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Visa, Inc. (V)

KBW Cards, Payments, & Financial Technology Symposium

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MANAGEMENT DISCUSSION SECTION

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

All right. Thank you, everyone. So next up, we have Visa. And back again this year is CEO, Al Kelly. Thank you, Al, for making it here.

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

Delighted to be here.

QUESTION AND ANSWER SECTION

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

We really appreciate it. So obviously, Visa's got a long runway for growth and that's spanning over this year and over the long term in our opinion. Obviously, there is a lot happening in the macro economies and the secular trends are very prevalent as well. So there's a lot of crosswinds. But maybe, Al, you could start with talking about the macro environment. You've seen some weaker trends in cross-border volumes. Do you think it's indicative of anything to come? Obviously, investors are just really nervous about the economy given how good the favorable part of the cycle has been.

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

A

Okay. Thank you for having me. I'm delighted to be here. So let me use this opportunity to clarify what we said about the first quarter and there's been some chatter since then about whether we were trying to signal something. The reality is that we're not in the signaling business, we're in the business of trying to give out the facts. And so, let me lay them out...

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Absolutely.

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

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...while addressing your question. So we had a very, very good first quarter. The network saw 50 billion transactions in the quarter moving almost $3 trillion of money. Purchase volume was strong across the board and in three of our five regions, Latin America, Central Europe, Middle East and Africa and Asia ex-China, we actually saw accelerated growth over the prior periods. We processed a 12% higher level of transactions in the quarter, and we had 13% revenue growth in the quarter.

We actually had very good cross-border performance through the quarter, but for the last three weeks or so. And we stated that, and we stated the fact that we saw it down a little bit in the first three weeks of January. We reported cross-border growth of 7% in the quarter. But when you normalize for cryptocurrency bubble, and you normalize for one large platform migrating to a different domicile within Europe, which has very little revenue impact as it's just entry Europe, cross-border growth would have been 9% on an adjusted basis in the first quarter. And in the first three weeks of January on an adjusted basis it would be 6%. So it's a 3% decline. And at the time, we didn't see it isolated anywhere. It wasn't that we saw it in a particular geography. We didn't see it isolated to face-to-face versus e-com, it just seemed to be a bit of a general drop-off.

And in that window, if we think about what was going on, you had the shutdown here at the government and unclear how long that was going to go on, you had the Brexit overhang which obviously continues in the UK. There was a lot of uncertainty about the U.S., China trade talks. And then the equity markets were lousy in December. So I think there was a bit of a dent to consumer confidence, and in fact you saw that in the January numbers for both consumer sentiment and consumer confidence, they bounced back a bit, the number that came out the last day or two. So overall a very, very good quarter for us.

If people think we were trying to signal a change in our outlook for the year, we weren't. If we were going to change our outlook for the year, we would have stated that. And I think that this cross-border phenomenon of the 9% to the 6% in the first three weeks it's an observation. It's not nearly enough of a period of time to suggest that there's any kind of trend or underlying issue going on.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

And when we think about the indicators that you look at to the extent that there would be an issue, what would those be? Would it be something like cross-border or have there been other indicators that sort of pre-determine that?

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

A

Well I think we look at the big economies around the world as a starting point and we say how did they tend to perform domestically. And then, yes, cross-border tends to be a sign of – it tends to be volume that is more discretionary, although that's changing, right, as e-comm takes a much bigger role in cross-border. But yes, still travel and tourism is a big deal. I think we look at currencies and where they stand. I mean the stronger U.S. dollar has certainly curtailed some travel into the United States from key corridors. The key corridors into the United States are Canada, the UK and China tend to be the three largest corridors in. And frankly, if you look at those three economies – the UK, China and Canada – if any of the economies around the world are a bit softer right now it would be China and the UK.

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So those are the kinds of things, domestic volumes in the big economies and cross-border that kind of give you probably the best signal of whether there's anything going on. And of course, we're constantly looking at the underlying economic information that we can get wherever we can get it about jobs and those kinds of things.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. And by no means am I suggesting that there's any macro weakness, but just in case there would be. When we think about the flexibility and the levers that Visa has had in the past do you feel like you still have those available to you today, 10 years later?

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

A

I think so and maybe then some. If you look at where our volumes come from today, I mean we're tending to grow approximately 2 times PCE, which means we just have a broader usage base. We have a lot of volume in the debit side of the business, 44% of our purchase volume in the first quarter was debit, which tends to be a bit more resilient. We're in many, many more everyday spend categories now than we were before, which obviously makes a difference. And as it relates to cross-border the point I was making a minute or two ago the fact that cross-border if you went back five years, six years, even back as far as the 10 years that you talked about, it was predominantly travel and tourism. Now it's more diversified with e-comm. So I think in terms of usage if there was a slowdown I think we've got more resiliency based in the profile of where we've got coverage and usage.

On the expense side, I think we've got a proven track record of being able to tighten our belt where we need to tighten our belt if that's warranted. That said, we are managing this business for the medium to long term and we probably have as exciting a list of investment opportunities for the future that we've ever had. And I would be, for one, quite loath to cut into the meat of those investment opportunities to decrease our spending in one year that actually could hurt our volume and our revenue in two years or three years or four years out.

I mean this really is a macroeconomic business. I mean we're now finishing, just about finished, a fifth month of our fiscal year. There's not a tremendous amount that we can do that will impact the next seven months. I mean, they kind of flow as they flow. But we can do an awful lot of things that can influence what happens in terms of volumes in fiscal 2020, fiscal 2021, 2022. And in my mind, if we're managing this business for the medium to long-term, we've got to constantly be investing in those things that are going to help us two, three years out.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Absolutely. And speaking to those growth opportunities, last Analyst Day one of the messages from you guys was that we're at the brink of an inflection point for the digitization of payments given everything that was happening in the technological backdrop. Maybe you could talk about where we are as we sit here. How has it unfolded over that couple years – and I know it hasn't been that long into the second year but and how do you feel about that same trend line going forward?

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

A

I feel very good about it and it's an extremely exciting time for the payment space and it's certainly an extremely exciting time for Visa. I mean, we're looking to continue to get into as many payment flows as we can. So, in addition to, by the way the number one competitor continues to be cash and that's still something we're maniacally focused on, but we're trying to get into B2B, B2C disbursements, P2P. We are continuing to try to

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grow acceptance in ways that don't require the same hardwired telephony based kind of infrastructure that has existed and powered the traditional system for the last number of decades.

We're very focused on the moment of truth, the time that somebody actually wants to use a payment credential. Ironically, it's not something the industry has spent a lot of time on. A lot of their time has been spent on building the embedded value in a product, whether it be its interest rate or its features or its rewards elements, et cetera. But I think we're at a point in time when that moment-of-truth counts a lot. And then obviously the Internet of Things is going to continue to be a real stimulus to moving volume forward. So let me unpack a few of those a bit.

So if you think about payment flows. Number one, we are the largest global network in terms of face-to-face, and that's going to continue to be a real focus for us. I mean, we're not going to take our foot off the gas in terms of trying to continue to be the top global network in face-to-face transactions but we're increasingly focused on both e- and m-commerce and driving those forward. And the reality is there's tremendous amounts of opportunity there. We're now powering most of the big P2P solutions in the United States and around the world. We power Zelle, we power Venmo, we power Square Cash. So that movement of funds from person A to person B is going over our rails and we're getting we're getting a toll on each of that spend. If you look at disbursements, P2C disbursements, we're doing a lot with insurance companies.

And if you look at what could that mean going forward, property and casualty claims in the United States alone are about $335 billion, about half of that is check today. So there's a tremendous amount of opportunity there. We're getting very involved in facilitating using Visa Direct payroll in the gig economy. So we have partnerships with Lyft, with Postmates, with Uber to try to pay people in real time at the end of a shift or the end of a day. So that's something we're spending in awful lot of time on.

Visa Direct continues to be growing at over 100%. We're very focused on the B2B space. I think we'll talk a little bit more about that. If you think about acceptance, we're the largest network in the world. Yet, I'm completely unsatisfied with where we are from an acceptance standpoint. We have to continue to drive acceptance, a lot of the large ticket as well as the long tail. And I'll give some examples of things that we are focused on. So first of all, in India now in less than two years we've stood up a million merchants with QR code based acceptance. No need for telephone lines, in fact no need for power. And that's going to continue to grow because we've only scratched the surface there.

Transit is something I'm maniacally focused on because I actually think it is one of the great cases to be made to make the habit formed in people, because if you commute five days a week, twice a day, 10 times you're using a payment credential. And to the degree that we can embed ourselves in the middle of transit situations, that's an important thing for us. In 2018, in 20 cities in 12 countries we built closed loop transit applications with local transit authorities. We've got another 150 projects around the world related to transit in all kinds of different stages of development. Last year we held 11 conferences of Visa transit and we did them on six of the seven continents. We chose not to do one in Antarctica. So we're making it a real test case and working very closely with transit authorities.

If you think about an application like vending, we're now at in the United States 2 million vending machines that are enabled for payment and we added 25% of those just in 2018. And again in the United States alone there is about 5.5 million F&B kind of vending machines, there's another 1.5 million vending machines related to facilitating laundry, and again that's just in one country. So, there's a long tail there that is a real opportunity for us.

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If you look at something like parking, there's 105 million parking spaces in the United States. 70 million of them are off street, 35 million of them are on street. Of the 35 million that are on street, about a third you have to pay for, and we've enabled about 8 million of those spaces where you can pay either through kiosk or through a meter or a mobile app. So we're going to continue to drive acceptance as much and as hard as we can around the world because the reality is that there just are still too many places where the electronic digital types of payments are not accepted.

I mentioned the Internet of Things. There's about 17 billion connected devices now, cars, offices, et cetera, and that number will double in the next five years. We're working hard to create on-ramps for those devices. And we're working on partnerships – so just in the last six months we've announced partnerships with Honda, with GM, and with Sirius Radio relative to be able from a connected car in the future to be able to buy things from your console on your car.

And lastly, I talked about the fact that this movement of truth is important. And again we'll probably talk more about it, but more so than ever in my time in payments which is over three decades, I think that this moment of truth of when you actually use the card is really important and hence why we're hugely behind both secure remote commerce and hugely behind tap-and-pay in a face-to-face world. So I think all of those various things, Sanjay, are existing incredibly exciting opportunities that will bear fruit, not necessarily just this year, but in fact much more so as we look out over the next five years.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Absolutely. Maybe we can start with B2B, obviously you know there's a lot happening in B2B, there's a lot of small companies innovating as well. I mean why is B2B is the opportunity today. Like what made it identifiable right now to take advantage of and what are the segments that you're most excited about?

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

A

So B2B is hard space. And I think that's why the challenges associated with it have just naturally pushed it back beyond kind of consumer applications that people have focused on. But it's huge, and so the challenges are worth trying to tackle. And you're going to see us and probably other players do an awful lot of different things in B2B. We hope a lot of them are successful, some will fail. But we've got to have an awful lot of fishing rods in the water in order to try to catch this volume, and some will miss and hopefully many will catch.

So for people who are less familiar with it, what makes the B2B space challenging is that it's non-homogenous. First of all, you've got small mom and pop types of businesses, you've got medium-sized businesses, you've got large single-country businesses. You've got multinational huge guerrilla types of businesses. They operate in different verticals and the different industry verticals have different needs associated with them. There can be some differences geographically.

Information is much more important in the B2B space than it is in the consumer space. You can't simply solve for a payment solution alone. You've got to have other bells and whistles and information is a big part of that, whether it's trying to help a client with compliance, trying to help a customer with insights or data or reporting, all of these things are very, very important in this space. So the bottom line is you can't put a single solution or two solutions or three solutions out there and say I've now got my ducks in a row and all the tools in my toolbox to solve for B2B. It's much more involved than that.

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So what are we doing. Number one, we are the largest B2B player in the world. So this isn't new to us. We will do over $1 trillion in B2B spend in 2019 and we are the market leader globally and in most countries. So we will, number one, continue to focus on the addressable use cases that are solved with more the traditional tools. And that will be a big focus for us. There is a lot of countries we can go through that we're not in yet, as an example.

But we also are starting to spend a lot of time thinking about new types of B2B where it requires – it's a different payment flow and it requires different solutions. So here we're talking about things like virtual cards. 51% of B2B payments around the world are still done by check. Check costs something like $8 and it's not necessarily fast or secure. You can do something with a virtual card that is faster, more secure and less expensive. So there's a real value proposition for the corporation. We've got to build acceptance. The acceptance story is a little more challenging. There's certain suppliers that have power where they say I can get away with saying I want check or wire and we've got to build the case for why they should be accepting digital and electronic payment. We're looking at partnerships in a much bigger way in this space. Partnering with both AR and AP platforms to try to integrate into those and we've announced deals with a number of players. Billtrust which is an AR system where they've got a transparent registry of suppliers that actually accept digital payments, so companies know who they can send money to digitally. We've got a relationship with Bottomline, it's an accounts payable platform, and Bottomline is going to issue a virtual card as well as offer B2B Connect.

Let me talk about B2B Connect. We're going to be rolling B2B Connect out this year. B2B Connect takes advantage of our global settlement capability with financial institutions around the world. It's going to enable corporations to move money cross-border fast, safely, using tokenized types of capability to reduce fraud. We'll have a rich information pack that we will send along with the money to ensure that reconciliation can happen easily. And this is a much better experience, much more transparent experience for the corporation. And they don't have to build this network of correspondent banks in order to facilitate this cross-border movement. So we're very excited about what that can be.

We last year acquired Fraedom, a New Zealand and UK based company, a company we knew quite well. We had been doing business with them for 10 years but we purchased them because of this importance of information as part of the proposition of being in the payment flows. And so today their capability is largely in travel. We're trying to move some of their reporting into fleet. There's other segments that we're looking at like construction where we think we can provide rich information that's obviously needs to be different by these different verticals.

So this is – I don't know that I said the number, there's $17 trillion in consumer cash payments in the world, there's much higher number in cash and check and B2B, it's just simply it's reached a point now where companies like ours and certainly I'm sure Ajay talked about this as well. And by the way the banks have now gotten much further along on the consumer side of the business. Yes, lots more to do, lots of opportunity, lots of gas still in the tank. But a real opportunity to focus on B2B and drive that spending. So we're very excited about it and I look at it as a very important growth vector over the next decade for us. We operate our business by having five regions but there's certain initiatives that we think are important enough that we've stood up a global business unit, if you will, and B2B is one of them. So we have a group of people exclusively focused on B2B, we have a head of that unit who reports to Ryan McInerney who's our President.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Very helpful. Al, you mentioned SRC is something you are really behind. Why is it so important?

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

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It's important because the e-commerce buying experience stinks in my mind. The e-commerce buying experience has way too high a drop-out rate from shop to buy. It has way too low a authorization rate and way too high a fraud rate. It's unacceptable. What we ask merchants to do in that space is the moral equivalent of us going to a face-to-face merchant and saying you need a separate terminal for MasterCard, a separate terminal for AmEx, a separate terminal for Visa, et cetera. People would laugh at us if we came and asked them to do that. Well, that's what we're asking them to do in the e-commerce space. It's unacceptable. The consumer's confused, the merchant's confused. By going with SRC, it's a single integration for the merchant. It's a much streamlined and less confusing situation for the consumer. And it very importantly establishes an infrastructure as the Internet of Things takes off to facilitate safe and secure commerce in the Internet of Things because of things like tokenization and two factor authentication that comes along.

So plain and simple, I think if we do this it starts to basically create a bit of a moat around the e-comm experience for banks and for networks like Visa because it's much better, easier, streamlined, safe situation. And that's the basis of why I think it's important. I think everybody wins. By the way everybody's got to sacrifice. We've spent a lot of money developing Visa Checkout. We don't talk about it anymore, but we spent a lot of money on it. Where I am completely on record at the company that we will let it all go, everything that's Visa Checkout will turn to SRC as quickly as it possibly can. I do think Visa Checkout was well worth doing because I think it facilitated some early growth in e-com, but frankly it was our solution and our solution only. MasterCard had a solution, AmEx had a solution, other wallets had solutions. The experience is terrible. We got to make it better.

And I think with it will come a tremendous amount of volume, some of which by the way is there today. It's just that it's either, it's not being authorized or the consumer is walking away from the buying experience because when they actually get to the time where they have to pay, they're seeing all these different symbols. They don't know what to do and they pack it in. So I think there's a lot of volume that just kind of falls out. Never mind if we get this right, and we make e-commerce as streamlined as UX says it can be, I think it will just be terrific for the industry.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Obviously, a lot of chefs in the kitchen here. You've got networks, issuers, retailers all having to work together to build this platform. Do you think there's buy-in from all parties, and like how quickly does this evolve?

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

A

You know, there's always – anytime there's change, there's belly-aching, right, nobody's ever fully happy. But I think in general, everybody wants more transactions and more volume. And there's no question in my mind that this will yield more transactions and more volume. And every boat rises if that's the case. And I think that that's what people want to have happen. And therefore I do think that this will take some time, we're still working through the final specifications. But I think once we get there, I think it will fairly quickly take off but it won't take off in 2019. We'll start to plant the seeds in 2019. I think it starts to take off in 2020.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, moving on to processing capabilities. Obviously, one of the big initiatives that you guys have had for some time is processing 100% of your transactions to the best you can. You're doing that now in Argentina. How significant is that opportunity still, what are the key markets where you don't have a significant processing capability and you want to do it?

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

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So just to set the baseline of where we are. So we process all cross-border around the world. So what we're really talking about is domestic processing. We process about three out of every four transactions domestically. We're slightly below, I think we're 73.5%, 74% of all domestic transactions. We have a lot to offer if somebody processes with us. You know, you process with us, you get our fraud detection tools, you get our risk tools, you get our loyalty tools, you get the underpinning of any KYC AML we can help with, you get the underpinning of our security.

I look at Europe where we now have two dynamics going on. One, we now have completed the migration of the legacy system over to VisaNet, and so that starts an opportunity because now there's a new processing opportunity that's got a lot of great bells and whistles on it that we can talk to people about. And then, in Europe you've got the regulation that's mandating a split between scheme and processing. So we think that there are going to be some opportunities in Europe over time.

We talked about Argentina. We recently have in the last little bit here picked up processing in Brazil, we've picked up processing in Japan, we've picked up processing in Australia, and we've picked up some processing in the UK. These things don't happen overnight. There are obstacles that work against us in some countries including this one. There's a sense of nationalism at greater levels than there perhaps has been in the past. There's some regulation in some countries like Russia, like China where we could try as we might, the regulation requires local processing. And then, some of our clients around the world are owners or in a consortium of owners who have a local processing solution. And therefore, even some of them who think our mousetrap is better, it's hard for them to jump out of that mousetrap they're in that they have an ownership position in. So this isn't something where we're going to go from three out of four to four out of four overnight, in fact we'll never get to four out of four unless there's some miraculous change in regulation. But we're looking to pick up half a point here, a point here where we can over time.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

On nationalism you mentioned it, I mean how are you working within this backdrop of this broad sort of nationalism sort of view?

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

A

Well I think you and I have talked about this in the past. This is a, the payments business – we can talk about all the global trends, et cetera – it's a local business. And I've always believed that and most of my time in the business has been as an issuer. And now even on the network side, I'd say it's a local business. And you've got to have people on the ground in markets who understand the traditions and the regulations and know the people. We will customize our messages. Almost anywhere I go in the world, I always say to our country managers, if I'm coming to a market, I work for you for the next two days, tell me what you want me to do. And invariably what they want me to do is meet with the central banker, sometimes the foreign minister of the country, they want me to meet our largest clients. So most of my time in these markets is spent externally versus internally. If anything, I try to push back and make sure I can at least meet the people on the ground.

But I think we have to approach them in a customized way. We have to make sure that they understand what we can bring to the party. We have to make sure that governments and central bankers understand that if they if they cloister themselves with just a singular solution for a market, they're going to be left behind because they the

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global companies that have the capabilities and the wherewithal to invest and innovate won't come into those markets at the same level that they might otherwise do. And the reality is competition is a very positive thing. And so I never try to convince somebody that they shouldn't have a national answer to something. What I do try to convince them is that the playing field needs to be even. And by having an even playing field, you'll attract players to come in and, therefore, you'll have a good level of competition which will create a good amount of innovation and it will be good for the consumers and the merchants in the country.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

That's fair. So I'm going to stop right here, see if the audience has questions. Please raise your hand if you have a question. One in the back there, there's one up front here.

Q

When China joined WTO and made some promises. But the trend didn't fulfill the promise and Visa and MasterCard sued UnionPay and won. But China still didn't do what the WTO did. And even if in the latest round of negotiation, the [indiscernible] (34:25) is able to get Chinese concession, by now, 18 years later, China payment has moved from person-to-person face-to-face to a mobile basis. And so WeChat and Alipay dominate. My question is do you think now, even if China opens up its payment system, is there still growth potential for Visa in this mostly mobile-to-mobile consumer space?

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

A

So that was a good recap of the last 18 years, and quite accurate. Every time I go to China, I'll be there in three weeks, I actually set out time in my schedule to go out and shop or observe shopping. And the reality is there's been tremendous of change and you can shop in China for a day and you won't see a credit card. So to answer your question, a couple things. Number one, we've had a group and continue to have a group focused on what we would do and how we would go to market if China opens up. So we've been thinking about it. We actually have dedicated people focused on it in Beijing and in Shanghai. So we're giving it thought on a proactive basis. We're not waiting, well we are waiting to get a domestic license. But we're not waiting to the time we got one to say, okay, now what would we do.

Clearly, we would be going into a market behind, arguably with a hand tied behind our back. I don't think that we can be foolhardy enough to think that we can come to market with some mass market product that will be attractive to all 1.4 billion Chinese on day one. My view of this would be that we would take a very segmented approach, working with our 55 bank partners in China to potentially go for certain segments or potentially certain cities with a more targeted type of approach and try to win volume in a smart staged fashion as opposed to try to tackle the entire country. That said, one of the reasons why I continue to focus on this and I was in Washington the last two days and I met with Ambassador Lighthizer, I met with Secretary Mnuchin and I met with Secretary Ross is that it's a big market. It's a exciting market. It's an important market. And while we've had this history that you describe, we're as excited as ever of trying to break into China, have our application approved, but we're going to go in with our eyes wide open. And we know we're going to be behind and we're going to have to be smart about how we approach it and smart about how we invest in the market.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Question there.

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Q

About a decade ago, there was an attempt to create a pan-European retail payment network called the Euro Alliance of Payment Schemes. The idea was to create interoperability between the national payment systems. Recently, the ECB has been talking up using its instant payment scheme to tie together existing retail payment networks in Western Europe. Is that a pipe dream?

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

A

I don't know if it's a pipe dream. There's a lot of discussion in the EU about real time payments. I was in Brussels a couple weeks ago and had discussion with a number of the European commissioners. I think that Europe tends to be a place where there is a lot of difference market-by-market. Even for countries that are right next to each other, their payments businesses are very, very different. And real time payments, one of the things I think that I worry about with all this discussion on real time payments is that the focus tends to be on one element, which is speed. How quickly can I get money from me to Sanjay? And I think there's much more to it than speed, because if I quickly give money to Sanjay, it's fairly irrevocable. He's now got it.

And when you think about things like purchasing items where you want to make sure you've got the right size or the right color or whatever you brought is working, et cetera. The element of having some form of rules that deal with chargeback and disputes, the idea that you still want to make sure that, if I'm sending money to Sanjay, it's actually really Sanjay. So some fraud types of tools, risk type of tools, et cetera. So I think increasingly I look at real-time payment systems as an opportunity for Visa, because I think even where there's real-time payment systems where there might be rails that are not our rails, I think we have the ability to bring a set of value-added services in terms of a stack on top of that. And so bottom line is, anybody who wants to do anything in payments whether on our rails or on a different set of rails, we're game and are talking to many of them to figure out how we and they can play together in the ecosystem.

Q

Hi, Al. Drilling down further into the B2B opportunity, as we unpack the heterogeneity there, different niches like travel and procurement could likely monetize at the standard 10bip-ish type of level. Can you help us understand the portfolio of non-travel, non-procurement unit economics from a basis point perspective today? Where is that portfolio? How should we think about that and how does that trend in your view over time?

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

A

The interesting thing is I think once you move past travel and procurement, a lot of these other verticals are very in early, are in nascent stages. So I think it's a little bit early to determine how and what segments are going to really start to take off and what will be the economics of it. And a lot of it comes down to what additional value are you able to bring to the table for which you could get paid above and beyond just being an alternative for payment alone. So honestly, I think it's a little early to really know.

Q

[indiscernible] (41:24)

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

A

Yeah. But the $1 trillion we have today, remember I talked about the more traditional space that's addressable today and the space where we've got to have a lot of fishing rods in the water. You know a lot of that volume today tends to be small business cards, middle market cards and then travel cards and P cards. And that's pretty much what that volume is. And the amount of that amount of that trillion that's above and beyond that is pretty small.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Any other questions in the audience? I've got one on contactless, because obviously that's a big push you're making in the U.S. market. Could you talk about the motivations there and why you think it's important?

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

A

Well, contactless has just exploded around the world. This is another moment of truth element that I'm talking about, where again, I think if we can get this right and what we're seeing around the rest of the world is it makes traditional payment credentials very, very sticky. We're now at a point where 40% of the transactions around the world, ex the United States are tap-and-pay. The United States is behind for a couple reasons, and way behind. I meant there is no other market like it at its size that's where it is. It's way behind because we're slow adapters to EMV. And it's way behind because of how fragmented the issuing and acquiring business is in the United States.

In many of the markets around the world, where tap-and-pay has taken off, the industry's fairly consolidated. So if there's four or five players and two of them start to emerge and push on tap-and-pay, guess what, everybody else follows very, very quickly. Tap-and-pay similar to the comments I made about Secure Remote Commerce in the e-comm space, again is a great application for the merchant. The sales person doesn't even have to take the card, it's a fast, easy transaction. It's a fast easy transaction for the consumer. And what we know from our experience in multiple markets is getting to the first 10% is the hardest part of it, then it accelerates. So in Australia, it took two years to go from 0% to 7% tap-and-pay in 24 months. The next 24 months it went from 7% to 50%. And what we see actually is once you get past 20% or 25%, you could add three, four as many as five percentage points a month. It just starts to take off.

In the United States now, the vast majority of top merchants and terminals are plumbed for Tap-and-pay, they're ready to go. It's one of the few markets where the merchant side, the acquiring side, the terminal side has run ahead of the issuer side. In many other markets, the issuers were out first, and then the terminals and merchants and acquirers had to come along.

I think this year, there'll be at least 100 million tap-and-pay cards issued by the big U.S. banks in the United States. I think they're all perched to move in this direction. I think they all see the value of it and I think we'll start to see it take off as these cards get into market, principally because the ecosystem is plumbed to take them. I mean if you had a contactless card today, you could use it in a vast majority of your spending incidences.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Q

That's great. And then as far as other geographies after U.S. like are there other major geographies where you think it's relevant to make the change?

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

A

Well, I would say that it's in very early stages. But the other obvious place over time is India where it's just kind of beginning. But if you look at Canada, the UK, Russia, Poland now is 100% tap-and-pay. Many of the Danish countries are there. So many of the countries throughout Europe. The places where it's going to still be slow are those two big mega economies that are still very heavy cash, Germany and Japan, although with the lead up to the 2020 Olympics late July or August of 2020, Prime Minister Abe is trying to use the Olympics as a bit of a platform for driving more digital electronic payment and we're working closely with the government and the big banks in Japan on that and putting a bunch of money and effort behind it. So Japan may accelerate a bit more because of using this platform of the Olympics as a stimulus to try to drive that. But those would be the places, but it's fairly prevalent in many of the developed countries around the world already.

Sanjay Sakhrani
Analyst, Keefe, Bruyette & Woods, Inc.

Okay. We're going to have stop right there.

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