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Visa, Inc. (V)

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CORPORATE PARTICIPANTS

Dan Perlin
Analyst, RBC Capital Markets

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

MANAGEMENT DISCUSSION SECTION

Dan Perlin
Analyst, RBC Capital Markets

[Abrupt Start] ...Dan Perlin. I cover the Payments Processing and IT Services sector here for RBC, and I'm delighted to have Visa with us. And from Visa, we have Mike Milotich who is the, I wouldn't say newly minted, you've been at the company...

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

Seven months. Yes.

Dan Perlin
Analyst, RBC Capital Markets

... for several years, but in this role of IR for several months.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

Yes.

Dan Perlin
Analyst, RBC Capital Markets

So thank you so much for being here.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

Happy to be here.

Dan Perlin
Analyst, RBC Capital Markets

We appreciate it.

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Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

My pleasure.

QUESTION AND ANSWER SECTION

Dan Perlin
Analyst, RBC Capital Markets

Q

I'd like you to start at a high level. And I'm sure you've been asked this question a thousand times already, maybe even today. Visa took the opportunity when setting guidance for this year to go low double-digits on net revenue growth. Last year, I think it was high single-digits. And so, the question we get all the time is, just why do you guys have so much confidence to kind of step up your game a little bit in an environment that seems like it's got a lot more uncertainty to it? So we could start there, and feel free to be as fulsome in your response as you want.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. Thank you. Yeah, I know. I have gotten that question just a couple of times over since our earnings day. So I would say, first and foremost, is that what we're seeing around the world is healthy stable trends now for a number of quarters. And so there are a few pockets of weakness in Turkey and Argentina as examples. But generally speaking, we're seeing steady strong spend growth. So there's – and we're seeing it both domestic and cross-border. So even if you just look at the last few quarters of our business, the trends are very steady and there's nothing that we see on sort of the immediate horizon of the next four quarters that would suggest that there are significant changes coming.

The one place where we do see a change in the trajectory is in U.S. debit which, starting in the second quarter of last year, stepped up to double digits. It hasn't been in double digits in quite some time, so that is an area where we expect once it lapsed, it will slow back down to the growth rate we have seen for several quarters before. But other than that, we see generally fairly stable trends. So the only meaningful difference is in FX where in FY 2018 we had a one point tailwind from FX, and now we're projecting a one point headwind. So a two-point swing there, but the underlying trajectory of the business is good.

The only other two points that I would say is, one, there is a little bit less uncertainty with all the deals done in Europe. So that has been something I guess all of you have maybe lived through with us. It's been a little bit tough for us to estimate particularly the timing. We maybe could have done a little better on. But also the magnitude of the incentives we're going to need to secure our business into commercial contracts, but that is done. So that helps provide a little bit of clarity.

And then I would say, two, we're starting to see some traction in things like B2B and Visa Direct, some of these new payment flows that I'm sure we're going to talk about, where they're not too meaningful yet but they are fast growing and they help.

Dan Perlin
Analyst, RBC Capital Markets

Q

So, incentive fees, better line of sight despite the fact that you guys called out – what is 20% that you got kind of renew at some point...

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Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Correct.

Dan Perlin
Analyst, RBC Capital Markets

Q

...this year? So the point being that the rate of change with the incentive growth with Europe was just such a big uncertainty. You've locked that down. And you feel like you've got good visibility on the 20%?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah.

Dan Perlin
Analyst, RBC Capital Markets

Q

Like, help us feel comfortable there.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I mean, I think the biggest thing is it's fairly unprecedented that essentially almost all of our business in the region would be open, right? I mean, that was a fairly unprecedented situation that we had in Europe, which made it a little bit harder for us to project. I would say the 20% is more the typical flow. There are some big deals, some smaller deals, but those things – we're still making estimates and we're not perfect at it. It's one of the areas that is the hardest thing to predict. But we do feel that it's a little bit more business as usual in the incentives area now that we're through the big change in Europe.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay. What about FX volatility? You guys make a little bit of money on that, and as that gets accelerated in kind of more difficult compares, get behind us. Are you factoring that into the guidance or is that a little bit of upside?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

No. That's all factored in. I would say the volatility has been pretty steady in 2018.

Dan Perlin
Analyst, RBC Capital Markets

Q

Yeah.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

There were some lapping over 2017, things that moved it maybe in terms of growth impact in 2018, but the actual levels of volatility have been pretty steady. And so – but I guess, when it comes to volatility, the other thing that I guess just one often says is, it will be what it will be. So it's not something that we even try to predict.

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Dan Perlin
Analyst, RBC Capital Markets

Q

Yeah.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

So we're assuming stability, but it's a trend that cannot be predicted.

Dan Perlin
Analyst, RBC Capital Markets

Q

Yeah. But then when we think about embedded in guidance, you guys did call out one thing around FX, which was the back half for the U.S. dollar weakening a little bit and...

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Correct.

Dan Perlin
Analyst, RBC Capital Markets

Q

...the expectations around what that could do to inbound. So can you just talk a little bit about how you came to that decision?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yes. So we always look at the forward curve for FX rates. And I think, as I've told a number of you, the forward curve is almost always wrong, but it's better – it's the best option of a number of not very good options. So the only other way to do it would be to say, the FX rate we see now, we're just going to hold it constant and assume nothing changes for the next 12 months. We don't like that approach. At least with the forward curve, you have – it's market-based. It's people who are putting real money behind those rates that are setting that. So it's sort of the best option of not so many good options. And that's always how we've done it.

Dan Perlin
Analyst, RBC Capital Markets

Q

Yeah.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

The only reason why we called it out this time is because it is one of our assumptions that it doesn't affect as much the overall revenue growth because we include the FX impact on that in our guidance. But to your point, it does impact the inbound business to the U.S., which is an attractive business for us. And so it has some mixed impact within our cross-border if that were to work out differently than the forward curve suggests.

Dan Perlin
Analyst, RBC Capital Markets

Q

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More recently, we've seen volatility in oil prices. And so maybe you could just help us understand for just a moment framing what you see from the consumer typically when those kinds of things swing around, where you get benefit, maybe where you don't get benefit...

Mike Milotich *Senior Vice President-Investor Relations, Visa, Inc.* A

Yeah.

Dan Perlin *Analyst, RBC Capital Markets* Q

...if this trend were to be elongated?

Mike Milotich *Senior Vice President-Investor Relations, Visa, Inc.* A

Yeah. So with gasoline, it does contribute to our growth. I mean, oftentimes we'll call it out. But it's not a – I wouldn't call it a significant portion of the volume. I mean, it definitely moves the needle particularly in debit, but it's not a huge part of the business. What we see when prices change is the usage also changes. So if the price goes up a lot, people buy less gas.

Dan Perlin *Analyst, RBC Capital Markets* Q

Yes.

Mike Milotich *Senior Vice President-Investor Relations, Visa, Inc.* A

If the price declines, people buy more. So what we see in our volumes is it's – the range is a little tighter than what you see from the price itself.

Dan Perlin *Analyst, RBC Capital Markets* Q

Okay.

Mike Milotich *Senior Vice President-Investor Relations, Visa, Inc.* A

Because we – it's not – the classic price volume equation kicks in, and people will drive more as it gets a little cheaper. So the spend doesn't decline as much as the price decline would suggest. But the same happens on when things get more expensive.

Dan Perlin *Analyst, RBC Capital Markets* Q

Okay. All right. So, let's switch gears and go over to this multi-prong journey that you have in Europe, right? And I say multi-prong because I'm thinking commercialization of your pricing model. I'm thinking of new faster growing geographies. These aren't my ideas by the way, you guys brought these out. And then driving higher yielding products.

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Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yes.

Dan Perlin
Analyst, RBC Capital Markets

Q

So let's start with where you stand in terms of commercializing the pricing model in Europe.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

So we're not going to comment too much about European pricing. I think we're clearly on...

Dan Perlin
Analyst, RBC Capital Markets

Q

Where are you on that journey? Where are we on that journey? I guess is...

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

There is opportunity in pricing in Europe.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

And that's about what I'm going to say.

Dan Perlin
Analyst, RBC Capital Markets

Q

All right.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

In terms of the faster growing geographies,...

Dan Perlin
Analyst, RBC Capital Markets

Q

Yes.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

...it's early days. We have been in the process of staffing up leadership teams and pushing resources into the markets in Europe, which was – our organization was very centralized under the association of Europe.

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Dan Perlin
Analyst, RBC Capital Markets

Q

Right.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Only in a few markets where we really had significant staff, and we have been changing that over the past few quarters.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

So I would say it's still early days because we also need to rely on renewal cycles in order to begin to win business. And so it will take some time.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

In terms of the higher yielding products, I would say there is where we're maybe a little further along, still early days but with some progress. So we mentioned on the call that even though we just completed our platform migration, we already have over 60 clients who are getting at least one advanced risk service from us in Europe already that wasn't available to them previously. And also with the fintechs in Europe, I mean there are lots of varieties of them but there are many that are pretty cross-border-oriented and cross-border-focused. And that's also an area where before we own the business, Visa did not do a lot of business with the European fintechs and we're starting to make some progress. We now have some wins this quarter, including with Revolut so...

Dan Perlin
Analyst, RBC Capital Markets

Q

It's a travel prepaid and those types of products.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Exactly. So that's an area where we're also starting to make some progress, but there's still a way to go.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay. What about credit? Europe is a debit-centric market for Visa Europe.

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Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

For Visa. Yeah. So credit, I would put in the same category as the small markets.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

We need to wait for portfolios to come up for renewal, and we're not going to be irrational about our bidding to – just to win. So we don't want to destabilize markets from a pricing perspective.

Dan Perlin
Analyst, RBC Capital Markets

Q

Right.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

So, as portfolios come up for renewal, we'll be able to, we feel like, make a better pitch in terms of the capabilities we bring, the expertise we bring as the leader in credit everywhere else in the world.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

But it's still early days. And even as a number of people have asked me, even if we were to announce something tomorrow before it actually even gets into our numbers, it would be some time still.

Dan Perlin
Analyst, RBC Capital Markets

Q

Is that measured in years or 12 to18 months?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

I would say 12 to 18 months...

Dan Perlin
Analyst, RBC Capital Markets

Q

Yeah.

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Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

...before it usually gets announced, before they start moving, and then the flip would take place over a period of several quarters. So it'll be some time before we're getting material volume impact from...

Dan Perlin
Analyst, RBC Capital Markets
Q

So we could see announcements in 2019 with benefits potentially in fiscal 2020, is kind of the framework, to the extent that happens?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

Correct.

Dan Perlin
Analyst, RBC Capital Markets
Q

Okay. Okay. So, listen, I'll talk about some of these other sexy products that you guys have been talking so much about. Visa Direct, right?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

Right.

Dan Perlin
Analyst, RBC Capital Markets
Q

I've heard Vasant say this is going to be one of the things that is the most transformational of all the products to be. So, why does he say that? Why is that the case?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

It's a massive expansion in our capabilities.

Dan Perlin
Analyst, RBC Capital Markets
Q

Yeah.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

So not only are we taking money out your account, which we've always done to give it to a merchant, but we can put money into your account. And most importantly is that every node of our network can now move money amongst one another, so.

Dan Perlin
Analyst, RBC Capital Markets
Q

You said node. You mean cards?

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Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Meaning 3.3 billion cards, 54 million merchants.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

All of them can now move money amongst one another, both in and out of their accounts, so it's a significant increase in the functionality that we offer. And when you combine that capability with the fact that we have an established and trusted brand, the amount we spend in terms of security, reliability, our dispute and chargeback capabilities, we think we have lots of advantages over the alternatives that exist. We already have more than 70 countries fast funds-enabled, which means the money moves near instantaneously so – and work very quickly expanding that into more markets. So we have lots of advantages here over alternatives.

The other thing I would say is as we pointed out on the most recent call in Canada, we're also working on ways to access accounts that don't have a Visa credential attached to them. So in Canada, with our partner, TD, is the first one to enable it where we're accessing bank accounts through our ATM network there since we don't really have a debit business in Canada to speak of.

Dan Perlin
Analyst, RBC Capital Markets

Q

Right.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

So in a number of use cases that are available in terms of between P2P business to consumer disbursements like insurance payments and gig economy payroll solutions, the Bill Pay functionality to be able to push funds to pay your bills. You don't have to share financial information with the biller, that is the recipient of your payment. Same-day settlement for small merchants that a number of acquirers and partners of ours have enabled. All these things, we see could be almost businesses in their own right. So we call it all Visa Direct because it's using the same underlying technology in our network, but all these could be material new volume flows that just two, three years ago we weren't accessing.

Dan Perlin
Analyst, RBC Capital Markets

Q

Absolutely.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

So that's why we really believe that this is a significant opportunity for our future.

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Dan Perlin
Analyst, RBC Capital Markets

Q

Two questions in that regard. One is can you just give us some sense about the economic model that it might look like? And then secondly, when you start talking about businesses to their – in their own right. I think expense. So is this an expensive proposition for you guys or an incremental flow that you get to capture?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yes. So, first on the economics, it really varies by use case. So this is again where we call it all Visa Direct, but it doesn't have standard pricing. There are lots of factors that go into the price. So one is, what are the alternatives in those prices? Also, what is the size of the pie? So, is the – we're powering the payment piece, but the person who's really controlling the value proposition, whether it's the P2P provider, the insurance company, the gig economy, employer who's paying their staff, what is – what are they charging for it? And if they are, then how much – how big is that pie, so to speak? And so, therefore, what size of slice can we take? So those are all factors.

We also look at the strategic value. So there could be instances where they're not charging, like in the case of an insurance disbursement, but we know that has incredible value to that insurance company because of the way they market it to their consumers about them being more customer-friendly. So that helps us set the price. So it ranges from the low end is in P2P where we are charging even though the providers of P2P aren't monetizing it directly yet.

Dan Perlin
Analyst, RBC Capital Markets

Q

Right.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

We'll, I guess, look at that as that business evolves in P2P. But it ranges from there all the way to the yields that are similar...

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

...to our core business. Things like international remittance would be an example where we think the yields can be very attractive. And we have some unique advantages to move into that market.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay. Just be clear on P2P because we get this question as well. Where you guys really participate is when you cash out, bring it, sweep it into the bank account, and then also when you load it on the debit?

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Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

So it – there's a few different flavors. So...

Dan Perlin
Analyst, RBC Capital Markets
Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

...we actually don't prefer that view, which is – or that – I shouldn't say that view. I'd say that use case.

Dan Perlin
Analyst, RBC Capital Markets
Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

It's okay. But what we think is the most powerful is when it's a straight through process. So if you look at the way it works on Facebook Messenger, for example, you have your debit credential loaded and so does the recipient. And so the money is just coming directly in and out of your account. It's not stopping...

Dan Perlin
Analyst, RBC Capital Markets
Q

Right. Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

...in the middle.

Dan Perlin
Analyst, RBC Capital Markets
Q

Got it.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

And so a number of the use cases are working that way.

Dan Perlin
Analyst, RBC Capital Markets
Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

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And then there are additional cases like you described where you can...

Dan Perlin
Analyst, RBC Capital Markets
Q

No more friction along the way.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

...top up your wallet and then cash out your wallet. But essentially the money is being stopped...

Dan Perlin
Analyst, RBC Capital Markets
Q

Right.

<<A – [0JFQDP-E]Mike Milotich – Visa, Inc.>: ...in the middle that – so we do...

Dan Perlin
Analyst, RBC Capital Markets
Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

...we're enabling both. But we feel that, over time, things will move more to the straight through model because why wouldn't it?

Dan Perlin
Analyst, RBC Capital Markets
Q

Why wouldn't it?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

As more people enable that, then that will be the preferred way to do it, because why you have to keep track of a separate balance in a wallet when you could

just have the money coming in and out of your bank account directly.

Dan Perlin
Analyst, RBC Capital Markets
Q

Totally. I'll just move on to B2B for a second, another hot topic for Visa these days.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

Yes.

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Dan Perlin
Analyst, RBC Capital Markets

Q

Can you give us a little bit of insight there, but if you could break it down into kind of its bifurcated way, right? So there's the SMB aspect, which seems like what you've been doing for a long time and what you quote in terms of size of business. And then the other is the B2B Connect, which is a new piece. So maybe if we could separate this as well.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yes. So the small- and medium-sized business, we see that we can address that with our existing solutions. So between commercial cards, purchasing cards, virtual cards and Visa Direct, those are the primary tools we'd have to address. We think that market is about $20 trillion there – which we're just scratching the surface in terms of our penetration of that at this time. There is a much larger opportunity than that within enterprise payments, truly big B to big B payments, but that, in our view, is a little further out. It's less clear where we can add value at attractive yields in the true enterprise payments, so we are working on that. But I'd say there's more focus on the $20 trillion opportunity within small- and medium-sized business.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

And I guess the growth we feel will come on multiple fronts. So, one is just within commercial card and purchasing cards. We think there's really two opportunities for growth there. One is there are still a number of markets around the world where that's a relatively nascent business where that's not very common. And two, that there are other markets where we need to do a better job engaging with our clients and helping them understand the value and how to communicate that value to corporations to get a larger share of the business. So we see those both as opportunities.

With virtual cards, it's early – very early days. So I would say there's decent penetration in travel, maybe in fleet, but there are a lot of other use cases and industries that we think are quite applicable for virtual cards, and so that is an area of real growth.

And then we talked about Visa Direct in some of those use cases where with Visa Direct, a small business could really run their entire payables and receivables function off their debit credential. So that could be a significant improvement in how their business operates. So, that's one area.

The other thing that we're doing in B2B is we have to enable – get our payment solutions enabled in platform companies who are focused in this space. So, there are lots of...

Dan Perlin
Analyst, RBC Capital Markets

Q

So, what's the example that you gathered?

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Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

So, like Billtrust.

Dan Perlin
Analyst, RBC Capital Markets
Q

Billtrust for sure.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

Like – so they would be an example where they are a platform on the receivable side.

Dan Perlin
Analyst, RBC Capital Markets
Q

Yes.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

And we need our solution to be enabled within that platform to get the volume. And once it's on that platform, that doesn't mean that business won't have multiple options...

Dan Perlin
Analyst, RBC Capital Markets
Q

Right.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

...or like on bottom line in terms of...

Dan Perlin
Analyst, RBC Capital Markets
Q

They were here yesterday, so that was another one I was going to ask.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

Yeah, multiple ways to pay, right? So, we need just as – when you show up at the point of sale and you have multiple options of how you would pay in terms of which card or would you use cash, we have to convince you as a consumer to prefer to pay with Visa, and this would be the same. So we need to get it enabled first, but then we also need to convince businesses that this is a better way to pay and be paid. And the last thing that I would say related to growing in B2B is similar to the consumer side, we can't further penetrate PCE without building acceptance.

And I feel like in B2B, sometimes that gets a little bit overlooked that we need to convince people that this is a better way to pay. But we also have to convince people that it's a better way to be paid. And so there is some work to do also to enable both sides, which is always some of the challenge in payments as you got to do the

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chicken and the egg. And so there's work to do, but those are the things that we're focused on to grow the B2B business.

Dan Perlin
Analyst, RBC Capital Markets
Q

What about the economics? Sometimes we hear that cards are just not – that it's expensive for the interchange, in fact, not that you guys keep it, but the interchange associated with those. Son how do you bring that barrier down as you've done in other industries over the life of Visa, which really drove a significant amount of adoption once that barrier is broken?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

Yeah. So I would say, in some cases the model could be different. So for example, we already have high ticket interchange structures and things.

Dan Perlin
Analyst, RBC Capital Markets
Q

Yes.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

So some of it could be the pricing be a little bit tailored to the use cases. But I would say, as you alluded to, the other important thing is that it's helping businesses understand the total cost of their alternatives. So similar to what we've had to do to penetrate, say, rent payments on the consumer side, you have to help the business understand all the costs that they have associated with receiving checks or receiving ACH and some of the – all the benefits that come with using our solution because often in B2B, what you'll find is it's not the payment itself that is that hard. It's everything around the payment that adds value.

And so there are also the opportunities for us to just add a lot more value in terms of data reporting, analytical ability, the ease of reconciliation because, in a lot of cases, these require a lot of people.

So all of those things could allow us to add additional value that make it a good economic decision even if at sort of first blush, it seems like it's expensive. When you start adding it all up, you realize it's a fairly effective deal which is some of it, at least on the consumer side where we are making some progress in areas like rent, where the companies are starting to realize, oh, this actually is a better total cost option for me.

Dan Perlin
Analyst, RBC Capital Markets
Q

Yeah. All right. What about contactless payments? You guys talk a ton about that. You had, I think, a pretty good announcement today too.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.
A

We did.

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Dan Perlin
Analyst, RBC Capital Markets

Q

You might want to share that with the audience. But first on why it's important to you guys. I mean, is it more about protecting the moat of what you've created over this multi-decade period or is there a true economic incentive to be in this?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

So, it's both.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

So what we see is we get more transactions, so it displaces cash at a more rapid rate.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Particularly at lower ticket values where it just becomes so easy to pay that people stop using cash. And we've done lots of research in the U.S., for example, that shows that even people who consider themselves to be regular card users for transactions under $10, more than half of them say they pay with cash still. So there is a behavior element where cash is hanging on at these smaller values and what we see in in markets where contactless has really proliferated, that cash goes away. It's just such an easy way to pay that people use their card more frequently. So that's the direct benefit.

And then the more strategic value is what you mentioned which is, it's such a great user experience that in any market where our infrastructure is already in place, once contactless has proliferated, we think it's going to be very difficult for someone to come along with an alternative that offers a better user experience. So it does solidify our position at the point of sale.

Dan Perlin
Analyst, RBC Capital Markets

Q

Okay. Before we jump into the Chase announcement, can you just give us a couple of proof points around Costco, if you could?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yes.

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Dan Perlin
Analyst, RBC Capital Markets

Q

Yes.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

So Costco is a great example of when both sides are solved, how quickly it can proliferate. So Costco, when they switched over to the Citi Visa co-brand card, they have always issued contactless-enabled cards.

Dan Perlin
Analyst, RBC Capital Markets

Q

Yes.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

And in middle of August, they enabled contactless acceptance within their warehouses. And by the end of September, over half of all the purchases made in their warehouses with their co-brand card were done via contactless.

So in less than a quarter, more than half the transactions were already done contactless. So that gives you some example. And some of the other proof points that we've used before is if you were to look at something like in Russia, just in the past year, contactless penetration rose by 38 percentage points. So from the, say, mid-teens, over – to over 50%.

So what we've seen with contactless is customers love it. Merchants like the line moving quicker. So once you get some scale on both sides, both acceptance and issuance, it just takes off.

Dan Perlin
Analyst, RBC Capital Markets

Q

So dovetailing into issuance, tell us what happened today.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. So we've been, I guess, signaling for a while that we have moved past the chicken or the egg in U.S. contactless where over 50% of our U.S. transactions are done at contactless-enabled merchants. And we have over 70 of the top 100 merchants in the U.S. already enabled for contactless. And that the issuing was coming. Well, today – just earlier today, Chase announced that they will be issuing contactless across all their portfolios. So in the first half of 2019, they'll be on expirations. So this is not a mass reissuance, but on expiration. In credit, they will be across every portfolio including co-brand, will be re-issuing contactless cards. And then in the second half of 2019, they'll start in debit.

So this is obviously big as the largest issuer here in the U.S., but there are more to come. This is just a sign, we think, the issuers are going to start to move in the U.S. and therefore, we're going to see contactless become a reality here finally.

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Dan Perlin
Analyst, RBC Capital Markets

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Yeah. That's awesome. Spend a minute if you could on kind of the tokenization and issues and where you are. We've been talking about this for a number of years, but it feels like we finally hit a point where there's a lot of inertia behind it, the technology that is being utilized in the market and mobile really needs it, requires it. So, where are we on that journey?

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

Yes. We are about to get a lot more tokens out there. So I would say that the original used case was the mobile and the pays.

Dan Perlin
Analyst, RBC Capital Markets

Q

Right.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

We're looking to tokenize, and the announcement we made a few weeks ago was to proliferate card-on-file tokenization. And there's really three primary benefits to the tokenization on the card and file environment. So one is just security that the token offers. It's not your real payment credentials. So if at any point something was compromised in that value chain, then the person doesn't have your real payment credential and it's specific to that merchant. So they can't take your token from Netflix and then buy things on Amazon. It doesn't work that way. So it offers a much greater higher level of security.

Dan Perlin
Analyst, RBC Capital Markets

Q

Yeah.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

The two other benefits are: One, what we're seeing is because of that increased security, it's having higher approval rates. So one of the big challenges in e-commerce is still that good transactions are being declined because of concerns about risk. With the proliferation of chip at the physical point of sale, fraud is almost gone at the physical point of sale. It's very small and it's all moved online. And so that leads to higher decline rates than we would like in e-commerce, and what we're seeing is better approval rates with tokens...

Dan Perlin
Analyst, RBC Capital Markets

Q

That'd be great.

Mike Milotich
Senior Vice President-Investor Relations, Visa, Inc.

A

...because the issuer has more confidence.

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And then the second benefit is the lifecycle management. So one of the biggest challenges online, particularly with card-on-file merchants is you lose your card, you get a new one, you forget to update it everywhere, and so then it doesn't work when you go to checkout particularly for more subscription-based card-on-file merchants. And what tokens allow is that when your issuer gives you that new card, your merchant doesn't even need to be involved and neither do you because the issuer sends us a message and we update that in our token vault. So the token at the merchant does not have to change, but the mapping, if you will, to your true underlying payment credential has been updated in our vault and therefore it works seamlessly. So there's no disruption to the consumer or to the merchant when new cards are being issued. So that's also a very significant benefit.

Dan Perlin

Analyst, RBC Capital Markets

That's fantastic. Well, we are out of time. So thank you for being here. And we look forward to many years of double-digit net revenue growth from this company. So...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Thank you. Appreciate that.

Dan Perlin

Analyst, RBC Capital Markets

...we appreciate it. All right. Thanks.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Thank you.

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