04-Jun-2020

Visa, Inc. (V)

Piper Sandler Global Exchange & Brokerage conference

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CORPORATE PARTICIPANTS

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

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Christopher Donat
Analyst, Piper Sandler & Co.

MANAGEMENT DISCUSSION SECTION

Christopher Donat
Analyst, Piper Sandler & Co.

Good afternoon. Thanks for joining us. I'm Chris Donat, financial technology analyst with Piper Sandler. Welcome to the keynote speech and fireside chat of our 17th Annual Exchanges and Financial Technology Conference. I'm very pleased today to have with me Al Kelly, who is the Chairman and CEO of Visa. Al has been CEO since 2016, Chairman since April of 2019 and of course he's on the board since 2014. So not going to belabor the résumé there, but Al does have extensive experience from a career at American Express before joining Visa.

So, again, I want to welcome everyone here. Just to orient you, all, of the schedule, so this fireside chat will last 40, 45 minutes, then we'll have a break and resume at the top of the hour – or sorry, at 1:30 Eastern Time.

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QUESTION AND ANSWER SECTION

Christopher Donat
Analyst, Piper Sandler & Co.

Q

So, with that, Al, we're delighted to have you here. I want to just jump in with a question of the current environment here because you run what has to be one of the most globally dispersed companies on the planet, you get more than half of your revenue from outside the United States, so how has the pandemic changed how you manage in these early days? And are you able to do things like delegate more to local executives? What's different?

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

A

Well, first of all, Chris, thank you for having me. And I hope everybody on this call is safe and doing well. It certainly has been a crazy time. I'm in my 12th week of lockdown, and it's truly amazing. Although I found a routine, so I feel good about how things are going.

Yes. One of the things that people ask me, what surprised you when you moved from a board member to being the CEO? And actually the globality of the company. I mean I knew how global it was but it's – it really is a global company. We operate all but five countries in the world. In those five countries we're not allowed to operate in because of US sanctions. So we're not in Cuba, Crimea, Syria, Iran and North Korea. We're in every other country and territory in the world. We have 130 offices in 76 countries and we settle every night in 160 different currencies.

At all times we got to have some kind of global values and principles and [audio gap] (00:02:34) trust local leaders to make good judgments based on those values and principles. And it's not a lot of rocket science here. Having strong capable leaders and a very good flow of communications in a global company is critical.

We operate in five regions, North America, Latin America, Central Europe, Middle East and Africa, Europe and Asia Pacific. Each of those five regions is headed by a regional president. Four of the five regional presidents have over 10 years of experience at Visa. Charlotte Hogg is the only exception who's got three years of experience and Charlotte runs Europe.

To your question, Chris, it's interesting. I don't know that much has changed because of COVID. And as a global company, one of the things that we're used to is stuff happens around the world everyday whether it's unrest in Venezuela or unrest that we've been dealing with in Hong Kong before COVID and now unfortunately – recently in the last couple of weeks, floods in India, our offices in Denver, in Highlands Park, which was literally across the street from one of the more recent high school shooting incidences in America. Our offices in Nairobi, where recently in a building that was shot by Somalian terrorists and are – while our employees were there.

So it – unfortunately, when you run a global company you run into a lot of issues. We've been – we obviously have – do a lot of listening to our local leaders. We have, as you can imagine, processes and meeting cadences that allow us to stay close to what's going on around the world. But basically, it's about putting good people in place, having established guidelines and principles, allowing local adoption of those and having good ongoing communications.

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And for me, I use – I was traveling 85% of the time prior to COVID. It's a different world, but in many ways, I'm working longer days, not necessarily a great thing, working longer days and having probably more client interaction and talking to more of our employees than I ever did because a lot of that time was in airplane.

So, I think that we, as a company, I've been very proud. After the first few weeks were rocky, right, I mean, everybody's trying to find their ground. But in the last eight or nine weeks, I think we've really have been on our front foot. We're operating largely as normal. And that's with about 97% of our employees globally working from home still today.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Got it. And I want to ask another question about your executive leadership. You just mentioned that of the – of your regional heads, four to five have more than 10 years of experience. One thing that strikes me there when you look at the proxy is that most of the named executive officers are between four and seven years at Visa, the exception being Bill Sheedy who's got a remarkable 27-year tenure. How should investors think about the mix of experience that you get kind of out in the regions versus what you have in the – from the executive offices, so to speak?

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

A

Well, you're right. If you [audio gap] (00:06:12) power alley is four to seven years. That said, there's a heck of a lot more than that in terms of running the company, if we relied on the five people in the proxy we'd be in trouble. We need the other 19,995 folks to make up for our inadequacies.

We have – I think investors should feel very good about our team. I've had the ability to work and the pleasure of working with many, many good leadership teams. This is a very good leadership team. It's got great collective experience, great diversity. It's a very collaborative group. There's a good distribution in terms of age on the executive team. I mean I think we range from 44 to 61. Some of our newest executives who are not in the proxy bring great experience.

Paul Fabara joined us about nine months ago. He had been at AmEx. Although we did not overlap, I didn't know Paul at AmEx. And he's our Chief Risk Officer. He worked at AmEx and Barclays before that. And Jennifer Grant, who runs our Global Human Resources, has been with us for about a year and a half. She came from Air Products.

If you look at the executive committee which is there's 13 of us, we have – I actually looked at this yesterday, we actually have 100 years of Visa experience. Although if you take Bill Sheedy out, we have 73 years of experience because Bill's been here with 27 years. Chris Clark, who runs Asia-Pacific, he's been here 18 years. Oliver Jenkyn who runs North America has been here 11 years. So those three are kind of our veterans.

Eight of us, to your point, not just the ones in the proxy, but 8 of the 13 people on the executive committee are here four to – three to seven years. And then you've got Paul and Charlotte Hogg and Jennifer Grant who are the newer people.

I'd also say, we have great strength beneath that organization of leaders of the executive level. We pay a lot of attention to talent. At every single board meeting, every single board meeting, we review one area of the company from a talent perspective. And this year at our strategic session with the board in July, we're actually going to do a robust half day talent review of the company. So it's something I personally pay a lot of attention to. Our board

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appreciates staying very, very close to the people in the organization and they have a good – I'm one of these people who wants to give a good deal of exposure to the up and coming leaders in our organization.

So, even once a year, Chris, since I've been CEO, we'll have a dinner with the board where I'll invite 10 up and coming people or 10 brand new people to the company, who are people they wouldn't normally get a chance to interact with. So they get a good flavor for the folks below. So, I think investors should feel very good about our people. And for that matter, that's what we're all about. We don't make a darn thing. We are a business of intellectual horsepower and innovation, creativity, experience, relationships and that's what people bring to the party. And so, investors should feel good about it.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Great. Part of the reason I'm asking these questions is [indiscernible] (00:09:41) the employees is, I was operating under the thesis that in this environment it would be difficult to bring on new people so whoever kind of the team you start the pandemic with, that's the team you finish. Then you turned around and kind of proved my thesis wrong this week when you announced the appointment of Chris Newkirk as Chief Strategy Officer, this was last week.

It's a new role. It's actually – as I look at it, one of your first big hire since you've been in the CEO seat. Can you just give us a little color on that? What's new about the position and why did you hire Chris?

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

A

Yeah. Well, he's I think the fourth EC member I've hired. I hired Charlotte Hogg who runs Europe; Paul Fabara, Chief Risk Officer; Jennifer Grant, the Head of HR; and now Chris Newkirk. We talked – you mentioned Bill Sheedy. In the fall of last year Bill came to me and said, hey, I think I'm going to retire. And I said to him, A, you're not going to; and B, what the hell would you do with yourself?

So, we actually after a number of discussions agreed that Bill would go to half time. So Bill is a half time member of the executive committee although he's always there when I look for him, so I don't know how half time he really is, but that's what he is. Bill had a number of responsibilities and we did have a strategy group underneath Bill but I decided there was an opportunity to relook some of the things we were doing and decided we could benefit from a chief strategy officer. There's a lot going on in payments. I've been involved in this space for 3.5 decades and probably more has happened in the next – last three years than in the 32 years before that.

And I didn't use a search firm. I literally started asking people, who should I think about talking to, who might be restless, who might be willing to move? I was also looking for a real athlete. I didn't want to hire somebody who would only come in to be the Chief Strategy Officer, I wanted somebody who everybody would want to move to another role, probably sooner than I'd want, in this case, Chris to move.

I didn't know Chris. Capital One is a great client of ours. I have a tremendous amount of respect for Rich Fairbank and the team of people that he has built at Capital One is phenomenal and it's a very progressive bank, one of the ones that we most enjoy working with. But somebody introduced me to Chris, I don't even remember who it was. He and I chatted and then as we talked more and more, I think he saw it as a great opportunity and [audio gap] (00:12:15) veteran, he's a 12-year veteran of Capital One.

He's worked overseas in Europe, he's worked in the United States. And in Chris, I think we really are getting the athlete that I sought. I think Chris will have a long career at Visa and will do a whole bunch of jobs before he

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sunsets his career. So we're excited about having him. He's on a vacation for a couple of weeks now with his family. I presume it's a staycation and we look forward to him starting a week from next Monday.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Got it. I wanted to ask a couple of questions about the current environment and how the pandemic has changed the world from a lot of different perspectives. But one thing we saw with the March quarter was the contactless volume was up 40% year-on-year and that's been something that [ph] there's not a lot of (00:13:10) geographies around the world where contactless is tremendous. In the United States, it's been a little bit of a laggard. Just as we think about the revenue implications for Visa, do you see or should we think about contactless card transactions as displacing cash or are they displacing other [ph] dipped (00:13:30) or swiped debit and credit transaction?

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

A

This is a tremendous opportunity for the company and for players in the ecosystem. We call it tap to pay, contactless, same thing, but we call it tap to pay. It's the most frictionless way to pay in a face to face environment for both the consumer and the seller or the merchants. It has really become a default in many parts of the world. In fact, as you alluded to, the US is much further behind but gaining momentum. We have just about 200 million cards in the United States now that are enabled for tap to pay, Chris. It is the most in the world by the way.

We hope to have 300 million enabled by the end of this calendar year. But that's still only a third of the 900 million credit and debit cards there are in the United States. So there's still a lot of room for growth. Tap to pay definitely displaces cash in 12 countries around the world, over 90% of Visa's transactions are tap to pay. In 50 countries, more than 50% of the face to face transactions are tap to pay.

And what's really exciting about tap to pay is that we have clear proof that it increases the engagement of the customers. So for example globally, we've seen an average of a 20% lift in volume from people who start to tap to pay. If we look at the UK, where we've had a long set of experiences especially with the Tube in UK transport, anybody who uses tap to pay in the UK subway system ends up having a 70% increase in transactions. And in Asia, where tap to pay has really taken off, we're seeing 4 times more transactions for a tap to pay user than a non-tap to pay user.

The US is still kind of mid-single digits in terms of tap to pay, so way behind. But it's an enormous opportunity. The average American, Chris, makes 12 cash transactions a month, and 55% of all transactions in the US are – that are under $10 are cash. So the opportunity is really significant.

And what's happened with COVID-19, and this is one of the really positive movements related to what's happened with COVID-19, is that people are seeing cash as something that carries germs. And we've seen numerous merchants actually say, hey, I don't want to take cash. So I think it's going to accelerate the adoption of tap to pay in the United States and continue to – we'll continue to see higher penetrations of it outside the United States. So I think demand is rising and will rise at a pace much greater than it would have had it not been for COVID-19.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Understood. Transition a little bit from – I think, Visa with tap to pay, and I mean this in general, that's an important public health consideration and it does a lot to keep people's minds [indiscernible] (00:16:53). There's a

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lot of pain now in the economy these days because of the pandemic and we've seen some lobbying efforts by the National Restaurant Association and the American Night Club (sic) [Nightlife] (00:17:07) Association, which I confess I did not know was a thing until seeing about the National American Night Club (sic) [Nightlife] (00:17:13) Association in the Wall Street Journal.

Anyway, they're both looking for reductions in interchange fees. And my question to you is would Visa consider doing any sort of temporary reduction in interchange fees to help certain merchants who are under distress or how are you thinking about interchange fees in this environment?

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

Well, let me make a couple of points about interchange fees. First of all, it's a vital part of a vibrant innovative electronic payment system, plain and simple it is. Secondly, it supports financial institutions' ability to extend credit which is the engine for commerce in the world and enables the purchasing power of consumers. The third point I'd make is that certainly to the degree governments interject into pricing in general I think is a bad practice. I think free markets are the best way to set that pricing.

That said, we're at a time where the most important thing that has to happen is we have to restart the economies and reopen places. And I think in doing so – as economies have been rocked in the last 90 days, the most important bedrock principle I think everybody should be following is do no harm. And I certainly get very, very concerned if somebody steps in and says let's try to adjust pricing at a time when we should be doing no harm because I think it could have a wide-ranging implications that are not going to be positive in a time where we need to bring countries and states and reopen them and get those small business owners and those restaurants and everybody else's up and going. That's the most important thing that can happen right now for all of these small businesses.

Christopher Donat Q
Analyst, Piper Sandler & Co.

Okay. And [indiscernible] (00:19:14) Visa typically does an update of certain pricing every year but you've postponed that one this year, right, in the effort to keep stability and...

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

We did – twice a year, Chris, we do...

Christopher Donat Q
Analyst, Piper Sandler & Co.

Okay.

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

...changes to the ecosystem. Most of the time, not all the time, they involve pricing. We were due to do one in April and we have postponed it for now and that one did have pricing changes. But there are pricing changes up and down affecting different industries. But we did postpone it because, again, in the spirit of doing no harm, we've actually tried to create a – think about the infrastructure like we would during the holidays that we don't want to do anything that's going to disrupt the economies of the world any more than they've been disrupted already.

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Christopher Donat
Analyst, Piper Sandler & Co.

Q

Okay. And then just one last one about sort of volume in this pandemic. You disclosed some data earlier this week about May activity and one of the notable positives was in the United States card not present excluding travel was, I think it was basically e-commerce, was up nearly 40% year-on-year. Can you talk a bit about the benefits of e-commerce? Not just because it displaces cash, but also because there's other revenue streams that you get from e-commerce, like the CyberSource business. Help us understand how e-commerce [ph] plays for you (00:20:38).

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

A

Well, it's interesting. The card not present excluding travel never went below zero. It got very close to zero at the end of March. It was a very low-single-digit in terms of growth and then it was up 10% in mid-April, it was up I think around 30% in May. And as you said last week it was up almost 40% which is incredible. And the growth trajectory has gone up even as face to face has started to come back a little bit. Although, again, if you look at the data we disclosed and look at the graphs, face to face is still like negative 20% to 25%. So it's not as if it's doing extraordinarily well.

This e-commerce runway is again one of the most exciting things to come out of COVID. The reality is that only 14% of global retail spending is in e-commerce, so there is an enormous opportunity for growth. And for us at Visa it completely displaces cash. You can't stuff cash into iPad or an iPhone or any other device so we get around three times the volume in e-commerce that we would get in the face to face world because cash isn't an option.

So it's a great thing for us. Economically, we're indifferent. I think sometimes people have different views. But in terms of the actual fees we get on the transaction, in processing the transaction, we get the same fees for whether it's card present or card not present, so economically we're indifferent.

But you alluded to in your comment that we could do other things, and that's true. We have – we can sell generally more value-added services in a card not present e-commerce situation. And let me give you two examples, one you mentioned and I'll do that in a second. One is fraud. Ever since we put chips in cards in the United States, fraud has shifted, and this had nothing to do with COVID. Fraud shifted from the face to face world to the online card not present world. And so our risk and data capabilities become very, very valuable in that environment.

You also mentioned CyberSource, it's become a very meaningful business, trillion dollars of volume, 450,000 merchants around the world. And it's a gateway that enables e-commerce or omni-commerce for a merchant. It's in essence for people to think about it, our CyberSource is equivalent to kind of the terminal in a face to face world. It's enabling payments of any kind to be taken at somebody's website for commerce. And so, we think that between things like CyberSource, fraud capabilities, risk capabilities, we have the ability because e-commerce is moving so rapidly that we can sell those other services.

The last point I'd make, Chris, is it wouldn't surprise me if we have seen [audio gap] (00:23:53) four years or we will see three to four years of acceleration of e-commerce adoption in a six-month period because of what happened in COVID. I mean we've seen huge increases in the number of first time e-commerce [audio gap] (00:24:08) around the world. We have 13 million people in Latin America activate an e-commerce transaction for the first time last quarter. We have seen 30% increases in the United States in terms of people who are active in

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commerce. So it's a very exciting development that I think it has got some permanence to it in terms of upside for the industry and for Visa.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Got it. Well, [ph] I could shift gears and just ask (00:24:38) a question around [ph] Oriental technology (00:24:41) and your bank relationships. I think about Visa like – since the early days, you've – as an industry association Visa had to strike a balance between the bank members, the card issuers and that's a mix of large and small banks. In today's world you throw fintechs into the mix. And yesterday at our conference we had panels with [indiscernible] (00:25:04) was singing the praises of Visa Direct. Can you help us understand though, if you have these challenger banks in some ways that are – I think that traditional banks might see them as threats, but how do you balance – whose needs here you're trying to help meet, the fintechs or the banks?

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

A

A very good question. One of the roles we play is to make the ecosystem as good as it can be. And in my mind, Chris, the more scale, the greater the risk – the greater the reach, I should say. The more security, the more people are comfortable coming on to a network. And it's good for everybody.

Our business is solely – one of the things that – a bedrock principle of our strategy is partnerships. The ecosystem is based on partnerships. And frankly, we're agnostic to who wants to be a partner with us and we don't pick winners and losers. When it comes to partners, we want to provide individual attention and build a depth of relationship that works for that partner, whether it's a big money-centered bank that has a credit card business, or it's a small fintech that's going to issue credentials, but anybody who's going to grow the nodes on the network, where we can add more card credentials or any [ph] form factor (00:26:31) for that matter. And on the other side, somebody's going to grow the number of merchants that are available for acceptance.

We want those people to be part of our network. In fact, in any good network, each participant should get more out of it than they actually put into it, and that's our goal. It's to make the network as big and as strong as it can possibly be. And whether it's a big bank or a fintech, I think there's a few things we bring to the party for everybody.

One is our brand. We really have an outstanding brand. And it's – every third-party analysis would show that it is the preferred brand in electronic payment systems, and it drives incremental spend when people see it and use a Visa credential. The second thing we bring is our network platforms, our VisaNet, our debit processing, Visa Direct and Earthport, and then downstream, both Plaid and B2B Connect.

VisaNet operates at almost [ph] six nines (00:27:35). It's got world-class cybersecurity. We have 600 APIs that are available to be consumed by our partners and those APIs now are getting 1 billion calls a month. So they're really getting a lot of use. The third thing we bring to the party and why I'm appreciative of the first couple of questions you asked me about people is we bring our people. We bring local expertise about products and services. We bring expertise about issue or in-processing solutions, seller solutions, data and loyalty. We've got a big consulting and analytics arm.

So those people that we bring to bear and make available locally to a fintech or locally to a bank are equally incented to do and bring volume into the network and drive high levels of satisfaction. The only thing I would say that's different about the fintechs, and we were a little bit slow to recognize this, is that they can't deal with the same bureaucracy. They want more speed.

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And so we developed a fintech fast-track program. We started it in Europe and we've spread it now around the world. And so people can get [audio gap] (00:28:53) our network very, very quickly and I think that's a real positive for us and for them. But, net-net, the more the better, big, small, single country, multi-country players where our doors got a big open sign on it to come talk to us about being a partner on our network.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

I wanted to ask more question around the banks because at Piper Sandler we watch bank mergers very closely. Visa had two important wins this year through banks that combined through mergers of equals, so Truist and TCF. And for Truist, BB&T was mostly a Visa shop while SunTrust issued some cards with Mastercard. I know you can't tell us from the Truist perspective why you won, but can you give us a little color on how you make that winning pitch when there's a bank merger and businesses on the line?

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

A

Well, I subscribe to the theory that we're on under a microscope every day. We've got to earn our client satisfaction and earn their business every time we work with them. And the day we get complacent is the day that we're in some trouble, in my mind complacency has to be the enemy. I'm not sure there's a big difference, but to that end, whether it's a merger situation or just a deal – renewal I should say.

I mean, it starts with this, a market clearing price, right. There's a – we got to be competitive at some level on price or you're not going to be in the game, but after that I think you look to distinguish yourself in different ways. And obviously our brand, which I talked about a few minutes ago, is a big part of that capabilities or a big part of it, the people I talked about are a big part of it. The creativity you can bring to the party, your approach to how you suggest you're going to partner together is important.

I think that was our approach both in TCF and with Truist. I think in Truist's case, as you well know, they're undertaking a huge, bold and exciting move to create a new brand. That is not easy, that is a big, big step that Kelly King and Bill Rogers decided to take together to establish a new brand. And I think that we spent a lot of time talking to them about brand and how we think about brand, build brands. And I think that our experience with brand, our view of how the Truist brand could get established, I think resonated with the Truist team.

I also think we try to approach these deals by, yeah, you got to get past price and then you've got to talk about how together you're going to build a partnership that's targeted and based on growth. And that's what we try to do. It's about having a real frank discussion about what it's going to take to grow together and build that relationship through the negotiation so that when you've signed the contract, you're hitting the ground running and you've got the people in place and hopefully the basis of a trusted relationship to get going. Needless to say, we're thrilled to be partnering with both TCF and with Truist.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Right. And I have another one from kind of a bank issuer perspective. You mentioned that you're no longer spending 85% of your time traveling, one benefit is you're on the phone more with card issuers. From my research colleagues in Piper Sandler, we know that the card issuers are going to face a number of challenges over the coming months. They've got impending charge-offs in the next six months or so, forbearance programs, we've got a lot of shift in customer behavior. So how can Visa help the card issuers navigate this environment?

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

A

That's a good question too. We've been spending a lot of time with our clients just sharing information and a lot of the best clients are sponges for information and they realized that the more they learn and the more access they get to information the better things are.

I guess I'll highlight three things, Chris. One is I mentioned a few minutes ago our Visa consulting and analytics arm. We actually have 500 dedicated consultants now. Last year they did 1,000 projects. And right now, what are they doing? They're helping issuers set up and optimize their e-commerce strategies, they're helping them rethink authorization, they're – [ph] and as to buy in the (00:33:26) shifted to card not present. They're helping them analyze their portfolio. They're helping with their digital acceleration, particularly in some cases in terms of acquisition, they're helping them with risk management, they're helping them with customer engagement. So [audio gap] (00:33:42) have actively going on with our clients around the world.

Second here that I'd highlight is risk services. That's probably our oldest area of value added services. I mean we've been – we've had various forms of risk in authentication and authorization products for some time. They're essential to a lot of our clients and they're very important in this card not present e-commerce world as things have shifted.

We operate at remarkable scale there. We evaluate in – one of our products, our flagship [audio gap] (00:34:17) we evaluated 500 attributes in 1 millisecond to provide authorization information to our clients, and that product is called Visa Advanced Authorization and a lot of our clients use it.

A third area we're helping clients is, is data. We have something called the Visa Analytics Platform. We have now 5,000 active clients on that platform. It is big time up since the COVID started. In fact, we saw a 33% increase in the [audio gap] (00:34:49) went to this analytic platform for in the second quarter over the second quarter of the prior year.

And, so I would say that advice, risk services and data are at the top of the list of the things that we're doing for our clients right now. So – and we'll stay engaged and provide the support they need as we move forward.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Okay. I wanted to ask you one numbers question about the incentives that you have out there because traditionally we think about incentives as being roughly 20% of gross revenues. It looks like we might see a little bit of a dip in the gross revenue lines since your report particularly international transactions looks like it's going to be more adversely affected. So, [ph] based to the (00:35:42) question, should we think about the incentives on international transactions of roughly 20%? So, given that a lot of the incentives are around card issuance and merchant acceptance and usage, it seemed a little different with international transaction.

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

A

Okay. So [indiscernible] (00:35:59) try to give a little bit of color here. First of all, our philosophy is that we want alignment with our clients in terms of progress. We want to pay for performance. So the majority of our incentives are variable and they're tied to payment volume. As you would – to change the payment volume, you would see requisite changes in incentives.

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Some contracts, Chris, have cross-border specific incentives but it's not the majority. So if cross-border is predominantly impacted and domestic payment volume is not, you will not see a stronger correlation between gross revenue going down and incentives going down. To be more clear, gross revenue will go down more than incentives will go down in that particular case.

But it's also important to know that there's a opposing, an important opposing force here which is that we have contracts where we have multiyear incentives. So, it's an incentive for performance over multiple years. And what we do is as the client is advancing to the degree that they are meeting those incentives, we accrue on an ongoing basis annually as they're earning those incentives. But if there's a significant drop in performance, such that we view them as not being able to reach those levels of volume to meet those incentives, in one quarter we could unravel a incentive that is a multiyear value to it, but we've unraveled it in one quarter. So there could be those cases that occur as well.

The last point I would make is that remember that a number of our revenue streams, an increasing level of our revenue streams are not tied to incentives. CyberSource, which we talked about earlier, $0.5 trillion of volume is not tied to incentives. So net-net, I think investors – I would say to investors that they should expect that our incentives as a percent of gross revenue to not be materially different from what we thought at the beginning of the year before we knew about COVID-19.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Okay. And I think I've got time with – we've got one more question here.

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

A

Okay.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

So I wanted to ask one about competition really and more specifically competitive threat, because over the years Visa has dealt with a number of different ones. You could arguably [ph] call the creation of it discover networking had a (00:38:46) challenge, and then MCX and you had Softcard or Isis [indiscernible] (00:38:54) branded. And we think about China, you've got Alipay and WeChat Pay. I'm just wondering how you think about the competitive environment out there and other – is there anything you're concerned about, whether it's central bank, digital currencies or was Visa just trying to focus on the key relationships you have and make sure that those are done and the business takes care of itself? What's your philosophy on the kind of competition?

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

A

That's a glass of wine question. There's a lot packed into that. Look, first of all, I've had it be my philosophy since I became CEO that everybody is a potential partner until they prove otherwise. And that we shouldn't be concerned because somebody else is doing something. The reality is the payment ecosystem is loaded with frenemies. We have very good relationships and contractual relationships with PayPal on certain fronts and we compete on other fronts.

We have seen – one of the incredible changes that we've seen in the industry is that three years ago, people were telling me that all of these closed network wallet – proprietary wallet networks that were being created by

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mostly non-financial institutions, whether it's Paytm or Gojek in Asia, we're going to be a real problem for these. So one of the great things that's happened in the last 12 months is that these proprietary closed networks that were heretofore not available to Visa have decided to open them up. They've seen Visa's brand, our global reach, our cross-border capability, all these things that could be very additive for them. And a lot of them now have become issuers and/or acquirers and some of that – the economics of being an issuer, an acquirer in an open network than a closed network.

You mentioned – I think you mentioned the guys in China. We now have deals with both Ali and WeChat for accommodating an inbound person into China to shop by loading their Visa card into WeChat or Alipay and with [audio gap] (00:41:18) co-brand card, the first that Tencent has done with international payment scheme for Chinese customers who would leave China to shop or conduct business as global citizens. The big techs, we have very good relationships with, Apple, Google, Facebook, Amazon, and these are all people that we interface a lot with and respect tremendously. And for the most part, we have a lot of depth to our relationships.

And look, the bottom line is some people will be strictly competitors. And frankly, the people that are the strictest competitors to us are MasterCard and cash. Beyond that, almost everybody else is a [audio gap] (00:42:11) a partner to somebody else here or they're a partner to us and a competitor somewhere else. But that's not new to us. We've been dealing with those kind of multi-dimensional kinds of relationships for some time in Visa's history.

Certainly, it's more complex in the last few years as many, many more players, the fintechs that you mentioned and we talked about earlier, have come into play, the big techs. But, all in all, I feel very good about the way we partner, the level of our partnerships and the way we had [ph] dealt (00:42:48) our people against those various players. So I think we're in a good place there.

Christopher Donat

Analyst, Piper Sandler & Co.

Excellent. So, Al, with that, we're out of time here for what we asked you for. We appreciate you taking the time to show up on our Piper Sandler Virtual Exchanges and Fintech Conference. Appreciate you being our keynote speaker for today for the fintech side because you touched so much of the bank and the new fintech world, Visa is placed very well on the frenemy environment which I think is a – can be a challenging place to play but you play it successfully. So, thank you.

Alfred F. Kelly

Chairman & Chief Executive Officer, Visa, Inc.

Thank you, Chris. Thanks for having me and thanks to everybody else for listening to me. And I hope everybody stays well. Thank you.

Christopher Donat

Analyst, Piper Sandler & Co.

Yes. And to everybody on the call, we're going to take a 15-minute break and then reconvene at 1:30 Eastern with [indiscernible] (00:43:42). Thanks.

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