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Visa, Inc. (V)

Morgan Stanley Technology, Media and Telecom Conference

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

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James E. Faucette
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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. Fourth day of Morgan Stanley TMT Conference. Thank you, all, for joining us. It's been a great week. I know I've been very happy personally to get back in person, see a lot of people face-to-face again. Hopefully, you all have had a good experience.

Before we get started with Vasant and Visa this morning, I do have a quick disclosure. For important disclosures, please see Morgan Stanley Research Disclosure website at morganstanley.com/researchdisclosures. If you have any questions, reach out to your Morgan Stanley representative.

So, I'm here and very pleased today to be talking with Vasant Prabhu, CFO, Vice Chairman of Visa. Thank you for being here. It's always fun to get to catch up.

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

Thanks for having me, James. Good to see you.

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

Absolutely. Good to see you in person. We were saying, I have to confess, like I was like, it's 50/50 whether Vasant is going to wear a tie and I was going to try to wear a tie if I thought he would. But I was like, no, he's not going to, and then he showed up in his tie today. So...

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

More like 99:1 and I did it for you.

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QUESTION AND ANSWER SECTION

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

Q

Yeah. Well, anyway, next time we'll coordinate better. So, let's start with kind of the question that we've all been leading off with today. And you've talked about Visa's exposure to Russia and Ukraine at around 5% total. I mean, can you give us some color around that? And maybe adding to that, more importantly, how do you anticipate the conflict to impact the business in other parts of Europe and, in particular, travel? I know travel is a question you get a lot.

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

A

Sure. Yeah. I think you all know what the size of the Russian business was. It's about – it was about 4% of revenue. Ukraine is another 1%. And, yes, we have some expenses. So, as the business winds down, we will also not have expenses, so the profit impact will be somewhat lower than that.

The situation, of course, is just horrifying in terms of what is going on there. And with the sanctions going in, as they were all falling into place over the next few weeks, there was going to be a substantial impact on our business. And as each day went by, it became more and more apparent that the right thing for us to do would be to have an orderly suspension of the business, which is really what we are doing. And it has been very orderly at this point. And so, we expect that the whole thing will essentially come to a halt in a well-organized kind of way, which is essentially what our intent was, just to ensure that all the constituencies that are important here are managed in the best way we can, given the terrible circumstances going on there.

Now, what that means is we will lose revenue that originated within Russia. We will also lose the revenue that originated from Russians traveling outside Russia or others traveling into Russia. And that's the entire element of the business that adds up to that 4% of revenue. So the 4% of revenue is definitely not going to be part of our business once we suspend things.

As far as the broader impact on the business goes, it's too early to tell. You saw our numbers in February. The cross-border travel recovery has been very robust. When we talked to you all in January, we were hopeful that the Omicron impact was going to be short. We were hopeful that the borders are going to reopen pretty fast. And we knew that there was a lot of pent-up demand. And all those have proved to be true. Will there be a broader impact? There could be some within Europe, but we'll have to wait and see. It's possible that the broader impact is modest.

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

Q

Got it. Got it. And just as a reminder on that travel recovery, if I remember correctly, if we rewind to late 2021, you talked about really not getting back to 2019 levels of international travel until mid-2023, but you felt a little more optimistic than that previously. Is that right?

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

A

Right.

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

Q

Got it. So, the other big question I'm sure that you get a lot about is macro considerations. We had a very high inflation reading this morning that was put out. How should investors think about what is the benefit or impact to Visa from things like higher inflation, higher interest rates and wage growth? And then how are you balancing or trying to anticipate balancing that with any lingering supply chain impacts?

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

A

Yeah. As you saw from our February numbers, I think it's fair to say that the US consumer is in very good shape if you just look at it in terms of spending. And that's true pretty much across the globe. In general, consumer spending has held up extremely well and is very strong. So, if you look at the US, if you looked at our most recent February numbers, debit was indexing in the high-140s to 2019. That's a compounded growth rate of almost low-teens.

If you take the Visa Direct impact out and you take it out of pre-pandemic levels, the core debit business ex Visa Direct has almost doubled in its rate of growth and has held there even as credit has returned. If you looked at our credit numbers in the US, I think it was about 135% in February. That's a compounding of about 10%, a little over 10%. So, credit is effectively back to its pre-COVID trend line. It sort of did this and it's almost back. So, credit is back. Debit is holding. Both e-commerce and card present, both improved relative to 2019 in February. So, even as people are back in the store, e-commerce is holding.

So, all the underlying trends suggest a very strong consumer. So, if you look at inflation, our service fees are basis points on dollar volumes or whatever volumes. Our cross-border fees, a big chunk of them are basis points on volumes, and that's about two-thirds of our revenue. So, 60%, 65% of our revenue is linked to volumes that would benefit from inflation. A third of our revenue is linked to transactions, and that's what we call our data processing revenue, which is a cents per transaction...

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

Q

Sure.

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

A

...kind of thing. So, in general, inflation is good for our business. To the extent that inflation might reduce a little bit of consumption, that may affect us a bit on the transaction side. Now, we have seen ticket sizes go up in the US. Now, some of it is just the impact of people buying more when they buy because of e-commerce and pandemic-related effects. Some of it could be inflation. And so, net-net, inflation generally ends up being good for us.

Wage growth implies more spending power. That's generally a good thing. Supply chain issues have not been evident in our business...

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

Q

Right.

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

...because it's the overall basket. And while supply chain issues may affect a category, people may be switching spending to other categories. So, if you look at our business, there's absolutely no evidence of supply chain impacts. Even within like goods businesses like retail, you could have substitution going on. So, it's not evident in our business. So, all-in-all, I mean, these trends are generally not negative for us. They tend to be positives.

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

Right. Yeah, I mean, and that makes sense, right? Like, generally, if there's a supply chain impact on the economy as a whole, one of two things happens. Either inflation goes up, which benefits you...

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

Yeah.

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

...or savings goes up, which generally hasn't been [ph] raised, (00:08:28) right? So, yeah.

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

Right. Yeah. And there's substitution.

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

Right. And there's substitution, etcetera. That's right.

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

Yeah.

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

That's right. So, I want to spend some time and we'll delve into each of these topics a bit more incrementally. But there have been some headlines around some pricing changes that were made for particular types of merchants at interchange levels, etcetera. Can you just talk through quickly, like, what those were and then, like, where the pricing change actually took place and then how that could impact Visa, if at all?

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

Yeah. Interchange is, as you know, there's a merchant discount rate.

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

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Right.

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

The merchant discount rate essentially pays three parties. The merchant discount rate is set by acquirers, so the acquirers have their portion of what they take out of the merchant discount rate. Then there's interchange which really is what the issuing banks get. So, all interchange flows directly to issuing banks. And then there's Visa's fee. Visa's fee is the smallest sliver of the whole thing, as most of you know. So, interchange is strictly something that Visa, as the operator of the network and the owner of the brand, it sets the rate...

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

Right.

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

...balancing all the various constituencies. The acquirer takes the interchange, takes our fees, and then adds on whatever their markup is and that is the merchant discount rate. So, interchange is not something that affects us in terms of revenues. It is strictly something that goes to the issuing banks. And we periodically look at interchange, but not very often.

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

No, [ph] not real (00:10:08).

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

Interchange changes are rare. And it's a complicated equation because you have many kinds of merchants out there, many merchant categories. And we try to reflect what is sort of a fair and balanced approach to the value created in different categories, and therefore, what's the right level of interchange. And we had a set of changes planned before the pandemic hit. We went ahead with some of them at that time and we postponed others. The ones we went ahead with were reductions in interchange for things that became critical categories during the pandemic.

We lowered interchange for supermarkets, for example. We lowered interchange for restaurants and QSR and education and categories like that. That went in early. We had other adjustments that are going in now. They include a 10% reduction in interchange for small businesses. And small businesses would be a business that does less than $2 million and $2.5 million in volume (sic) [revenue]. This is a benefit that the vast majority of businesses in America will get because the vast majority of who we serve tend to be small businesses.

Now it is up to the acquirer or the payment facilitator who serves the business to reflect that. And we've had some – we can't speak for all of them, but we've had conversations with quite a few our acquirers and payment facilitators who say they're going to pass it on. There's also other changes there that we often put in different rates of interchange for promoting, let's call it, a better behavior in the system to improve the integrity of the system.

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So, for example, we have something in this where if you tokenize a transaction with the EMV token, you get a lower interchange. If you don't, you get a higher interchange. Of course, if you do, your fraud levels are a lot lower.

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

Q

Right.

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

A

If you don't, your fraud levels are higher. So, we want to promote. And people don't have to pay the higher interchange if they just use EMV token. So there are those kinds of changes too. So, that's pretty much it. And now embedded in this were some small changes in our own fees, quite small. Those are already incorporated in whatever outlook we provided, but that's a minor portion of the whole thing.

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

Q

For sure, for sure. So, let's move to travel and cross-border. I think for – at least in my mind is that that has been like the one consistent thing really since even mid-2020, right? Like, we saw a sharp fall off as the pandemic set in in the US and in March and April 2020, but then there was a quick rebound in a lot of parts of the country at least. And so, by August and September, different parts of the country in total volume, maybe not on mix for sure, but on total volume had bounced back. But this international travel or cross-border component has been the one that has been obviously slowest to recover.

Can you remind us specifically of Visa's exposure to international travel or cross-border in 2019 versus where we exited in 2021? And within that, which markets or, I call them, travel corridors are important for Visa?

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

A

Sure. So, if you look at our cross-border business, it probably accounts for 35%, a little more than that of our total revenues when you add in the processing revenues we get. And it breaks down into two parts. There's cross-border e-commerce and there's cross-border travel. There's an interesting dynamic there that's also worth talking about, but I'll focus on cross-border travel.

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

Q

Okay.

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

A

Going into the pandemic, cross-border travel was two-thirds of that revenue. Cross-border e-commerce was a third. Now, that's very different right now. So, cross-border travel took a very big hit and essentially borders shut down. And so, it wasn't as if consumers didn't want to travel. It was that governments had shut borders down, as you know, or imposed quarantines and so on. I would say, until May of 2021, things remained fairly depressed and then things started to open up. So, by the time we got to September of 2021, we were indexing at about 60%

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to 2019. Most other parts of our business had either – were well past 2019 or approaching 2019 at that point. So, cross-border travel was clearly the most depressed.

We started to see a significant change around that timeframe. And we were pleasantly surprised in October and November when there were significant number of announcements by even governments we didn't expect from, like Asian governments, about opening borders. And we always knew that pent-up demand for travel was very high. And so, we went from being around 60% in September to as high as 80% to 2019 by December...

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

Q

Right.

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

A

...which was much faster than we expected. And that wasn't because we didn't think people wanted to travel. It was because governments started to open borders. Then Omicron hit, and it went all the way back down to 70% by January.

But we were optimistic that two things had fundamentally changed, which have proven to be true. Number one, that governments have essentially decided opening borders is the thing to do, except China and a couple of other countries, like maybe Japan. And the second is the pent-up demand for travel is extraordinary. And that pretty much happened in February. So, by the end of February, we were back again to where we were in December with some extraordinary momentum.

So what we're seeing right now is that the pent-up demand for travel is huge. People want to travel. If I have to bet on the upside, I would bet on travel, both domestic and cross-border. And it certainly appears that governments are on an irreversible track to reopening borders. So, unless there is a deadly variant, we think pretty much most of the globe has decided they're done with shutting borders down. So we think the outlook for cross-border travel remains very good, and that has clearly been helpful to us.

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

Q

So, Vasant, you've said a few times here this morning that you feel like that there's substantial pent-up demand for travel. Is there a way that you can quantify whether that's like forward bookings and that kind of thing that you see in it? Is that figure into the measure at all?

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

A

Yes. I mean, what we see is people reacting very fast...

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

Q

Right.

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

A

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...right, when things happen. When a border opens, things happen very fast. So, if you look at the various – you asked about corridors, if you look at February, outbound travel from almost all regions except Asia is almost back to 2019 levels. So, people leaving their home countries is almost back there, except Asia where Asia has always been the laggard.

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

Q

Right.

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

A

If you look at inbound travel, parts of the globe that stayed open, like Latin America, and parts of the Middle East, like the Emirates have always been quite open, are way above where they were in 2019, because people can't go other places, so they're going to the places that they can go.

When the US opened its borders, we saw a big jump. From the time it opened till the end of November, I think, it was 20 points. It has continued to improve. When the UK opened its borders post-Omicron, we saw a very big jump, 20, 30 points in a few weeks. So, it's not just the forward bookings. We see immediate reactions. We see people acting very fast. And given the pent-up element of this, there could even be some overshooting in the short run.

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

Q

Sure. So – and it sounds like if I parse your words and things you've said this morning, so you're seeing very quick reactions to travel or people responding to opening borders. But, conversely, it doesn't sound like you're seeing people pull back because of the conflict in Ukraine and Russia, other than obviously in those specific countries but...

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

A

Yeah. I would say the Ukraine-Russia impact, it's too early to tell, right...

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

Q

Right.

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

A

...because you see some peculiar things happen in the early days of these kinds of conflicts. So, when a conflict happens, there's a lot of people who leave.

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

Q

Right.

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

Right? There's a lot of people who go back. I mean, it's very possible during the conflict a lot of people went back to Russia. And we know that a lot of people had to get out of there, too.

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

Right.

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

So – and we're only a week-and-a-half into it.

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

Right.

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

So, a lot of that hasn't settled down yet.

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

Got it.

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

So, what we see today is probably not representative of what is really going to happen.

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

And then just to level-set, and I think everybody's aware of like the differences with Asia and how they're handling things from a policy perspective, etcetera, but...

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

But Asia is catching up with the rest of the world.

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

Right.

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

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And they used to be the most restrictive, but even Australia has opened up now. I'd say all that's left is China and, to some degree, Japan. I'd say Japan, Korea – I'd include Hong Kong in the China context. Japan and Korea are probably the only countries that remain more tentative about this in terms of reopening. China certainly is very decisive in not opening.

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

Right.

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

Japan and Korea are somewhere in between. But the rest of Asia is pretty much decided. I mean, they're done with this.

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

Right. And so, to level-set, if we go back to 2019, what were the important corridors or what were the kind of the movement regions that mattered?

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

Well, I mean, the thing about our cross-border business is that it's very well dispersed, right?

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

Right.

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

There's very few corridors that dominate. I know people think that maybe certain corridors are more important. The US is a very important corridor for us, inbound to the US.

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

Inbound.

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

But the US is a huge market. People like to come here. It also happens to be some – happens to have somewhat higher yields. So the US opening is a very important thing. Generally, Europe is a big source of travel. So, people feeling comfortable leaving Europe is good. In this pandemic period, places like Mexico and the Emirates became very important because many of them stayed open when others were closed. Mexico has been way above 2019 levels for quite a while. The Emirates benefited a lot from the – for the same reason. So I wouldn't say any one corridor matters a lot and people are flexible, right?

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

Q

Right.

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

A

So, if they can't go X, they go to another place.

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

Q

Right. Makes sense. So you promised we'd talk about cross-border e-commerce trends.

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

A

Right.

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

Q

And that's been, I think, a very interesting thing that we've followed closely and I think that creates some interesting dynamic. Like, what are you seeing there and how do you think about that and its future impact on Visa?

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

A

So, as I've said earlier, going into the pandemic, cross-border e-commerce was one-third of our cross-border revenues. And then two things happened. Travel dropped off. E-commerce actually picked up. And for a while there, it became two-thirds of our revenue.

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

Q

Wow.

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

A

Today, it's about 50/50. It's indexing as of February at about 170%, 169%, 170% to 2019. So...

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

Q

Right.

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

A

...it's been growing in the 20-plus-percent range, which is significantly higher than it was pre-pandemic. What we're noticing is a few things. One, when people get comfortable buying online, they often are indifferent to where the good originates. So, as you would expect, e-commerce, it's very easy to be global in e-commerce.

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

Q

Sure.

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

A

So, if you are a good merchant, you can have a global business. And with more and more people turning to e-commerce in emerging markets and elsewhere, cross-border e-commerce has become a habit. We think it's a permanent habit. We think this is a new trend. There's a lot of merchants who have realized that during the pandemic they were able to build global businesses, and it is very likely that when the dust settles, there's some more travel recovery to happen.

E-commerce cross-border will become a larger part of our cross-border mix. It will almost certainly grow faster than the travel business. And so, it is possible that structurally our cross-border business could be at a higher growth level because the portion of the business that can grow faster is now a larger part of the mix. We'll have to wait and see. But what are people – people are mostly buying cross-border. Of course, it's not services; it's goods, right? So, it's retail goods that people are buying cross-border. And there's a very large community of merchants that have now developed that are very good at this.

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

Q

Yeah, yeah. It's crazy. It's like, yeah, I mean, you mentioned that is the – just on a personal note, neighbor of my sister that lives in far Southern Utah, they started building or making just like costume jewelry and sending it out to influencers around the world and they're doing, like, hundreds of millions of dollars of costume jewelry sales, like, 70% of it...

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

A

Yeah.

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

Q

...outside the US, like, and this massive business that blew up in just literally a matter of a few years. So, it's definitely an interesting trend.

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

A

Absolutely. And it's something we always said that e-commerce would enable is allow any business to be global. And thanks to people like Visa, someone sitting in Brazil is very comfortable buying from someone sitting in – selling in Utah. And your friend in Utah is more than happy to accept a customer from Brazil because we provide the guarantee they're going to get paid.

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

Q

Right. Absolutely, absolutely. So, let's talk about long-term growth. So, this is kind of the thing that everybody is really focused on, I think matters a lot for, hey, is it the right timing and do we have the opportunity to really get

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fully invested here or do we look elsewhere for the time being. But on the long-term, as your core US and European markets become more penetrated in terms of electronic card payments, what are the next layers of growth that you're focused on once we get beyond kind of the substitution of cash and check for electronic?

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

A

Yeah. I think I know that there may be a sense that the US and the developed world is getting to the point where there isn't more cash left to digitize. That just isn't true, right? There's still, in absolute terms, $4 trillion in cash sloshing around the US economy and another $3 trillion in Europe. And cash continues to grow. Don't ask me why, but cash continues to grow at a steady 2% or 3% clip.

So, even as we digitize cash, the cash economy continues to grow with the global economy; grows less than PCE because we're eating into it. So there's still a lot of runway even in the developed markets. And the digitization of cash is happening on three fronts, even in digital – in developed markets. Number one, through the pandemic, a lot of people just turned away from cash altogether. So, many people have essentially moved to a cashless life, so that's habit.

The second is, all technologies have allowed us to go deeper and deeper into smaller and smaller merchants, right? So there's just – it's so much easier now to set a merchant up. And through the pandemic, most merchants have realized they have to accept digital forms of payment. So we're going deeper and deeper into smaller and smaller merchants.

And then with Tap to Pay and other technologies like that, we're going deeper and deeper into smaller and smaller transactions, right? Tap to Pay took so much friction out of a purchase that there's no reason to open your wallet and take cash out and get change and all that. So, there is still a lot of runway in the developed markets.

In addition to that, I mean, we're only still getting started in a lot of emerging markets. There's – cash penetration levels are very low. I'll give you two numbers. Our Latin American business grew 66%, if I remember right, from 2019. PCE growth was nowhere close to that. As you can see, the bulk of it was cash digitization. Our CEMEA business grew 60% from 2019. So you see real evidence, and you'd see that in many parts of Asia that there's massive amounts of cash digitization still to come.

And then we have two other engines of growth, right? We have the new flows business which digitizes cash in a whole range of new categories. Now, this is where money is just sloshing around the economy unrelated to consumer payments, right? It's me paying you or an insurance company sending you a check or earned wage access. Our new flows business last quarter, for example, we told you grew in the mid-20s.

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

Q

Right.

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

A

And then we have a value-added services business, which sits on top of our money movement business and provides a range of services, and that grew in the 20-plus-percent range. So you have a core consumer payments business we think has tons of runway still. And you have two other businesses that could grow twice as fast as your core business, and they are becoming a larger and larger part of the mix.

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So we think, structurally, we're very well-positioned to come out of the pandemic with a variety of vectors at higher levels of growth than they were before. E-commerce, larger part of the mix...

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

Q

Right.

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

A

...growing faster, both cross-border and domestic. Debit, the cash generation – cash digitization engine growing faster. And two new engines, new flows and value-added services, a much larger part of your mix and also growing faster.

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

Q

So, if we look at like, okay, we're going to come out of this and you've said this before, perhaps at a faster growth rate than we were pre-pandemic, the other question that I'm sure you get a lot is around incentives and incentive costs, etcetera. How do you expect incentives to change as a percentage of revenue in 2022? And how is that impacted by mix, particularly cross-border, etcetera? Like, how should we think about...

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

A

Right.

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

Q

...the evolution of incentives in the cost side?

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

A

Yeah. I mean, what I would say is, in the end, I know there's a lot of focus on the percentage, but what really matters is our net revenue growth, right? Net revenue growth is really the money that goes into the bank. So I'd encourage people to focus on net revenue growth. The incentives, yes, they give you some indication of what's happening with yields, but there's a dynamic between what we do with pricing and what happens to incentives and so on. So, I wouldn't overly focus on a percentage. Net revenue growth is really in the end what counts.

The percentage has been noisy. It's been noisy because we had, coming into the pandemic, three years of very hefty renewals. I think between 2019, 2020 and 2021, we renewed 75% of our volume. That had some near-term impacts. And then, the pandemic hit and our cross-border business, which is higher yielding, dropped like a rock. And so, that incentive number went up. And as you saw last quarter, we've been telling people structurally nothing's changed in incentives, it's mix. And last quarter, the cross-border business recovered faster than we expected and the incentive percentages dropped back.

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

Q

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Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

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So, yeah, our outlook this year is 25.5% to 26.5%. If you look at the long-term trajectory, it has tended to go up about 0.5 point to 1 point each year. And by the time things settle down maybe next year, and you look at the five-year trend, it will look the same. So there's nothing – there's no news in there, really. It's the same.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Great. Well, Vasant, we're out of time. We appreciate all your comments this morning. Look forward to getting back to traveling internationally, for sure. Thank you very much.

Vasant M. Prabhu

Vice Chairman & Chief Financial Officer, Visa, Inc.

Thank you.

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