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Visa, Inc. (V)

KBW Fintech Payments Conference

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Ryan McInerney
President, Visa, Inc.

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

MANAGEMENT DISCUSSION SECTION

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

Okay. Do we got Ryan there? There he is.

Ryan McInerney
President, Visa, Inc.

Sanjay, how are you?

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

Good, how are you?

Ryan McInerney
President, Visa, Inc.

Yeah, good. Sorry, I'm not there with all you guys in person today.

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

No, no, completely understandable. We're trying to make a go at it in person. So thank you for joining us. Really appreciate it.

So for our last fireside chat of the conference, I'm excited to welcome back Visa. We have Ryan McInerney, President of the company. It's great to have him with us. Obviously, it's very timely because there's so much happening in the space.

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QUESTION AND ANSWER SECTION

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

Maybe, Ryan, you could start off with an update on the situation in Russia and Ukraine. I know you guys put out some statistics yesterday, but maybe just give us a real time shot there.

Ryan McInerney
President, Visa, Inc.

Yeah. Happy to do it. And you can hear me, see me okay, Sanjay?

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

Yeah. Unfortunately, the only person you're going to look at is me. So, sorry.

Ryan McInerney
President, Visa, Inc.

Well, you look great. You look great.

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

Thank you so much.

Ryan McInerney
President, Visa, Inc.

Okay, Russia, Ukraine. So, first, I mean, our number one priority is ensuring the safety and security of our colleagues and their families who are directly impacted. And unfortunately, we have a number of colleagues and their families who are directly impacted. So we've been working very, very hard on that.

We're in the process of complying with all the applicable global sanctions issued by different jurisdictions. And as part of that compliance, we've suspended access to Visa for certain clients. Some of the sanctions are very clear, those regarding SDNs or specially designated nationals. For these sanctions, essentially Visa is required to suspend access to the Visa network for any companies that are listed as SDNs. And the implications are for domestic and cross-border transactions from cards issued by SDNs, they're not processed over our network domestically or internationally, and any transactions that are acquired by SDNs are also not processed.

So we don't – in those examples, we don't generate revenue from any of those transaction types, even if [indiscernible] (00:02:09) is processing them. And then, there's other sanctions that we're still sorting through, those for other banks, for SWIFT, for central banks – for the central bank. And I guess I would just say it's a very fluid and very evolving situation. It's difficult to reasonably estimate the full potential financial impact of the situation to Visa right now. But we did release yesterday that in 2021, total net revenues from Russia, including revenues driven by domestic as well as cross-border activities into or out of the company – I'm sorry, the country, were approximately 4% of our global net revenues, and total net revenues from Ukraine were approximately 1%. And as things evolve and we gain more insight and more clarity, we'll certainly let you know.

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

Q

I appreciate that. And I guess when we think about those revenues from Russia, is there a counteracting expense? Like, is there an expense inside of G&A for switching costs on the domestic network or is that a truly net number, the 4%?

Ryan McInerney
President, Visa, Inc.

A

The 4% in net revenue number, we haven't released any information about expenses. As I mentioned earlier, as we get more clarity on things, we'll certainly let you all know.

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

Q

Okay. Perfect. Maybe we shift gears a little bit, talk about the pandemic and how that's accelerated digitization and consumer behavior. Now that we're getting into more normalized environment, maybe you could just talk about which behavioral changes you think will stick and those where you seem to think there might be a reversion back to something that we saw pre-pandemic?

Ryan McInerney
President, Visa, Inc.

A

Yeah. Great question, Sanjay. I think – because I think when the book is written on the pandemic as it relates to payments, it will have been a massive accelerant of the digitization of cash and commerce around the world, which has been and we think will be – continue to be very good for our business.

At the highest level, during the pandemic, we saw an acceleration of cash digitization around the world and we're confident that it's going to continue into the future. And we saw a massive acceleration of buyers and sellers into digital payments. This will continue. We saw a significant acceleration of tap-to-pay adoption, especially in the US, that'll continue. Debit, we believe, will remain strong even as credit comes back. E-commerce will remain strong even as face-to-face returns, and cross-border travel's poised for a strong recovery.

I guess if I dig deeper into a couple of those things, the first is that the accelerate – overall, the acceleration of cash digitization is going to continue. We see cash to digital payments on our own network with our own data because we see both point-of-sale transactions, but we also see ATM transactions.

In 2021, what we call global debit cash volumes, which is really cash withdrawn at ATMs using Visa cards, it increased 4%, while debit payments grew 23%, and both of those are on a constant dollar basis. So you're seeing significant outstripping of cash payments from digital payments.

In the card-present environment, the thing that I would say is that people just don't want to touch cash. They didn't want to touch it during the pandemic for obvious health reasons. But I think what they found as we move from a pandemic to an endemic is, it's just – using a Visa card or a Visa credential is just a – it's a safer, simpler, better way to pay and they just like it more.

So tap-to-pay is a great example of that. In the last – I think it was the last quarter, seven countries saw their tap-to-pay penetration increased by 10 percentage points or more. And obviously, we're well into the pandemic. And in the US, we're nearing 20% tap-to-pay penetration. And where you guys are sitting now in New York City, it's 45%.

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So to put that in perspective, if you go back a few years ago, before the pandemic, all of you were asking us, is tap-to-pay ever going to happen in the US. And as we sit here today, close to one out of every two face-to-face transactions in New York City are taps, and a big chunk of those used to be cash. So, we're seeing a big shift from cash to Visa payments.

And as I mentioned earlier, we think this digitization's likely to persist. People just have found – whether they might have been a first-time grocery e-commerce user during the pandemic or a first time tap-to-pay user or they might have been a seller who didn't enable tap-to-pay or e-commerce, and what they're finding is, it is just a better way to buy and to sell. And so we're seeing those trends continue.

And I think the exciting news is the opportunity remains enormous. There's still $18 trillion of cash around the world spend every year, a number that's actually been growing, not shrinking, and that's the B2C environment. And beyond that, when you look at B2B and P2P and B2C and G2C, it's another $185 trillion of annual flow. So that's kind of how I think about what's happened and what's going to continue.

I guess the last thing I'd say that I alluded to at the beginning is cross-border. Digitization is going to continue and cross-border is going to recover. On our last earnings call, we shared – I think we shared with everyone our belief that travel cross-border spending will recover to about 90% of 2019 levels at the end of our fiscal year. That's excluding kind of intra-Europe transactions. And we just released metrics yesterday for the full months of January and February, which I'm sure you and your audience saw, and we see this playing out. If you look at the February numbers for cross-border, card not present, I think, was at 169%, up 4 points, and travel-related cross-border was up 10 points to 81%.

So there's a lot of tailwinds for our business coming out of the pandemic.

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

Q

Absolutely. I guess this pandemic period was also the period of financial disruptors, right. Like a lot of disruptors came public, a lot of capital flowed into the disrupting names, and maybe at the expense of investing in Visa and Mastercard and others, right? So I'm curious in your mind what you think the market is missing because it doesn't seem like the momentum has slowed for you, yet, clearly, the investment sentiment has shifted some.

Ryan McInerney
President, Visa, Inc.

A

So I think there's some cyclicality to investors sentiment as it relates to some of these things as kind of the only way I can explain it over time because as you said, we have tremendous momentum. If you look back over time, there's been several periods where there have been potentially disruptive forces for Visa. You go back to MCX and the various other merchant networks and wallets that happened over time, or I mean, you go back and you look at what Softcard, previously named Isis, and some of the other MNO-driven networks and wallets were trying to do. We had Chase Pay and other bank-driven wallet and networks around the world. And then, you go back several years ago, we saw the rise of closed ecosystem digital wallets in Southeast Asia, for example, the Gojeks, the M-Pesas in Africa, the LINE Pays in Japan. And of course, we've got PayPal. We've got Apple Pay. We've got Google Pay. And now we've got, as you say, a tremendous wave of fintech players.

And I think what we have shown consistently is that we can lean in, we can work with these partners, we can create value for the partners and we can take what were potentially disruptive players and turn them into very beneficial partners. We can be a beneficial partner for them and they can become quite a beneficial partner for us.

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Now, even though we've, I would say, demonstrated this very consistently over time, I understand why some people might question it, but when we're going to work day in and day out, we're spending time with a lot of the companies that other people see as potentially disruptive and we have very strong close partnerships with them, and we're delivering a lot of value to what they're doing. And the reason that they view us as such a strong partner is that they found that it's more beneficial for them to take their engineering resources, their product resources, their management resources and focus on what they do well and partner with us for what we do well, which is deliver a global, at-scale payments network with Five9's reliability, incredibly strong cyber defenses, the ability to process 65,000 transaction messages per second, access close to 100 million merchants and sellers all around the world.

So that's a big part of the value that we create for them, and that's created a lot of success for us over time. They also get a lot of value from the power of our brand, the breadth of our innovation and our products and the scale of everything we do with 3.8 billion branded credentials around the world. We're coming up on 3 billion tokens. We've got over 5 billion accounts with Visa Direct endpoints and access.

So I think these things kind of ebb and flow a little bit, I think, in the minds of investors and others. And our job is just to continue to lean in, turn all of these players into partners, deliver as much value as we can to them, and in the process, grow our business, our network and hopefully, deliver even more growth for the investors that you're talking about.

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

Q

Absolutely. I want to drill down on cross-border a little bit. As you mentioned, the data yesterday was quite strong. Maybe we can just dig a little bit underneath the surface if you're at liberty to talk about it. I mean, what's been driving the strength, post-Omicron, right? I know there was a little bit of a pullback, Omicron, but now it seems like things are back. Obviously, people are feeling a little bit more comfortable, given the case levels are subsiding. Anything else that you can discern from the data there?

Ryan McInerney
President, Visa, Inc.

A

Yeah, people want to travel. They just want to travel. And I think what the data has shown is that people want to get on airplanes, they want to travel and they will do so as soon as borders open. I think the thing that is the biggest limiter on the return of cross-border travel around the world is governments keeping borders closed, because what we see is that when governments open borders, travel, like, is coiled, and it springs.

If you look at – as an example, if you look at – look at Mexico, that's probably the best example. In our third quarter of 2020, Americans started traveling again to Mexico. I mean, third quarter of 2020 seems like eons ago at this point, but card-present cross-border spend improved from April 2020 lows to, if you just jump forward to June, so just a couple of months, once the border opened, it jumped 40 percentage points and it continued recovery kind of very consistently and well through 2020, and we crossed 2019 levels in Mexico by the end of that same year. So just a year later, there was considerable vaccination progress in the US. And from April 2021 to June 2021, card-present cross-border spend rose nearly 50 points to over 170% of 2019 levels. It's kind of a staggering statistic when you think about it. And it's remained kind of very strong through the rest of 2021 and the first quarter of 2022.

And then if you jump forward to the results that we released yesterday, the US to Mexico card-present cross-border volume, it declined a little bit in December during the lowest week to just south of 160%, but it's now

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recovered to well over 170% again of 2019 levels. So that's just one corridor, but it gives you an example of what I was saying is consumers want to travel. They want to get out there. They're ready to get out there. And when the borders open, they're on planes. They're bringing their Visa cards with them and they're ready to spend.

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

Q

And can you remind us sort of where are we with border reopenings? I mean, is it – is there still some major borders that are still constrained? Is that the way to think about it?

Ryan McInerney
President, Visa, Inc.

A

It's starting to open up. I think, obviously, the US borders are quite open. Canada is open. We've seen more border reopenings in England, Portugal, Spain, France, Thailand, Singapore. They've all kind of somewhat recently reduced or removed many of the restrictions that they had. Australia has opened its borders after being essentially shut for the bulk of the pandemic.

And what we've seen is outbound cross-border travel for all regions, except Asia Pacific, were above or very close to 2019 levels in February. So I really think we're starting to see the grand reopening, if you will. And like I said earlier, consumers couldn't be more excited to get on planes and travel and spend.

Ryan McInerney
President, Visa, Inc.

A

Absolutely, I have my fingers crossed. I guess let me just dig in a little bit to some of the disruptive items that we've been talking about over the last two years, starting with buy now, pay later. People, obviously, have been concerned about buy now, pay later, but Visa has been sort of working to support the ecosystem. As you look at how the industry is evolving, maybe you could talk about which ways you're working with them and sort of how you're excited about those trends unfolding?

Ryan McInerney
President, Visa, Inc.

A

Yeah, sure. I mean, along the theme of the earlier discussion we were having, we see it as a big opportunity. Our strategy is two-pronged. And we're excited – to your question, we're excited about both prongs of the strategy. The first is to deeply partner with the fintechs that have been innovating and leading in the BNPL space. We're collaborating with them in a couple of ways. One is we enable the fintech players to make B2B payments to their merchant partners via Visa virtual cards. That's become a very robust business and partnership for us.

The second is we enable Visa users to repay the installments – the installment plans that they're taking out using their Visa debit cards primarily. And in a somewhat surprising way to some people, this can turn what effectively would have been one Visa transaction into many Visa transactions, typically three or four or more. And when you look at the data, the majority of the installment payoffs today are on cards. We shared, I think it was our fourth quarter earnings, that the number of Visa cards used to repay installments, for example, just in Canada grew by more than 300% year-over-year. And in the US, we shared that that number had grown 50% year-over-year in our first quarter.

And then the third thing that we're doing on this first prong of the strategy is really delivering a robust set of value-added services to a number of these players. They're very big consumers of our risk products, for example, as well as a number of others. So I like to call this first set of things, and in general, kind of the things we're seeing in

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the market right now BNPL 1.0, where we believe the market will go to is BNPL 2.0, where installments essentially will become a feature on every Visa card around the world. And we're already starting to see some fintechs evolve to a BNPL 2.0 strategy. We've seen a number of the BNPL players starting to issue Visa credentials with installments as a feature. And the reason they're doing that is to leverage our acceptance and our platforms so that they don't have to go – continue to go merchant by merchant by merchant to give kind of utility to their users.

We mentioned I think on the last earnings call, I can't remember, that Klarna had signed a global agreement, an issuance agreement with us. You would have heard that Affirm has chosen Visa as their network partner for their Affirm Debit+ card. And we're deep in discussions with all of the BNPL players on this kind of BNPL 2.0, BNPL as a feature on a Visa card. And it's quite attractive to them, obviously, given the acceptance.

And then beyond working with just the fintechs, we've identified a strategy more broadly to enable Visa cards all around the world with installment features. If you really look at the pain points that exist in the BNPL space today is three things. One is that there's no one global BNPL solution that works everywhere for sellers around the world. The second is that for consumers that are already enrolled in one of these solutions, there's friction at the point of sale. They don't typically want to sign up during the purchase process. And for issuers, all of our issuers, fintechs and traditional issuers alike, they like the ability to offer BNPL solutions to their clients.

So that's where the Visa Installment Solution comes in. We're working to enable installments, as I said, on Visa cards all around the world. We're working really hard with issuers and sellers and acquirers to bring the solution to market. It's early days, but we've started. We've launched in the US, in Malaysia, in Russia. We're getting ready to roll out in the UK and Australia, and we've also launched in Canada as well.

So we're making some progress on that. But I think that's where the world goes is this – I think users, buyers and sellers have found the power of this solution and it becomes a feature that we enable on our cards all around the world.

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

Q

Wonderful. Maybe then shifting gears and talking a little bit about crypto. I think on the last earnings call, Al highlighted you guys are working with about 65 crypto platforms and exchanges. Obviously, on-ramp, off-ramp is an area that you guys can support crypto ecosystems. But as we look ahead, obviously, there's lots of discussions about central bank, digital currencies, stablecoins, et cetera. How do you think Visa participates in that realm?

Ryan McInerney
President, Visa, Inc.

A

Yeah. We're participating very actively today and we have a number of initiatives going that, we think, will expand our participation in the future. We think, again, here too, it's a significant opportunity. So I just got to go through a number of the ways that we're participating today and then maybe give you a little bit of where we think things are going.

The first is simply on-ramps. We're enabling crypto purchases with existing Visa products so that our users can buy cryptocurrency and stablecoins with Visa cards. That's the most basic way, but it also requires a lot of work to make that happen. We work with issuers and acquirers and the exchanges to ensure that when Visa cards are used that consumers will be able to make those purchases.

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Second thing we're doing is the off-ramps. As you mentioned, we have a very robust business where we're issuing – or we're enabling our kind of exchange partners to issue Visa credentials to their users. And this is a huge source of value for the exchanges and their users. If you're a Coinbase user and you've got $10,000 of Bitcoin at Coinbase and you're going out to a restaurant to buy lunch, you don't want to have to go convert that Bitcoin to fiat and understand exactly how much you're going to need to convert so that you can spend $30 to $40 at lunch. In this example, all you have to do now is use your Coinbase or your Crypto.com, or your Binance Visa card, pay for lunch. We work with the exchange in real-time to convert it to fiat currency and deliver that fiat currency to the merchant. So this has become a great value proposition for the users and the exchanges and a growing business for us.

The third way that we're participating in the crypto ecosystem today is our value-added services portfolios. We're enabling, for example, financial institution customers to offer crypto capabilities to their users. Rewards is a good example. Crypto rewards has become a very important topic. We've also launched our Crypto Advisory Practice as part of our Visa Consulting and Analytics Practice, which has been an extremely busy practice for us.

The fourth place that we've been participating is enabling stablecoins on our network for settlement. Today, we transact in about 160 different currencies and we settle in 28 different currencies. And we've done the work to enable settlement in stablecoins on the Visa network. The first one that we've enabled is USDC. And a lot of people ask me, why? Why have we enabled stablecoins as a settlement currency on our network? And the reason is when you spend time with these companies, you mentioned the 65 exchanges that we issue cards with now, the way that they run their business, they strive to run their whole business with stablecoins and cryptocurrency. They want to run payroll with stablecoins. They want to pay vendors with stablecoins. And when you're a partner like Visa who offers to settle with them daily in stablecoins, that's the kind of partner that they want to do business with. Those are the kind of insights that you get when you're in their offices day in and day out, trying to understand how they're running their businesses. So that's one among many reasons that we now have the ability to settle in stablecoins.

And then, the fifth thing that we're doing, you alluded to this or mentioned this as well, is partnering deeply with central banks. We've been engaging with central banks all around the world. We have a CBDC sandbox with a set of APIs that many of them are using. We're advising them. We're partnering with them. We're helping them design what the right solution is for them.

Now, answering your question about the future, there's a lot of different initiatives that we have going on that not really ready to talk about here, but I'll give you like one example that, I guess, kind of illustrates the role we think we can play in the future. If you're a merchant and you decide, for example, you want to accept stablecoins for whatever goods or services that you're selling, let's say that you want to accept USDC, you would have to connect to seven different blockchains or seven different unique networks that USDC runs over, establish the rules of engagement, figure out how you're going to communicate and inform to your buyers what to expect in terms of the buying experience, the protections, returns, disputes, whatever it is. So that's a problem that we're naturally positioned to solve with kind of our network, our rules. And so we – in that example, we have teams of engineers, product leaders and others that are working to deliver a type of solution that would enable that in a much simpler, easier way for people that want to accept stablecoins. So, that's kind of one example of one of the many things that we're working on.

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

Q

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So as people look at crypto as sort of a disruptive force, it seems like you guys think it's quite the opposite. You're going to be a central player in this. I mean, is there any like credible threat in your mind or do you think it's just too early to even speculate it?

Ryan McInerney
President, Visa, Inc.

A

Well, there's always threats. I mean, there's no question. There's always threats. But I think what we've shown over time and what I believe we're certainly on track in the crypto space is that if we have an open mind, we study, we lean in with these partners, we understand where their pain points are, there's lots of places for us to add value, grow our business, put our network-of-networks to work, put our brand to work, put our engineers to work that can help a lot of these players grow their business and ultimately, prove to be a big opportunity for us, just like many of the other trends that you mentioned earlier have proven to be.

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

Q

Perfect. Switching to one other disruptive threat, open banking, right. It's very early innings. Obviously, there's a lot unfolding. There are some open banking companies that are talking about aspirational goals of 20% of e-commerce will run over open banking rails over the next five years. I'm just hoping you can help us think through the risks and opportunities for you guys.

Ryan McInerney
President, Visa, Inc.

A

Yeah, sure. Probably won't surprise you that we see this as a significant opportunity for Visa. If you think about open banking at its core, like what it fundamentally is, is it's a network business. I mean that is – and that is what we do. But to do it really well requires global connectivity, very reliable connectivity, stability. And again, that is what we do well.

Open banking, first of all, we see it as a very positive force and trend for consumers and small businesses and economies around the world. Open banking at its core is a very good thing. It allows consumers to aggregate their financial lives and make decisions about which financial products and services are best for them. It encourages competition, innovation, increased customer choice. I mean, all things that are very, very good, which is why, in general, regulators around the world are also very supportive, if not encouraging or mandating it.

And it's a place where we think that our trusted global brand, our network-of-networks strategy can be very valuable to clients and lots of different players in the ecosystem. As you and your audience would know, we've announced our intention to acquire Tink. Tink is a European open banking platform. And through a single API, Tink allows its customers to access aggregated financial information, use smart financial services such as risk insights and account verification. They can build personal financial management tools. They can move money, to your point, around e-commerce. So we're excited about the opportunity to acquire Tink.

And one of the reasons that a company like Tink wants to be part of the Visa family is that we bring proven infrastructure, sustained investment in resilience and cyber and fraud, which ultimately will help, we believe and our Tink partners believe, accelerate the adoption of open banking in Europe and ultimately around the world by ensuring a secure, reliable platform for innovation.

You mentioned payments, absolutely, these capabilities can make A2A payments more attractive for consumers and merchants. I don't know what the numbers will be, how aspirational they'll be, but we intend to be kind of a

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major part of those payments that are happening. And an A2A payment at its core is a very simple payment. But we believe if the payments were going to become anywhere near the aspirational level that you described, they're going to require the type of value-added services that we deliver on our Visa net payments, disputes, returns, risk services, authentication, all those types of things. So we view all that as a big opportunity.

And you asked about the risks. I would just say that like open banking, first of all, it's not a new concept. Many players have been trying to encourage adoption for years. I think what's been missing is like a known player who's really going to lean into this, bring the reliability and security that customers want. And we think we're the best player to do that.

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

Q

Absolutely. Maybe we shift gears and talk about the Visa Acceptance Cloud because I've gotten a bunch of questions from investors that want to learn more about it. So you guys launched it earlier this year, sort of moves the payment software from the terminal to the cloud. Maybe you spend a minute talking about the value proposition and what it does for Visa strategically?

Ryan McInerney
President, Visa, Inc.

A

Yeah, sure. I'm glad people are asking questions about it because I think Visa Acceptance Cloud is a real game-changer. I mean, if you just, again, step back and look at what you need to do to make something an acceptance device, like break it down to its core, you got to have a dedicated device, whether it's a terminal or a phone or a tablet. You need to have connectivity either a dedicated line, WiFi, reliable broadband. You need to have the kernel, a software kernel, the software that makes the device work on the actual terminal. And you have to continue to update that software on an ongoing basis, which typically means you need to go out actually to the device itself with a screwdriver and update the – open up the panel and update the software or some other way. And then you also need the certification of your device for all the different payment systems, EMV, PCI, security standards, it's not easy. And this can be a barrier especially for smaller sellers, both in developed and developing markets around the world that keeps them from accepting card payments. And it's also – it inhibits kind of innovation at the actual point of sale, if you will, on the terminal.

So the Visa Acceptance Cloud moves that payment processing software from the device to up in the cloud as the name implies. And this means that it eliminates the need for an expensive dedicated terminal and it eliminates the cost and the time, quite frankly, to certify the processing software, make updates and those types of things.

And so in this new type of environment, our clients can access the value-added services that we distribute and deliver: fraud management, seller onboarding, BNPL type solutions, a lot of things that we mentioned earlier. We can deliver those in the cloud. Our clients can consume those services, make them immediately available on all of those terminals without having to go out in the field and all those different types of things.

So, for Visa, this brings a number of benefits. At the most basic level, it enables Tap to Phone, which we think is a very, very important innovation and ultimate trend around the world. It allows us to more easily expand acceptance by effectively turning billions of smartphones into kind of ready-to-go payment terminals. And again, that's true in emerging markets, but even in developing – developed markets like the US. If you're a food vendor on the street in Milwaukee, you can now use your Android phone to accept payments without any hardware, no dongles, nothing to plug in, and the same thing with unattended retail and other things like that. So that's one benefit, expanding acceptance in developed and developing markets.

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The second is facilitating IoT acceptance, whether it's in kind of mirrors or gyms or cars or others, it's just much easier to accept card payments. And then, as I alluded to earlier, a big value for us is it enables – it makes it easier for us to bring our innovation especially in value-added services to the point of sale. One of the biggest points of friction when we bring great products to our partners is that, like I said, they have to go in the field, they have to update terminals, those types of things. Now they can do it in real-time via the cloud via our new Visa Acceptance Cloud.

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

Q

Got it. I want to touch on the emerging markets because you mentioned it. I guess as we – and you mentioned – you talked about a little bit earlier about these being risks and talked about in the past. When you're seeing some progress made in these other geographies where they have local platforms, China obviously famously has Alipay and WeChat in China, it's UPI in India, and there's Pix in Brazil more recently. I'm just curious sort of how you think it affects Visa's growth potential in those markets, right. I mean, are you still very bullish in those emerging markets or do you think there's a little bit of a tempering there?

Ryan McInerney
President, Visa, Inc.

A

Well, putting China to one side just because of the complexities of the domestic entry and those types of things, I'm even more optimistic about our growth potential in the markets that you mentioned and the markets that are like them than it was three years ago and five years ago. Payments is an inherently local business and we take a very country-by-country localized strategy to try to win. And in general, any force that is digitizing money movement is a catalyst for all players in that market. And that's certainly proven to be true in the two markets that you mentioned, India and Brazil. And wallet providers kind of in these markets do a really great job of bringing consumers into the digital payments ecosystem. And then, again, we run a playbook. We partner with them. We work with them to embed our credentials in their wallet as a way to deliver more value to their users and work with them to enable their sellers over time to open up to accept card payments. And that – again, it's proven true in the markets you mentioned and many others around the world. Like, we have co-brand partnership with WeChat. Alipay and WeChat are enabling their wallets to be funded with Visa credentials in China, for example. So they become important partners to us.

We have important kind of partnerships with PayPay in Japan. They have 42 million users and now 4 million of them have Visa debit credentials embedded in their wallets. I mentioned Paytm, I think Paytm has more than 8.5 million Visa credentials and nearly 300,000 Visa acceptance points. Let's stick with Paytm, for example, because I think they're a good example.

So if you just broaden the aperture a little bit to India, like, the domestic scheme in India has been around for a while. UPI kind of has been around for several years. It's kind of at scale, very robust at this point. But if you look at the data, which they publish regularly, and I look at every month when it comes out, it's primarily being used either for kind of large ticket transactions or P2P transactions. The volume that is kind of truly in the consumer to business space is relatively small. And if you dig into that data, it's primarily for small ticket transaction items. But when consumers buy something more meaningful, they want protections. They want certain functionalities. And in those examples in India and we think most other emerging markets like that around the world, they look to use a Visa card because it's a safer, more reliable way to pay. And as I said earlier, they know what is going to happen if they experience difficulties.

So, in India, like we continue to grow at a very strong rate. Payment volume was up over 40% year-over-year in the first quarter of 2022. We've maintained very strong market share in both credit and debit, with credit now

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growing faster than debit. And if you look beyond just the credentials, we've made good progress expanding acceptance in India, both traditional acceptance but also partners like Paytm that are accepting Visa cards and opening up their merchant network to accept payments. We've – I think we increased merchant locations 30% over the last couple of years. We've got 6 million acceptance locations at least we did at the end of the last fiscal year. And we've also been growing tap-to-pay penetration. It's nearly doubled up to 16% over the last couple of years.

So I'm more excited about India. I'm more excited about Brazil. I'm more excited about almost all these emerging markets than I was three or five years ago because – in some ways because of kind of the wave of digitization that started to happen on the back of UPI or on Pix or on several of the other RTP networks that have been stood up.

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

Well, that's great. We're going to leave it on that positive note. Thank you, Ryan. Appreciate it. We've run out of time. Thank you for...

Ryan McInerney

President, Visa, Inc.

No worries. Fun talking to you. Great questions. I'll be there in person next time. See you, Sanjay.

Sanjay Sakhrani

Analyst, Keefe, Bruyette & Woods, Inc.

All right. I'll hold you to it. Take care.

Ryan McInerney

President, Visa, Inc.

Bye-bye.

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