or bound to a cloud-based service or bound to a device, we just think broadly much more flexibly, which is why we're seeing this acceleration towards all these payment on these wallets that use tokens, right? And so tokens just allows the whole ecosystem to think differently about how they adopt digitally.

So that being said, we've done one implementation which is Apple Pay, there is going to be a couple others that are already in the works and that have been talked about this year. We're going to see the internalization of tokens beyond the United States. So we're going to see tokens expand globally as well.

One of the issues that came up was, you're right, there is a lot of merchants that use account data as the link to their loyalty and rewards platforms. And we'd say broadly in the medium-term, that's a bad idea, right, because of what happens in the case of a breach. If that's your underlying basis for identifying your customer in terms of loyalty, we don't think that PANs in the long-term is the best way to do that, for merchants or anybody else, for customers. I mean think about the costs of a breach, the customer inconvenience, the cost of the issuers, the cost and the reputation damage to the merchants. And if that's caused, because you've used the PAN for your loyalty program, we think that that's not a good idea. Which is why we see a couple of things.

We are now working on the next version of tokenization that will allow us to pass in a tokenized form that same information, so merchants can develop a loyalty or marketing database without using PINs and they'll be able to get that information from the token process. So that's one thing we're doing.

I'd say the second thing we're going to do, is you'll see a use case, where merchants are saying, I want to take my entire card on file database and switch it to token on file, because again the implications of a breach, if it's a token,

and a token that's bound to that ecommerce platform, you can't use that token anywhere else, the implications of a breach are far more minimal from what happens if it's PAN data. And so, I think we'll solve the issues in terms of loyalty in the medium term, and I think the second use case we'll see for tokens beyond wallets today will be cards on file.

Moshe Katri

Cowen & Co. LLC

Q

Okay. And again, can we look at this as a real incremental revenue opportunity for Visa looking to next year and how would that actually work? I mean this is...

Bill Gajda

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

A

Yeah. But philosophically, I don't think Visa necessarily sees this as a big revenue line. When we invented the token standard and walked it across to the other networks, it was to become or to securitize and make more flexible to move to digital payments. We theoretically could charge for tokens and maybe some time in the future, there is these big value-added opportunities that come along that allow us to do that, I'd say our focus now is to getting as many players to use tokens as possible, right. We've indicated that we're not going to charge for them.

Moshe Katri

Cowen & Co. LLC

Q

At least this year.

Bill Gajda

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

A

At least this year. I'd say that our focus is building token implementations and really not focusing on tokens as a revenue line. But we're going to make revenue, as I said, every time a digital payment happens, by definition it can't be cash based and so our network does very well.

Moshe Katri

Cowen & Co. LLC

Q

That's fair. And you just gave an example how you will potentially tokenize a database for a merchant, will you charge for that at least?

Bill Gajda

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

A

To be determined, right? I mean because again, it could lower actual fraud cost.

Moshe Katri

Cowen & Co. LLC

Q

Yeah.

Bill Gajda

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

A

Right. I mean so I'd say that there is benefits to everybody in tokens.

Moshe Katri

Cowen & Co. LLC

Q

Yeah.

Bill Gajda

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

A

Benefits to the merchants in terms of the implications of a breach; benefits to the issuers because they don't have to replace cards; benefits for the network, right because it stops fraud. And so I think we're so early in the token game, I think the economic model for this has to be sorted out. But our going-in assumption is, let's just get it going, and for us, that means let's not charge for it, because that's just a point of friction.

Moshe Katri

Cowen & Co. LLC

Q

Okay. And how about the opportunity with some of the telecom providers? Is that also kind of a tokenization opportunity for you guys?

Bill Gajda

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

A

Yeah. We've been approached by a number of mobile operators who still believe in the SIM-based model for NFC, but actually see the convenience and security of having a token on the SIM card, as opposed to a card information as opposed to a PIN. I think we'll continue to see those requests, certainly technically, it's just another form factor. We can put a token in a piece of hardware, like in the Apple phone, we can put it in a cloud-based secure element in the case of Host Card Emulation or Google Pay.

So we can do it. I think the challenge that mobile operators have, and just think about Softcard as a recent example, is the business model. Getting banks to pay for a SIM rental model, trying to be that fifth party in a four-party model, with the level of control that they want to exert over the wallet, it just broke down at the end. And so I don't see the challenge for mobile operators being whether it's tokenized on the SIM or not. I think technically that's trivial. I think it's the business model.

Moshe Katri

Cowen & Co. LLC

Q

All right. That's fair. Can you say anything about Apple Pay 2.0 in terms of...?

Bill Gajda

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

A

Only what I've read...

Moshe Katri

Cowen & Co. LLC

Q

Sure.

Bill Gajda

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

A

I've read that they're going to be – that they're looking at putting loyalty and other capabilities in it. I can speak probably better around Samsung Pay, because we were jointly invested in the loop and we'll get them on the wallet.

Moshe Katri

Cowen & Co. LLC

Q

We'll get there in a second. If Apple Pay 2.0 does ultimately offer loyalty, does some targeted offers or marketing, would that necessarily mean that they're going to be able to have access to this SKU level data or touch the data, because I thought that was not really their intention?

Bill Gajda

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

A

Well, again, Apple is going have to, if and when, they're going to announce their intentions and what they want to do in terms of customer data. Certainly, all of these wallet providers, if they work with the merchants have the ability to capture SKU-level data; we do as well, if we have a bilateral with a merchant. I think Apple is going to have to decide where they want to take that wallet and how far into that loyalty or marketing program they want to get.

Moshe Katri

Cowen & Co. LLC

Q

Okay. That's fair.

Bill Gajda

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

A

Yeah.

Moshe Katri

Cowen & Co. LLC

Q

So let's move on and talk about Samsung Pay, Google Pay. I think these are kind of ongoing initiatives. Your view on the products and the solutions basically?

Bill Gajda

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

A

Yeah. So I think Google Pay is interesting because they announced, I guess more than a year ago, that whole Host Card Emulation model, where you're able to move a secure element into the cloud and not be dependent upon a device and access to the device, which basically took the mobile operators out of it. It means you could do – a bank could do an NFC implementation with a bank-branded wallet using a secure element in the cloud, using a relatively open operating system, the Android 4.4 when they announced it.

So we're going to see the first of those implementations this year. It just won't be Google Pay. We're going to see a number of HCE bank-led implementations around the world, because it's based on that OS that's available in hundreds of millions of devices now.

So I think that's going to provide further growth or a catalyst for growth for NFC, which again will encourage merchants, who haven't already, to upgrade.

In terms of Samsung, interesting. So if you look at it, Apple, highly vertically integrated experience top to bottom, hardware, software, et cetera, and they also had a wallet, which was the iTunes, right? So they had hundreds of millions of cards on file. If you take a look at Google, operating system-centric. Global in terms of its reach, broad implementation of a cloud-based Host Card Emulation capability they built. And we needed that. That's a good competitor in a different model.

If you take a look at Samsung, device-centric, largest device manufacturer in the world, not just mobile devices, but tablets, white goods, set-top boxes, televisions, PCs, et cetera. And so we're going to see a very much more a hardware-centric implementation into the market as well. The twist with Samsung, of course, is they've added this MST technology...

Moshe Katri

Cowen & Co. LLC

Q

Yeah.

Bill Gajda

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

A

... which will close the acceptance gap. So it means that you can have that same NFC-like experience, whether or not the merchant has implemented NFC.

Moshe Katri

Cowen & Co. LLC

Q

Right.

Bill Gajda

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

A

Right. And so it works and they're testing it now. It's working at virtually every point-of-sale, traditional point-of-sale, that accepts mag stripe; the two exceptions being gas stations and ATMs, because the mag reader is so deeply embedded into the device. But virtually everywhere else, it will default towards NFC, and if it doesn't sense there's an NFC reader, it will turn on the magnetic coil and ping the magnetic reader and transfer secure tokenized dynamic data to the terminal and complete the transaction. So that's their point of differentiation.

Moshe Katri

Cowen & Co. LLC

Q

Yeah. So, again, given the fact that Apple Pay is going to have some competition, do you think in, I mean, the way you see it – the way we see it, I guess, I think that even sold – that solidifies the dominance of the networks even more in terms of their relevance to the payments ecosystem?

Bill Gajda

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

A

Yeah.

Moshe Katri

Cowen & Co. LLC

Q

That's number one. Number two, I'm assuming issuers are delighted because they'd probably have to pay less to potentially Apple Pay...

Bill Gajda

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

A

Right.

Moshe Katri

Cowen & Co. LLC

Q

...for a transaction. I mean does that kind of...

Bill Gajda

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

A

Yeah. I think banks are delighted because they've got options. So competition tends to compress prices and provide for optionality. Using HCE, a bank branded experience, so think about the millions they've invested in their mobile banking platforms. Now, they can extend it to payments, as opposed to having to hopefully get their card out in somebody else's wallet. And so the banks are going to be, I think, feeling much more in control. And I think with this competition, we will see new economic models. And so I'd say that banks are generally happy that they're starting to see more and more NFC-based wallets with different models being implemented.

Moshe Katri

Cowen & Co. LLC

Q

And in terms of the relationships that you would have with Samsung Pay, for example, I mean would that be – will you replicate the same kind of model that you have with Apple Pay? And I believe the way it works, I think with Apple Pay, you're collecting the fees for Apple Pay from the issuers and you're just passing it through Apple Pay, and I think you'll have to run all kind of different data analysis, et cetera. Is that going to be the same kind of relationship?

Bill Gajda

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

A

I would say that a couple of things. So I want to make it clear that in terms of building the tokenization standard and implementing it for Apple Pay or anyone else, we did not change or interchange the way the network runs.

Moshe Katri

Cowen & Co. LLC

Q

Right.

Bill Gajda

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

A

And we understand that Apple did some bilateral deals with some issuers...

Moshe Katri

Cowen & Co. LLC

Q

Yeah.

Bill Gajda

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

A

...and we agreed to support our issuers in terms of [indiscernible] (20:14)

Moshe Katri
Cowen & Co. LLC

Q

But you're managing the relationship as I understand?

Bill Gajda

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

A

Right. So we will continue to management the relationship on behalf of all our issuers with Google and Samsung.

Moshe Katri
Cowen & Co. LLC

Q

Yeah.

Bill Gajda

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

A

But I would say that Apple Pay was our first implementation, and in that regards a bit of a one-off, because I think that the model for tokenization is going to become much more standardized so it can scale, and that we're going to see the need to do all that monitoring and data and analytics on behalf of the issuers become kind of less and less prevalent, as just a standard tokenization model comes into play.

Moshe Katri
Cowen & Co. LLC

Q

Okay. You spoke about implementing some of these, I guess solutions overseas, what's the timeline on that and how will that be rolled out?

Bill Gajda

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

A

Yeah, so we're looking – I mean the obviously markets for us, to think about Apple Pay or Samsung Pay or Google, and because they all have international ambitions clearly, is to start in the U.S., and because we've got the token capability there and they want to launch there anyways, and then move to markets where there is already high levels of NFC acceptance, well, that makes sense, right? Because the first implementation of these mobile wallets.

So, think about Australia, think about Canada, right, think about Japan, think about Brazil, and so you're going to see kind of Phase II in those markets. Some of those – a couple of those markets later this year and then a broader range of markets, several markets early next year. So you'll see – but again, our ambitions are to have token capabilities be a global capability, because we see more than one use case. I think there is a lot of ways that tokens can be used.

Moshe Katri
Cowen & Co. LLC

Q

Yeah. I want to move and talk a bit about some of the alternative networks, talk a bit about MCX, talk about what's going on with Pay Pal, a potential relationship between both that's been kind of potentially in the works.

Bill Gajda

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

A

Right.

Moshe Katri

Cowen & Co. LLC

Q

What is your view about the success outlook for MCX? Obviously they are focusing predominantly on debit.

Bill Gajda

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

A

Right.

Moshe Katri

Cowen & Co. LLC

Q

They've had some hurdles down throughout their history, limited operating history I guess and a potential threat to the traditional networks.

Bill Gajda

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

A

Yeah, I mean, I think MCX has its challenges. And I've said this in every forum. First of all, I think consortiums like these are extremely hard. If you think about what happened to Softcard and there is only three mobile operators, right? We've now got dozens of merchants that compete with each other in almost every respect except for MCX. And so I think the coordination costs and the coordination issues are extremely large, which is one of the reasons why I think it's been what? Almost three years now, and we haven't seen something in the market, because I think the coordination costs are high.

The second thing is, they made clear, I guess, at some point, what the proposition for the merchants are, they want to control the data, they think that they were bypassed in terms of the implementation of NFC, and mobile payment technology and they want to put their merchants back in control, I get that. I haven't heard what the consumer proposition is. Why a consumer is going to want to adopt an MCX wallet, they can use at some merchants and not others and how they tell the difference. And so, I haven't seen a compelling kind of customer proposition, right? And ultimately these wallets, all of them are going to succeed and fail based on that.

I think the third one is, if you're trying to build a network, whether it's for payments or just for loyalty or for data and analytics, this thing has got to be built and maintained and invested in, and it's not free. And so they all complain about often the costs of the networks. Well, if they're building a network of their own in any respect, they're going to find out very quickly, these aren't free.

Moshe Katri

Cowen & Co. LLC

Q

Yeah.

Bill Gajda

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

A

Right, and so I'd say all of those issues indicate challenges for MCX. We've recently seen management changes. We've seen Home Depot do what they do. I think MCX remains a challenge, I really do.

Moshe Katri

Cowen & Co. LLC

Q

Yeah. And how should we feel about a potential tie-up between PayPal post-split from eBay and MCX?

Bill Gajda

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

A

Yeah. I mean so, I guess, for PayPal, it's been a platform that most of these merchants had availed themselves of anyway.

Moshe Katri

Cowen & Co. LLC

Q

Yeah.

Bill Gajda

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

A

Right, as a payment method. And so I don't think that this changes as PayPal thinks about other partners, as it moves beyond eBay. I've said this about PayPal often, I think PayPal has a hard time getting to the point-of-sale, number one, because what they solved 12 years or 13 years ago in e-commerce, which really was a clunky, friction laden experience, I mean I get why PayPal became so popular, given where e-commerce was 12 years ago. The problem that they solved there, it doesn't exist at the point-of-sale. They can't solve the same problem at the point-of-sale, because payments is easy with the card, and we've already made it easier with NFC, whether it's hardware-based or Host Card Emulation based. So that you're not solving a point of friction at the point-of-sale, so that's one thing.

Moshe Katri

Cowen & Co. LLC

Q

Yeah.

Bill Gajda

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

A

The second thing about PayPal is, while I think it differentiated themselves because of their platform 10 years, 9 years, 8 years ago, if I think about the Stripes, if I think about some of these new players, as it moves from a big screen where PayPal spent most of its investment to mobile and in-app payments and one-click payments and all the authentication we can do on the device, there is lots of competition for PayPal.

Moshe Katri

Cowen & Co. LLC

Q

Yeah.

Bill Gajda

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

A

...in the mobile space in terms of these gateways. And so I'd say, there is some headwinds for PayPal as it looks to kind of find its next growth opportunity when it's mobile-centric on the one hand and the point-of-sale isn't going away the other.

Moshe Katri

Cowen & Co. LLC

Q

And looking at what you're doing online in terms of attacking PayPal, kind of big business with V.me and...

Bill Gajda

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

A

Checkout, yeah.

Moshe Katri

Cowen & Co. LLC

Q

That's right. Can you talk a bit about your success rates there in terms of share shift and how do you think you do pretty much in terms of your solutions versus what Pay Pal can actually offer merchants?

Bill Gajda

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

A

Right, so in terms of the solution, I would say Checkout, which is kind of version two of V.me, offers merchants and banks a light integration, a more bank-centric kind of branding experience. And I would say that we are making, and I don't have the actual share shifts or number of merchants, Jack may or may not, I'm not sure, but we're continuing to see banks get more involved in the program. We're continuing to see the large merchants, that is merchants in terms of e-commerce volume, get onboard.

And I think that Visa Checkout represents a very good kind of frictionless e-commerce that at least is on parity with Pay Pal. But the significant difference is we never take the consumer away from the merchant website. I mean, one of the key technologies that we built into Checkout from the beginning was we keep the customer on the merchant's page through what we call this Light Box technology, because merchants don't like it when you're taken to a second site and then may or may not get back for that final click.

And so we think that that is differentiating. But I'll say this, we never imagined that Checkout would be the only or the dominant checkout. We just think that our issuers wanted a solution that they could back and put into the market. We thought there were some unique Visa attributes that we could add to it and that we should play in this space, but it will be one of several kind of checkouts that I think will be successful.

Moshe Katri

Cowen & Co. LLC

Q

And maybe you can talk a bit about the use of analytics in terms of what you guys do, and there's always a fine line between privacy, between what merchants are comfortable with and how much value you can actually provide them with.

Bill Gajda

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

A

Yeah, so our dataset is actually unique, because we have all the offline data. That is, every time a Visa card is used, that we analyze in real-time, and we can look at five years to seven years of historic information. And we traditionally...

Moshe Katri

Cowen & Co. LLC

Q

Is it five to seven years?

Bill Gajda

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

A

Five years to seven years.

Moshe Katri

Cowen & Co. LLC

Q

So it's a big data repository that you're building.

Bill Gajda

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

A

It's huge, huge data repository. And we use that data today in real time to provide fraud scores to our banks and we apply literally dozens of vectors in milliseconds to a transaction in terms of, have you been there before? Is it in a ZIP code that we're familiar with? What's your average spend at that store? Increasingly, is your mobile phone near that card? Like we're adding vectors all the time to provide a fraud score to banks.

So if you extent that offline dataset into more marketing loyalty or other things, you can see how it extends. At an aggregated anonymized way, we're already assisting merchants with things like store locations, because we can analyze, say, five locations that we're given and tell you over the last five to seven years and in real time, traffic patterns, spending patterns, time of day, people flow, because we can – we don't know the people, but we can track cards in real time as they move through commerce experiences.

So we already use it on an aggregated basis in terms of store locations, focusing more demographics. So broader, again, reports for publishers, online publishers or merchants in terms of aggregated segments and how they compare against the industry they're in. So not against the direct competitor, we would never give them direct competitive information, but to put them in their overall segments, so they can understand how average spend, number of visits, et cetera, compare to their broad industry segment. So that's how we use it on an aggregated basis.

We have the ability and we've done it with the Gap and others to do it, once consumers opt in, on a very targeted basis. So someone swipes their card at Starbucks, I know in real time where the Gap stores are. I know by looking at 5 to 7 years whether you shop at the Gap every week or haven't been there in six months. And on behalf of the Gap, I can deliver before you get your coffee, an offer that's relevant to you, and the offer may just be – remind you the Gap is across the street, if you shop there every week because I don't need to incent you. But in real time I can say, jeez, if you haven't been in the Gap in six months and Gap wants you back in the store, gives 40% off for the next two hours. And then get back to the Gap and say, offer delivered at 10:13, they pay to the Gap at 10:46, their average basket was \$45, this time it was \$86, this is basically what that coupon did and close the loop. And so we have the capability to do that in real time.

Moshe Katri

Cowen & Co. LLC

Q

And the data repository tracks how many cards or cardholders?

Bill Gajda

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

A

Globally 2.2 billion; 600 million or 700 million in the United States.

Moshe Katri

Cowen & Co. LLC

Q

Okay.

Bill Gajda

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

A

So it's a big dataset.

Moshe Katri

Cowen & Co. LLC

Q

I'm assuming you're also tracking your closest competitor in terms what they're doing in analytics?

Bill Gajda

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

A

We are, I mean on an aggregate basis...

Moshe Katri

Cowen & Co. LLC

Q

Sure. Sure.

Bill Gajda

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

A

...of course and the thing is not just for the networks, but for the industry as we think about digital payments, marketing loyalty analytics is where this whole thing is going to be played out. This is where arguably a lot of value can be created. It's early days. And to your point, we've got to be careful about it in terms of privacy and customer opt-in and customer protection, because as Visa, and on behalf of our banks, we can't get it wrong, right. It's not a ringtone download.

Bill Gajda

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

A

Yeah.

Bill Gajda

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

A

Right. It's your money. And so we can't get it wrong.

Moshe Katri

Cowen & Co. LLC

Q

We have, I don't know, maybe ten more minutes to go. Anyone has any questions we can open up, otherwise we can keep on going. Please go ahead.

Q

You said earlier in regards to some of the new NFC models that change the economics of payment. When I just sort of think of Apple, Apple is just [indiscernible] (31:46 – 32:10).

Bill Gajda

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

A

Yeah. And, again, I won't speak specifically on the Apple example. I would say as competition enters in terms of alternatives to Apple Pay, as you move from market to market, because the dynamic in Canada is different than the market in the United States as an example in terms of the role of the issuers and how would they think about Apple Pay compared to here, as banks get more comfortable with their own kind of capabilities or they see themselves having an opportunity to do an HCE implementation as an example, right, as an alternative to Apple Pay, I think you could see different discussions take place and that as competition enters the market, generally, we're going to see more options and more compressions, so that the model that we see today, and I'm not saying it will or it won't, I'm just saying that we shouldn't assume that the model that we have today just is either set by Apple or carries on forever. I think that we're going to continue to see it changes as everyone learns a bit more about this space.

Moshe Katri

Cowen & Co. LLC

Q

Well, it's my turn. So – go ahead.

Q

[Inaudible] (33:18-33:35)

Bill Gajda

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

A

No, it's great question. So once we develop the EMV standard – or sorry the tokenization standard or specification, the first thing we did was walk it across through American Express and MasterCard, and said let's announce this together. This is something we should not compete on. This should become a global standard. They very quickly agreed, which is why when we announced tokenization, we announced with the three networks together, and of course, I think we recently read that Discover has enabled tokenization as well.

The second thing we did was we handed it over to EMV. And to your point, we know that tokenization is going to continue to develop and because we're working with EMV, a well-established standards body in the payment space, we can also harmonize those developments. So, a good intention that we had, Phase 1 doesn't become fragmented by the networks kind of phase 2 through end. And so we think that it becomes a standard that continues to evolve, but in a way that is standardized through EMV, that all the networks are basically doing this together.

Moshe Katri

Cowen & Co. LLC

Q

So going back to EMV, one of the biggest criticisms of that technology is that it doesn't protect you in cases of card not present. How do you work around this in terms of the opportunity set?

Bill Gajda

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

A

It's a great question. So we're spending a lot of time on card not present authentication, because that's where all the fraudsters are going, because once you implement EMV, fraud rates for card present virtually go to zero. And so all the fraudsters know this and so they migrate towards e-commerce and e-commerce is growing anyway.

So we're investing in technologies that ideally will authenticate a user or a credential or a device passively in the background. And so there is new companies like [indiscernible] (35:18) example. They can authenticate a device

in 2,000 different ways, passively, unknown to the user, right. So if someone is using their mobile to pay, they're going to be able to do things like, is the average pressure on the keypad similar to the last nine times it's been used. Has the sequence that they access their apps been the same, along with a device – or location agnostics et cetera, et cetera, et cetera.

And so we're going to see many new authentication capabilities that basically create almost this Uber experience, like where you love commerce and payment just disappears. And that could be through biometrics as an example. If we're not sure, then biometrics would be a very convenient way that we can kind of challenge a user to authenticate themselves once in a while to make sure that we've got it right. We're working with iris scanning companies, where the iris scans – and they'll be implemented in devices this year, where the iris scanning is passive. You're not putting your eyes on a spot, it's passively scanning your eyes 10 times a second using infrared. So it's with your glasses on, with your glasses off, in the dark, in the light, and so by the time you've selected your good on an ecommerce site, they've authenticated you 6,000 times. So, they're pretty sure it's you, right.

And so, we're going to see all these technologies and most of the successful ones will be very passive where the consumer doesn't know they're being authenticated, and when they push buy, it just happens, commerce just happens and that's the way it should be.

Moshe Katri

Cowen & Co. LLC

Q

Have you even tried to standardize these solutions? Are you working with MasterCard on this?

Bill Gajda

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

A

Yeah, to get to scale, all of these eventually have to become – I mean people should realize tokens have been around for 10 years, right. Gateways and other third-parties have been using kind of proprietary token systems to do the right thing, to try to drive fraud out of the system and get PANs out of these databases. Those other tokens didn't scale, because they were proprietary to that one small technology play or there was no way to get to scale. They really took the networks thinking, you know what, we don't need a hundred small token standards, we need one, that we can implement globally. And so there are standards bodies emerging around biometric authentication, around mobile device authentication. Some of these standards would be de facto, would be decided because big players emerge as opposed to some de jure standards through standard bodies, but standard is what's going to make this thing scale.

Moshe Katri

Cowen & Co. LLC

Q

Okay, last question. I think we've two more minutes to go. Focusing on emerging markets, maybe talk about some of those point-of-sale solutions that are not really common...

Bill Gajda

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

A

Oh yeah.

Moshe Katri

Cowen & Co. LLC

Q

...in these countries, and maybe you can talk about what's going on in Brazil, India, some of the other large markets?

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

I'm glad you raised it, because there is a lot of, I mean there is a new start-up and a new wallet and a new technology being announced in markets like United States every day, and so we're all kind of fixated on it, which is appropriate. But what's happening in emerging markets is fascinating. One thing I should talk about before we're finished is the whole emergence of mobile point-of-sale. So think about Square, Square four years ago didn't exist, 4.5 years ago didn't exist. Today it's the number eight merchant on our network globally; number eight from four years ago being zero.

So, mobile point-of-sale in United States has transformed the landscape as they've empowered more than 7 million merchants, who only took cash and check before, about 85% of them only took cash and check before, and allowed them to take other network's cards. Well, that's interesting in the U.S., because it addressed that long tail of casual merchants that traditional acquiring strategies and methods didn't get to.

In markets like – and there is a hundred Squares around the world that we work with, like a hundred. And if you think about markets like India, it's not about the long tail, it's going to change acceptance, because the challenge in India is the terminals are expensive and I need 100% on electricity and 100% on fixed-line broadband. And in a lot of places in India, that doesn't exist. But now they can use their existing mobile phone with a dongle that costs near zero, there are 15 million shopkeepers in India, and only 850,000 places you can use your Visa card today because of those restrictions. There will be more than 5 million or 6 million in five years.

Today, we say that there is about 38 million places you can use your Visa card, and it's taken us 60 years to get there. It will double to 80 million in five years, all mobile point-of-sale. And so if you think about what happens in terms of all those new acceptance modes in these emerging markets, it changes the acceptance footprint.

And so as much as what's happening with wallets and tokenization, and NFC digitalization payments, I love it. What's really transformative for me outside of markets like the United States is what's happening with mPass and we're going to double our acceptance footprint.

Moshe Katri*Cowen & Co. LLC*

Great. Out of time. Thank you very much.

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

Thank you.

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