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# Visa, Inc. (V)

KBW Cards, Payments & Financial Technology Conference

## CORPORATE PARTICIPANTS

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

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## MANAGEMENT DISCUSSION SECTION

### Unverified Participant

Okay. We are going to get started here. So, next up is Visa. FX has been a pretty common theme among the global networks. Obviously, as far as the stocks are concerned, there's been a lot of headwinds from an optical standpoint there. But what has been very promising has been the growth, and especially the growth that is on the come as a result of mobile and other technologies proliferating in the market. With us today we have Bill Gajda, who's the Head of Strategic Partnerships at Visa, to answer our questions today. So, thank you, Bill, for joining today.

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## QUESTION AND ANSWER SECTION

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

Thank you.

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Maybe before we start, you could just talk about your responsibilities at Visa and where you're sending your time today.

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Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

Yeah. So, again, Bill Gajda, Head of Innovation and Strategic Partnerships for Visa. And I spend my time in two ways. About two and a half years ago, we realized that increasingly it was not the financial institutions that were driving innovation in the payments and commerce space. And Visa, as you know, is geared around our relationships with 23,000 banks around the world and we know how to deal with them. But increasingly, we saw it was the mobile network operators and their mobile money systems. It was the Google, Facebook, et cetera, that were getting the payments. It was the platform providers, like IBM, Accenture, HP, Samsung, who were starting to get into the wallet game.

A

And we didn't really have a way to build relationships and commercial agreements, so we formed the group called Strategic Partnerships and we identified the top 30 or 40 companies in the world that we thought was going to impact the commerce ecosystem that were non-financial institutions. And so we stacked a small team against those accounts and we've I think been fairly successful in developing not just relationships but commercial

agreements with these entities as they get more into the payments and commerce space. So, I spend half of my time doing that.

The other half is around our innovation agenda. And so, it's running our venture programs or engagement with the VC community and startup community. Our first investment under this program was LoopPay, which we made nine months ago and was recently acquired by Samsung. And maybe we'll talk about that today. And we plan on becoming more and more active with early stage startups to advise and learn and strategic investors. So, that's another thing that I focus on.

Fast prototyping. I don't know how many of you followed the Mobile World Congress. One of our exhibits in our booth there was a connected car. We put a token in the payment credential inside a car and demonstrated the end-to-end experience at a quick service restaurant and how commerce could transform through the use of a car and all of its attributes. And so we plan to do more of those rapid prototypes to learn what we can around where this technology is going.

And then, the last thing I look at is Visa Ready, and that's our program where we certify hardware and software. As an example, mobile point-of-sale devices: we've certified 80 of those. So, as acquirers or other groups get into this mobile point-of-sale business, they don't have to recertify the hardware, software. They can just take a look at the list of vendors and solutions that we've looked at and shorten the time to market. So, that really describes what we do at Innovation and Strategic Partnerships and, in addition to that, running our Developer Center and Visa's API strategy. So, that's what we do.

Q

Yeah, I'm curious just because you just came away from Mobile World Congress. I mean, what do you think are the key themes there? I mean, what was your takeaway?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

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Yeah. So, I would say that commerce, generally, as it was last year, was probably one of the three or four themes. I mean, we were just commenting, the Mobile World Congress has subsumed every adjacent industry. So, five years ago you could recognize it as a mobile industry event, but there are like nine automobile manufacturers exhibiting at Mobile World Congress. GoPro had a bigger booth than Visa did. And so, it's kind of subsumed all these adjacent industries, including commerce. And so, commerce is one of three or four top themes at the event.

I'd say the biggest, though, and it's related to commerce in many respects, is the Internet of Things, this notion of these connected devices and how much time was spent talking about what changes when 50 billion or 60 billion devices have mobile connectivity and, from our perspective, what that means in terms of commerce. And in fact, the reason we did the connected car wasn't because we were specifically focused on automobiles, but because it was our first prototype around the Internet of Things and what happens when you enable a machine with connectivity and commerce capability. So, those are a couple of the major themes there.

Q

So, I guess we'll dig right in and talk about Apple Pay and Samsung, because those are the two big initiatives that have come on, recently. I mean, could you just talk about how you see their positioning within mobile payments? Do you think this ignites a shift across the world towards mobile? I mean, what's Visa's view?

## Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

I think it does. NFC has been available in smartphones for like five or six years. And everyone was waiting for Apple to come into the game, not because they have the dominant market share, but because they saw that it would validate – because they're known for their innovation and that unique customer experience, they would validate the move towards NFC and mobile payments. They came into the market, and I think we've seen that. I think that even though we've got an acceptance issue, I think that Apple announced a couple of days ago there's 700,000 places now you can use it, so there's still a big acceptance gap, people love to pay with their phone. Where it works, it's a great experience. Right?

And it's been replicated with the in-app experience as well. So it's not just at the point of sale, it's the ability to use your thumbprint to pay an app. And so, that combined experience, I think, is absolutely a catalyst for mobile payments. That being said, I think consumers and our banks want alternatives to Apple Pay, because – whether it's Samsung Pay, which we'll talk about, or Android Pay, which announced at Mobile World Congress they're getting into the game. Samsung, largest handset and device manufacturer in the world, and not just mobile phones: tablets, PCs, set-top boxes, televisions, white goods, all of those now enabled with commerce capability in the future. So that's definitely a hardware play.

You look at Android: largest OS. If you buy a device outside of the United States, there's an 84% chance that it's Android as the operating system. So that's an operating system play. I think all three of these players, and there probably will be more big ones, provide consumers with a choice in terms of how they want to enter that mobile payment experience.

If you like Apple, you've got Apple Pay, right. You love your Samsung device and you don't just have a handset, but you've got a connected TV, you're going to like Samsung Pay. If you're my daughter, you like Google Pay. Right? And so, I think this is going to give consumers choice, but the underlying consumer experience, swiping your thumb, going to a terminal, having a really rich payment experience, that's going to look and feel the same across them.

Q

And why are people going to use them?

## Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Yeah, it's interesting, because I've watched this phenomena. I've been watching NFC for 10 years now and I've kind of watched it. It's because what people want to do with their mobile phones increasingly has no bounds. Right? It is the music player. It's your social networking device; way more than a PC. It's your book reader. It's where you watch – it's how you consume your media. And now, it's where you want to do your commerce.

And so, there's just this shift towards mobile-centricity that was ultimately going to kind of envelope commerce anyway, but it also is a great experience. I don't have to take out my wallet. My phone's way closer than my wallet. So, studies are saying you lose your phone, you notice in about nine minutes on average. You lose your wallet, you notice in about 45 minutes on average. People always have their phone with them. I don't have to take out my wallet. I get an instant receipt. It's linked to my rewards. It's just a richer experience than a piece of plastic.

Q

Could you just maybe compare and contrast since you're – obviously some maybe you might not be able to talk about. But can you compare and contrast Apple Pay to Samsung versus Google and how they're approaching payments? And were you surprised that they didn't try a strategy that works around the incumbent? I mean, was that a surprise or not?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

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It wasn't. Four years ago – I think about Isis, now Softcard, acquired by Google. Early on in Isis' adventure, they talked about mobile creating the new network, and all that talk has gone away. I don't see almost any innovation that looks at disrupting the existing networks. The barriers to entry are so high and why would you bother with the low-cost scalability, relationship with banks? How do you build that ecosystem? So, I don't see anybody talking about disrupting the networks with technology anymore.

In terms of Samsung Pay, the experience – and I saw the Galaxy S6 and, by the way, I would say just as a device, it's not an incremental to the S5. They've reinvented the device. And we demonstrated Samsung Pay at Mobile World Congress. It's going to be very similar to Apple Pay. You're going to swipe your thumb, but you won't have to open an app. Right from the home screen of your device, you'll swipe your thumb and the card will come up, because that swipe signifies that you want to make a payment.

And the card is really hero. It takes over the whole screen. There's a lot of real estate there for the networks and the banks. And then you tap your phone. It first tries to sense NFC. If it doesn't sense NFC, they've embedded the LoopPay technology. And so it now activates the magnetic coil and it sends the tokenized payment information with a dynamic cryptogram to the magnetic reader.

So the biggest – there's two differentiators, I think, between Samsung Pay and Apple Pay. One is that activation from the home screen as opposed to a two-step process with Apple Pay. And then the fact that they're going to close the acceptance gap through that MST technology where you'll be able to use overnight the Samsung Pay at about 90% of the places you can use Visa today.

Google, I have just less information and I don't know how their strategy is going to change. People should remember, we're now in Version 5 of the Google Wallet. There's been a few management team shuffles as a result of their early forays into Wallet. I don't know what their acquisition of Softcard is going to go to change their strategy. Clearly, though, Google doesn't like payments. They haven't had a very positive experience in payments. They're doing it for the data. So the underlying model for Google is enable the Wallet because it's the only way they get at the offline payment data. I don't think that changes. Beyond that, we have to wait and see.

Q

And then as far as Samsung's model, there's differentiating reports out there, but are they looking to data as well or are they looking at other...

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

No, I think Samsung's primary objective is to sell hardware and that they believe that the way they've approached the Wallet in the acquisition of LoopPay is differentiating and they're going to sell all the Galaxy S6s and devices beyond that. I think they've recently announced that they're not going to charge any of the banks in Korea. And so I think that there's going to be a different economic model for them.

Q

Okay. And then when we think about other types of payments like in-app, where does Visa stand on that and what do you guys do to foster the growth of that?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

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I would say the whole explosion of in-app payments is one of the reasons why we ended up developing tokenization. So, people have wanted to innovate around mobile for five years in payments. The problem was they'd come to us with a solution and it meant every time putting a PAN in an app or in the cloud or over the air and we were just weren't going to do that, we just weren't going to expose that data to those relatively insecure environments. I mean, relative to a hardware-based secure element, a SIM card or a chip or something like that.

But we saw this demand and we saw the amount of innovation going on and it's one of the reasons why we developed tokenization. So now that it's a token, and a token that can be linked to a device or linked to an app or linked to the cloud and can't really be used outside of that environment, we can add dynamic authentication on top of that, we're now going to be much more flexible in terms of how we're going to allow those tokens to be used. And in-app is going to take off as a result because now we can put a limited use token in an app. Someone will load their card, we'll switch that card information for a token and we're going to see in-app payment take off.

Q

And that will be driven through Visa Checkout in app?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

It could be where we have relationships with the merchants and we can add that payment button. But just generally, I think you will see the ability now for more and more merchants to add that checkout experience, whether it's Visa Checkout or their own checkout, and we'll think flexibly about it because it's a token. It's not your PAN.

Q

Got it. And I guess when we think about Visa Checkout versus what you guys had with V.me, can you maybe just compare and contrast the two? And I think Visa Europe is still sticking with V.me and what kind of challenges that might create in Europe?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Yeah, so I'd say the three primary differences between V.me and Checkout are a much easier integration with the merchant. A much lighter touch, hours or days as opposed to weeks or months. And so it's really easy now for that

merchant to take our APIs and add the Visa Checkout button into their existing checkout process. So, that's a big, big difference.

I'd say the second one is much lighter technology for the issuer as well. Much lighter treatment of what we call the lightbox, more issuer-centered branding. So easier for that as well. And then I think we've also put a lot of effort behind getting the key merchants involved. We've added a marketing dynamic to start driving awareness and acceptance of Visa Checkout. So, it's just a much lighter wallet that had to change because of going from a big screen to a small screen, the way merchants were thinking about how flexible their checkout experiences were, the fact that we could use APIs as opposed to these deep integrations. So, the technology evolved and we were able to create a much lighter wallet.

I think that we'll have to see what Europe does with V.me. And, again, I think that our networks are different. The investments we've made in technology obviously are different. And we'll see their wallet strategy continue to evolve as well. But for now, as you said, they're maintaining kind of their initial V.me thinking.

Q

Got it. I guess – and then when we think about token technology and the use of token technology, I mean, could you just talk about how the banks are positioned around token? And we've heard some of the banks talk about possibly doing tokens themselves. There's the clearinghouse that's out there trying to develop token technology for them. I mean, how do you envision your token technology being used versus some of the stuff at the banks and other areas are kind of developing?

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**Bill Gajda***SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

I mean, I think the good news is, is that all the tokens you see in place – and the first implementation is Apple Pay. Whether it's – so Visa developed a token specification, and the first thing we did is we walked across to MasterCard and American Express and said, let's not compete about this. Let's all agree on the same token specification, which we did. And so that's the good news that all of the token thinking that's going around right now is galvanized around an industry standard as opposed to a bunch of proprietary solutions that don't scale, right? So, that's where you start.

And then you have to differentiate just at a high level between what we call a token vault and a token service. And a token vault is literally that database that links your tokens with the underlying card information. So, every time you use a token, you hit the token vault and we go, oh, that token is this card information. And we pass the information that the acquirer or the processor and the merchant needs to complete the transaction the same way that they would normally. So, that's the token vault.

Some of the big issuers have built their own token vault, but they have to give us, Visa, an image of their token vault or we can't process the transaction. We can't do that translation. So, while they may have the ultimate token vault, and that's only some of the big issuers, we have a token vault; and including an image of any other token vaults, we can do that.

Then there's the token service, and the service is really that kind of provisioning of the token and managing lifecycle events: I lose my phone, a card expires, I want to add a card, et cetera. And that's really the token service. It's that provisioning and lifecycle management. You could, I mean, potentially see banks or a consortium of banks developing a token service, but I think it's more likely to be some of the big processors providing that service, in addition to Visa. It could be some of the big systems integrators that do it because of the relationships they have



and the fact that there is some integration work to be done. But I think our token service for Visa Tokens will be the primary and predominant one.

Q

Got it. I guess, when we think about – and just switching back to mobile and wireless, is the slow traction and the adoption of mobile proximity payments really an acceptance-related issue?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Yeah, I mean, for years it was the fact that there were no devices that could do it; but that's been addressed. You can't buy a smartphone now that's not NFC-enabled. The acceptance was the issue. Well, there's two issues: acceptance and consumer awareness, right? And then, we increasingly see the acceptance gap. I mean, three months ago, four months ago, I would have talked about 350,000 places you can use it in the United States. Apple has just announced, as I said, 700,000. We think there are between 2 million to 3 million terminals – new terminals out there that have NFC capability that haven't been turned on. But as we see Samsung Pay launch and Android Pay launch and consumer demand to use their phone at the point of sale, we'll see those merchants make that customer service call to kind of turn on the NFC and train themselves on how to create that customer experience. So we'll see a ramp in terms of adoption.

But the other thing we've seen is the barrier to the business model start to break down. I mean, the biggest thing that was stopping this all from happening is the only way to NFC was through the mobile operator – was through an Isis, because it was all going to be based on the SIM card. And no one could agree on the economics. Banks still had to issue plastic cards, so they just saw this is an incremental charge, that SIM rental fee. The mobile operators were convinced that this was going to be a line of business, which it isn't, right?

And so, the whole model broke down in the business with host card emulation and cloud-based solutions that allow banks to do it themselves, with Samsung Pay that has broken kind of the M&O monopoly on it, with Samsung who is going to use their own secure element to bypass the operators. Android – I mean, we're now going to see the business model shake out where people can make sense of the economics. And that's really the barrier that's been kind of eliminated.

Q

And so, do the mobile network operators have a role in payments anymore? What will be their role?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Yeah, so I still like the SIM as a secure element. I still like some of the assets the mobile network operators have, because they know every keystroke. They know all your web log data. They know all your application data. So, they arguably can provide an identity management and a security management model as you get 12 or 15 or 20 tokens on your device. So, I think there's a role for them to play.

I think what's happened is it's caused them to think more about those business models, which actually extends on what they do today, as opposed to them getting into the payment business. And if all things are equal in terms of economics and technology, yeah, we'll see banks partner with mobile network operator if it makes sense. And it's [ph] just now (20:34) competitive.



Q

Right. So, we've reached the halfway point and I wanted to open it up to questions from the audience if anyone has any. So, if you have, please raise your hand. One back there; one back there.

Q

Bill, thank you for the overview of different payment technologies. I think from Visa perspective, whether a customer uses a mobile pay or a physical card, it's the same transaction volume. I think the real benefit comes when a customer moves from cash to electronic payment. So, based on your data, are you seeing acceleration of conversion from cash to electronic payment? Is mobile payments really accelerating that?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

That's really why we're so focused on innovation and the digitization of payments. So, you're right. When Visa caps compete against cash or check, let's say we get a 25% or 30% market share. When we don't compete against cash or check because someone is using a digital form factor of any kind, our market share doubles to 60%-plus. And so, the displacement of cash is really kind of the primary focus, I'd say, of all of our digital and innovation efforts.

And if you take a look at where we're watching people use these mobile wallets, wherever – not just in the United States, but in emerging markets where they've taken off, they really are cash displacement. It's small ticket, right? I mean, think about what Starbucks has done to displace cash with their app. You know, how much cash was used for paying for coffee that's now done with the Starbucks app. And most people are using their Visa Card inside the Starbucks app.

And so, this whole digital effort is accelerating the ability to get at that cash base. And that's really a benefit for us. There are always going to be a lot of transactions that are a substitution, to your point. You know, if I'm going to buy a TV, swipe my card or tap my phone, that's probably substitutive, that's not really getting at the cash base. But there's a lot of transactions where digitization is getting at the cash base.

Q

And in your early results with Apple Pay, do you see that happening?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

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Yes. Absolutely.

Q

One back there.

Q

Hi. I had a follow up. Just on the Samsung, how that's going to work? Is it easy to skim these cards or any easier to skim the cards the way Samsung works? And then my second question on that is can it come preloaded on these phones or do you still need the mobile operators' permission to preload kind of the Samsung solution on these phones? Thank you.

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Right. Yeah. So, we're going to provision the accounts under the Samsung phones the same way we are under the Apple phones. And so, the banks will give us their permission to provision these cards onto the devices. We'll do it over the air. We do it through a process called identification verification where we do everything we can to make sure that the person putting that card into the phone is the person who owns the card and who owns the phone, and then we need to do that once.

And then once that verification process is complete, we replace that card information with a token. So the card information is never on the phone, it's the token. It's being secured or it's being stored in what's called in a trusted environment in the Samsung device which is similar to kind of a hardware-based secure element like the Apple phone. So you can't really skim the credentials. It's in a very highly-secured encrypted environment. And so it's I'd say the kind of the same provisioning cycle and the same level of security as the Apple device.

Q

[indiscernible] (24:19) Samsung phones can come pre-loaded with...

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Yeah. So, again, it will be pre-loaded with the Samsung Wallet. But again, it's going to be as banks participate in Samsung Pay that we would provision those credentials, those tokens, over the air. Because the reason you don't really think about pre-provisioning is because we don't know what card a consumer is going to put in that Samsung wallet, right? Which is why we developed this token service, this over the air provisioning, so you can buy any Samsung Galaxy S6 from any Visa issuer and put your favorite card into that wallet, and we'll be able to provision it onto that secure element on the device. And so we'll do that over the air.

Q

Could you talk about some of the headlines around the fraud in Apple Pay and what's really happening there?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Yeah. So, again, it's not an issue with the security of the device, the secure element, the biometrics failing. It's not anything that's happening at the point of sale. Now, we're early on in the game and so banks have had to do some new things in terms of what we call identification verification, right? So, what's happening is in some instances – and it's still very low percentages, people are taking a stolen physical card and registering that onto an Apple phone or an iPhone. And in some cases, where banks haven't got robust enough verification process, they're not

quite confirming that it's this person who owns the card that's putting into the Apple phone, and that's an important part of verification.

So, there's three things that need to happen. A, is this a valid Visa card, right, which we can check. Two, is this a valid iPhone device? No one is spoofing the device and Apple has a lot of ways to do that. And then the third one in the middle is the person who's putting this card into the device actually the person who owns the card. And it's that middle piece where all of that is occurring and all the banks are working together and with us and with Apple to close that gap through a lot of different technologies to verify that this person is the person that owns the card. And there's a lot of ways to do it. You can do a customer service call every time, but that's really clunky and expensive experience, right? Some banks are doing, okay, do you need to give me your last four of your social, right?

Q

When you verify.

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

When you verify.

A

Q

Right.

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

By giving you a challenge and response. You've got to sign on online banking, which a lot of them are doing. And by doing that they can confirm that the person who owns that card is the person putting it on the device. But there is a variance between the way banks are doing it, and so that there's small gap with some banks.

Q

Got it. I guess may be thinking about platforms as well. You mentioned, Apple is a closed platform, Samsung, might be somewhat more open, and then you have Android which is another level of open. Could you talk about how each will differ and who you think might have the better strategy?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

Yeah, I mean, again, I think that it's pretty clear that if you're an Apple user, you're not going to have a choice, right? I don't think that they're going to be expanding the number of wallets. I don't know that they have to. And so I would say that that experience is really tied to the Apple brand and the people that have those devices and they can extend it across our devices, and it is highly integrated.

A

Samsung has two routes, moving from handsets to all the various form factors, embedding that Samsung Wallet in the set-top boxes and their smart TVs, eventually in their white goods, et cetera. And so, your Samsung Wallet travels with you to enable kind of a seamless commerce experience as you go from your Samsung device to

Samsung device. But they also have the opportunity because they deal in multiple operating systems, including their own called Tizen, to license, say, their LoopPay technology or the Samsung Wallet to other OEMs if they wanted to, right? So, that's an opportunity for them as well.

And then I think for Google, it's to take advantage of the predominance of that operating system to appeal to the demographic that says I actually want my Google Wallet because that's where my affiliation is. And they'll be able to appeal to a broad range of OEMs who preinstalled Android into the devices already, and it won't be long before Google Wallet will be a default kind of app in the Android platform. And they're going to hope for kind of a broad acceptance on that basis.

But very different strategies. I think they have fundamentally different assets, right, ecosystem, hardware, operating system, and we'll watch it play out. But we need all three of them.

Q

It's interesting we haven't really even talked about Pay Pal in this whole thing, and they are obviously one of the larger digital wallets out there right now. Where do you think they stand because they are obviously a key player, or at least today.

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

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Yeah, and I've said this in a lot of fora. I think Pay Pal has got some headwinds, right, and I'll describe three of them. The first is I don't see even today with their recent acquisitions and some of their investments they've made, I don't see an obvious way to the point of sale for Pay Pal because they're not solving the point of sale that they solved 13 years ago, online, in a browser. It's easy to swipe your card if that's your technology. We just talked about three mobile payment alternatives that are pretty big in terms of distribution to provide this rich, seamless experience. Pay Pal doesn't bring anything to the party at the point of sale, right? So, that's one headwind I think they've got and that's still where most transactions are taking place.

If you take a look at what's happening in their traditional business, which is e-commerce, so much of that now is being driven with a mobile device and in-app. If you can provide that seamless experience, think about the Uber experience where they realize that people love to shop and hate to pay, commerce just disappears. Shopping's there. The rich experience is there. Taking friction out of transportation is there. Payment just goes away. Well, with tokenization and what's happening in-app, again, as e-commerce moves through the device, what's the role of Pay Pal given the low barriers to technology and the rich experience you can put on it?

And then, I think the third thing is Pay Pal wouldn't be Pay Pal if eBay hadn't acquired it. And so, I don't know what the effect is going to be as a result of the company splitting in two, but I would say that's the third headwind. You know there's going to be at least some transition as they go from part of eBay to not part of eBay. And so, I think there's some headwinds for Pay Pal.

Q

Are there any other questions in the audience? Okay. No? All right. You mentioned part of your responsibility is working with, obviously, these partners. Would the merchants fit into that category as well?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

So, some of them would. And so, we obviously have a merchant team, a big merchant team, that deals with our large merchants, because they've been a long time an important part of the ecosystem. We do have some merchants on our list, but we don't cross over into that traditional relationship with them as merchant. It's really focused on that kind of innovation and new commerce experience.

And so, one of our accounts is Amazon, as an example, in terms of strategic partnerships. Long been a big merchant, very important for Visa, but because they're driving so much innovation and change in the commerce experience, we need a new relationship with them just besides the fact that they do a lot of volume on the Visa Network.

Q

Understood.

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Right. So, Amazon would be a category of merchant that we put on that list. Square is on that list. Google is on that list. Facebook is on that list.

Q

Got it. I guess one of the things, going back to tokenization – and this was a discussion topic, I guess, late last year about the static versus dynamic tokens and how it limits certain types of products versus others. Could you just flush that discussion out a little bit? I mean, is the expectation that it'll go to dynamic at some point in the future?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Yeah, I think the – and about a year ago, we were still kind of working on the standard. It was all new and we hadn't done our first implementation. So, if you take a look at Apple Pay and what's going to be Samsung Pay, the token is static, but it's because we add a dynamic cryptogram every transaction. And so, the transaction is dynamic and the token is static. And so, I would say that we should be less concerned now about, geez, do we need a new token every time? What we need is a new authentication value every time and the way that we've implemented the tokenization standard, we have that.

And so, it looks a lot like – whether it's an actual EMV transaction or, in Samsung's case, this MST transaction, it has all the attributes of a tokenized EMV transaction. It's not the PAN, it's a token. There's a dynamic cryptogram for every transaction. And then, from the read head to the network, it's all encrypted.

Q

So, do you feel like, at some point, these solutions, like Apple Pay and Samsung, will move towards loyalty? Because, I mean, right now it just seems like they're a form factor.

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Yeah, it's a good question. I mean, I think that if you take a look at the way that Passbook is set up, I think you can see the route to combining payment and loyalty. I think it's one of the reasons why Samsung invested in LoopPay, is because [ph] well, (34:26) you'll see more and more cards go to EMV, and issuers are very active. I received two in the last three weeks – two EMV cards from U.S. issuers. Loyalty cards aren't going to change – there's no reason for them to. So they're still going to use that mag-stripe. So you'll put your card in and then you'll take your loyalty card and swipe it.

If you think about Samsung, as an example, combining that technology, it's all in one. And so, you approach the terminal and it could be activating NFC for the payment and activating MST to send the loyalty card information at the same time; you get your discount, your points on the spot. And I think that's a really rich experience.

So, I'd see most of these wallets – Google already has in its early implementations. It's had loyalty linked to it right from the start; the Isis Wallet did as well, and had done some deals with merchants and changed some software at the point-of-sale device. So loyalty is going to be a play, I think, for all these wallets.

Q

And so, when we fast forward maybe three years to five years from now, how different does the environment look in your opinion and what's the rollout going to look like next? I mean, U.S. is obviously a battleground right now, but what's the next market that develops?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Right. So, our focus now is long tail of issuers in the U.S., and we're adding dozens and dozens of issuers a week, now, because we've kind of automated the process; and then, internationalization of Apple Pay in Europe and select markets in Latin America and Asia. Samsung, the U.S. first, second half of this year; and then Europe, and then select markets as well. And then, I'd say global implementation of tokenization.

And then, the emergence of the third use case, besides Android Wallet and Samsung Wallet and the Apple Wallet and maybe others, is merchants being able to use our token service to get their database of cards on file and replace those cards on file with tokens on file and further drive fraud out of that e-commerce experience.

Q

And was there a specific reason why U.S. came first in terms of all these rollouts for Apple Pay?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

I guess three reasons. The importance of the U.S. market to both Visa and Apple, the fact that we can work very closely together with top four or five issuers at launch and capture a lot of the share just start to drive consumer demand. And we also saw it as an important catalyst to drive both EMV and NFC. So I think there's a number of reasons why you start in the U.S. Their companies are like 29 miles apart or something like that, so it made sense. But I think given the fact that there's broad NFC acceptance in Europe, I would say, that Western Europe is another key priority.

Q

So, you mentioned VC as another part of your responsibility. Obviously, LoopPay probably ended up being a great investment. Could you just talk about where there's opportunities and where Visa is just thinking about making investments?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Yeah. So, we think about kind of three or four swim lanes and so – that we'll look at in terms of technology investments. One of them is this whole transformation of the point of sale, right? So, whether it's small technologies that are enabling that in-app experience, what's happening with mobile point of sale. Some of the guys this morning asked the question, right now we say there's about 40 million places you can use a Visa Card. Because of mobile point of sales Square-like devices it's going to double in five years to 80 million, right? So, that's going to transform the acceptance footprint. And so we look for mobile point of sale opportunities and investments as well. So that whole transformation of the point of sale is one theme.

The second theme is security and authentication, whether it's biometrics working with the company called Delta ID that can scan your iris 10 times a second from 30 or 40 inches away in the light, in the dark, glasses on, glasses off. It's Minority Report, right? So, we're going to work on a prototype where you walk into a service restaurant and you've registered your irises with your card. And by the time you've gone from number four in the line to get your coffee, well, we scanned your iris maybe 6,000 times, so we probably know it's you, right? So, we're looking at things like authentication and security as another swim lane and there's a lot of interesting technology going on in this space.

The third one is the whole evolution to cloud. I mean Visa's network is very robust and very scalable but it's also a physical network, a lot of IBM infrastructure, a lot of Cisco infrastructure. What happens as we see the evolution of cloud and what can we do to drive efficiencies that lower the cost or the scalability of the network, so cloud and cloud infrastructure is another area.

And then the fourth area is data and analytics. We've got an amazing data set, our offline data. We see in real time every transaction. And we also have historic data going back five to seven years of every time you use your Visa Card. Well, how do we use emerging technology in data analytics to change the way we think about that asset? So those are the four themes that we look at in startups.

Q

And any investments you would make would be related in the core business?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

A

Exactly right.

Q

Okay.



Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

Yeah.

A

Q

Well, we got 30 more seconds. Anyone else got questions there? There's one right up there. If you don't mind just waiting for the mic. Sorry. Thank you.

Q

Yeah, so you touched on one of the headwinds for PayPal being mobile experience, and you obviously mentioned Uber. But Braintree, which is owned by PayPal, powers that seamless experience. So is that something that Visa is working on that would have a competing service or what are the headwinds there?

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

Yeah. So, again, obviously I think the reason why PayPal bought Braintree is because they wanted to try to drive the PayPal experience onto some of those partnerships. But even though they're powering the wallet, most people put their Visa Card into the Uber app, right? And so while I think that they'll continue to do acquisitions to make PayPal more relevant as things move from the browser onto the device, where PayPal really gets paid is when people use their PayPal Account and ideally their ACH PayPal Account because the economics are kind of upside down for PayPal if you use your Visa credit card as the account of record in your PayPal Account.

So, they will power I think through their acquisitions some of these solutions. But as I said, most people still put their Visa Card in the Uber app. And so I think that – but I wouldn't be surprised at just the recent acquisition that they announced as well, you're going to see PayPal I think have to think differently about their strategy to remain relevant as things move into small screen.

Unverified Participant

Well, we're going to have to stop right there. Thank you, Bill.

Bill Gajda

*SVP, Global Head, Strategic Partnerships and Innovation, Visa, Inc.*

Thank you. Thanks.

A

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