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Visa, Inc. (V)

Wolfe Research FinTech Forum

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CORPORATE PARTICIPANTS

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

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Vasant, I really just want to thank you very much for being with us here.

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

No. Great to be here. Thanks for having us.

QUESTION AND ANSWER SECTION

Q

So, as I was saying to a lot of folks in the room. It's impressive. The interest and the demand for this space grows every year. And in fact, registration of this conference is up over – well over 500 people and kind of shows you the incremental demand for companies like yourselves given the opportunity for growth. Before we go into the deep dive on what's going to allow Visa to really keep growing in that way, maybe you could just give us a quick recap of last quarter's trends and your guidance. And just helps level set the room of where we stand?

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

A

Sure. Yeah. I'll just go through what we reported couple of months ago. So, we had a strong growth – revenue growth of 13%. So, we were happy to have low-teens growth. In general, payments volume growth was strong around the world. Almost every region was a little bit stronger than the prior quarter. A little bit less in the U.S. and I'll get to that in a minute. It was about; I believe about 10% growth in the U.S. in total. And roughly, I think it was about 8% and 12%, 12% on debit, 8% on credit, something in that range.

It was 1 point lower than the prior quarter on all those factors. Debit growth was pretty strong across the board. In January it was a little slower. I believe the numbers were 10% for January, but it was 11% in the prior quarter. So, debit was 13% in the prior quarter, 12% in January.

Small slowdown in the U.S. but that was all linked to our Interlink business, which doesn't have a lot of revenue impact and you can have changes within a few weeks and so on. Where saw change was the credit business, was a little slower in the fourth quarter. We saw some slowdown in the last two weeks of December, but we saw a

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jump back up in January. So, January was back at about 8%, the quarter itself was at about 9%, some of it is we've had one client Cabela's that's been converted and that impact will show up increasingly, it started last quarter and it will continue on.

So, net-net, by and large good growth in the U.S. In terms of the cross-border business, as we told you the growth rate had slowed from about a 10% to about a 7% level. And then we had a further slowdown in January. We highlighted the fact that there was a slowdown in December that continued into January. There are few things that don't have much revenue impact in there. One – it has to do with what happens intra-Europe. People move there acquiring around in Europe. It affects our reported cross-border volumes for intra-Europe transactions, but not much revenue impact. We do have cryptocurrency having an impact, which will now play out this quarter. So, that explains some of it.

We did highlight the fact that we had seen a slowdown in December that was continuing into January, and we gave you some facts on that. And just to reiterate, the way we saw it was that, in general, as I said a strong quarter, and we typically are very factual in our quarterly calls. If the trend is better, obviously we tell you it's better, and then you say we're being bullish. In this case, the trend, especially in one dimension cross-border was a little weaker. And we wanted to make sure that you are aware of that, it was very recent. And some of you thought we were being bearish or cautious, when in fact we were just being factual. And we try to give you as many facts as we could. It is too early to call a trend to say that it was either going to improve or get worse or whatever, so we just gave you the facts. And obviously we'll update you as time goes by in another month or so when we report our earnings.

As it relates to the cross-border trend itself, there are macro factors that could be a factor. We highlighted a few at that time that were uncertain and many of them are being sorted out. Exchange rates are always a factor. We said that strength of the dollar certainly doesn't help the cross-border business.

But overall, as you said, what we do is, every quarter we look at what the facts we have and make a judgment. And we felt that there was no need to change our outlook for the year. We weren't trying to set the stage for anything, we were just stating the facts as they were and give you a sense of the fact that as far as we could see the outlook we gave you which is always a range was still valid.

And we did tell you that in the absence of better information we were going to assume that, that cross-border trend continued through the quarter or the second quarter. So, that's a quick summary I think of what we told you.

Q

One of the nuances we saw was that volume growth, it was down a bit or decelerated a bit, but transactions held up pretty well. Was there something around mix or anything going on that you can call out?

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

A

No, I think, transaction's growth was quite good. And it was about 11%. There was no specific factor. Generally speaking, as contactless grows around the world, it is helping transactions growth. Contactless technology is a incredible reduction in friction. It is a clearly preferred way to pay. And as it expands around the world, it is definitely helping transaction's growth, more than it does that's called the payments volume growth, so that helps to some degree. Beyond that I wouldn't say there were any specific factors that explain transactions world holding up. In general, conditions are good.

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Q

Okay. So, the macro still seems strong.

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

A

Exactly.

Q

What about the rebate and incentive timing, in terms of cadence through the year. And then also just bigger picture, anything you're seeing in terms of the way the market is playing out on pricing or competition that's changing your view on versus maybe a year ago, two years ago on rebates/incentives.

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

A

We gave you our best sense of that. As you know, the whole idea of incentives in terms of providing an outlook, you make some judgments, right. You have to make some judgments. What you know is what's already been done. You're making judgments on the renewals that are coming up, you're making judgments on the terms on which they will be done, you're making judgments on whether you would have any wins. Renewal rates are extremely high. So, you can assume that most renewals will happen. You just don't know exactly the terms and the timing. You know occasionally you can have early renewals when you or the client decides that it's mutually beneficial to do that. And that could happen and it could be a surprise.

So, what we typically do is we give you our best sense at the start of the year. We give you a range, typically 100 basis point range. We then take a very hard look in the middle of the year to say now you know we've gone through half the year, visibility is greater, typically we sort of try and give you a more precise view, maybe narrow the range, that – if you look at our history, mid-year we tend to take another look at that and tell you what we think. So, we'll do that again I'm sure.

Q

Yeah. I mean on that note last year you did narrow there. I mean it ended up being at the low end, you did better than you expected I guess.

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

A

Yeah.

Q

And that was a source of upside that we've seen for a number of years – couple of years.

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

A

Couple of years. Yeah.

Q

And so, I just wonder if there's something – what were the nuances that led to being better than expected last year?

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

A

I don't think you should assume that we are deliberately in one direction or the other, right? In other words, last couple of years, yes we ended up being lower than we expected, which is great. We were happy about the outcome. Some of it was because there was a lot going on in Europe and we had the whole European business that we had to in many ways redo. And you had to make some adjustment – assumptions on the terms under which it would be done, same thing, assumptions around the timing.

And as you know, there were some delays in some cases. In some cases, the deals were better than we expected, and net-net we ended up where we did. So, I don't think you should, there was a very unusual set of things going on in the last two years around Europe, so Europe explained a lot of it. I don't think you should just assume that just because it happened, it'll happen again. I'm not saying it might not. I'm just saying you shouldn't just assume that the last two years is indicative of what you should always expect.

Q

So, there's been a lot of movement in FX in different – I mean is there anything that's changed in your low-double digit confidence for top line with – I think it was 100 basis points of FX impact expected, and I mean from what you previously thought in terms of – again FX – just macro related.

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

A

No. I think in general, we gave you our best sense at that time and once we talk again in another month or so, we'd have half the year under our belt. We gave you a clear idea as to sort of how we were coming up with our point of view on the second quarter. I think, just to reiterate we spent quite a bit of time in October last year giving you a feel for revenue growth cadence through this year. We wanted to make sure people understood that because of year-over-year comparisons, there would be some variability in the rate of growth from quarter-to-quarter. The second quarter was clearly going to be our lowest growth quarter. And we were delighted that the first quarter was better than we expected, at about 13%, given the some slowdown in the cross-border we said the second quarter we're just going to assume that continues. And I don't think there's much more we can add at this point.

Q

Okay.

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

A

And certainly, we'll give you a better sense again in a month.

Q

So, let me be clear, the cross-border that slowed down, you're expecting that to stay the way it was, which was a 2% growth rate. And I know there were factors that if you back out because they're unusual would have been more like 5% or 6%. Buy that you're expecting to persist through the fiscal second quarter, and then potentially get a little better?

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

A

No. I think I can – what I'll do is just stick to what we had said. We were quite clear that in the second quarter in the absence of better information we would assume that cross-border trend continues. As always, you look at the rest of the year and you make a bunch of judgments on how various variables could change. And our best judgment was what we told you.

Q

Okay. When we think about the deceleration, a lot of it was inbound to the U.S., right. I think you talked about that going negative even in the January weeks. What is the dynamic happening there that you think caused that? You mentioned FX, but anything else you're seeing?

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

A

No. I think, FX has, there is some corridors that matter a lot when you talk about the inbound U.S. business, the Canadian corridor is a big one for example, the European corridor is a big one, the Chinese corridor is a big one. The biggest factors typically are exchange rates and macro conditions. On the margin, was there some impact from some of the uncertainty at that point in time around the government shutdown? Hard to know.

On the margin, was there some impact from some of the events in Canada around the CFO, did that cause some impacts on travel to China? We don't know, it's hard to tell all these things, right? So, those corridors were impacted and time will tell whether those were transient impacts or whether they were changes in trend.

Q

You can't – I'd be remiss to not ask the question over the comparison between you and Mastercard's results on cross-border, just given there was a pretty widespread of – to give us somewhere around 17%, 18% growth versus 7% in the calendar fourth quarter. We've done a lot of research, we've actually explained away almost half of that for variables like you're re-platforming, which wasn't yours, but someone else, that was maybe couple hundred basis points, mix as well as some other variables like Maestro conversion at Mastercard, which we don't think really is what I would call fundamentally different. But we do wonder about some of the other differences. So, I just wonder if you can comment on what you see.

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

A

Sure. Yeah. Look, I think it's very hard from the outside to really understand, especially volume differences, right, because the revenue difference was much less than any volume difference, revenue growth were more in line on that line, and we can get into both if you like. But in terms of volume differences, yeah, there're some definitional differences like you said, using issuer currency or merchant currency to convert it to volumes, constant dollar volumes that has no revenue impact.

And what we found is the methodology we use, which we can argue what is better can cause anywhere between a 1 point to 2 point higher rate of growth for them versus us. It's closer to 2 point when the dollar is stronger. It's closer to 1 point when the dollar is a little weaker. So, it can be in that range.

Q

Just to explain, you account for where the issuer is based?

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

A

That's right. And that's where the cross-border activity is taking place and originating.

[indiscernible] (00:13:15)

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

A

We use what we think is more of an economic definition of the transaction, right. So, we both use different currencies for that and that has an impact, and it has no revenue impact.

The second definitional difference is as you said the Maestro conversions where – for whatever reason they don't report the Maestro volume, and there is a lot of intra-European volume on Maestro that is not reported, that gets reported once it's converted to a Mastercard.

Now, I'm told there's additional volume they indicate comes up when they convert. But if you just take the reported volume and it's hard for us to know from the outside, they should tell you that, that's probably 1 point, couple of points...

Q

Yeah. Well, I mean, we've estimated 250 basis points. They say the Maestro cards couldn't be used for cross-border. Now that they convert over to Mastercard, it really does add to that line item especially.

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

A

Yeah. But the intra-Europe transactions...

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Q

Right.

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

A

People traveling around Europe Maestro cards are usable for [ph] interface and (00:14:12) all that. So, as you said that, [ph] yes that (00:14:15) impact. The third one has no revenue impact on us and it may not impact them because of the way Visa Europe set things up years ago. We had a lot of acquirers in Europe setting themselves up in countries that were not the home country. They're rejiggering all that, which we don't really care about. They're entitled to do that. It converts it from a volume standpoint to a domestic transaction, but it has no revenue – no real revenue impact. If we told you that was about 1 point, right.

Q

Do you know why that happens?

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

A

Yeah. Visa Europe had certain rules that made it worth their while or made it easier for them to do it that way, and we're sort of very flexible saying, you can do wherever you want because it's revenue neutral by and large for us and maybe it has something to do with Brexit, then moving things to local countries. Maybe it's tax planning, it could be other things.

Q

You're referencing a big processing company or a technology company.

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

A

Mostly it's like a big acquirer.

Q

That...

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

A

A merchant acquiring platform or something like that.

Q

Right.

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

A

You still acquire all the European transactions let's say in the UK and now you're saying, okay, I'll acquire my German transactions in Germany.

Q

That's interesting. But – so it's Visa specific, not Mastercard, because of the Visa Europe...

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

A

I can't tell you that it doesn't have an impact on them. All I can tell you is that these were set-up pre our acquisition a certain way and people have been rejiggering that and it's not new, it's been going on for a bit. It goes up and down.

Q

Yeah.

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

A

They go through phases of doing it and it's different people sometimes. Has no revenue impact, but it was about 1 point in growth. Then there is mix, and this is a hard one, and I don't know if you can do it from the outside, we can do it from the inside. Like it or not, our business is more heavily skewed to the U.S., which when times are good, emerging markets can have high growth, but they're also more volatile. We have sizable – as you know we're much larger than our competitor, we're sizable businesses in all these emerging markets, but as a proportion we're smaller. And if you assume the same growth rates by region and look at our mix versus theirs, you always get a delta; just because of mix [indiscernible] (00:16:16). And even in Europe, we're heavily UK and France, for example. So, mix is a pretty big factor.

Now there are two areas where clearly they are doing better than we are, but we are clearly making headway. One has to do with the fact that our Visa Europe business didn't do much with fintechs for quite a while, and then we were very busy redoing all our contracts, but now we're making good headway with fintechs, where there's lot of activity in Europe on the cross-border side, and you've heard about some of that.

And then several years ago, we chose not to be in the virtual card business and we are very much in it, and so both are big opportunities for us. There's a lot of upside. And hopefully over time, we'll neutralize that delta. It's not common to be have a business where we have the position we have relatively speaking. So, I think there is a bunch of things there. And hopefully over time these all sort of – some of these dimensions change and becomes easier to understand.

Q

Yeah. First of all, just quickly last one on the revenue [ph] versus (00:17:18) volume side, I mean cross-border revenue was a lot stronger than [indiscernible] (00:17:20).

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

A

Yeah.

Q

So, some of that you sounds like you just explained, was everything you just said...

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

A

Yeah. The cross-border revenue I think was about 4 points better than the volume and there are about four factors that explain, at least for us the delta, right. And they're roughly all equal. One is this intra-Europe thing, which has no revenue impact, that's about 1 point. Second is that you know we do a certain amount of hedging, which smoothes things out in a way, it really doesn't – we're not taking position, so when the dollar is strengthening the hedging helps our reported revenue numbers by a bit. So, it's probably 1 point there. So, that can go both ways. We got a little bit of pricing from last year there that helps the revenue line. And then, we do report our currency volatility, our treasury revenues in there.

Q

Okay.

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

A

And if you looked at last year first quarter, volatility was quite low compared to this year's first fiscal quarter. Now that changes in the second quarter, but that also helps that line from a revenue standpoint. And those four factors were roughly in equal proportion.

Q

So, should we still expect revenue to outpace cross border volume?

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

A

Well, if you look at each of these factors that I just gave you that were causing the delta, right. The first one will be what it is, right. So, to the extent that that continues then that will help [indiscernible] (00:18:42) volumes, but help revenues.

Q

Yeah.

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

A

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The pricing, I think continues for another quarter. So, that should also be sort of the same probably. Volatility shifts, right, last year volatility in the second quarter was quite high compared to what it's running at now, that's all publically available information, so that will be a tougher comp. So, yeah, the four variables, they'll have different impacts on the second quarter. So, you have to watch those variables to be able to say will that same gap continue or not.

Q

So, look, put it all together now, it's an area that first of all I wonder do you guys as a company, A, strategically focus on cross border as an area that you think is more profitable maybe even better business than some domestic business and go out of your way to invest in that opportunity?

And then, just second part of that is, what do you – I mean you've talked, I remember two years ago when I was visiting your office, you mentioned [indiscernible] (00:19:33) that cross-border can grow, call it 9%, 10% low double digit range for years and years to come with e-com and B2B [ph] helping and (00:19:40) others, is that still the case?

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

A

Look, I think the cross-border business, there's lots of reasons to be bullish about it, right. Number one, the new engine of cross-border growth is clearly e-commerce, that wasn't there a few years ago. The general trend for the global economy has historically been towards greater integration. We don't know if the new world it changes, but that has led to a lot more cross-border trade, which means more cross-border travel and all those kinds of things.

So, the underlying drivers remain very strong. We continue to build our network and we will continue to build it even more. We continue to add capabilities, so all that is – bodes very well for the cross-border business. In the short term, the cross-border business will be susceptible to exchange rate shifts, will be susceptible to macroeconomic conditions. The exchange rate shifts can have a different impact on the cross-border business, whether it's e-commerce or face-to-face, face-to-face tends to have a lag, e-commerce people can adjust faster, so those kinds of things we have to consider.

So, yes, it's a very important business for us. It is a business where we know – we all have a differential advantage, it is an important area of focus. We will make whatever investments we need to; things we're doing, when we are able to talk more freely about it, we can tell you more about some of the additional things we're doing, whether it's on the P2P side or the B2B side, B2B connect is a capability that should go live this year that is a cross-border B2B service, that's distributor ledger based, that we think adds substantially more value than a swift based transaction allow banks to not need correspondent bank networks, financial institutions are very interested in it. And when we can, we can tell you about more of our other strategies. Obviously, at this point, we're constrained in terms of what we can say about what's going on in the UK because of takeover kind of rules and all that, but strategy wise, our goal is to get as close as we can to global coverage or bank accounts, as fast as we can. And so, you'll see us talk a lot more about all that.

Q

So, it is an area of focus?

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

A

Absolutely sure.

Q

I mean, in our own research we had checked that I think it was somewhere we thought mid-single digit percentage of your volume was cross-border and yet almost 40% of revenue could be in some way connected to it. So, just – we do get the question a lot of how the company is strategically thinking about it? But it does sound like there is some [indiscernible] (00:22:13)?

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

A

No, there is no question whatsoever that you know, if you look at our three lines on the revenue line, the big ones, you've got service fees, you've got international revenues, you've got transaction fees, and cross-border is all in international revenues and it's a third, a third, a third between the three.

So, yes, it's a very important part of our business. But I wouldn't underestimate the size of our transactions processing business, and I wouldn't underestimate the size of our domestic business, which mostly shows up in service fees.

Q

You mentioned how some of the issues in Europe are after the deal or the way that these are structured itself pre the deal may have led to some changes that you're trying to put forth now. I remember when we spoke to Al and he talked about the integration pretty much being done, right, the back end...

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

A

Yeah.

Q

...integration being done. And so, you're ready to now go after market share in different ways more aggressively than even before. What does that mean? And what could that mean for the business in Europe?

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

A

Well. Look, I think we're very excited about Europe as a long-term opportunity, and clearly, we want to approach the market in a responsible way. There is clearly opportunities for us to do better in many areas. So, going through them one by one, I already talked about one. There was clearly need to do more with some of the – Europe have had much more activity in terms of fintechs at this stage of the game, partially because of some of the regulatory changes going on there. And we needed to do some cashing up there. I think we've made a hell of a lot of progress in the last 12 months, and you should see a lot more there. So, the team there has done a far

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better job of both working with these fintechs and making it easier for them to work with us and so that's one dimension.

If you go past that, there are parts of Europe for historical reasons, European business was based on who the members were and the membership was heavily concentrated in France and the UK. And for various reasons then the positions Visa Europe had in other parts of Europe were not typically as strong as they are for us most parts of the world. So, there's clearly opportunity for us in those markets that will take time. Incumbency helps them and us, renewal cycles have to come up for renewal. We have to do it in a way that makes business sense for us. So, that will take its time.

Historically, credit was not an area that Visa Europe focused. Our credit position in Europe is nothing like it is anywhere else in the world that is a particular area of opportunity. Scheme and processing separation opens up certain kinds of opportunities for us to get some processing business that was not available before. So, we would be looking at that clearly. Many parts of Europe look more like emerging markets, the traditional cash conversion opportunity is still very large. And there's a lot we can do to invest in those markets to build acceptance, to build card coverage, to build the card habit. Europe goes all the way from 90% penetration up in Sweden to low-30s, as you go to Southern and Eastern Europe and so on.

Q

Sure.

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

A

So, there's lots of opportunity just in the very traditional blocking and tackling cash conversion opportunity. So, there's a lot to do in Europe.

Q

Yeah. [ph] It sounded from (00:25:33) us like there could be some real change in terms of even rate of growth in Europe if you execute on some of these initiatives to the upside?

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

A

Yeah. And the thing is, nothing in this business moves really fast, right. Things do take their time. Because of the nature of the business, the long-term contracts, the advantages of incumbency, that both of us can benefit from. So, what we know now, of course, is that – what our clients know now is that all the capabilities available on a global basis are available in Europe, which wasn't true before.

Q

Right.

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

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The disadvantages that we had in the credit business that had mostly to do with interchange differentials have gone because interchange is regulated. So, it's a more even playing field on the credit side. The quality of the services we offer whether its risk authentication or whatever is far superior to what was available before. So, when you put it all together, we are a much more attractive partner for most institutions in Europe than Visa Europe might have been three years ago.

Q

And is there, I remember Al had mentioned pricing opportunities there, but do you still see there being a decent runway of pricing opportunities in Europe given kind of where you were left off after the acquisition of Visa Europe?

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

A

Yeah, we typically don't like to talk about pricing. And so, what we would say is we do think that our opportunity is in Europe. We will need to sort of approach them over time and do what we normally do on pricing that it has to be sort of focused on value, it has to be focused on competitive alternatives, it has to be focused on what's prudent, et cetera. So, it'll play out over time.

Q

Could we shift to services for a minute...

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

A

Yeah.

Q

...in terms of differentiated offerings. I was just curious, I always got the impression that you guys had many of the same services as others in the industry, but it's packaged a little bit differently where it's more part of the actual contract versus broken out. First of all, am I characterizing that correctly?

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

A

Yeah. It's true. Yeah. Absolutely.

Q

When it comes to things like data analytics or issuer service solutions, just comment on what you think you guys are proud of right now in terms of your services offerings? And what you want to invest more in?

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

A

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Yeah. So, the services we offer that are extremely high value-added, and in many ways, have economics that are very similar to our core business and very much leverage our core business are things like risk services, fraud management and all that, authentication services, data analytics, where we continue to add to our capabilities with AI.

We've always been doing machine learning, especially on fraud, but now we've offered a broader range of services on data analytics and a much more user friendly way to our clients, loyalty solutions. And then, we have a sizable business in CyberSource, which is increasingly valuable on a global basis. And we have an issuer processing business mostly in the U.S., which has potential around the world.

And yes, we don't pull it all out. Where we don't have as much is in traditional what you might call consulting. We're doing more of it, but we don't have as much as – now, the other thing we don't do typically is, there's an accounting where you can do this and we do it somewhat differently where you could substitute your incentives with value and kind.

And what that allows you to do is report less in incentives and more in revenue, but you also have an expense that goes with it. So, you can have a lot of services you report as revenues that are effectively really on the revenue line instead on the incentives line and there's an associate expense.

So, you could you could have higher expenses and higher revenues and report higher revenue growth with essentially the same profile. We don't do as much of that. Where it makes sense we might do more. Typically from a client standpoint when they want to a genetic service like consulting they might be more interested in best to breed than being forced to buy from you because it's sort of free.

Q

Right, right.

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

A

So, there is the difference in how we do things. And if you adjust for that, some of that growth difference goes away.

Q

You're saying kind of forcing somebody to use your – what you're paying back in rebates/incentives basically for your own services?

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

A

Yeah. You can structure them differently. You can structure them as part of your whole package or you can structure them as I'm going to give this to you and attach a revenue stream to it. I get to book it as revenue, and I have an expense with it, but I won't have those incentives. So, you could end up for the same kind of deal having a higher revenue reported from doing it that way, right. You've tended not to do as much of that as others do.

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Q

Okay. So, you never broken out what percentage of revenue, you think is actually services?

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

A

I think at some point, we gave you that number in our Investor Day, I believe it was about $2 billion at that point-in-time, if I remember, right.

Q

That was [indiscernible] (00:30:23) time ago.

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

A

When you add these things together.

Q

Okay. You mentioned CyberSource's [ph] and asset, (00:30:26) that you think could be getting even more attractive. It's interesting. We haven't seen a lot of it. You used to disclose more data on it.

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

A

Yeah.

Q

Why do you say that it's more attractive [indiscernible] (00:30:36)?

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

A

I think that as the world changes and moves to omni-commerce and things like that, and as it becomes harder and harder for merchants to come up with solutions through traditional gateways, I think our ability to provide those solutions through CyberSource is becoming more attractive and our ability to provide that on a global basis, where there are very few people who do it on a global basis is becoming more attractive.

So, we're quite excited about CyberSource. I think CyberSource may be entering an era where growth rates are going to pick up, and CyberSource may be entering an era where the capability is more valuable and more integral part of what people want from us. So, hopefully at some point we can...

Q

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And it's still growing well?

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

A

It's doing extremely well and we think it's a great business. We've have invested quite a bit in it and it has good economics and some real growth potential.

Q

Visa Direct is a topic that we've been hearing about through a lot of our panels because of the – lot of the panels are using it. This is a fintech conference...

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

A

Yeah.

Q

...largely. And so, when we think about what that can do, first of all, it seems like it provides you with another source of taking cash out of the market, right?

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

A

Absolutely.

Q

Can you give us examples of what P2Ps – I'm sorry, Visa Direct been used for, obviously P2P being one of them.

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

A

: Yeah. So, I think what I want to make sure people understand is Visa Direct is not a product like debit or credit, right. Visa Direct is a capability. And the way I would describe that capability is that, is that it's revolutionary in many ways, because for our entire history money only moved one way in our network, right, it moved from your credit or your debit to a merchant. Now money can move both ways in our network, it can go into your account or out of your account, and not only that, it can go from one node to another, right. So, it can go to any node in our network, and we have 3 billion credentials on the consumer side and 16 million plus merchants.

Now any one of those nodes can send money to any other node and do it both ways, that's the capability. So, what it really opens up is the P2P opportunity, which means you can send money to anyone and our goal would be to make it as ubiquitous as we can where we'd be willing to use other rails if we have to, to get to 100% global coverage. And most of the big P2P platforms will allow you to use debit credentials or credit credentials to move your money around, that we would argue is the safest way to do because it adds more security, reliability and functionality if you do that versus just using your bank account.

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Q

And the economics on Visa Direct for you are similar to other transaction.

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

A

Well, we – here is the other thing I should say about Visa Direct is that, we don't think about Visa Direct uniformly, right. So, credit and debit are relatively standard kinds of fee structures.

Q

Yeah.

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

A

With Visa Direct you have to look at the use case and say, what is the fee structure that works for that use case. So, P2P has a fee structure, and in P2P a lot of the people who are providing P2P don't yet have revenue models. So, yes, we do get to collect fees on it, but we're also waiting for revenue models to develop, so that we can have a better feel for what should be the fee structure for that kind of use case.

The other big use case that we're really excited about is disbursements, which has a lot of value, and there's a revenue model in place in many cases. So, we can enable all kinds of payroll. And you've already heard us say how the Ubers of the world and the Lyfts of the world are allowing their drivers to get paid essentially on-demand and they charge a fee for it. So, we know what they charge, we know sort of what we can charge.

But now we have a deal with a company called PayActiv that actually now is offering payroll services to companies and taking batch payroll and converting it to flexible payroll where effectively employees can get paid on much frequent terms or frequencies they prefer either as a service that the employer wants to provide or for a fee.

Q

In real time, yeah.

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

A

Right. Then there is a whole disbursement opportunity outside payroll, let's say in insurance areas like – probably in casualty. It's $330 billion in the U.S. that flows to individuals, right, and half of it almost is cash and check. Visa Direct is a perfect solution. In many cases they would offer it as a customer benefit, you've seen the auto ads, and that's just property casualty, there is auto, there is health insurance, et cetera. So, that's a huge opportunity, high value, very often the people who provide it see it as a competitive weapon and are willing to pay us good yields for that. Then there is a B2B part, any small business today can use their debit or credit credentials to do all that AP and AR because we can move money both ways.

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There is many, many B2B cases that are enabled by Visa Direct, which are very exciting like the merchant payment Square and the bunch of other people are offering...

Q

Sure.

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

A

...merchants instant sort of cash for a fee, high value service, pricing could be different on that.

Q

So, you don't need – do you believe you need to do like a VocaLink acquisition. In other words, any type of other real time payment capability or do you have what you need.

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

A

Well, the advantage, let's talk about that for a minute. So, there's two dimensions to that, right. First of all, we have the advantage of having a network in place that is already global in scope and has broader and deeper reach than VocaLink does because VocaLink is in one country where it operates the network, and comes with a whole bunch of other capabilities that I'll get to in a minute.

But let me also clear the air on something that I see a lot of confusion about, right. Networks like Visa and Mastercard are proprietary, in that, you access to these networks if you have a license, right. So, you have to be licensed to issue our credentials and you have to be licensed to accept our credentials. And you have to play by whatever the rules are that we operate our networks with, with whatever the economics are for the various players and we operate our network for the benefit of all parties.

Things like RTP or VocaLink are typically regulated networks with regulated fees that are open to everyone. So, it's not proprietary. And they can fall into three buckets. They could be built by someone other than a VocaLink or whatever; governments may build them on their own as many have done. They could be built by VocaLink or someone else, but not operated by them, more like a software project, right, or they could be a service like in the UK they chose to go to a third party and say i.e., VocaLink you build this, you'll get to run it for 10 years and you'll collect whatever the fee we decide is going to be charged, but the network is open to everyone, right. So, we can use those rails anywhere in the world unless we have kept out of it, typically governments will keep us all out of it or let us all in as international players. So, big difference, right.

RTP networks are typically non-proprietary. They like ACH networks. Anybody can use them, that's a regulated fee. Whether you build them or not doesn't give you any kind of like special treatment.

Q

Okay.

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

A

So, our approach has been – we want to connect to everything because we know not one company is going to build these RTP networks, not one company is going to operate them, but by and large, we'll have access to almost all of them except in a few cases where they choose to keep us all out. Whether we need to build them or not, that's sort of the secondary decision, right. Does it give you any differential advantage? Is there any real value in doing it? I don't think that precludes you from essentially connecting to all of them, which we think is where the power is.

In terms of the rails themselves, the rails themselves don't have a lot of value, right. It's the service you add on the rails that has value. A lot of these RTP networks have existed for a long time, but have never been used. In other words, there is not a lot of traffic on them. What we can do is add value to them. We can bring a greater level of fraud and security. We can bring a greater level of authentication. We can bring all those capabilities you come to like, like if you make a mistake we can correct it. You can dispute issues, et cetera.

Q

Right, right.

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

A

When you add those kinds of capabilities even to a set of rails that do not have that kind of intelligence, that's where the value is. And so, our intent would be, whoever builds them, as long as they're open, we can ride them.

Q

Okay. Anybody in the audience have any questions, I think we're just almost out of time.

Q

Thanks. Just a follow-up on that last point you were making just to make sure, I guess I and maybe other people understand as well. With the real time payment networks for non-proprietary and they are open, can you add services on top of VocaLink and you use their rails too so?

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

A

No – meaning. Well, first of all, VocaLink is in the UK and where they operate it in other places it's a software arrangement and you should talk to them about it, you'd get more. But yeah, we are able to build whatever we want on top of RTP networks. We need to connect with them and offer our capabilities on top of that where we think there's this rationale to do it.

Q

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Okay. And then, just a quick follow-up here. On the cross-border side, obviously you've been investing in that area, you're investing B2B, but – and I know you can't talk about the transaction or how it's going in particular with regard to Earthport, but it's public information that both you and Mastercard have been going after it. What kind of capabilities are you interested in building out? And just maybe explaining why both networks are competing for this asset and like what – what [indiscernible] (00:40:25) you looking to sell in that area?

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

A

Yeah. I'm not going to talk specifically about Earthport other than the announcement that went out in the last couple of days that Mastercard has pulled out of the event and bought something else, that's all in the public domain. So, I won't talk about that, but I'll talk more broadly as I said earlier, strategy wise, our intent is to get as fast as we can to every bank account we can globally, right. And we're willing to do it in whatever way is reasonable and economical to do. And we're willing to do it both with technologies like B2B Connect and we're willing to do it with other technologies that will allow us to not only leverage our existing rails, but alternate rails to get the last mile that we have to.

And [ph] scape services (00:41:22) for you that allow you to essentially move money from anywhere to anywhere, anywhere in the world. You want the assurance if you're a business or an individual that we can do whatever the hell you want, right, along with providing you with the security you expect from us, the reliability you expect from us, the services we offer on top of that, whether it is information you want to transfer or your ability to pull back money if you make a mistake, or you dispute a transaction, you want to be able to do it to whoever you want to do it with, and our objective is to provide it for you as fast as we can. And that's the game plan.

Q

Okay.

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

A

How we execute it, we'll tell you over time.

Q

Thank you.

Unverified Participant

I think we have to stop it there. But Vasant, thank you very much for [ph] your presentation (00:42:05) today.

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

Thank you.

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Unverified Participant

It's great to have you with us today.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President, Visa, Inc.

Thank you.

Unverified Participant

If I can invite the merchant acquiring panelists up for the next presentation, please. The next fireside chat.

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