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Visa, Inc. (V)

Sanford C. Bernstein Strategic Decisions Conference

CORPORATE PARTICIPANTS

Alfred F. Kelly, Jr
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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

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

...senior analyst covering payments and IT services. I'm delighted to be joined today by Al Kelly, the CEO of Visa. In keeping up with the conference theme, the focus of our fireside chat today will be in Visa's strategic growth opportunities and risk. As always, questions from the audience are welcome. Please write them on the note card and pass them to an usher at the end of your row.

QUESTION AND ANSWER SECTION

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

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So Al, at your first Investor Day as the CEO of Visa you noted that Visa's overarching goal is to exponentially grow your payment credentials and acceptance points globally. And so as you reflect on the last two-and-a-half years, can you talk about where are we in that journey and how has Visa evolved in that process?

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

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Well, thank you Harshita and good to be with you and be at the conference. Look, I think the payment space is a story of transformation and a story of accelerating transformation since – and I think that's because of a combination of technology and the opportunity in payments that's attracted a lot of people to the space.

If we look at the last 18 months since our Investor Day, we've gone from a little less than $3 billion to over $3.3 billion payment credentials: so, 10% increase. If you look at the other side of the market, the supplier/seller side of the market, we've moved from 44 million merchants to 54 million merchants, so a 20% increase. And I think it's important to remind everybody that PayPal, Square and Stripe just count once in that 54 million merchants and obviously they've – each of them on their own has enabled an awful lot of acceptance way – well beyond that. So the 54 million merchants is a quite understated number.

As I look out over the landscape, I think there just continues to be a lot of opportunity: and maybe I'll cite some of the reasons why I think so. One is, there's an opportunity to get into more payment flows. We're looking at the B2B – the P2P space, the B2B space, the P2C disbursement space and in all those cases we see great opportunity. Acceptance around the world is being made to happen more easily because actually low-tech solutions in many ways: the idea that QR codes and mobile-based solutions are – and things like dongles are allowing a merchant to get up and running much faster than in the past. In the past where you had to have a telephony-based infrastructure with electricity and telecom and et cetera, and smart POS terminals to get up and running, that change is a sea change in allowing in less developed countries, developing countries, emerging countries, to be able to start to see the ability to bring on and onboard merchants more quickly and in ways that you would never have been able to do three years or four years ago.

The industry is spending a lot more time thinking about the user experience, the actual time that you go to use your payment credential. And I think both in the face-to-face world where there is a lot more emphasis now on tap-and-pay, and in the e-com world where there is a lot of attention although we're not – haven't really gotten into market yet with this concept, the Secure Remote Commerce where it's kind of a single tokenized button is going to be in my opinion a big change for the positive in what I think is a pretty crappy experience in e-commerce buying today.

Tokenization is taking off. Most of the bigger acquirers and gateways around the world support Visa's tokenized solutions. So I'd say, earlier innings, but tokenization is critical to having the infrastructure be more secure. It's a critical aspect as we head towards the – an Internet of Things world downstream. And our view of partnerships has changed. And traditional partners of merchants and acquirers and financial institutions has evolved as there are new players that have entered the market: new ages – new age issuers, and we've got relationships with issuers or wallets like Paytm and Line in Japan and we've got relationships with a POS financing company like

PAYD. We've got relationships with loan-based providers like Branch [indiscernible] (00:05:20) and with money transfer providers like MoneyGram and EMQ and Remitly.

So, partnerships have changed. And the last thing I would say is that we've made a concerted effort to open up our APIs and open – and really kind to decompose our infrastructure and make it more transparent by having open APIs. And we've seen in the last two years the capabilities that are available triple because of making those APIs opened up. So, I think that this transformation that we have – we're in the midst of is going to continue and the pace of change will continue to accelerate and I think it's all extremely positive story about the downstream opportunities over the next decade in payments.

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

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Great. And you mentioned expansion into new payment flows and something that you have increasingly focused on in the last couple of years. Now, clearly, the opportunity is huge, but historically the payment flows which is disbursement fee, they have been very hard to address by traditional solutions. But can you talk about what's different now that makes it easier for Visa to address it over the next five years to 10 years' timeframe?

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

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Well, I think one of the big changes has been the fact that we have introduced a capability whereby the Visa rails can work both ways. And instead of just the traditional pulling money from a bank account to facilitate the purchase of goods and services, people can now push money through bank accounts and that's – that capability is huge. We have started to think about other networks. So, for example, in Canada in partnership with TD Bank we're actually using our Plus network as a vehicle for facilitating Visa direct transactions.

And then we recently have taken control of Earthport which is a very strategic and important acquisition for us because it will now allow us in 88 countries which include our top 50 markets around the world to have direct connections to ACH and real-time payment systems and allow us to reach bank accounts that we couldn't normally reach.

So, I mentioned earlier, our $3.3 billion payment credentials: $2 billion of those are debit, which allow us to get – reach right to somebody's bank account. And that's huge, but not everything. And the Earthport acquisition in our top 50 markets is going to allow us to take our reach from about 50% on average to 99%.

And it does a couple other things. It takes us beyond a card. Now we have an ability to move money to people who we don't have card relationships with and it facilitates and begins to allow us to, in essence, build a network of networks. So, transactions could happen on VisaNet, they could happen on our ATM network, Plus. They could operate – they could be facilitated by any number of the ACH or real-time payment networks that are – that we now can reach through the Earthport acquisition. So, I think they – the capabilities, the ability to now begin to get beyond cards and the ability to kind of connect to other networks, all I think enable us and help us get into new payment flows.

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

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And let's zoom in on B2B for a second. So, you've – you recently mentioned that you've created – over the last 18 months you created separate business units for B2B and you clearly have a number of product initiatives out in the market today. So, which one of those are you most excited about in terms of having the financial impact of the next two years to three years, but also having a more long-term 5 years to 10 years impact for Visa?

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

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Well, this B2 – the whole industry's been laid to really be focused on B2B. And we still don't have enough players focused on B2B. Over the course of the last three weeks I've had the occasion to speak in front of large numbers of our clients in the Americas, and last week in Dublin, to 700 clients throughout Europe. And one of my messages to them is, I need more of them to step-up and recognize the opportunity in the B2B space and to recognize that it's a different segment that requires a different approach and it's not so simple as to just decide to take your consumer products and put a different label on them and decide they are now B2B products, because that's [ph] not be (00:10:38) customer-sensitive and that's not going to work.

Look, the B2B space is two segments. It's the traditional carded segment, which we think is about a -still a $20 trillion opportunity. We are the market leader in that segment. It's 12% of our charge volume or our purchase volume. It is growing over the last three years faster than our consumer volume has grown. It's about $1 trillion dollars on an annualized basis of EB. And in most countries where we have a business in B2B, we are the market leader in that business.

And we have a lot of the tools necessary, whether it's travel cards or corporate cards or procurement cards, virtual cards which we've gotten – we had announced a deal with WEX earlier in the year. We more recently announced deals with Sabre and Ixaris in Europe to get deeper into the virtual card business. So I would look at that carded opportunity, where as I said we have about a trillion dollars – it's a $20 trillion opportunity as a ready-now opportunity. And it's really about making sure that we are getting more and more financial institutions to recognize the importance of this segment and get behind it.

The other segment is the kind of AR, AP integration segment where we think it's about $80 trillion of funds flow that go – today goes through checks and wire and ACH systems: tend to be high tickets – lower volume, higher ticket-types of transactions. That space is tougher: it's not homogeneous; it can be different by segment; and it's also tricky because it's not just about the payment flow. If you are going to be successful in that space, you've got to bring other value-added and make sure that you are passing enough information, you're providing the right analytics, you've got compliance reporting, you've got usage reporting and other things that's going to be useful to the clients.

So I would say that in that space over the next couple years, we'll be doing more experimentation and trying to figure out where and how we can add value in ways that provides attractive economics, both to the corporate client as well as to us and to our investors.

The one place that we are pushing on there very proactively is a product called B2B Connect where we're trying to help our clients' to get out of the business of managing a complex correspondent banking environment where they can [ph] ride (00:13:35) B2B Connect rides on Visa's rails, uses our capabilities. We're using – we've built it on a distributed ledger platform so that it allows more data to be sent with the transaction and the transaction is streamlined and it provides great transparency in terms of where the transaction is in transit – when it's in transit, where is it? When it – when the transaction arrives, it has very transparent settlement where you can see what was sent, what was the FX effect, what were the fees, what was the net settled amount? It's going to take quarters for us to see what the pickup is on this. But it's the one area that – I wouldn't say we're taking a bet, but we're certainly jumping in the middle of the pool to see if that's a capability that will add value for corporate clients.

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

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And you mentioned Visa Direct earlier. Can you talk about some of the current use cases you're most excited about and what should investors be watching out over the coming years in terms of the traction of that capability?

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

A

Well, I mentioned Visa Direct: it's not a product; it's the capability that I was describing earlier that allows funds to be pushed to bank accounts. It's grown a 100%. It's becoming – it's moving from being a concept, to a pilot, to a real contributing part of our business. There are a number of use cases. P2P is the first one that really started it going. Visa is powering most of the big P2P systems in the United States: Zelle, Square Cash, Venmo, Apple's new P2P capability with Apple Cash are all powered by our rail. So when you move money to me or any one of those systems, those – that money is moving on Visa's rails and we're being paid for it. We also have a pretty big B2B presence in Russia, believe it or not.

Beyond Russia and the United States, there's a tremendous still amount of opportunity to power P2P systems. And a lot of countries don't even have P2P yet. Cross-border remittances is a big opportunity. I mentioned earlier that we've done deals with Moneygram, which is the second-largest money transfer company in the world; Remitly, which is a big money transfer company in Europe and in South America and in Africa; and EMQ, which is a big money transfer market, has big money transfer presence in Asia. So we see this kind of cross-border movement of funds. Much of that is P2P as well as an important use case.

B2C disbursements – and we previously have talked about things like paying insurance claims by sending the money directly to somebody's bank account. Another application is returning – for big rental property management companies, returning deposits that people put down on apartments, returning that money through Visa Direct.

Payroll is changing. We're trying to introduce the Visa Direct capability in the whole gig economy. The payroll world of kind of working and getting paid every two months – twice a month or every two weeks is changing and companies like PayActiv are facilitating people being able to get access to their money as frequently as they want to get access to it. We have bill pay use cases in India. You can read this QR code on your bill for cable TV or utilities and immediately pay through Visa Direct's capabilities. And we're experimenting with – every day with new concepts. One of the things that I'm always frustrated by as a guy who travels 85% of the time – and I'm in different countries with different currencies, et cetera, is the application of tipping the bellman or tipping the waiter.

And so one of the things that we're in our labs looking at is whether there are answers with Visa Direct to accommodate these frequent tipping situations around the world. Another area that we're thinking about is the movement of funds in and out of brokerage accounts. When you move money in, in anticipating a trade or moving money out after a transaction, that can run on Visa Direct as well.

So, here again, similar to B2B, we have stood up a business unit headed by a very senior person who – and have a team that just focuses on Visa Direct. And we're actually – we just assigned somebody from our London office who's been with the company a long time who's going to be the Chief Operating Officer of Earthport once we take full control of it and close the deal, and that person will report to the head of Visa Direct. And we think Earthport will have other uses beyond there. But right now, that's where we're going to put the emphasis.

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

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And you were talking about it earlier, but can you talk about how the monetization models for some of these new payment flows may or may not differ from your core products?

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

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Well, I think at the beginning, we're always trying to test the concept to make sure it works, and we don't – we don't want price to necessarily get in the way. So, when we're in kind of pilot, early stages and we're kind of proof of concept, our objective is to work out the bugs and see if we've got – if we've created a tool that's valuable in the payments ecosystem, or for that matter in the wire, just funds movement infrastructure. And over time we'll do the right analysis of price versus value and make sure that we feel like we've got the economic model right. But it's not our number one objective when we set out with these new capabilities. We want to try to push to get broad based adoption first.

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

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And switching gears a little bit: what are the risks to Visa's business is one of the most common questions we receive from investors. Now, arguably a high-class problem, but a controversy regardless. So if you don't mind, we'd love to hear your perspective on some of the potential risks to your business starting with emerging markets. So, there appears to be a lot happening on the ground. Any – as some of these countries leapfrog traditional ways to pay, there's also increasing government involvement with new domestic schemes, emerging local wallets in these markets. So, how do you view the evolution of [ph] EM (00:21:08) as an opportunity, or a risk to Visa?

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

A

There's a lot in that question to unpack. So I'd start by saying, I look at emerging markets as an opportunity, not a threat in any way. In fact, the biggest obstacle to getting into emerging markets historically has been the infrastructure challenge. The point I was making earlier about the fact that if I have to have a sophisticated POS device, connect it to telecom pipes that facilitate – that require me to have electricity and all the other things that go along with it, that's a very, very long, expensive build-out. And the fact that we now have solutions by way of QR codes and mobile-based solutions I think makes it – breaks down that barrier quite a bit.

So, I'm excited about emerging markets. In the last year we've opened up a office in Costa Rica. We've opened up an office in Panama. We've opened up an office in Ghana. And over time, because the business in my mind is so local, where we see an opportunity, we'll go open up a market in that office – in that country as opposed to dealing with that country by operating it out of a more centralized cluster.

You mentioned governments. Governments cut both ways. And if anything, if you ask me about governments as a risk, I would say that it tilts towards a benefit than a risk right now. The risk – let's deal with the risk side of the equation first. The risk side of the equation is overly zealous regulation: and there's certainly examples of that around the world. And we're used to dealing with regulation, but as more and more players get in the payments eco space, finance ministers and central bankers around the world are becoming more interested in the space. And there's a little bit more of exchanges around the world of actually looking at what's happening in other – regulators looking at what's happening in other countries, which previously, there wasn't a lot of regulators trying to get into "best practices". And that's something we really would love to see happen.

But for the most part, many governments are looking at payments as an opportunity. It's an opportunity for the country to become more modern. It's an opportunity for the country to become more transparent in terms of what's spent. One of the biggest issues a lot of governments around the world have are these gray economies where they are not sure what's happening.

I think that I've met with – in my travels I try to meet with central bankers in every country or the finance minister. In a number of cases, I've met with the president – presidents of countries. And in the last year I've met President Sisi in Egypt. And Egypt is a country of almost a 100 million people and they have seven subsidy programs and they've been doing those – paying them out by vouchers. The president told me he has no idea whether the monies – the vouchers are used as they were supposed to be used. There is no transparency into it whatsoever. So he's talking to us about whether [ph] he should try (00:24:42) to use prepaid cards or debit cards as a vehicle for distributing the money, therefore forcing the use – the places where people would buy from, that become bonafide acceptors of electronic and digital payments which increases the level of transparency. So I – what happened in India? We would never be where we are in India, but for Prime Minister Modi on November 8th of 2016 deciding to take the two largest – the most used form of currency out of circulation. We just wouldn't be there. Yeah, created some chaos, but from where that was two-and-a-half years ago to where we are today – and we've seen a fourfold to fivefold increase in the number of businesses that accept payment credentials, cards or other form factors. I mean it's tremendous. And that was generated by positively activist government involvement.

You talk about domestic schemes as a risk. We've been dealing with domestic schemes around the world for a long time. If you think about Australia, Canada, certain countries throughout Europe, the reality is that they've had strong domestic schemes and we've done pretty well in those countries. The key here, Harshita, is that it's an even playing field.

When I go and talk to government, central bankers or finance ministers or the presidents of countries, I tell them, we're not afraid of competition. We're not looking to suppress competition. But we do insist that the playing field has to be even. And if you look at Russia, which put in a scheme and its own processing after the Obama administration put the sanctions on Russia back in, whatever that was now – 2012, the Russians have created an even playing field. And therefore, we've been able to have a good business in Russia despite the fact that the competition has heated up. So, dealing with domestic schemes is not something new for us and that's something we're not used to.

I think the last thing you mentioned was wallets. Yeah, wallets are developing everywhere. And in many ways I think that these wallets as the new age of issuers, the new age of acquirers – and a lot of knowledge get developed for different reasons. So for example, a number of the rides or share services in Asia have started creating wallets because they need an answer to being able to accommodate unbanked citizens, which is a large percentage of the population. And as a result, they create a wallet. But increasingly, a lot of these people now are coming to us because of our scale, our size, our brand, our security et cetera, and looking to us to say, hey, can we become an issuer or can we become an acquirer? That's what's happened with Paytm in India, where they were clearly a competitor when they came in the marketplace. They were going to take debit share from us and have taken some. But the reality is that they now have become a partner. They're an issuer and an acquirer for us in India. That's the case with Line in Japan.

So I think we're going to continue to work with these wallets. I look at them as an opportunity. And the reality is, my view is we should be talking to everybody around the world who wants to get involved in moving funds. And I'd like to believe we could find a way and a way to work together in solutions that allow both us and their companies to do well.

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

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And let's talk about fast bank-to-bank transfers, fast ACH. We are seeing this new wave of governments and regulators around the world modernizing their ACH infrastructure to be the faster real-time. How should we think about the ability of this infrastructure to be a threat to your debit franchise?

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

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It's a good question. Just because these fast – this fast concept is becoming a big deal, it doesn't mean it's going to have broad-based adoption. There's been fast ACH in the UK for 10 years, and the pick-up on it has been modest at best. Secondly, I ask myself, why is this good for the consumer? What's good about it? Does the consumer really need the funds that much faster? But the question is, some of these systems are not as reliable. They're not as robust, and very importantly, don't have the same protections that you have in a payments ecosystem solution where I send – if I send my money fast to you, it's an irrevocable transaction. If I now have a dispute with you over it or I have – and there needs to be some element of chargeback, how is that going to work? I think, with great difficulty would be the answer.

And so I am not convinced that these are going to take off like crazy. Now that said, I do think some of these are real-time payment systems represent an opportunity for us because they're really just focused on their pipes and the speed of the movement of the transaction over those pipes, whereas we've got all kinds of value-added services that we could potentially go sell and license to these RTP systems. So, in fact, help them be a little bit more successful because they've got more consumer protections than they have today where it's simply about moving money quickly. And I think it's going to – we'll have to see how this plays out. But again, we're up for talking anybody who's got a RTP system and determine whether we could be additive to their offering, again, helping us, helping – in turn helping our investors and customers and helping them grow.

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

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Let's talk about Europe for a few minutes...

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

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[ph] I'm talking about (00:31:37)...

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

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...Europe for a few minutes. The implementation deadline for PSD2, the open banking initiative is this fall. As we get closer to that deadline, how your thoughts evolving in PSD2 and the opportunity and risk from opening up of bank accounts in the region?

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

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Well, the event in the fall which is September 14. By September 14, you have to be ready to have strong customer authentication, two-factor authentication. I think the date is problematic. I think a lot of merchants are not going to be ready and it could be very harmful to a lot of businesses if people are not ready because a lot of transactions could end up getting not being authorized. We are – we have been very proactive in trying to work with regulators and our customers to make sure that we're helping with the readiness for PSD2 as much as we can.

We help broker a minimum transaction level. So, transactions below a certain amount don't have to go through a strong customer authentication. We're working on other services kind of trust-based services, white label kind of services where if consumers trusted by a merchant or vice versa that the two-factor authentication isn't required. The reality is that people are going to need capabilities like 3-D Secure 2.0 which we have had through our acquisition two years ago of CardinalCommerce, but there's no way everybody is going to get that in place in sufficient amount of time. So we're talking to regulators and our partners in general to try to see if we can get the European Commission to not necessarily change the date although that would be good, but at least not decide to start fining people or punishing people who just aren't yet ready.

Beyond strong customer authentication, the elements of PSD2 having to do with open banking and you giving permission for a direct relationship between your account and say a merchant's account is in the very, very early stages and how all that will play out over time will remain to be seen. I think what I'm seeing and talking to bankers around Europe is that PSD2 has become a rallying cry in some ways for banks to double down on their brand, on their customer service, on their capabilities, on their products, so that they continue to build and retain the loyalty of their customers so that their customers aren't looking to necessarily go someplace out. So how PSD actually plays out, I think, it's going to take multiple years to really understand it and we're going to continue to work hard to be there as advisors and capability offer – people to offer capabilities to our clients as they work their way through this PSD2 journey.

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

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And it's been almost three years since Visa completed the Visa Europe acquisition, certainly, the most – one of the most memorable events in the company's history. You've talked about multiple opportunities in Europe around geographic, product expansion, and volumes. Can you give us an update on where we are in terms of acceleration of underlying metrics in Europe now that the integration is complete?

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

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Yeah. So we've now owned Europe for 33, 34 months, I think six to nine months ago, we really started moving on our front foot and on the offensive. We're past a very robust integration exercise that required position rationalization, expense rationalization, redoing a whole boatload of contracts and moving them from rebates to incentives, a huge technology migration. A lot of people changes, probably three-quarters of our management team in Europe is different.

And by the way, all through that, we performed well. The business performed well. The transaction was more accretive, more quickly than we estimated and told investors that it would be. But the reality is, when you – when I look back on it, when we – the amount of hours spent in – of management attention on Europe, a lot of those hours were spent until six or nine months ago on how are we doing on the transition and what's going on, et cetera, looking at milestones. Now, the business reviews over the last six to nine months have been much more about the business, where are we investing, how are we doing, what are the challenges, where are the pockets of opportunity. We have moved more resources into Europe. I think, those of you that follow us more closely know that in Europe, especially when we bought it and changed a little bit today but not as much as I wanted to change over the next three to five years, it's been – it's a heavy – we have a heavy presence in the UK, very heavy and less so on the continent. We've got pockets where we've got decent-sized business, but we have more pockets where we have tremendous amounts of upside.

And the reality is now we're putting more resources and taking them out of London and – which is the regional headquarters for Visa Europe where probably when we bought the company, 85% to 90% of the resources were in London, which probably explains why we have a very strong position in the UK and less so on the continent. Now we're putting a lot more resources into countries on the continent. There's a lot of opportunity there. If you look at a country like Germany which is less than 12% of their PCE is on any form of digital electronic payment. It's still a heavy cash society, but e-comm and other things are starting to be an impetus for it to change and we want to be there right at the beginning of that change and facilitate as much of it as we can.

We're focused on countries like Italy, and Spain, Poland. If you look at those three countries together, they add up to more PCE than the PCE of Germany. And they're all in the 30s somewhere in terms of percent penetration of PCE and that's carded or electronic. So, I feel really good about Europe. We – though we're behind. Mastercard – it's a region where Mastercard has been ahead of us. Now, their numbers show that they might – their numbers, if you compare their Europe to our Europe might show them being more ahead than you might think they are because their Europe includes Russia, Ukraine and the stans countries. Whereas for us, Russia, Ukraine and the stans countries are part of our Central Europe, Middle East and Africa region, which is growing over 20%. So there's some definitional changes. But Mastercard has been a commercial business in Europe for much longer than we have and we've had to play some catch up. One of the places we were behind was with FinTechs. We were too slow to latch on to the importance and the value add that a lot of these FinTechs were bringing to the party.

We have completely fixed that. FinTechs are something we're focused tremendously on and around the world, but in particular I'm talking about Europe right now. So in Europe we now – as we do around the world we have actual client people focused on FinTechs. So it's not somebody who is covering a bank is now covering a FinTech, I mean we have people who understand what these FinTechs are doing and what the value-add is. And by the way understand some of their frustration. So we need to we need to have a better fast track onboarding for FinTechs. We can't expect the same amount of collateral hold and things like that that we just can't burden them with those same things and they don't want to wait six months to go through a whole rigmarole process to get on-boarded on to the Visa network. We need to make it happen in weeks not months.

And we've announced in Europe that we're going to spend – around the world, but we announced in Europe that we're going to spend $100 million investing in FinTech and we won't invest for investment sake. We're not investment professionals. We'll only invest if we have a commercial arrangement with a FinTech that we think is a really interesting arrangement and then they say to us, hey, it would be valuable to us if you had a piece of the action with us. And if that's important to them we'll make an investment in them. So I see Europe now as one of the areas of great opportunity for us where we've done well, but we're still playing a bit of catch up. But we're definitely moved from being integration-focused to being forward thinking – forward looking, and we're definitely on the offensive.

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

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And you mentioned the competitive landscape versus Mastercard in Europe, and more broadly, I think, on a global basis, we've been seeing this 3 percentage points to 4 percentage points of delta in volume metrics between you and Mastercard. And I know this – you mentioned some reporting differences at scale, geographic differences, but we'd love to hear your thoughts around what's driving that delta relative to your biggest competitor?

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

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Well, there – lot of it is definitional. So if there's – the point I made about Europe, what's happening with Maestro conversions, they don't count Maestro volumes, it's 20% of their cards. And when they bring a Maestro card on, they're getting what would have been that volume plus, when they – I'm sorry, when they converted my Maestro card to Mastercard, native card and they were getting an uptick which they've said they get and we know from our own experience you get. They're getting a big lift that's helping.

In Europe, this presence that we have in the UK where it's a very big presence and the UK is the biggest economy around the world right now that's under pressure. Arguably, much of it is self-induced but nevertheless, under pressure. Our presence there and not getting nearly the level of growth there that Mastercard would get on the continent is certainly a issue. When you look at cross-border volumes, they go off of the consumer or issuers' currency whereas we use merchants' currency has helped them a little bit recently.

So there is a lot of definitional issues. That said – I'd say, two other things. One is that this is a business that doesn't have massive shifts. It's not a massive amount of deals in any one or loss. There were some, but they aren't massive. And secondly, I'd say that there are places where I give them credit that they've done better – places we've done better. But if you put all that together and then you look at the revenue story, if you look at it over the last three years we outperformed them in 2017, they performed us in 2018. We've been fairly close together in the last four quarters. Last quarter they outperformed us but we said for various reasons that we've articulated that our second quarter, the first [indiscernible] (00:44:18) quarter of the year was going to be our low point in terms of revenue growth for the year. So I think when you talk about it from a revenue perspective, the disconnect isn't as big.

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

Q

And you'd earlier talked about e-commerce as a catalyst for digitizing countries which are historically very low on card penetration. So as growth in e-commerce has been one of the most profound changes in consumer-to-business payments globally over the last 5 to 10 years, as you look forward in e-commerce, what are the two or three things that Visa needs to get right, must get right as e-commerce continues to grow?

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

A

It's very important, right. E-commerce in any given month, as I go back and look over the numbers, rose between 3 times and 4 times face to face. [ph] They are – just had the (00:45:09) much higher growth rate. And then for us we pick up 2 times – 2 times plus the share of the e-commerce world that we do in the face-to-face world because cash isn't an option. So those two factors alone make it really, really attractive. I think to get it right, there are – I'd say two things are really important. I could say more but I'll talk about two. One is user experience, the other is security. I alluded to this earlier. The user experience in e-commerce is terrible. There's still way too many people opting out of buying after they've gone through the shopping experience.

Secondly, the actual buy experience is so confusing. There's so many options. People don't know what to do. And then thirdly, the authorization rates are way too low. All of those things got to get – they have to get fixed and we have to be part of that. And so one of the big reasons why I'm a huge proponent of this Secure Remote Commerce and kind of the single button tokenization, tokenized solution is because it will allow a much cleaner, streamlined experience for the buyer and that will mean for us sacrificing fees and checkout, We had our own bottom and I am fine mothballing our button in favor of this because it's a better experience. Now by the way, we will start by the fact that we have these Visa checkout merchants out there, they will be the right ground to start in terms of putting Secure Remote Commerce in when we start to convert in the United States later this summer.

The other thing we're doing in user experience is working hard at our innovation centers around the world with our clients to try to make sure we're working with them to try to create better user experiences for their customers. And we're putting a lot of money into that. We've increased our – in the last two years, we've increased our resources and that cover our innovation segments by 30% and we've increased the number of tech developers in the company by 25%. So we're putting a lot into it.

On the security side, getting user experience right is important to e-commerce. The other is security. What's happening today is because of chip adoption. The fraud rate on card present or face-to-face transaction is low single-digits right now. And in fact, if a merchant has fully adopted on all their terminals around their network, fully integrated chip, they're seeing fraud rates down to 80%.

So what happens? The bad guys go on vacation or give up. They've migrated over to – looking at the card-not-present or e-commerce space. So we've got to continue to work with our merchant and issuer partners to drive down fraud and improve risk on the – in the e-commerce space. And we will continue to do that. We have a – we're working with our acquirers and our gateway – acquirers and merchants through our CyberSource gateway product or CyberSource gateway capability where we have a product called Decision Manager where we have all the data we can possibly pull together. And it gives incredible ability to track fraud. We have it operating now on 5,500 customers in 68 countries around the world. And last year, $200 billion of volume flow through that Decision Manager, and we stopped $11 billion of fraud.

We're also maniacally focused on cybersecurity. 5% of the people who work at Visa work in cybersecurity. I don't say no to a cybersecurity investment request, and we spend a lot of money in that area and we'll continue to spend a lot of money in the area. The reality is that if we expect people to be engaged and happy buyers in the e-commerce space, we got to make the user experience better and we have to continue to invest to make sure security is critical. And the last element of that is tokenization, which I mentioned earlier, the full out adoption of tokenization is going to be critical to enabling that security as well.

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

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And my final question for you, Al, would be that there has been a wave of consolidation which has swept across the payments landscape this year. How do you see that impacting Visa?

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

A

Well, the three big ones that with global payments and accounting – with global payments thesis one yesterday – well, the day before I'd lost track of time. The interesting thing is those have not – those have been – I have a unions of different capabilities versus anybody building their scale in any one aspect of the payment ecosystem. It has been unions of complementary assets and capabilities. And I think in a few ways that's really a good thing. Number one, when we try to bring new innovation to the marketplace, we sometimes struggle getting our partners to get out there and make it happen. If we have less partners that are more concentrated, hopefully that helps the adoption happen quicker.

The second thing is a lot of the business thesis of these transactions as I've understood it and as I've talked to the CEOs – and by the way, we have great relationships with all six companies. We've talked to them constantly. We've talked to all of them since the announcement. So, our relationships are good and deep and long. But a lot of the thesis is that they want to grow geographically. That's great for the payments ecosystem. There are a lot of countries around the world where we need more issuing – issuer processing. We need more acquirers in order to help grow the number of credentials that are out there and the number of merchants that are out there. So to the degree that they grow geographically, it's very good for Visa and it's very good for the payments ecosystem.

Harshita Rawat

Analyst, Sanford C. Bernstein & Co. LLC

Great. Thank you very much, Al, for joining us today.

Alfred F. Kelly, Jr

Chief Executive Officer & Chairman, Visa, Inc.

Thanks, Harshita.

Harshita Rawat

Analyst, Sanford C. Bernstein & Co. LLC

Thank you very much for...

Alfred F. Kelly, Jr

Chief Executive Officer & Chairman, Visa, Inc.

Thank you.

Harshita Rawat

Analyst, Sanford C. Bernstein & Co. LLC

...being here.