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Visa, Inc. (V)

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MANAGEMENT DISCUSSION SECTION

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

All right. We'll go ahead and get started here; make sure we try to keep everybody on time. I'm James Faucette. I'm one of the senior analysts here at Morgan Stanley. And before I formally introduce Vasant, I have a quick disclosure to read. Please note that all important disclosures, including personal holdings disclosures and Morgan Stanley disclosures, appear on the Morgan Stanley public website at morganstanley.com/researchdisclosures or at the registration desk.

Vasant, do you have any disclosures?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

No.

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QUESTION AND ANSWER SECTION

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Okay. So, this morning we're very pleased, today, to have the CFO of what many of you have heard me affectionately call the best business in the world, Visa. We have Vasant Prabhu. Thank you very much for being here.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Thank you for having me.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

And talking about being on time, it's actually amazing that he's here. He had to endure quite the drive to get here. We didn't think he was going to make it, but then suddenly he was early. So, we thank you very much for your effort to being here.

I want to talk to you just very high level and start with just kind of how you think about the drivers of Visa's business. Visa has seen really strong top line growth the last couple of years and, really, for an extended period of time, in part due to the shift from cash to card, plus the integration of Visa Europe as you'd made that acquisition. Looking out over the next few years, what do you think are the key drivers of growth and how would you prioritize those?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Sure. As you know, the big engine of our growth and the core of our business for a long time has been the digitization of cash; started out 60 years ago, and it continues. And you might think after 60 years there is less to do, but the good news is we have continued to penetrate cash. And in the last few years, for example, our volumes have grown twice as fast as personal consumption expenditure, implying that we have continued to digitize cash. But cash today is $17 trillion around the world and it was $12 trillion five years ago, and the reason is that economies are growing, especially emerging market economies.

The other thing sometimes people wonder is, is there more opportunity in the so-called developed markets where we've been in business for a long time? If you take the U.S., we're at 60% or 70% penetration of cash, but there are parts of the world that are at 90% and we know that you can get there. And in the U.S., there's still $3 trillion in cash that is still left to digitize. In the UK, there's $1 trillion. And then, you go to the emerging markets and you've got penetration levels that are in the low-single digits. So that opportunity remains significant, still.

And as you can see, it has allowed us to grow at twice the rate of, let's call, it nominal GDP growth. And it has never been easier to digitize cash than it is today because of technology. So if you look at a couple of things going on in the developed world, you have the ability to penetrate smaller and smaller merchants with better and better devices for the face to face, as you've seen Square and others do.

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E-commerce is a growth engine just about everywhere and e-commerce is growing, still, at an extraordinary rate, as you know, and we're nowhere near a slowdown in the growth of e-commerce. That is a secular trend that goes on for a long time. And in an e-commerce context, cash is not an option.

You get beyond that when you do things like contactless and take friction out of a face to face transaction. It causes people to use digitized forms of payments even more, pushes us deeper and deeper into smaller transactions. You go to emerging markets, you've got the traditional opportunity of building acceptance, building the habit of using cards, new forms of acceptance. Every smart device is a point of acceptance or a way to pay. So, as you've had proliferation of smart devices, as you know, that is essentially a proliferation of opportunities to both accept payments or make payments.

So when you put it all together, that opportunity to digitize cash is not only large, but the pace at which we can do that and the ease with which we can do that has only gotten better. So in some ways, we're in a golden age to be able to do that. But then you can go beyond the – what I would call the traditional business that we've built our enterprise today on, which is the C2B – consumer to business payment, C2B, and that's the bulk of our business today. But what's most exciting is these new payment flows, and you'll hear us talk a lot more about that. We've certainly talked to you a fair amount about Visa Direct.

Now, Visa Direct is not a product. Visa Direct is a capability. And what Visa Direct does is, fundamentally, two things that are revolutionary. Number one, for our entire history until about three or four years ago, cash only flowed one way – money only flowed one way in our network. It flowed from you to a merchant. Now, it can go both ways. It can come – it can go out of your account or into your account through Visa Direct. And not only that, we have 3 billion digital credentials or payment credentials at one end, and we have almost 60 million merchants at the other end. And now, every node in this network can move money between another node. So, it is no longer, you know, here we are the network moving money from, let's say, consumers [indiscernible] (5:47) to merchants; we can move money between consumers. So every node can move money around.

So that opens up a whole range of possibilities. As you know, there's B2B; a big opportunity, still growing. There's B2C, which is a whole range of use cases, which is disbursement, all the way from payroll to insurance payments, bill payments et cetera. You can go on and on. And then, of course, there's B2B; and B2B, of course, is a very large opportunity. It's quite complicated. It will play out over a long period of time. So you add in the new payment flows, which are just now kicking in, and as you look ahead to the 5-year to 10-year timeframe and beyond, those will become an even more significant driver of our growth. So that's why, you know, we feel like the secular growth opportunity in this business remains very attractive.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

So Vasant, you – I want to – so you talked a lot about [indiscernible] (6:43) and that's why I wanted to open there, is that you not only have geographic and secular opportunities, but there are also new technologies, if you will, or flows, as you characterize the opportunity. So I want to pick apart some of those, and starting with geographically.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Right.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

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So Visa Europe has been – the acquisition of Visa Europe and its integration has been a nice source of upside for you since it was bought a couple of years ago, and you've come in ahead of your accretion targets. Where are the opportunities in Visa Europe going forward? How do we think about things like share gains, further digitization of payments within Europe? Europe's an interesting place because, as you said, there are some countries that are approaching 90% digital within the European region and there are others that are far, far behind that...

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Exactly.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

...some as low as high teens. So how should we think about Europe and what are the things that we should be tracking there?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

We remain very excited about Europe. And as you pointed out, Europe is a continent and Europe is not homogenous. You can go to the Nordics and see 90% cash penetration, or you can go to Southern Europe or Eastern Europe and see cash penetration in the low 30s or even lower. So you've got the whole range of opportunity. Acceptance levels are also very high in certain parts of Europe, very low in other parts of Europe.

Culturally, even in a very advanced economy like Germany, for historical reasons, credit is very underdeveloped. And honestly, the use of any digital form of payment is underdeveloped. Cash penetration in Germany is surprisingly low for the sophistication of the economy. So, there's the traditional opportunity in Europe to build acceptance in many parts of Europe, to build the credit habit, to build the electronic payment habit, digital payment habit; clearly, e-commerce is helping. So there's more opportunity of that sort in Europe than you would think, given most people think of Europe as one of the developed or advanced economies.

You go past that and you look at our specific business, it used to be an association until we bought it. And as an association, Visa Europe developed its business more in the context of who the members of the association were. So we are very strong, for example, in the UK and France; but, uncharacteristically for Visa, where we tend to have market leading positions almost everywhere, there are parts of Europe we're not market leaders. It's a historical fact. There is no reason why it exists, other than the original ownership structure caused Visa Europe not to focus on those places. So there are definitely opportunities that we normally don't have in other parts of the world to build our position to levels that we normally achieve elsewhere. So there is [indiscernible] (9:35) opportunity.

Going beyond that, in credit in particular was an area that Visa Europe as an association didn't do much on for a variety of reasons, some having to do with interchange and not wanting to raise interchange in certain markets. Now that interchange is regulated, that's become not a competitive factor. So there's opportunity in credit in a lot of parts of Europe.

All this will play out over time. As you know, incumbency is a big advantage in our business. Accounts don't move around that much. You have to have renewal cycles come up. This will not all happen overnight. This will all play out over time.

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Then you move to sort of the new areas. There's a lot going on in Europe that we're very excited about around PSD2, around what's going on with fintechs. Now that we have an integrated technology platform, we can bring a much broader range of capabilities to our clients in Europe, more advanced risk services, more advanced authentication services, all of which becomes extremely important in a PSD2 world.

We think we can benefit from a PSD2 world. We're not – we're rail agnostic. We are happy to use other rails if they make sense, but we can bring to those capabilities that we have that those rails don't have, whether that's secure authentication, more connectivity, whether it's the value-added services we can provide, like risk services, loyalty solutions, and so on.

And then, there's a big B2B opportunity in Europe. Certainly, fintechs are making a lot of headway in Europe. That was an area that Visa Europe probably didn't do as much on. We're definitely catching up and making a lot of headway with them. So when you put it all together, I think the European opportunity remains a very attractive one and it will go on for a while.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

So as per usual, you put a lot of information into your last minute or so of commentary, so I want to touch on three different things that you hit on. First, you mentioned that interchange rates are regulated in Europe and a lot of times what we see in different markets around the world, including the U.S., is that at least part of interchange is used to create incentives to promote people and get them to use things like credit et cetera, and that helps increase or accelerate the adoption of electronic over cash. In Europe, it seems like that's a little bit of a limitation or it's almost a chicken and the egg; it's like there isn't enough interchange to create the incentive structure, so the shift is slower. What are the – like how should we think about what the likely pace of shift is going to be in some of those markets, especially that are less developed electronically?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

As you can see, I mean, there are other tools you can use and they have used them in Europe. Best tool you can use is make the experience of payment easy.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

And contactless has shown us that that can happen. The reason we're so excited about contactless is that we see that – you know, our view is that it's probably the most frictionless way of paying we have come up with as an industry, in the face-to-face context. And unfortunately, if you live in the U.S., you've not had the benefit of it. If you don't live here – you lived in Australia or the UK, there you've been using it and you come to the U.S., if you meet anyone who – you know, who travels here from London, they will complain a lot because it is such an unpleasant experience here compared to what it is there.

And what contactless does is, without any incentives, the reason people use cards now in the UK in the face-to-face context, which is really where you're talking about...

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James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

...because e-commerce you have no choice...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, right.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

...is because it is so easy. So what we find is that there's a jump in transactions. There's smaller and smaller transactions that people are using cards for. It becomes, actually, the better way to pay than cash for purely convenience reasons. And that's an example of how, without any incentives, you can have substantial growth in cash penetration; you go beyond that to other kinds of frictionless forms of payment that are either app-based or device based and so on.

And so, those kinds of things have made a big difference. Acceptance is easily – one of the most important things you can do is build acceptance. Once people are comfortable that they can use digital form of payments most places, it just becomes a habit. So there's no question that financial incentives help, but in the absence of that, there's definitely a lot of other tools you can use.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

And then, share gains, you talked about the opportunity for share gains. You mentioned that there are some parts of Europe just because of historical reasons that...

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

...Visa is not the leader and you're underrepresented. Can you help us understand kind of like what that process of share gains can look like, and make sure that we – at least, I understand that as you've gone through the Visa Europe integration that most of the renewals with the existing banks and issuers have been redone. And so, now we go into a period where you shouldn't have as many renewals on your part, but there will be renewals from other – for other networks et cetera in their relationship. Is that your best opportunity for share gains or how does the share gain opportunity play out in Europe?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

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Yeah. By definition, for the first couple of years our focus had to be on defending what we had. And as you said, that did take up the first couple of years, as well as integrating the platforms and so on. So clearly, now, we're freer to go and look at opportunities outside our existing base of business. And I think the opportunity falls into two categories. One category is what I would call the traditional business, where we are competing for what looks like the business we have, traditional credit, traditional debit; and there it's a function of the power of our brand, the capabilities we can offer, the relationships we're able to build, and then clearly, financial considerations are always important.

Our goal is to do it in a way that is not disruptive to markets; that is not – that hurts all players. It's also not possible to do until renewal cycles come up, because these are all long-term contracts. And there will be situations where some you're able to move and some you're not, because incumbency, as I said earlier, is a benefit to us and our competition.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Sure.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

The newer opportunities, there's a lot of new players in Europe and it's quite exciting. There's probably more innovation going on in Europe today as it relates to cash digitization type players and people coming up with new models in Europe than they are in the U.S.; so I think more going on in new kinds of financial institutions, and new kinds of cards that can be used for various purposes. And these are all people that are taking share from, let's say, the traditional players, and we have opportunities to work with them.

Certainly, not being owners of Visa Europe – it was an area that Visa Europe didn't really focus on. We've done quite a few deals, recently, with many of the newer players. You've heard about some of them, Revolut, Solaris, a bunch of them, but that's just one category. There's a whole range of them. So I think there's an opportunity to grow with the new people and that will result in share shifts over time.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

So – and then, one thing related to Europe – and this is actually going to be more of a global question, but I think there are some examples in Europe that I'd like touch on, is PSD2. We can spend hours dissecting like the implications, the impact. As you said, it's in a lot of ways decided – it's intended to help foment a lot of the work that's going on in fintech in Europe.

But more generally, one of the things that I worry a lot about for Visa as a potential risk is what seems to be, in some places, a rising, almost, sense of national preference for domestic schemes, and – or at least, concerned that domestic schemes be viable in the overall context of things and of what's available; and we've seen this in different markets, to different degrees, all around the world.

So what are the policies that you're watching, and what kinds of policies do you find that you can navigate really well versus what are the ones that make it really hard to operate, and how do you factor that into your planning?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

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Well, first of all, nationalism is not new. We've dealt with it for our entire history. The only reason I think people talk about it more now is because you've seen some of that in, let's call them, the emerging markets. But we saw that in the developed markets, especially in Europe, a long time ago. If you look at many European countries, they all have very well-developed domestic schemes. In many European countries, the domestic scheme was the one that did all the processing, and the schemes that are not domestic were not allowed to. So, there was often a requirement to co-badge with domestic schemes.

So it's not new to us. We've dealt with it everywhere. And it's not unreasonable for governments to want to have some say in how money moves around in their economy. So I think we are pretty aligned with the view that governments will be interested and have a role to play. This can take many forms, right. And its form that's most hurtful to us is when we are effectively excluded from a country. There is one large country that has done that for a long time, but by and large that is not common.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

That is the exception. I would say it's one country.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

One country. Right. Right.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Right. And hopefully that changes. So that's not good. But once you get past that, what you have is varying degrees. You could have governments that tilt the playing field in favor of domestic players. And to some degree, it's understandable because the perception is that they have a disadvantage there. They're new. They're fledgling and they need some help, and we can deal with that. In other cases, they want domestic schemes who compete with us relatively on an even playing field. That's fine.

I mean, that is another competitor and we have to prove our value; and they prove their value. And frankly, having more people to grow a market is always a good thing. And then, the government gets interested in digitizing cash. That is never bad, because then the government gets behind building acceptance and gets behind building card usage and encouraging people to use digital forms of payment and so on.

Then, you get to things like regulation of interchange, and we've dealt with that lots of places. I think we've figured out ways to deal with that. Our whole system has come up with ways to deal with that and still be viable.

And then, you get to data localization and things like that. That's more of a cost issue. We have to put more on the ground in the country. So I would say that almost all forms of regulation that we see, we've dealt with for a long time. We have achieved the results we've had in the context of most of that regulation. The only one we don't like is where they just shut us out.

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James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Right. And I want to take a breath here and see if there are any questions in the audience before kind of I move on to the new opportunities, like B2B. So if you have a question, just raise your hand. We'll get you a microphone and – or if you have one, we can come back to you. There's one right here. While the microphone's coming – can you just raise your hand, again, so they can see who you are? Yeah, yeah, so they're bringing you a mic.

They'll be right there, so we'll let you ask a question.

Q

Thank you. You touched on it briefly, but what are the risks of disruption to your core business from some of these emerging fintech ventures and other technologies, please?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. I mean, I think people often confuse the sort of the swirl going on at what I call the nodes of the network, right. So there's a lot going on at the nodes of the network, and in my view, the nodes of the network are the points of acceptance and all the stuff going on there; and the other is sort of what might be going on, on the issuing side. And there's a fair amount going on. The business we're in, of course, is we're the network. So the kind of competition that would be disruptive to us is competition that would essentially bypass our network. And so, sometimes people confuse sort of, let's say – you take Square, sometimes people think Square is a competitor. No, Square is our best friend. I mean, we love Square.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

You guys were an early investor.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. We were an early investor in Square. We love Square because they're doing phenomenally innovative things to build acceptance. They're bringing more and more merchants into the system. On the other end, there are new digital financial institutions. In Europe, there are people coming up with ways where you can get a credit card within seconds on an app, right. I mean, within seconds you can be approved for a credit card and have a usable card. That's wonderful. I mean, they're taking the friction out of issuance of cards. They're a partner of ours.

So there's a lot of that going on, which is actually helping us a lot. A lot of the disruption that you see is incredibly helpful to us.

So then, you get to sort of what is the disruptive risk to the network itself? And really, the way we look at it is that we have a network that can add a lot of value to almost any kind of situation where people want to pay or be paid. It goes in most places. It's the most cost effective. It's the most secure. It's the most reliable. You can offer a whole range of value-added services on top of that to manage fraud, to have dispute resolution, to manage returns, all that.

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So it's probably the network that offers the most functionality and the least cost. So if you have a way to pay or be paid, even if it's a very new way, our job is to persuade you that you should just do it on our network and to co-opt you. And that's what we should be doing when we wake up in the morning till we sleep at night is, whoever has a new way to pay or be paid, we've got to be able to persuade them that ours is the best way to do it. Our network is the best network to ride.

And by and large, we have succeeded. If you look at when the payers came along, initially there was some anxiety about it. Now, all the payers ride on our networks and we're completely agnostic. I mean, we are the railroad; everybody can ride. We don't pick winners and losers. When P2P came along in the early days, P2P was not on our network. Today, probably the best way to do P2P is to put your debit credentials in. It's probably a safer way and a more sort of – it offers more functionality to be using your debit credentials to do P2P than any other way.

And then, we've gotten beyond that where we are willing to not just be focused on our rails; we will work with other rails to move money from any account to any account, counting on the fact that we can add more value than a set of rails that either don't have the reliability, don't have the fraud protection, don't have all the other value-added services we can provide. So also being flexible enough to be somewhat rail agnostic and network agnostic is also worthwhile to do.

So fundamentally, right now, there isn't any particular situation that is a disruptive threat that is making headway, because I think a lot of these people are our partners. They are not competitors. The wallets are our partners, because I think we can solve their problems.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC
Q

There's a question down in front. So while they're getting a microphone there, I mean, I think I want to ask you a question on – and dovetail this into B2B because a lot of times I give presentations on different things, like cryptocurrencies et cetera, and I always ask the audience what they think fraud rates are on the credit and debit networks, like Visa's. And most people overestimate the fraud rates by not just like a factor of two or three, but by a factor of 10-plus or more, sometimes 100 times what real fraud rates are.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.
A

Yeah.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC
Q

And the other thing that I ask people, and I won't do it here because I don't want to embarrass any of our clients, but most people today don't check their credit card statements. They don't because they develop so much confidence in the systems that you've developed. And to me, that's really telling and represents a nice opportunity in B2B, because if you think about the amount of money that is spent by companies and their accounting departments to reconcile and audit transactions, it seems like that's a really big opportunity for you to provide value to businesses; because today, like everybody wants to make sure that the transaction that's paid out matches what they paid in. But how do you think about that and what does that mean for the B2B opportunity?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.
A

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Yeah, and we should talk about that because our view is that there's a fair amount of simplistic talk going around on B2B and...

James E. Faucette
Analyst, Morgan Stanley & Co. LLC
Q

I'm probably partly to blame.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.
A

No, no, not you. We can point to others who could be blamed for it. Yeah, and we've tried to be sort of measured in our sort of response on B2B, so that expectations are not set that are unreasonable. And by the way, now there is a number to throw out; it's $100 trillion. Everybody says $100 trillion. We are careful not to throw out numbers.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC
Q

I've actually said $100 trillion.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.
A

So B2B, you know, the big difference between B2B and the core business we're in – the core business we're in, it's phenomenal because it is a lot of transactions, billions and billions of them that look exactly the same, right. So it's a lot of very homogenous transactions. They are consumer payments for goods and services purchased. You get to B2B and it is not homogenous.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC
Q

Right.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.
A

That's point number one that you have to sort of acknowledge, but you know, you don't have that kind of – hundreds of trillions – you know, tens of trillions of transactions that are, you know, dollars that are exactly homogenous. The way we break up B2B is, there's sort of the $20 trillion opportunity in B2B that we see as areas that we can add a lot of value to, that we have solutions for.

And we've only scratched the surface here. We have a trillion of that. Our competitors have half a trillion. And there's $20 trillion. So the first question is, let's go get the $20 trillion and that is achievable through solutions we have like things you know, you know, p-cards, T&E cards, corporate cards. Believe it or not, not enough has been done on that, yet. It is still a huge opportunity, especially outside the U.S.

Then, you get to the innovation called virtual cards, that came along sometime back, and there's a big opportunity there. We have solutions for that. We are making headway on that. We had, for various reasons, not been early on it, but now we've had good progress with WEX and [indiscernible] (29:47) and more to come. Then, there's an opportunity in B2B on the cross-border side. We've got B2B Connect that there's a lot of excitement around that's a distributed ledger-based technology that can do cross-border payments more securely and more reliably and

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faster than traditional ways of doing it. So there's a whole range of things here that we are clearly focused on that we can get paid for at levels that are attractive and that we have solutions for.

Then, you get to what I would call the rest of the $80 trillion that people are estimating. And then, you get very specific by accounts payable, accounts receivable, enterprise systems, different verticals that manage things differently. And then, you get into the solution is a package of a lot of things. You go to Coca-Cola and you can't just go to do them and say, I'll do your payables for you. No, you've got to go to them and provide a whole solution that may include, give me your payables department, right. I will find a way to interface into your enterprise system. Give me all your people; I'll take it over.

Now, that's where you have to work with partners, and we have partnerships. We have partnerships with Bottomline on one front, with Billtrust on another front. Essentially, there are intermediaries coming in who are creating these solutions, and we can be part of the solution or we can be an important element of making it all work.

This one will take some time to develop. It's all experimentation, right now. There's a lot of press releases out there, but if you look hard and ask people how much are you really getting from it today, it's early days, right. And we are experimenting, like everybody else. We think it's a great opportunity in the long run. It's not something that's here today.

The here today part is the $20 trillion. We are happy with how that's going. We have about $1 trillion of that, growing mid-teens and we want to like – we'd like to see it grow faster than that. We're already the biggest in that space; twice as big as our nearest competitor. And then, we are playing the broader space to try and figure out what that's going to look like.

And then, the bigger issue there is what is our value-added? We add a lot of value, as you know, in the C2B space because we allow two people to transact that don't know each other. You walk into a store. You buy something, or you go to a website and you buy something. The merchant has no clue who you are, and yet they let you buy something because we stand behind it. That creates a lot of value for both sides and we get paid for it. We have to find sort of the value proposition, especially as you get into large enterprise space.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Yes.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

You're now dealing with two people who do business with each other all the time that have financial terms that are agreed. Urgency is not important. You're competing with an alternate form of payment that has a certain price attached to it, so you have to be competitive with that or add certain value on top of that. So it is complicated.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

That's good. We had a question here in front.

Q

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Sorry. I have an esoteric question and a follow-up which goes with that. My wife went to a local restaurant in New York and she handed him the $20 bill, and he gave it back to her and he said, we don't take cash. She had to use her credit card. I'm just curious, do you see that becoming, number one, more widespread? And number two, could we ever get to the point where the Government simply outlaws cash?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah, I mean...

Q

And I have a follow-up question.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Yeah. No, it's a good question, and we're nowhere near there in the U.S. But some countries are there; Sweden is. And if you Google, you know, this for Sweden, you will see there's a big debate going on in the country right now; because this concept of not accepting cash is very widespread in Sweden. There are lots of places in Sweden you can go to where they won't accept cash.

To some degree, it's happening in China. If you go to China today, they will only accept Alipay pay and those forms of payment, and not accept cash in many cases. And it doesn't become a real issue until you get closer to 90% penetration and so on, because otherwise merchants will upset consumers if they don't accept cash; because merchants like to accept all forms of payment.

I don't know whether the governments will outlaw cash at any point in time. But there will be a conversation that happens as we get closer to those levels and there will be places, like Sweden, that get to be the first ones to decide what to do. Clearly, governments in many parts of the world have decided that they need less cash, because cash, as you know, is a source of a lot of bad stuff, like lots of illegal activity, lots of corrupt activity. Governments want cash to come down. They don't have to face the decision of outlawing cash for quite a while now. It'll have to be around 90% penetration when it becomes a real issue, probably.

Q

Well, the follow-up, as you pointed out, there are a lot of either online transactions or peer to peer transactions or transactions which are closed in the store that are paid for by a device or something like that. What's your – your share of the national payments market is about – the plastic market is about 70%, I believe...

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

In the U.S.

Q

Yes, in the U.S. That's what I said.

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Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Well, all forms of digital payment, not just Visa.

Q

Yes; overall forms of digital payment. Do you find any material difference with respect to transactions that are online or transactions that are peer-to-peer or transactions that are done using devices at a store as opposed to a plastic card?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

If you mean difference in terms of the propensity to use Visa, our share of market – yeah, we shared this data with you. When a transaction moves from being face-to-face to being an e-commerce transaction, our propensity to get the transaction goes up 2x because the options are more limited and we have a much higher share of a e-commerce transaction than we have of face-to-face transactions, because there's just more alternatives available face-to-face.

The game we have to play in an e-commerce transaction, whether it is B2B or purchase of a good or a service, is not that different than the game we played in the physical space where we talked about being top of wallet. So you make a conscious choice when you are using – making a purchase at a website or on your mobile device or through a wallet. You make a conscious choice to pick a particular card to make that payment; much as when you pay at a physical point of sale, you open your wallet and pick a card. So the fight for being top of wallet is really the same in both spaces, and that's the battle we have to win. And that's a combination of our brand, which scores massively better than alternatives, and all the other things we can do to give you an incentive to use our card.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Got it. So we have – I think there was a question [indiscernible] (37:18).

Q

So the question is, when you think about face-to-face payments, which contactless reduces the friction for, is there a similar analogy on e-commerce?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Absolutely.

Q

Eventually, are we going to get to a completely frictionless experience?

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Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Absolutely. I think if you could fault our industry, we deserve to be faulted for, after all these years, not coming up with a more frictionless payment experience in the e-commerce space. It is a mistake we made, when we should have learned from the physical point of sale that two things are really important. Give merchants a simple way to connect, meaning they connect once and they can accept all forms of payment; and give consumers something that simply, just like a physical point of sale, is one device that accepts all forms of payment. So that's why this Secure Remote Commerce, SRC, concept of a single button is so important. What this will do, essentially, is replicate in the e-commerce space the payment experience you have at the physical point of sale where, for a merchant, it's easy because they do it once and they can connect to all networks. And they have a single button, which if you either slide or press, essentially gives you whatever choice you want to make on which card you want to pick from your wallet.

You then tie into it authentication technologies, like 3DS 2.0, like other forms of authentication, and then you layer onto it tokenization and other forms of security, and we could literally be at a point where, you know, the e-commerce purchase – today you've got one click in some merchants, right, and it's very easy. That's because it's card-on-file. And we're making it more secure by tokenizing cards-on-file and all that.

Hopefully, with the single button you're getting to any e-commerce transactions looking exactly like that. It's one click anywhere you go. And we think that is probably the point where it gets most frictionless, even to the point where you won't need to do anything for authentication because we just do it behind the scenes.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

So lightning round; last 30 seconds. What are the two things that you – your two biggest challenges you perceive for Visa over the next two to three years?

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

A

Well, it's only 30 seconds. Well, as always, you know, when you have good results, you can become complacent. I would argue we are not; we're quite paranoid. The second is being willing to take risks and move fast. It's an exciting time in our industry. It is a time of change. It creates big opportunities and big risks, and I think not being complacent, moving fast and being willing to try things and fail, I think, is really what becomes critical.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Vasant, fantastic to have you here representing, as I say, the best business in the world. Thank you very much. I appreciate it.

Vasant M. Prabhu
Chief Financial Officer & Executive Vice President, Visa, Inc.

Thank you.

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