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Visa, Inc. (V)

Bernstein Strategic Decisions Virtual Conference

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MANAGEMENT DISCUSSION SECTION

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Good morning, everyone. Thank you for joining us today for our 36th Annual Strategic Decisions Conference. I'm Harshita Rawat, the senior analyst covering payments at Bernstein. I hope everyone is safe and healthy.

I'm delighted to be joined today by Kelly, the CEO of Visa. Two housekeeping items for investors joining this webcast, they are able to submit questions through the Pigeonhole link available on the left-hand side of your viewing screen. Also, please complete the presenter's poll at the end of the fireside chat and you will have immediate access to the poll results. The link to the presenter's poll is also available on the left-hand side of your screen.

And with that, let's begin. Al, thank you very much for joining us today.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

Harshita, my pleasure. I'm glad to be with you, and hope you, and your family, and everybody else is safe.

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QUESTION AND ANSWER SECTION

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you. Likewise. Al, I guess we can start with the sort of most important question that is on everyone's minds right now. You shared a lot of thoughtful color on your earnings call around digitalization trends, consumer, merchant behavior changes that we're seeing in the current crisis. I know things are changing almost every day in this COVID-19 world. But for the audience, can you talk about some of the overall changed spending trends, consumer behavior changes that you're seeing in this current crisis?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

So, thank you, and I'm glad to address it. So, first of all, just a reminder of a little bit about what we said, and then I'll give a little commentary about what we're seeing and feeling about right now. So, what we showed and commented on is that in the United States, we saw a pretty big uptick in the back end of April starting really April 15 which was the time that the first stimulus funds has landed in about 88 million households as we understand it from the Treasury Department. And we saw an increased – almost exclusively in debit, not in credit or commercial. We also saw a dramatic difference that continued into April – late April between card present and card not present where card present was quite negative and card not present looking quite good. Huge gap, in fact, what we said on the call was that card not present volume towards the end of April was up 18%, and card not present was – and card present, I'm sorry, was down 45%, so quite a big delta between plus 18% on card not present and minus 45% on card present.

Food and drug was kind of the star category, the only category that was positive and up more than it normally is running at about plus 20%. Travel was down over 80%. And fuel, and entertainment, and restaurant were down more than 50%. And what we saw in most major markets around the world including the markets in Europe and Canada was pretty similar to what we saw in the US. A little shallower decline in Australia, and Asia was a little bit more mixed.

Now, as we move into May, there definitely has been some improvement. I think in line with what – perhaps what others have seen, the improvement's been mostly domestic. It is still hard to separate how much of it is stimulus because there's still stimulus money flowing out. We also are starting to see some reopening in some countries, and the beginning of some states reopening in the United States.

[ph] Oil (00:04:54) spending is still negative and showing that it's contracting as opposed to growing, particularly cross-border remains down. Cross-border for us when you exclude Europe, which we think is the best way to look at it and the most meaningful way to look at it because intra-Europe cross-border has a similar revenue dynamic than domestic. So when we look at cross-border excluding Europe, we were down 52%, and now we're down somewhere between 40% and 45%. So yes, there's definitely been improvement but the number is still down.

So I think the next – we're going to be as anxious to follow the facts and I think that's where we have to be on this, is following the facts, and see what happens over the next days and weeks to see whether some of this improvement is sustainable, whether it hit some kind of peak as stimulus money works its way through the system and ceases unless there is another package that comes from Congress, which seems to be debatable at this point in time, and particularly we'll have to watch what happens on the travel front, and I think you want to talk a little bit more about that later on.

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So net-net, I'm not ready to put a label on anything, but we did see some improvement in May but we're still seeing volumes contract.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

And Al, so you talked about card not present being really, really strong, Al because of the commentary that we have been seeing from almost all of your peers too and you also had talked about contactless growing earlier in the call too. Now, how sustainable do you think so the secular shift towards ecommerce and contactless we're seeing right now?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

That's a good question. I think right now, we're going to see contactless or tap to pay continue to grow. It was growing before COVID-19, and I think it's gotten if anything some stimulus in its acceleration from COVID-19. So we're at a point now where about 60% face-to-face transactions around the globe excluding the United States are tap to pay. That's a 40% growth in transactions over – year-over-year in the second quarter. Because of COVID-19 as you probably know, between 50 and 60 countries increased their limits on contactless. 26 countries in the European Union, 25 across Central Europe, the Middle East and Africa, Canada, Australia, New Zealand all increased contactless limit.

So for example in the UK contactless limits went from £30 to £45 and there was a 50% drop-off in the number of times UK citizens had to actually touch a terminal. In Canada, the rate went from a CAD 100 limit on contactless to CAD 250 and in that range between CAD 100 and CAD 250, 40% of the transactions in the quarter went to contactless. So that's huge.

In the US, we're now in a state with 9 out of 10 and most of the top 25 issuers are issuing contactless cards. That pace is accelerating. We've got around 190 million contactless cards in the US. It's more than any other country in the world even though US is still way behind in terms of percentage of transactions that are tap to pay, we have the highest number of cards that fall into that category. 9 of the 10 top grocers, over 80 of the top 100 merchants are all set up for contactless. At least two-thirds and growing of the terminals are already enabled to – able for contactless.

And we've seen in the these past 75 days where we've been in lockdown, a large number of merchants, big ones as well, asking for signage to promote tap to pay, and I'm almost send – Harshita, almost every day people send me a email with a picture of a merchant who says only contactless or only credit cards, no cash et cetera. And that's – I think that's a big deal. We've seen in the everyday spend categories in the United States a 100% growth in contactless transactions and there's still a huge runway here because we're still talking about the US being in mid-single digits in terms of penetration of contactless.

And I think when we come out of this lockdown and we start to see people going back to work and using mass transit, and stopping to get their coffee in the morning, and going out to get lunch in the afternoon, we'll even see a greater rise in transactions that are tap to pay both in the US, and around the world. And in the US, I'd remind you that 55% of the payments below $10 are still cash, so there's a real opportunity – a real opportunity there.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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And – so, Al, let's talk about your travel exposure a little bit more. As you know, many investors are envisioning a scenario where travel weakness could span over multiple years. And I know the situation is very, very fluid right now especially with regards to travel. But as you sit here today, what is your current thinking in terms of when and how travel comes back especially the more profitable international travel? And I understand there's nuances between consumer and corporate, et cetera. But any thoughts there would be wonderful.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, I think let's start with a couple of facts. One is B2B which includes virtual cards is about 12% of our PV as a company, and it's not terribly T&E-focused, far less than one might think. Two-thirds of our cross-border volume is travel, both card present and card not present. But commercial represents an even smaller portion of that cross-border than it does of overall PV. So the majority of our cross-border travel is consumer-oriented. For that matter, even the ecommerce piece is consumer-oriented.

To your question when will travel return, that's a great question. I think it's going to come in four stages. One is I think domestic short-haul trips will come back first and people will kind of do some version of staycations in their – in their domestic market. I think then you'll get some – from there, you'll start to see some interregional travel where countries cooperate amongst each other and believe they have a common view of standards and protocols related to COVID-19 – and where people feel safer. And so I think you'll see some interregional travel. I think the third step is when the long-haul international travel comes back. And then the fourth stage I really think is business travel.

The – hugely, I believe this is going to be influenced by a number of things. One is, is there or is there not a meaningful resurgence of COVID-19, I mean, almost every medical expert I've talked to believes that in the fall COVID-19 comes back. It's just a question of does it come back in a way that does not overwhelm the medical systems in countries therefore not requiring a lockdown.

Because the reason we went into lockdown this time was because of concern that we were going to overwhelm and run past the capacity of the healthcare system and have people who are sick on the streets. So I think that's a big factor. I think what kind of advances we make in therapeutics, treating the person who actually gets COVID-19 and then obviously a vaccine.

I do think Harshita there's going to be, human nature certainly suggests that there will be people who will not want to travel out of their home market until there's a vaccine or maybe until we get through this fall season and determine whether the coronavirus came back or not. Because I think what people are probably scared of – will be scared about is getting stuck somewhere when they're out of their country and then there's a lockdown.

So it's just too early to tell. I think business travel because all of our companies have seen us working from home and not traveling. I think every CEO and CFO is probably going to take a look at their travel and try to determine what's really necessary and not necessary. So I – I'm not – I don't have my head in the sand. I think there could be some permanent change or at least medium to longer term change in terms of business travel.

So net-net, I would say that we certainly have some exposure with two-thirds of our cross-border [indiscernible] (00:13:45) being travel. But again because it's very consumer-oriented, and I still think there's tons of people who have family around the world. There's people who are just plain and simple curious. There's people who desire to be world citizens. I don't think any of that urge has gone, and that feelings have gone out of people in terms of wanting to see family, want to travel the world, want to knock things off their bucket list.

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So I do think that there'll be – that travel will come back. It's just a matter of the pacing of it. And the fact that its consumer related – we're more consumer focused I think helps us plus the fact that we've continued to see an acceleration in cross-border ecommerce which obviously helps to overcome some of the weakness in travel. So that's, I wish I had a crystal ball to be able to be more definitive, but that's the way I see it.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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No. That's very helpful color. Thanks, Al. Let's talk about some of the exciting growth opportunities for Visa. The expansion of your addressable market [indiscernible] (00:14:50) beyond your core consumer to business payments something that you have increasingly invested in over the last few years. Now clearly, the opportunity is huge no matter how you slice and dice it. But historically, there've been flows such as B2C, B2B were difficult to address for a variety of different reasons. So can you talk about what is different now there which is driving this growth inflection towards these new payment flows and what use cases you're most excited about?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, you said something very valid, Harshita, that these were difficult to address and I think they were difficult to address because of two reasons; one, a lack of capabilities; and the second one, a lack of awareness. And I think we've started to deal with those. We needed an answer and the Visa Direct platform became our answer. It facilitated push transactions and it allowed us to send money to any node in the network, and now with Earthport, any account around the world. And we got excited about it when we started really dimensioning how big this was.

New flows is $185 trillion, I mean, [indiscernible] (00:16:08) whether it's a little less than that, a little more than that. That's a huge number. $120 trillion of the $185 trillion is B2B and $65 trillion is other flows and that's B to small – B2b is about $5 billion. P2P is about $20 trillion, I said the first was [ph] $1.2 trillion (00:16:29). The B2C is about $30 trillion. And then the more nascent one, although picking up because of COVID-19, is G2C, government to consumer, which is about $10 trillion. So it's, A, we had to build the capabilities and then start to build the awareness. We're far ahead on Visa Direct now for more the types of flows, the $65 trillion flows.

B2B, we really felt like especially for cross-border we needed a real alternative to a correspondent banking. And we needed something unique. So we've built B2B Connect, and we're now in the midst of building that up. And we believe that that will be a tool for us going forward.

If we look at P2P, we now partner with over – I think it's over 100 P2P providers, including the top seven. And now with Earthport, we're enabling P2P on a cross-border basis, and we've increased our partnerships and partnerships are always key to our company. But Remitly now is launched cross-border in seven countries. Moneygram has launched cross-border recently in 11 new countries. And KB Kookmin, the card in South Korea, just opened up to cross-border. So we think P2P now going from domestic to cross-border represents a great opportunity.

In the B2C space, here, we're talking about on-demand payroll, gig economy, and this required new partners. Initially, we went out and partnered with people like Uber, and Lyft, and Postmates. Now more recently on earned wage access we're partnering with PayActiv, and Flex Pay, and Daily Pay. And the demand in these categories is growing.

In the B2B space, remember, we look at it as three opportunities. There is the carded opportunity which is about $20 trillion, the cross-border opportunity which is about $10 trillion, and then the ARAP piece which is about $90 billion. And we're focused mostly on the carded piece and the cross-border piece in the short term.

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And I mentioned government to consumer. We have gotten more inquiries from governments in the last 75 days or 80 days than we did in a long – in probably a couple of years put together because of their interest in driving stimulus checks or emergency relief monies out to their citizens because of COVID-19. And we've helped a number of governments along the way in terms of helping them create programs, facilitating debit cards and prepaid cards.

So I think when we look at the landscape of this $185 trillion, we're focused most heavily on the $20 trillion in B2B, the $30 trillion in B2C of other flows, and then the carded $20 trillion in B2B and the $10 trillion in B2B for cross-border. The other pieces we're continuing to make traction. But – and there's not one element of new flows we're not trying to go after. But we have prioritized the ones that I just referenced.

But at the end of the day your question was so right and why now and why not before, and I think it really comes down to capabilities, partnerships, and building awareness.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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Thanks. Thanks, Al. That was very, very helpful. And if I think about the sort of what's driving this growth inflection for Visa, another component of that is value-added services and at the Investor Day, you disclosed value-added services is roughly $3.5 billion run rate – revenue run rate business for you growing almost twice the rate of your core business. Do you think, Al, that the size, scale, and capabilities of your value-added services business is underappreciated by the investment community?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

I do think it's underappreciated. Some of that is probably our fault and that we haven't probably talked about it as much. But you're right in citing that we grew value-added services' revenue two times what we do consumer revenue last year. And value-added services has three powerful rationales that make us very excited about it.

One, and really importantly, it gives us the capability to go talk to clients, and help them grow their business by using one of our capabilities. Secondly, it allows us in doing so to deepen our partnership with those clients. And we know the deeper the partnership, the better the relationship. And then thirdly, it's a new source of revenue for us. And I think we finally have gotten to the point where we're doing a better job of packaging and communicating our value-added services, and I'll talk about a couple of the categories if we can.

So, first is issuer and consumer solutions, and there, I certainly would highlight our debit processing service, which is one of the largest debit. We're one of the largest debit issuer processing businesses in the world. Last quarter, we announced the excitement of a new deal with Truist. We'll be using DPS. And we also renewed deals with six other providers. So we actually renewed or found new partnerships that generate about 20% of our volumes through DPS. So it's a really, really strong quarter from that perspective.

We are also working – I referenced some governments. We're also working in the United States. There's two dozen states that work with us on unemployment insurance issue through prepaid cards. Because of COVID-19 unfortunately and the sad number of Americans that are out of work, we saw 400% growth in account holders last month. And we just announced that in this last round of stimulus money where the Treasury didn't have a prior relationship with an American that they are issuing stimulus payments on 4 million Visa prepaid card.

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And in the case of – and all of this is facilitated with DPS. And we're also exploring bringing DPS to international with an initial focus on Germany such are some of our issuer solutions.

On the acquirer and seller solutions, we have CyberSource. We have our whole focus on urban mobility, our whole focus on tap to pay which we talked about and our Account Updater service which allows an acquirer to update card on file card numbers if somebody loses their [audio gap] (00:24:01).

CyberSource is a huge weapon for us, and getting a lot of attention now because of ecom and because of people's interest in omni. It's – over $0.5 billion of purchase volume runs through CyberSource, 450,000 merchants. We used to work solely with merchants. Now, we're working with acquirers as well as merchants. We've got strong capability and something called Decision Manager which allows Visa data to be combined with lots of other data to determine whether a transaction is potentially fraudulent or not fraudulent.

Our history in value-added services goes back to security and identity products, mostly fraud authorization and authentication. I'd say [indiscernible] (00:24:55) tokenization to that category. And these services, while they're the oldest, remain very sought after. Because in a world now where prior to COVID, we knew because of the chips on physical cards that fraud had started to migrate to the card not present online, ecommerce world. So, there's tremendous amount of interest in our risk offerings now because of the dynamic, the multiple dynamic of – that's where the fraud is going and that's where the volume is going because of the lockdowns.

We have – data solutions is another category within our – within our value-added services. There – right now, I think it's up to like 21 or 22 countries, we're providing data to governments and central banks who are trying to understand what's going on and they saw in non-disclosures and we give them a sense of what we're seeing in our numbers.

We're also seeing an incredible increase in interest amongst our issuers in terms of our Visa Analytics platform where we have got 5,000 active users who go out and look at what their performance looks like and we saw like 30%, 35% increase in the reports in the second quarter versus the first quarter because of COVID-19.

And then the last category that is amongst the newer categories is Visa Consulting and Analytics where we have 500 dedicated consultants. Last year, they did 1,000 projects. They did 50% more projects in the second quarter just ended versus second quarter last year. And they do things like digital acquisition, digital activation project, risk management, portfolio analysis, benchmarking, those kinds of things.

So net-net, when I look back what seems like a century ago, but it was only three and a half months ago to Investor Day where we spent a tremendous amount of time, Harshita, on both value-added services as well as new flows. We believe in those things as having great runway for us for years to come, albeit that some of it will be a little bit slower now in this environment in which we found ourselves. But our – as a company our appetite and our excitement about them is not changed one bit.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

So you talked about – one of the first categories you talked about, you talked about driving deeper relationships with your partners. And I know within that driving deeper relationship with fintechs has been a key focus area for Visa under your leadership. And I know you're awaiting regulatory approvals which limit your ability to comment on Plaid in detail. But on a high level, how does Plaid fit into the strategy of driving deeper relationship with fintech as well as expanding into new payment flows?

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Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, a couple of things. Plaid in and of itself is a great fintech story. It's a network. It connects 2,600 or so fintech developers to 11,000 financial institutions. So in – what – many ways is a perfect fit for our Network of Networks strategy. It's very similar to VisaNet, which is connecting 15,000 issuers around the world to – and they have 3.4 billion payment credentials to 60 million merchants.

We believe that not only is Plaid a great network and a great fintech but it's focused on the things we think are important, secure and frictionless connections and we see this as an opportunity to continue to embed ourselves deeper into the fintech community DNA and be able to get a front row seat to what's happening in fintechs and who are the more successful fintechs based on volume. And then that sets us up to have discussions with them about how we can help them with payments and with money movement and with value-added services.

So, we will certainly be looking to once we're able to have actual ownership of Plaid. We'll be looking to bring the best of Visa and the best of Plaid together in having a more holistic discussion with both fintechs and financial institutions about how the combination of Plaid's network and Visa's various capabilities particularly value-added services can come together to help accelerate their business.

So, we're really excited about it and hope the regulatory approval happen sooner rather than later. But as I've said before at this point I'm thinking it's more towards the back end of the year.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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And I'll just continue on this theme of deepening partnerships. Now, over the last year alone you signed a number of key partnerships including the one with Tencent, LINE Pay, Paytm in India. Can you talk more broadly about the journey of some of these players – or your conversations with them as they evolve from these closed-loop wallet into partners which are now starting to embrace the open-loop system championed by Visa.

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Happy to. The first thing I would say is I want to go back to this notion of partnerships. I mean our business is all about partnerships. Everything we do is about partnerships. The payments ecosystem, the money movement ecosystem is about partnerships and it's a obviously a big area of focus for us. I would say that this phenomenon that you just referenced of predominantly closed-loop digital ecosystems starting to open up in the last 6 to 18 months might be one of the most exciting things that's happening in payments and in money movement in a long time.

A few years ago, there was entirely new e-commerce ecosystems that were started, and they were completely closed to players like us. They were completely proprietary. Visa had no say in it. I think there were people – in fact, I talked to people who were concerned about the risk to Visa and what kind of volume these guys were taking control, et cetera. But there's been a fundamental shift in this short last period of time. These players are realizing that as well as they've done, they've hit a ceiling. And they haven't been – many of them are very customer-focused, very user-experience-focused. And they've realized that by becoming an issuer of Visa credentials or welcoming Visa cards in their wallets, enabling Visa acceptance on their network broadened their attractiveness to their consumers. And by the way allowed them to start participating in a broader set of economics as an issuer and as an acquirer.

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And this whole notion of what's going on with these wallets has become a fundamental aspect of our strategy. And in some cases, it's a really holistic relationship. In some cases, it's issuer-focused. And in some cases, it's acceptance-focused. And let me give an example of each.

So, I think, in the holistic example probably the best example is Paytm in India. They have 500 million issuer – users, they've got 16 million sellers on their network. And they again realized that as big as they were, they were reaching a point where it was difficult to enable cross-border and attract more clients. So, there we are both – they are both issuing Visa credentials as well as opening up their network to Visa. And this model that we have at Paytm is similar to the model that we'll have with MFS in Africa and LINE Pay and Gojek in Asia and – Japan in the case of LINE Pay and Safaricom in Africa. A kind of the credential or issuer focused, I would say Tencent is the example, and the deal that we recently announced with them where – when Chinese citizens are traveling outside the US, they have the opportunity to put a Visa credential in their WeChat Wallet while out and be able to use it outside of China while they're traveling. This is the first co-brand Tencent has done, so we're really excited about it. And this model which is really more focused on them as an issuer, similar to the model that we'll have with Rappi down in Colombia and Paga.

The last would be kind of something that's more acceptance oriented, and I would say that's – the best example of that is probably Ali and WeChat in China, where for visitors into China, we've now worked up a relationship with them where a Visa credential could temporarily be put in Alipay or WeChat Wallet to allow a inbound non-Chinese cardholder to shop in China.

So, net-net, when I look at the landscape of all the wallets that we have relationships with today, if we could be wildly successful, there's the opportunity to penetrate 2 billion wallets with credentials and 65 million merchant locations. So, again, I couldn't be more excited about the opportunity that's been facilitated by this opening up of the – these previously closed ecosystems.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

Yes. Certainly a profound change. And I guess like – let's talk about Europe for a little bit and which is both really high growth market and also like a really big addressable market. Now, in the last few years, you've done a lot of heavy lifting at integration of the largest deal in recent history. And now that the integration is behind us, can you talk about where is Visa in Europe today? The growth opportunities as well as the key focus areas for you. And then just also while we're on Europe, with PSD2 being rolled out in Europe, what implications do you see for Visa?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

I would say I had a front row seat to this whole Visa Europe thing happening as an Independent Board Member in 2015, in the beginning of 2016 before I became the CEO. And I would tell you that the Visa – that Visa in Europe today is almost unrecognizable versus what it was 3, 3.5 years ago. We have more people in markets and different people. We've got a new management team. We've got – we're operating under a whole new structure of client deals that's based on incentives and not rebates.

And I think we're on our – after we've got through all the integration, we're on our front foot and I think the business is just becoming much more commercial after being an association for many years.

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[indiscernible] (00:37:05) about our focus in Europe, I would say that fintechs is huge. It's a – fintechs are hot in Europe. They have been. I'd be the first to admit we were a little slow two years ago when fintechs were starting to emerge. But I think we were really on our front foot now in terms of fintechs in Europe.

Secondly, we're working very hard on deepening our existing relationships, and we've got a lot of longstanding deep relationships in Europe. And then, thirdly, we're trying to build out in countries where we think there's real opportunity. In there, we're looking at things like driving credit, new payment flows, value-added services and merchant acceptance.

Let me address a few of those things more specifically. In the case of fintechs, a few examples, we've developed a great relationship with Revolut. We now have a global deal with them. They're looking to extend to 24 markets and we'll be their primary partner. Dozens, which is a consumer budgeting, savings, investment tool selected us as their primary partner. And Railsbank is – chosen us as their partner for debit issuance. Turkey, which is about 25% of Turkey is unbanked, there's a fintech called ininal which we developed a relationship with. And we developed that relationship sometime last year. I think it was in the third quarter, if I recall. And we already have about 4 million credentials issued through ininal in Turkey. And then, in France, we've got a deal with a fintech called Lydia. It's a mobile app. They got about 3 million users, and they're adding 4,000 to 5,000 users a day, so – and we're their preferred payment partner.

We're really excited about the deal we announced a couple – well, I guess, now, maybe six weeks or so ago with Accor, the fourth largest hotel chain in the world, 64 million members. And they haven't had a co-brand card. And we will be their partner globally in developing co-brand cards for their [ph] Live Limitless campaign (00:39:23) and program. We've signed four of the largest banks in the UK which is our stronghold market. So that's a good sign for the future that those are – are locked in. And on the continent, we renewed BCPE which is our largest issuer on the continent. We signed several other key issuers in Germany, Spain, and Italy in the last quarter.

And there's a [ph] pan-European bank (00:39:53) that operates in six different markets from Bulgaria to Austria that we re-signed as well. So feeling very, very good about our progress with fintechs and with the growth in our traditional users.

You asked me about PSD2. It's a real opportunity for us and I think our strengths make us well positioned there to be a player in terms of risk management, authentication and innovation and innovation particularly on the user experience.

We've developed several products of Visa delegated authentication which allows us to step in and do the authentication. We developed something called Visa Trusted Listing which is kind of a white label listing that list trusted merchants that facilitate not having to add the second factor of authentication when you do two-factor authentication. We see Plaid being a key player in open banking, it is the – it will be the thing that opens the banking in terms of fintechs who have attractive applications for consumers.

We were going to have to build – as part of open banking, we were going to have to build our own way to build those connections for fintechs to be able to help facilitate the open banking. With Plaid we now don't have to that. So we're very excited about the fact that Plaid will play a key role there and it's great that Plaid's initial foray into international includes Ireland and France and Spain and – I forget what the other one maybe , Italy or the UK, I'm missing one, but four countries in Europe. So that'll certainly be a priority when we get through the regulatory approval process.

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Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

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And, Al, let's talk about government, I know which is an area that you also spent a fair bit of your time in. In Visa's role as the network and standard setter in the payments ecosystem, you manage a tough balancing act between the interest of merchants, issuers, acquirers, consumers globally. Governments are very, very important of this dynamic with push and pull forces around nationalism, but then also focus in digitizing payments. So can you talk about some of your conversations with governments and regulators around the world and how it evolved over the years and also like in this crisis?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Well, I try not to read the newspapers every day and see the level of nationalism around the world. But, frankly, it's not terribly new. We've dealt with nationalism throughout our history. It can be challenging but I think the key is making sure that we have a seat at the table and we're not excluded. So we continue to – as it relates to any country around the world, we continue to play the long game. We want to show them that we can be helpful and additive to the ecosystem and we engage actively and often.

And I think if you had that philosophy and that staying power, I think it shows. If you look at demonetization in India, it was a huge deal. And at the time, we were the market leader in India and the view was – that – I would say that almost everybody, I think, would agree that the demonetization of India was like hitting a reset button on what was going on in India. It brought all kinds of new entrants emerge into the – in the market. But the reality is here we are now coming up on three years later, and we're still the market leader in India, and we're working off a much higher base of business because of what happened since demonetization. So, the India story for us has been a very, very good one.

Japan in Asia is really pushing for contactless under the Prime Minister. Their goal is to get by 2025 to 40% penetration of payments to be digital. They were 19% three years ago. They were 24% last year. So, there's been progress made and they've been working with us and working with the banks and we've dramatically increased our debit issuance where we increased our processing penetration. We've increased our fintech relationships in China.

Interestingly, this current environment of COVID has – and I alluded to this earlier, Harshita, it has actually opened up more conversations with governments around the world, more of them are coming to us and asking questions. And look, some of them are more worried than others and some are talking about should I change regulation, should I get in the middle of pricing. And the good news is that we whenever have conversations with them about the fact that the very first thing government should do right now is do no harm. And I think jumping in and trying to change the rules of the game when both – when everybody is a bit confused about where the world is going and living in an environment that none of us have ever lived in before with some of these lockdowns. And I think to date, we've been pretty successful in convincing governments that they – that this do no harm means to be their strategy because that if you go in and start changing the rules and which potentially change the economics pool and how that economic pool is divided up, you could end up with some tough implications that you really don't want in this time when we're still in negative contraction growth areas. If we're going to get the pendulum to swing back up to positive, we certainly don't want to be in a road where governments are being disruptive.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

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And on a somewhat related topic, we are seeing this new wave of government regulators around the world modernizing their ACH infrastructure to be real time. So, how should we think about RTP versus some of your existing products and capabilities? And do you think it's important to own that underlying infrastructure?

Alfred F. Kelly
Chairman & Chief Executive Officer, Visa, Inc.

A

Couple of good questions there. So, again, in our Network of Networks strategy where we desire to move money or payments from any endpoint to any other endpoint through any form factor, the reality is that requires us to work with a set of networks, some we will own and some we will not own.

In the case of RTP, we look at it as having three levels, an application level where there's end user application such as Bill Pay, that could vary by channel that are creating some of the real capability of – that's facilitated through the RTP system. The second is the services level which is used to help add value to a transaction created at the application level. And so here you're talking about things like tokenization or disputes management, that kind of thing.

And then lastly, you've got the infrastructure level which is the level of settlement – authorization clearing and settling. And we think that level is very high investment, very low return business. It's very hard to scale. Each one of these creations of RTP systems are totally bespoke, very hard to take the code and take it to the next market and save money.

Typically, these RTP systems are owned by governments or groups of banks. They control the pricing. So even if you build it, you build it out of a price, you're kind of a software provider and for X you agree to build it. If you're looking to operate it, you can't control pricing in almost every single case. You operate it, but you don't control the pricing.

So we're not particularly interested in this infrastructure level. We're very interested in the application and services level and that's where we continue to – we'll continue to put a lot of emphasis. It was one of the driving factors amongst many in the acquisition of Plaid that we see Plaid being able to help a lot at the application level by facilitating these connections between fintechs and financial institutions.

And, quite frankly, some of our other recent, smaller acquisitions like Bell ID's tokenization services and Verifi, and before that Cardinal where – to create capabilities and services that could be offered at that mid-level, the services level to make it more – the transaction safer or sounder.

The last point I would say is that – and I think this is misunderstood. These RTP systems are in the public domain. They're available through any one and are not influenced by the person who built them or the person who operated them. They're available to us and they're available to anybody else in the ecosystem.

Harshita Rawat
Analyst, Sanford C. Bernstein & Co. LLC

Q

So, Al, we're running out of time and I also want to be respectful of your time. So, my last question for you which is, back at the Investor Day, you talked about a number of strategic focuses for Visa, some of which we talked about today. Given the environment that we are in right now, what are the one or two most important focus areas for you, also from an investment and capital allocation point of view?

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Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

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Well, I think that this is a tricky time. I want to run this business for the long term and will and the vast majority of my decisions will be based on that. But I also have to be cognizant of the short-term challenges. And so, we are trying to – and I described my job as operating a series of dials where I'm just tweaking here and tweaking there, I don't run a business with on/off switches.

But we are going to have to [indiscernible] (00:50:43) trying to control our expense growth where we can, but doing it in a way that does not hurt the business in the medium to long term. So, that's going to require us to make sure that we are doubling down on what we believe are the key priorities and stopping some of the things or slowing some of the things that are maybe attractive but not as attractive as some other things. It's just it's a time of reflection and prioritization. And it's tough – the good news is we have a lot of opportunities in front of us that we're very, very proud of and very excited about. And, in a perfect world we'd like to invest around all of them, but we're going to have to be cognizant of what's going on, and I think, influenced by what's going on.

So obviously, things like e-commerce capabilities, Tap to Pay, SRC based on everything that's going on in the marketplace because of COVID-19, all those things kind of rise to the top because there's a lot of opportunity in that space.

And so, we will continue to be, I think very, very – not I think, we will continue to be very thoughtful about reaching the short-term realities but continuing to manage this company for the long term because the company's got fantastic upside in consumer payments, new flows and in value-added services.

Harshita Rawat

Analyst, Sanford C. Bernstein & Co. LLC

I think that's about all the time we have. I wish we had more. For those of you who are listening in, please play the Procensus poll, and you'll have immediate access to the results. Thank you very much Al for joining us today. And thank you [indiscernible] (00:52:27).

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

Harshita, it was good to see you and take good care. I'll see you hopefully in person at some point when we get out of this lockdown. Take care.

Harshita Rawat

Analyst, Sanford C. Bernstein & Co. LLC

Yeah. All right. Bye. Take care.

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

Bye-bye.

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