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Visa, Inc. (V)

Autonomous Research Future of Commerce Symposium

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MANAGEMENT DISCUSSION SECTION

Craig Maurer
Analyst, Autonomous Research

Good morning. Hopefully everybody can find their seats, so we can start with today's agenda. I'm Craig Maurer. I run the payments and fintech team for Autonomous. And we'll just get started. You should have a copy of the agenda, so it should be a great day.

Joining us right now is Mike Milotich, Senior Vice President and Head of Investor Relations for Visa. Mike, thanks for joining us.

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

My pleasure. Good morning.

QUESTION AND ANSWER SECTION

Craig Maurer

Analyst, Autonomous Research

Q

So far it's been an interesting year with a lot going on. But I actually wanted to start by asking you something we were discussing a few minutes ago which is very much in the news right now which is, Visa being such an integral part of global commerce and the global economy, how does Visa deal with things like sanctions that will cut consumers and businesses off from using their cards potentially; and at the same time, it also drives the need from a government's point of view to build up a local network that might compete with Visa over the long term?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I mean, I think the way we always – in these situations, the most important part is just active engagement and education, making sure that people understand the unintended consequences that can come from these actions. So, we do engage the government here in the US quite a bit to help them understand some of the implications of the actions they take. And in some cases, like most recently in Venezuela, we did get a small exemption, said, MasterCard to service certain types of banks there.

Even though there are much broader sanctions on the market, there is a little bit of an exception for a component of our business that we were able to make the case to say that's something that is beneficial to both sides and it's not really in our best interest to cut them off in that way. So, we do our best to engage and educate and, hopefully, the right decisions are made.

Craig Maurer

Analyst, Autonomous Research

Q

How do the conversations tend to go with the governments on the other side of sanctions when these things come about?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I mean, I think it's the same. I mean, in some ways there's only so much we can do obviously, and then we just do our best to explain and help them where we can.

Craig Maurer

Analyst, Autonomous Research

Q

Okay. All right. So, moving to the business. Considering performance through fiscal third quarter, how is the year shaping up versus the expectations Visa had going into the year?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I mean, as always, it's a little bit of a mixed bag. I mean, if I start with the business drivers, payment volume, I would say, largely has been in line with our expectations. There's really two noticeable or notable exceptions. One is the UK. At the start of the year, we did not anticipate or expect how much all the, I guess, back and forth on Brexit has really impacted consumer spending, particularly in that market. We are still growing

because we continue to displace cash. But that economy has slowed quite a bit and we have a very strong position there. And so, that has impacted our European volumes.

And then the other place is, the dual-branded cards in China continue to rule off, although that doesn't really have a P&L impact. So, I would say, ex those two things our growth has been in the low-double digits and about as expected. On the transaction side, I would say, the growth has been a little bit stronger. We're growing about almost 12% on a year-to-date basis, and that's a little bit better than we expected and it's really being fueled by two things. Contactless continues to thrive in other parts of the world. We've said this past quarter. We're now outside the US. Over 50% of our face-to-face transactions are now contactless.

And on a sequential quarter-over-quarter basis, that penetration is going out 3 to 4 percentage points each quarter. And so, that has been a little bit stronger than we expected. And then also Visa Direct has outperformed our expectation and is driving a lot of transaction growth. And then, cross-border has been a little weaker than we anticipated at the start of the year, particularly in our second quarter. December and January in particular were quite weak. But what you saw in the June quarter is the numbers did bounce back, and so it was a little bit of a blip that we saw. But because of that sort of weaker quarter, I would say, it is a little bit weaker than we had expected.

So, that's sort of the fundamental drivers of the business. Some of the other components; I would say, we have been more successful in selling a lot of our value-added capabilities to clients. So as innovation is accelerating and the complexity is increasing what we're finding is, clients are looking to us for more help. And so, that's the part of the business that has been better than expected, particularly our Visa Consulting and Analytics capabilities that more and more of our clients are utilizing and that's one of the reasons why our other revenue has been growing very fast in addition to the ASC 606 impact.

In terms of other revenue things, I mean FX. The FX headwinds have been a little stronger; the ASC 606 impact a little more beneficial. So, those two mostly wash. And then – and client incentives have been lower and it's really driven by three things. It's not driven by deal timing which is sort of typically what you talk about when its incentives being lower, but in this case it's really driven by three things. So one is, we've been able to get deals done with a little bit better economics than maybe we had originally anticipated.

The two things, I would say, that are the biggest factors are, we use incentives to accomplish other things in the ecosystem to push some of our areas of innovation like the contactless or the adoption of fast funds for Visa Direct to move the money in real time. And we'll use incentives to help align interests and get the ecosystem to move, and we had to do less of that than we have anticipated and still accomplish what we needed to get done. And so, that's been favorable.

And then, particularly in this last quarter what happened that we had new pricing go into effect. And a lot of times when we do that, we'll deal back some of that pricing and incentives usually in the short term to sort of bleed in the price change for our clients and we had to do a lot less of that than we had expected. So, all these things are real savings for the business. So when you put all that together, I would say, revenue growth, it's about 11% excluding – a little over 11% excluding ASC 606 and on a constant dollar basis year-to-date. And so, that's probably about what we would have expected.

On expenses, we've invested maybe a little bit more, but generally that's in line. And then, if you start to go below the line, there's been a couple of things. We have been lowering our interest expense, entering into swaps. So, swapping out our fixed US-denominated debt into variable non-US dollar debt where we're at a much lower rates. And so, that's been real savings for the business to help the bottom line and our tax rates have been a little better.

And so, when you get down to EPS, even though FX is about a full point stronger, even with that our EPS is a little bit higher. The growth's a little better than we had expected. So, a little bit of a mixed bag, but generally in line or a little better than expected at the beginning of the year.

Craig Maurer

Analyst, Autonomous Research

Q

So if we can dig in to a couple of things you just talked about. If you could guess or not guess, but try to inform us as best you can as to...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yes.

Craig Maurer

Analyst, Autonomous Research

Q

...why you think incentives have been running lower than expected or that – generally that'll happen when there's less growth? But it doesn't seem like there's necessarily less growth.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Correct.

Craig Maurer

Analyst, Autonomous Research

Q

So, how have you been able to get some pricing power back?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I mean, I think a lot of it has to do with that – oftentimes, as I mentioned, to accomplish new things, one of the I guess great things about the business, but one of the challenges is we innovate and come up with new products and we rely on a large sort of distribution of partners to bring it to market. And that gives us great scale, but also can be frustrating if we want to move faster. And a lot of times, we have used incentives to kind of push people along.

And I think in many cases, what our clients are recognizing and we've sort of been successful in sharing with them that a lot of these things are really in their interests. And so, we're having to use a little bit less of incentives to get them to move because they just see the sheer business opportunity that's in front of them. And we're also getting some scale players to help us distribute some of these capabilities in ways that are requiring a little less. So I mean, I would say, that's really the biggest difference.

Craig Maurer

Analyst, Autonomous Research

Q

Got it. So it sounds like it's the general appetite to grow electronic payments globally that's working in your favor.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

It is.

A

Craig Maurer

Analyst, Autonomous Research

Okay.

Q

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

It is.

A

Craig Maurer

Analyst, Autonomous Research

Okay. You've talked about China for a second in terms of the weakness related to the co-branded cards rolling off. What's been the environment for single brand cards? How is that playing toward Visa or some of the other global networks?

Q

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Yeah. I would say, the trend is very stable. I mean, so what – the way the dynamic works is when some of these dual-branded cards expire and the issuer elects not to reissue them then they give the consumer two cards. So, they give them China UnionPay cards to use in China and they give them a Visa card that they can use for cross-border purchases. And typically what we've seen, I mean, there is some risk when that happens that if that consumer then shows up at a merchant that does accept China UnionPay that they may not pull out the Visa card.

A

But what we've seen even as our payment volume has been slowing in China throughout the year because of this move away from the dual-branded cards, our outbound cross-border business from China has been healthy and stable. So if there's sort of a little bit of leakage there in that process on our cross-border business, it's very small because it's not really impacting that part of our business. And ultimately, in China, all our revenue is made in inbound and outbound cross-border business. And so, that's been promising.

Craig Maurer

Analyst, Autonomous Research

And I assume with the trade war going on, there's no movement in terms of Visa's application for a domestic network?

Q

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

We continue to wait patiently.

A

Craig Maurer

Analyst, Autonomous Research

Q

Okay. You might be waiting a while. So sticking to that part of the world, that's really the hot spot for alternative payment methods in terms of things like Alipay. So, how does Visa interact with those systems? How are they excluded? When those systems are used? I think there's a lot of confusion around how money gets into those systems and is spent elsewhere in the world.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. So, I mean a lot of times we'll be the funding mechanism to get move funds in and out of wallets all over the world including here in the US. But I would say, there's been a big trend in the last several quarters with some of these wallet players, where they're really starting to engage with us in ways that they didn't before. So whether it's LINE and LINE Pay or Paytm, now Gojek this last quarter; these are all in Asia Pacific.

And these are all players that are looking at it and saying, let me start embedding a Visa credential into my wallet for all my consumers which does two things. It significantly increases the utility of that wallet for the consumer because now they can use it anywhere Visa is accepted around the world and it gives that player a revenue model, right. Now, they start to have issuer economics, and so that's really favorable for them; and of course, we get expanded issuance.

So, that's a way we've started to engage more of these players. And in many instances, these are the companies that, maybe a year or two ago, you've been asking me how they're trying to disintermediate us out of these businesses. But I think – and we've been saying, we see them as potential partners and that's where it's starting to head as they're looking at working with us to just add more value and drive their business.

The other thing that's happening, if I can, particularly in the case of Paytm that they've announced in India is that they're also going to start opening up their merchants to accept our cards. So, not only getting an issuer revenue model, but also starting to get an acquirer revenue model, where for their merchants now those merchants may attract more affluent people how may be carrying our cards, they get acquirer economics and we get expanded acceptance. So I would say, if anything the way things are evolving, it's more of we're working with more and more of these players in ways that are mutually beneficial.

Craig Maurer

Analyst, Autonomous Research

Q

Okay. Expanding the discussion to more global view. Visa Direct is obviously a product that has a lot of applications, especially in places the gig economy, the contractor economy. But you also now own Earthport,...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah.

Craig Maurer

Analyst, Autonomous Research

Q

...and how are these two assets going to be put together to enable Visa Direct to connect to any bank account in the world?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. So the biggest thing, we have incredible reach. Obviously, our debit business around the world, we're the leader in debit. And so, that give us access to roughly half of the bank accounts in the world and we were also doing other creative things. You may remember us talking about like, for example, in Canada where we were using our ATM rail to reach accounts that are Interac-branded debit cards.

So, we were using all means possible to access these accounts, but we still had good reach, but not total ubiquity. And that's really where Earthport comes in. So, Earthport have 88 connections. 88 countries have connections directly into the ACH or RTP system. And so – and just to put that in perspective, the top 50 markets drive over 90% of the volumes. So, this gives us very great – really good coverage of all the bank accounts. And so essentially what we're doing is, as we've said, by the end of the calendar year we will have those two platforms integrated. So through your single connection to Visa, you can send us card instructions or account instructions and then we will route it accordingly.

And what that allows then our partners to do is, through sort of a single provider like us, they can mix and match rails and do card to card or card to account, account to card or account to account. And in doing so, also leverage our capabilities in terms of the reliability security that you would expect to get from Visa. So it'd still be our service, our brand, our capabilities, so we just may deliver the funds over another rail for the last mile.

Craig Maurer

Analyst, Autonomous Research

Q

So correct me if I'm wrong, but effectively, Visa Direct will connect into the omnibus accounts in these countries, and then you'll be able to distribute through that account over the ACH rails in the domestic.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Correct.

Craig Maurer

Analyst, Autonomous Research

Q

Okay.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Correct.

Craig Maurer

Analyst, Autonomous Research

Q

Okay. So speaking of ACH, management recently discussed the need to invest in RTP or real-time payments. How is that going to look for Visa? Meaning, clearly we've seen acquisitions in this space to acquire technology.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Correct.

Craig Maurer

Analyst, Autonomous Research

Q

It seems like some of the best assets globally have been acquired, so there are still some assets out there like a SIA or something like that. But can Visa effectively organically build this out with the type of speed that would be needed, or is there going to need to be a technology acquisition?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I mean, I think the – our view is that it's not clear. We don't necessarily think the value is going to be in building the software that helps facilitate these rails. I mean, the key thing about real-time payments is it's not a proprietary rail; it tends to be owned by the central bank or a consortium of banks. And yes, there have been some acquisitions of the software that helps sort of run transactions over that network, but it's more like a processing asset than ownership of the rail.

And the key in real-time payments [ph] is then those (00:17:28) are open to everybody. So even in a place like the UK, we can access that rail the same as our competitors. We even pay the same price as our competitors, because the owner of the rail sets the price. So, in our view that's not necessarily where the value is going to be. What we're working – what we want is, is connectivity to as many of these systems as possible which we've achieved through Earthport and then what are the value-added capabilities you're going to need, because a lot of these real-time payment rails are somewhat limited, right?

They don't work 24x7, they don't have authorization capability, they don't have sort of risk and fraud capabilities. You can't manage disputes on them typically. So, these are the kinds of things that we can bring as a solution to clients and then we would just leverage the rail to move the money. And that's where things like our acquisition of Verifi that we just closed last week or two weeks ago, that would allow us to offer disputes in more of a rail-agnostic way. Also the one acquisition we're working on that hasn't closed yet, in terms of Rambus, allow us to tokenize those kind of transactions so that it has more of the enhanced security that someone would expect when they use our network exclusively.

So, that's the way we think that it's going to add value. And if there are some markets where it would be strategically important to do, be more involved in the actual platform then there are people to partner with or we could look to bring some of our own capabilities to do that.

Craig Maurer

Analyst, Autonomous Research

Q

You mentioned security; Visa, MasterCard, AMEX, the American networks with years of experience doing this. You bring very strong security when you go global. And how do local governments view a Visa network versus a local start-up in terms of concerns around securing transactions. And it would seem like a start-up isn't going to have the data, they're not going to have the connectivity, they're not going to be able to protect the consumer in the same way.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I think a lot of it – similar to what we were talking about with other aspects of government, so just comes down to education. It's for all of us who are, I guess, [ph] live and breathe (00:19:50) space sort of we know it, but it is very complicated. And so, a lot of it just comes down to helping them understand what are some of the trends in fraud and risk, how are things emerging and getting a lot more sophisticated and then the kinds of tools that we have to combat that and help our clients that they – someone who's maybe newer or going to be less

sophisticated, isn't going to be as effective in preventing. And so, a lot of it just comes down to educating and explaining. And then hopefully, they make the right decisions to allow us to continue to operate in that market.

Craig Maurer

Analyst, Autonomous Research

Q

And could data localization rules like what we're seeing in India really hurt the ability to do cross-border authentication and keep the security levels that you're typically known for?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I mean, it limits things because what their guideline is, is they want that data completely kept separate which then means there'll be fraud events that may happen in India that we wouldn't necessarily be able to leverage for our tool that we use every else in the world. But more importantly, the flipside of that, anything we're learning in the other parts of the world, we'll be able to apply it in India.

So you do lose that scale benefit where there could be a delay in terms of certain capabilities making it to that market, because it's – we're going to build in our global platform first and then maybe look to move it in country, maybe not, depends on the ROI. So generally speaking, most of our capabilities we are going to enable there because India is a big market, there's a lot of growth opportunity, but there's no doubt that they will be losing some things as a result of them sort of disconnecting from our global network.

Craig Maurer

Analyst, Autonomous Research

Q

Okay. Moving to a different subject. B2B is – everybody wants to talk B2B from the networks to private companies. It's where focus seems to be shifting. You guys have done some interesting partnerships like with Bill.com. You've also worked with companies like Wave and you're pushing company like Repay [ph] to open up auto (00:22:08). So first of all, what's the plan of attack over the long term? Second, what are the – where do you see the lowest hanging fruit...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Right.

Craig Maurer

Analyst, Autonomous Research

Q

...to create connectivity initially?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. So, we break it into two pieces. So there's the sort of "cardable" component of it, which is about a \$20 trillion market in our view. We have about \$1 trillion of volume now in this business. And between ourselves, MasterCard, AMEX, we think it's about \$2 trillion to \$3 trillion of that market has been penetrated. So there's still a lot of opportunity. The two areas we're primarily focused on for that is: one, just getting our issuers engaged. It's just been – in the US, we take a little bit for granted that a lot of people have corporate cards and P-cards and there are a lot of active issuers in there in the space, but outside of the US that's not the case.

And so, really working with our clients to help them understand the capabilities and platforms that we have to sort of better serve small, medium size and large businesses with products so that they can get better adoption. It's something that we're really focused on and we're having some success. In some ways, the more everyone talks about it, the more they hear that and start to engage to understand how they can maybe capture that opportunity.

The other piece is in virtual cards. Virtual cards are still relatively new and in their infancy. There's only a couple of segments where they're fairly active. And so, there's still a lot of room for expansion. And so, that's an area we're really focused on both in terms of working with players like we've announced partnerships with WEX and Ixaris and Sabre this year, but also on the acceptance side. So, not only finding businesses who want to pay that way, but businesses who are willing to be paid this way and want to be paid this way and making that as seamless as possible.

And so, the second piece is the much sort of larger opportunity, the \$100 trillion, of sort of enterprise AR and AP. And there – I guess the way we think about it is, there's a lot of experimentation going on. We're trying lots of things. There are a lot of new companies trying things, our competitors. And everyone is trying to find the – sort of a comprehensive solution and no one's quite been able to sort of put their finger on it just yet. But we are working with lots of different players.

So, you mentioned some of them. Some of the other ones are PayMate, which is a company that has 35,000 businesses that are connected in the network. Started in India and now they're expanding into other parts of the Middle East and Africa, and we're a partner of theirs. They're automating the process. We're helping with the payment component, which is typically how we look to work with these companies; like the ones you mentioned like Wave, where they're doing some of the more software piece and we bring our payments expertise to the table.

Also, Billtrust is another one of our important clients and partners in this space. So, they have a new sort of business payments network that has been enabled. And what it really does is help automate on the accounts receivable side, and also make it much more seamless to receive virtual card payments. So as I mentioned earlier, building the acceptance of virtual cards is a big important piece and Billtrust makes that more seamless for players. And that's a network that – just I think about a month or two ago that – JPMorgan announced that they are joining that network and are going to be leveraging that. So, those are the ways we're trying to find the opportunities.

To answer your question on low-hanging fruit, I think the one area that we see where we have distinct capabilities to really make a lot of progress is in the cross-border market, because we have unique capabilities that allow us to do things in a point-to-point way versus the way it works today is sort of multiple hops in a corresponding banking type of arrangement. And we can bring a lot more security and reliability to that space. And so, we've tackled that in a few different ways.

So on the sort of the high end of the market, so large ticket, large complexity we have our B2B Connect platform, which is allowing us – it is a new rail really. So we're leveraging our settlement capability to settle with financial institutions around the world, but we've built a new platform that allows us to move money from one country to another in a direct way, so that both parties have maximum transparency on when the money will arrive, exactly what fees were applied and the FX that was used, and then it can hit – it's built with distributed ledger so it can carry very sophisticated data.

You can attach a very complex document, so something like a customs, a form can travel with the payment in a way that really serves that need. And we just launched it commercially a few months ago. It's now active and live

in about 60 markets. We hope to have it live in 90 by the end of the calendar year. And so, we see a lot of opportunity there.

And then, we talked about Earthport a little earlier. That is really our solution for the smaller ticket, a little bit less complex payments in cross-border where again more of a point-to-point solution where it doesn't have to take multiple hops. We can deliver it directly to that local market and into a bank account if it's not going to be on our proprietary rail.

Craig Maurer

Analyst, Autonomous Research

Q

Because of the simplicity of the transaction versus the historical nature of such a transaction, what type of cost efficiencies can you bring to the end users because you're not involving multiple players?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I mean, that's a big part of the benefit. So the way it works today when it takes multiple hops, not only does that sort of limit visibility and transparency, but it also means there's more sort of [ph] mouths (00:28:28) being fed along the way. And so, there's no doubt that it can be a lot more efficient for businesses. So, we are adding a lot more value and we can do it at a better price point.

And that also is true in the remittance space. So that's not a B2B application, but the same is true in remittance where also we're partnering with a lot of large remittance players and they can use us to move the money digitally. And even with sort of our premium cross-border economics, it's still going to be less expensive than they're paying in commissions at those physical locations where people may be picking up their cash today. So yeah, we can bring capabilities and do it at a lower cost.

Craig Maurer

Analyst, Autonomous Research

Q

Okay. Maybe if we can switch topics. Secure Remote Commerce or SRC.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah.

Craig Maurer

Analyst, Autonomous Research

Q

We've spoken a lot about this. It's becoming a much more visible topic. MasterCard's Investor Day last week,...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah.

Craig Maurer

Analyst, Autonomous Research

Q

...they have a great demo of what that could be. So, talk to us a little bit about what sort of the Goldilocks launch would be for SRC? What would be the ideal? And are the banks willing to make that happen because, in my opinion, the buck stops there?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Right. And so SRC, we'll be launching in the coming weeks. So you're going to start to see it on some sites here in the US. And it won't be a broad launch because now we're sort of getting close to the holidays. So, there'll be some merchants who will go live and you'll be able to start using it. And then, once we get through the holiday season and basically into 2020, you'll see a much more broad rollout. I think the key in the rollout of SRC is, we're not going to start from scratches.

I know MasterCard highlighted in their Investor Day and we've been saying, both of us have an installed base of sort of Masterpass and Checkout. And we've been working behind the scenes and I believe MasterCard has also to be able to sort of flip any of those merchants and users to the new Secure Remote Commerce experience. So we're not going to start from zero. We are going to be able to sort of convert that installed base that we already have and get them up and running.

And then, we do have to engage the two parts of the ecosystem. So on the acquiring side, they're very receptive. And the big thing I think to think about on the acquiring side is, there's only really two ways to do e-commerce today that have – are pretty low friction. One is card on file which is really only reserved for the very largest merchants, so it's fairly limited in who can utilize that. And then PayPal; and PayPal only uses a couple acquirers around the world.

So what Secure Remote Commerce really does is, is now provide every acquirer in the world a relatively seamless solution to offer their merchant customers to accept e-commerce payments. So, we have good engagement on that side of the ecosystem for the issuers. As you mentioned, yes, we are working with them to push in enrolment, right? We have solutions that they can put into their app or on their website to help facilitate enrolment into the new solution. And that's a big part of the engagement that we're working on.

But in the meantime, we do have the ability just like we did with Checkout sort of a central hub that consumers can come and activate their card if their issuer hasn't engaged with us in that process.

Craig Maurer

Analyst, Autonomous Research

Q

So look, I guess this leads to the question of Chase just basically shutdown Chase Pay for physical transactions. They're keeping it alive for e-comm. I've personally never seen the mark on their website before. They're clearly the lynchpin in your US operation in terms of size of credit card portfolios. Are they on board?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

I mean, I can't speak specifically for Chase. I mean, obviously they're a large and important client for us. I mean, I think that ultimately the way we talk to our – and communicate with our clients is, if they see the benefit. So if it's going to prevent – have less friction; and therefore have higher conversion rates, I mean they're looking to engage their customers and have better spend. That's in their interests also. So less fraud, higher authorization, more spend is in their interests also. So, I can't speak to a specific client. But I guess, they all understand the benefits and we expect that over time we'll have their support.

Craig Maurer

Analyst, Autonomous Research

Q

Will there be marketing dollars put toward this launch?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Absolutely.

Craig Maurer

Analyst, Autonomous Research

Q

Okay.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Absolutely.

Craig Maurer

Analyst, Autonomous Research

Q

And AMEX is also obviously part of this as well...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Correct.

Craig Maurer

Analyst, Autonomous Research

Q

...and they'll bring a large consumer presence. So...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Correct.

Craig Maurer

Analyst, Autonomous Research

Q

Okay. We have about 10 minutes left, so I wanted to ask the room if there were any questions that people had for Mike. I think [ph] Alessia (00:33:38) has a microphone. She's going to bring over.

Q

Thanks. Just back to what you were mentioning about the credentials for the virtual wallet networks in Asia. Could you talk about how the issuer economics comes about for them? Do they require banking licenses initially? Or can they kind of fund it out of their – the wallet themselves? And then, maybe just talk more about how that credentialing process works, specifically...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Yeah.

A

Q

...maybe if you have to focus on line or one of that?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Sure. Yeah. So, it varies by market. So there's two ways you can do it. One can be more of a co-brand like relationship, where they're not going to be the underlying issuer itself. They're just going to be sort of the co-brand partner and they're going to leverage a financial institution for the backend and the compliance component. So, that's one way to do it.

And then, in some markets these entities are already regulated. So in the case of Paytm, they're considered what's called a payments bank in India, which means they can extend credit, but they can do debit and prepaid. And they're already regulated as such, so in that case they actually can be an issuer of Visa debit or prepaid card. So they don't need to go to a – have a co-brand partner, if you will. They can actually do it themselves and be the underlying issuer.

Craig Maurer

Analyst, Autonomous Research

In the middle, next.

Q

Q

Hey, Mike. Could you talk about Japan and the Olympics 2020? So just anything about your expectations for what you would like to achieve there. And then, I don't know whether you are able to reference any other times where big events like Olympics, World Cup; those big sporting events have been influential as catalysts for payment acceptance and growth.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

Yeah. I would say, this is really a unique opportunity where you're bringing the combination of one of the world's largest economies that is sort of one of the few holdouts in terms of it's not very electronic. So, Japan and Germany are usually the two markets that often get highlighted as very large economies, where electronic use of payments is relatively low compared to their peer set in terms of economic size.

So this really is a unique opportunity in Japan, and the government is very engaged and motivated to leverage Tokyo 2020 as sort of a catalyst to move their market forward and stimulate the economy. And one of the ways they're looking to do that is by pushing more electronic payments. And so, it's a great opportunity for us as not only one of the leaders in that market, but as the official sponsor of the Olympics that makes us uniquely positioned to work with the government and try to capitalize on this opportunity.

A

One of the things that has been rolling out very quickly there is contactless. So, the government is really trying to make it a purely contactless games as much as possible. And so, that's something that's very beneficial. So, we do see a lot of opportunity coming from this and it is unique in the sense that in other FIFA or Olympics, we obviously set up the village and you can only pay with Visa there, and we always will use that to demonstrate innovative things and try innovative things.

But then when the games are over, the village goes away and a lot of that is gone. In Japan, our view is that this is going to be the first event where there's a lasting effect on the market that we are quite excited about what that could mean for our business in Japan post the Olympic Games.

Craig Maurer

Analyst, Autonomous Research

Q

You talked about contactless earlier and again just now. It seems to me that transit tends to be a catalyzing factor in terms of overall use...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah.

Craig Maurer

Analyst, Autonomous Research

Q

...if OpenMove transit – if OpenMove card payments come to transit, it gets into people's everyday lives. So, we see that happening in New York. Italy is coming. Where else in the world should we be on the lookout for an event something like that to catalyze growth?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Right. I mean, it also launched in Miami recently. So, Miami – so I would say, we are working with all the major transit companies or organizations in the US, and people are on obviously different progress, but New York and Miami are the furthest ahead. We have over 200 transit projects going on around the world. So, there is a lot of engagement. I think a lot of governments just as its often the case with our business, not only did it make things sort of more seamless for consumers, but it also creates a lot of efficiency because whether they have people who service the tickets or they have large I guess vending machines, if you want to call, where you can get a card or reload a card.

So there's a lot of efficiency, and so we have a whole team started – we have a center of excellence in London, because Transport for London was one of the first major transit systems to really embrace contactless. And the results have been incredible in terms of – I think it's more than half of their ridership now is tapping to enter any tube or bus in London. And so, we – from there we've sort of built a global expertise for that, and that team is now working with governments and transit authorities around the world to try to get contactless implemented and help them understand the benefits.

Craig Maurer

Analyst, Autonomous Research

Q

In the UK, I mean you had stagnation in terms of cash versus electronic for years before that happened and then penetration of cash fell by 10 points in the two years following the introduction. So, anywhere you see that introduction could be a big catalyst?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

And we see even in terms of engagement, the people who are using – tapping the card for transit, we see just increased engagement also in the other parts of their spending. So, it is an important use case that we're driving.

Craig Maurer

Analyst, Autonomous Research

Q

Okay. Question in the back.

Q

Just one more on SRC. I was just wondering if you view it as something – if you're having any conversations with PayPal in terms of potentially integrating or leveraging any of the services or tools that they've built since they've been doing that obviously for a long time, or if you view it as something that would displace them and...

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. I would say, no and we haven't engaged. I mean, we're close partners with PayPal. We work with them on many things. I would say, this is an area that we haven't worked closely together on. The key is that this is not intended to sort of try to knock PayPal out. I think the – what I think a lot of people underestimate, I guess, is the amount of e-commerce that's done, that is in card on file and is not PayPal.

So those are really the two ways, as I mentioned earlier, where you can do relatively frictionless e-commerce. But I think you would be surprised, I mean we've never, I guess, disclosed the exact number, but the sheer size of e-commerce that isn't done with those two methods. And so, that's really what we're trying to address. We want to make e-commerce as frictionless as possible for everyone.

And then as long as you choose to pay with Visa and that's your preferred way to pay then whether you use SRC or you use PayPal or you have a card on file, we're indifferent, right, between those options. But what we want is, e-commerce is a huge growing use case and a big part of the sort of secular shift and the benefit we get, because cash is often not an option. And so, we want to take the friction out of that payment and that's what SRC is really designed to do. It's not necessarily targeted at PayPal or another player in the space.

Craig Maurer

Analyst, Autonomous Research

Q

Right here.

Q

Could you talk about the incentives that different stakeholders have transitioning from either debit or credit to your Fast ACH?

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

A

Yeah. So, the obvious benefit that a lot of merchants will say it is, it could potentially be lower cost for them, right, which hasn't always been the case like I think in our some markets in Europe where that's not true. But generally, that's sort of the wide belief is that it could be lower costs for the merchant. The interesting challenge though is, what's in it for the consumer, right? So oftentimes, the consumer is going to be giving up something, particularly the ability to dispute or charge back the transaction. The way it works today is it's more like a wire. So once you hit send, the money is gone and you don't have dispute rights.

You also don't necessarily have the same kind of security protections involved. So the key is, what is going to get to consumer to change their behavior. And in many of these markets where it's been – the market has been regulated. There also has been a lot of economics to create incentives to get people to change their behavior. So, that's really the dynamics that we see which is why even though there are between 30 and 40 real-time payment systems so far live around the world, there's only a couple of instances where it's had any sort of impact at the point of sale and in purchases.

It's being much more use for B2B-type applications or P2P applications. And that's because it's – there isn't a lot of incentive for the consumer to change their behavior. And also in many cases, they've been sort of difficult to integrate with and incorporate into flexible solutions that can work in lots of different instances. And so, that has limited the impact it's had on sort of consumer-to-business commerce.

Craig Maurer

Analyst, Autonomous Research

I think with that, we're about out of time. But Mike, thanks for joining us today.

Mike Milotich

Senior Vice President-Investor Relations, Visa, Inc.

My pleasure.

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