05-Jun-2018

Visa, Inc. (V)

Bank of America Merrill Lynch Global Technology, Media & Telecom Conference

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MANAGEMENT DISCUSSION SECTION

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

I think we're going to go ahead and get started here. I'm Jason Kupferberg, the payments processors and IT services analyst here at Bank of America Merrill Lynch, and we're excited to have Visa with us today. We have Jack Forestell, who is Chief Product Officer at the company. We also have Will Masterson representing Investor Relations. So, Jack, thanks very much for being here. We appreciate it.

Jack Forestell
Chief Product Officer, Visa, Inc.

Thanks for having me.

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QUESTION AND ANSWER SECTION

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

We're going to go through a bunch of questions, and we'll certainly be looking for questions from the audience as well. So, maybe just to kick off since it's kind of topical and recent on Friday, there was obviously news of a Visa service outage over in Europe. What can you tell us about what exactly happened, how it got resolved, what was kind of the root cause?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Sure. And I'm glad you asked it right upfront, Jason. It's something we're taking incredibly seriously. And first, let me just say like we view it as our job to provide the safest, most secure, most convenient, most reliable, most resilient payment service on earth. And for a few hours on Friday in a few of our European markets, we fell short of our own high standards that we set for ourselves and the standards that our clients and our consumers set for us. Look, we have teams right now hard at work, getting to every detail of exactly what happened. But I can – I know there are a lot of questions and many of you probably have read a little bit about it. I can provide what I know, a little bit more context on what happened.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Great.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

So, sometime late morning UK Time, we had a switch failure – a hardware switch failure in our data center in Europe now. As you recall, we recently acquired – it's a while back, Visa Europe and we're in the process of integrating Visa Europe into Visa. The switch failure was in the legacy Visa Europe environment. As you might expect, when you have a switch failure – we have two data centers in Europe in the legacy environment. When that switch failed, as you would expect, there was a real-time failover to another data center. The problem occurred when that data center and the switching that data center did not come fully up to capacity.

And so, what actually happened was – it wasn't a hard down or an outage. It was a constriction of capacity that occurred in that second data center. And as that happened and the transactions flowed through and we were only at partial capacity, we had variability in latency, transactions piled up, queued up, and many transactions were either dropped or declined. The rates of that were more significant upfront early in the event, and as the teams worked to bring the capacity up through the course of the day, it got better. And finally, shortly after 9:00 PM British Time, the system returned to normal and it's been normal ever since. And as I said, we still have people working to understand better exactly why the switch failed, exactly why the secondary site didn't come up in the way that it should have.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

So, it doesn't sound like it was directly related to the IT migration that's going on, because you said this occurred in the legacy environment?

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Jack Forestell
Chief Product Officer, Visa, Inc.
A

Right.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Okay, okay. That's very helpful. Thanks for clarifying it. I know that yesterday you guys had an interesting announcement at Money20/20 in Europe.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Big new investment, $100 million in FinTech, and also opening up the Visa network a bit more broadly. Maybe talk a little bit about that, what kind of motivated you guys to make the announcement and the strategic rationale behind it.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Sure. Look, we're excited about it. We're open for business for FinTechs, and we've been partnering with FinTech companies in this market for some time now. We got great partnerships with companies like Square and Stripe and Marqeta and – you name it. But we want to make sure that we plant a flag out there that tells the whole world that we are open for a FinTech partnership the world over. And as you're all aware, there is a lot going on right now in the European landscape with respect to open banking. Regulation is really driving a lot of activity. There are a lot of small companies out there developing great new products and services in the payment space, and we absolutely want to partner with them.

As you sort of referred to, Jason, there are two pieces of what we announced the other day. One piece was fast onboarding, kind of what we've internally colloquially refer to as FinTech in a box. We opened our Developer Center two years ago and exposed web services to partners. They could get onboard and experiment with Visa, but we did find to get into production as a small company with Visa was just too hard. So, we created a process for fast onboarding. FinTech partners can get on the wire at Visa with this new process in less than a month. Obviously, they can get up to scale in testing and experimenting a lot faster than that. So, we're excited about that.

And then, the second part of it was we're interested in making investments strategically in up-and-coming companies who've got great technology and great new services that are going to help us create the leading-edge payment experiences that we're in the business of creating. So, that's where the $100 million came from. One more bit is I keep getting asked why only in Europe, and my answer to that is it's beginning in Europe.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Yeah.

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Jack Forestell
Chief Product Officer, Visa, Inc.
A

[ph] Look (00:05:30), we've been doing this in the U.S. for a while. We absolutely want to expand globally. With everything that's going on with PSD2 and open banking in Europe, we thought it was a great place to start, but we'll expand beyond Europe very quickly.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

So, let me step back for a second and ask you...

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Kind of a bigger picture question. So, your title is Chief Product Officer. I think that includes oversight of all Visa's strategic partnerships. But just tell us a little bit about what are really your top three priorities let's say on your agenda in this role?

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah, sure. I might answer in a slightly different way.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Sure.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

But the Chief Product Officer thing is I'm excited about it. It's a new thing for Visa, and I'd say it's sort of part of our journey in moving from card network to technology platform solutions company. And so, historically, we've had our assets kind of distributed throughout the company. We have our core payment processing rails in one place, value-added services in another place, solutions teams in another place, partnership teams in another place. And what we've just done recently is we have brought that all together.

And the idea is, look, we're a tech platform. We got to have the best payment rails and the best underlying chassis there is in the business. We then got to add services on top of that. So, we brought the core platform team together with the teams that are building and expanding our inventory of services, and then we also brought together the teams around the world who are working hand in glove with our clients to build solutions on top of that platform along with our partnership and business development teams. So, I'm excited about bringing it all together and having one integrated vision and one integrated team for how we deliver those new solutions.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

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It seems like Visa's attitude towards partnering with others in the ecosystem has evolved a bit over the last couple of years, maybe become a little bit more open, if you will. So, I just wanted to get your take on that, to what extent has that been kind of a conscious decision, maybe the Visa-PayPal partnership being the best example of that over the last couple of years. So, just share with us some perspective on what's driving that shift in approach at Visa and do we expect that to continue going forward.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah. I don't know if we've sort of rethought how important partnership is at Visa. If you think of our business model, we kind of sit in the middle of thousands of partnerships that help us scale...

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Right.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Globally to the 3 billion consumers and 46 million merchants. So, partnership has kind of been at the core of what this company has been doing for 60 years. I think what's happened in the last few years is that we're re-imagining the breadth and the nature of those partnerships. It's certainly still a very strong set of partnerships with our issuing banks and acquiring banks processors. But increasingly it's partnerships with FinTechs that we just talked about and big tech companies like PayPal, like Google, like Apple, you name it. These players are important players in the payments ecosystem, and we need to be actively engaged with them. You mentioned the PayPal partnership. They're a great partner. It's one of the strongest partnerships that we have right now, [ph] if anything (00:08:55). They certainly initiate a heck of a lot of Visa payments.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Yeah.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

So, we like them a lot.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

One of the products we get asked a lot about is Visa Direct...

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

And I know that the company started talking a little bit more about it in recent quarters. So, maybe if you can just talk about sort of the roadmap for that product, really how you see the use cases for Visa Direct evolving, and

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then kind of the broader strategy that Visa has employed here, kind of building a product as opposed to making a sizable acquisition as MasterCard obviously bought VocaLink. So, there is a little bit of disparity...

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

In strategy and approach there, so would love some thoughts.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah. Look, we realized years ago that there are a set of use cases out there that are better served when a consumer or a small business can initiate a payment and have that payment pushed to their counterparty. Our model is typically – the consumer allows the counterparty to initiate a pull payment from their account. And that's fundamental difference between the historic payments that have got on our card networks and push payments or what we call Visa Direct.

And real-time payment platforms are growing around the world, real-time ACH is coming to a market near you, if it's not already there, I would project it's going to be soon. And so, we realize we need to offer a competitive and viable push payment service to satisfy use cases from P2P to [ph] low (00:10:30) cost acquiring and emerging markets, you name it, there are a lot of use cases.

[ph] And we stared at (00:10:36) the assets that we had and we realized, wow, if you really get down to at a real-time payment platform, real-time ACH, it's essentially just a straight account-to-account transaction, it's a settlement service that happens in real-time. We can replicate the same thing. We actually have that capability. There's a little bit of work to do on the part of our issuers in order to make it absolutely real-time. But on top of that, we then have the whole array of Visa's value-added services that can run across the top of that transaction, whether it's fraud liability transaction, fraud risk monitoring, disputes, chargebacks, the whole these are works and kind of go over the transactions, which isn't the case with the basic account-to-account transaction. So, we love Visa Direct as a platform. We think it's a better product than what you can get with a basic ACH transaction. We're working hard and we've got about 1 billion cards enabled for Visa Direct right now globally. I think we're on track to be about 1.5 billion cards by the end of the year, probably 2 billion cards on into 2019. So, that's a – I'd like to think that's decent scale when you get into the billions.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

The transaction counts kind of scaling in line with your expectations...

[indiscernible] (00:11:58)

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah. We're actually – we're very much tracking along with our expectations, a lot of work with partners out there to take up the service. We got lot of people excited about it, inventing the use cases. Little bit back to what I was saying before, it's – those are our core rails, we're adding a little bit of a set of services specifically for those push

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transactions on top and then partnering with people all throughout the ecosystem to have them create new payment experiences [ph] in use cases (00:12:23). So, we're pretty excited about it.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

How should we think about Fast ACH? Maybe let's just use the U.S. as an example, since we're – it's coming, maybe that's not quite here yet, but it's coming, and from what we hear, maybe in another 12 to 18 months a lot of banks will actually be up and running on it. Is that going to pose a threat to Visa Direct?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah, look, [ph] I always go to – (00:12:52) competition is healthy. And so, with Fast ACH, we view it as a competitor to Visa Direct. Sure. But at the same time, I think the advent of Fast ACH in the U.S. will also create much more awareness about the ability to transfer off of check and wire and Slow ACH and cash and [indiscernible] (00:13:14) other payments which are really where we're trying to grab the growth from anyway. So, frankly, in a way, the more the merrier, if we can raise awareness about it, I like our chances given everything I was just talking about and the [indiscernible] (00:13:28) services that we got in Visa Direct relative to a basic ACH payment.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

So, essentially the pile get bigger, right? Okay. Let's switch gears and talk about the single payment button that everyone is...

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah, excited about.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

...very excited about. The whole Secure Remote Commerce framework, maybe for those who are a little bit less familiar with some of the background, maybe say a little bit about what SRC is and how Visa is participating and then ultimately how this is expected to manifest itself in terms of a unified payment button that seems to be maybe the next evolution, if you will, of kind of Visa's online checkout strategy?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah. Well, look, here is where I'd start. I'd say, if you look at what we and the ecosystem accomplished at the point-of-sale, right, we've tremendous scale and reach and coverage at the physical point-of-sale. A part of the reason that occurred was, we had an incredibly strong standards, right, the standards that governed the interface, how a terminal looks and felt and worked, how a card looked and felt and what it was equipped with, and then how those things interoperate with each other, how consumers authenticate themselves and how that data moves through the system. Those things in the physical space were all very precisely prescribed and that enabled everybody to know what they were doing, get together and make the thing work at global scale.

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In Digital Commerce, the same isn't true and it hasn't been true for the whole Digital Commerce journey so far. And look, we've done really well at Digital Commerce.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Right.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

When a payment transfers from face-to-face to digital, we do even better. But at the same time, it's lacked those standards to make it easy for merchants and easy for consumers. And we've been working now for years to really try to drive us, the industry to a common set of standards. So, we're really excited about Secure Remote Commerce. That's what it essentially is. It's a set of standards to help us get to scale in digital payments. And there are three elements to the standard. Everyone does love talking about the button that's an important piece. But there is a set of standards around the user experience to create commonality there, make it more easy and intuitive for consumers, they see a common button and they know a common mark, they know what to do, easier for merchants, acquirers, gateways, carts to integrate, integrate once instead of integrating six times, makes a ton of sense. It's what happens at the physical point-of-sale.

But it's not just the user experience standards, it's also standards around customer authentication and the data payload that needs to get passed from merchants back to issuer to ensure the customer is who they say they are and to give us better odds of authenticating that individual, and then it's also a set of standards around securing the payload. The transaction itself, what data goes in there and how is it secured by an EMVCo cryptographic standard. So, it's all three pieces coming together and we're excited about it. We're hopeful that we can get to work and converting our own experience, Visa Checkout over to it a little bit later this year, we'll see when the detailed specs come out from the EMVCo. But..

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Is that the next milestone, the EMVCo specs?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

And those are expected when?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Hopefully late summer, fall.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

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Okay, okay. So, if we kind of fast forward to this future state where you've got the specs and then go through the process of coding through the specs, does the Visa Checkout brand that we've been accustomed to seeing in the online world, does that brand continue to survive or does that brand itself changed in terms of what the consumer sees behind the unified payment button, which I guess would initiate the online Checkout, I'm just trying to kind of envision the consumer experience...

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah. Well, let me say that first of all, with respect to exactly how the common experience will show up in the beginning, no decisions have been made...

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Okay.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

...no specs have been published, so...

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Okay.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

...I can't tell you exactly how – whose brand will show up in exact ways at the beginning of it. What I will say though is, look, as we worked with partners in the payment facilitation space, acquirers, gateways, merchants, I – we find that our partners love the Visa brand and tend to want to showcase it prominently throughout the payments experience, whether it's at the beginning, in the middle or at the end.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Okay.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Because it represents back to the consumer exactly what I talked at the very beginning of this, which is safe, secure, fast, reliable and that we've got your back. And so, I fully expect that you should see the Visa brand interwoven through transactions on a common button is much or more than needed through a single button.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

What have you heard so far from merchants? Obviously, there are key constituency in all of this, I think initially maybe there was a press release from one of the merchant organizations saying, hey, look, we want to make sure we're involved and we have input into the standards, et cetera. I mean, do you see that as a significant stumbling block to get all this done or is there been some initial partnering there involving the merchants?

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Jack Forestell
Chief Product Officer, Visa, Inc.
A

Look, we want input and collaboration from everyone, including merchants. So, we absolutely want merchant feedback. We have consulted with our merchant partners throughout the course of this. I'd say the general consensus is optimism around the ease and convenience of integrating to a single button with a common experience that consumers are going to be able to intuitively understand. But if I were a merchant, I'd say, it sounds like a great plan. Let me wait and see when the specs come out and I'll do my integration and we'll see what happens.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

And I guess the idea would be that this would be [ph] easier (00:19:51) for merchants, right, because instead of six different button providers coming to the merchant and saying, code to us, code to us, code to us, you essentially code to one standard and then I guess the merchant could decide which specific buttons, if you will, they wanted to have available underneath the single button or something to that effect.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

That's exactly right.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Okay, okay. So, we'll look forward to that. On a related topic, let's talk a little bit about W3C standards and...

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

...maybe you can just level set from the audience by talking about what W3C is as kind of a standards body, because I think there's some awareness, but not full understanding in the marketplace. And then, how that dovetails with some industry announcements we've seen recently from the likes of Google...

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

...and we'll probably have a couple of questions underneath that, but...

Jack Forestell
Chief Product Officer, Visa, Inc.
A

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Yes, sure. So, just to start, W3C is the standards body that sets standards for web browsers. And they've recently developed a set of APIs for payments, sort of API standards. Payment request is kind of the core standards. And the intent of it, just to keep it simple, was to make it easy for merchants to integrate payments from a browser into their website.

Our view is probably predictable by now as I've been talking, but look, it's an open standard, it's meant to make things easier for merchants, at this point in history, the payments that sit in the back end of that standard are our card network payments. So, things that make it easier and faster for more Digital Commerce to happen and to get people a path to card-based payments, we're fans of these open standards. Now, we've been developing the SRC standards in parallel, but separately from the W3C standards. The SRC standards, I just described, go beyond browser and are applicable to all digital payments. And as I said, they cover not only the user experience piece, but also the authentication and the tokenization pieces. So, there's still a lot of work left to do, but I'm hopeful that we can see a dovetailing of those two standards and that eventually a W3C payment request can incorporate the SRC standards into it.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Questions from the audience for Jack? Can we get a microphone up here and then one in the middle as well? Thank you.

Colin R. Ducharme
Analyst, Sterling Capital Management LLC

Q

Hi, thanks. Colin Ducharme with Sterling Capital.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah.

Colin R. Ducharme
Analyst, Sterling Capital Management LLC

Q

Regarding the B2B market, the networks have talked a lot about the opportunity there. Al Kelly has mentioned that travel and procurement probably the easier wins and I would view those as kind of the cardable opportunities....

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah.

Colin R. Ducharme
Analyst, Sterling Capital Management LLC

Q

...B2B payment types, but just curious in your role as Head of Products for the non-carded payment types, what sorts of product strategies is Visa bringing to market to attack that opportunity, and then from the outside looking in, how can we kind of measure the success in the near-term? Thanks.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

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Yeah. Look, there's – I don't want to dismiss the cardable space. There's still a lot of runway left there and a lot of opportunity for us in verticals like the ones you mentioned to drive more volume. If you look at the overall opportunity, the non-cardable piece of B2B payments is obviously a much more significant piece of what happens, that said, a lot of those are very large institution to institution payment. So, somewhere in the middle where you get to the medium-size enterprise business to business payments that – that's I think the sweet spot that we're going after, and there we're developing straight through processing solutions, but we're leveraging much of the same backbone technology as Visa Direct to be able to initiate – enable businesses to initiate push payments from one business to another business. We're starting with use cases like insurance is an easy one where we can offer a service for insurance companies to make disbursements to [ph] claims (00:24:08) or other partners via the straight through processing service.

Look, it's still early days, so I'm not sure what to tell you in terms of how you are going to be able to check on our progress on it, it's probably not something that we're going to hang out a shingle on just yet, but stay tuned.

Q

Like similar topic or same topic.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah.

Q

You think back then, I think it was 2009-2010 you guys did a partnership with [indiscernible] (00:24:40). What is it as you see at the bottleneck that's kind of preventing B2B from taking off faster, I would have thought given the lack of penetration by now there'd be more growth, and I'm just curious how you see the bottlenecks there and what you can do to push those aside?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah. It's a complicated space. The fluidity of change when you're talking about institution to institution type payments as opposed to when you're talking about the world of consumer and digital platforms, the pace is just different, the inertia is different. And so, while we as consumers can switch our behavior to operating via a mobile device in cooking, collecting our coffee and paying for it digitally, whereas we wouldn't have imagined that a few years ago. When I'm operating the AR or the AP function inside of a company, and I've got it wired up with an ERP platform and I've got those connections pre-made with wire and check and I've got a treasury with some – there's just a lot of work to do to close the sale, and then there's a lot of work to do after that to get the change happen. So, it's a lot more trench warfare that just scales less quickly than what we see as digital sort of sweeps the consumer space.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Other questions? Let me just ask you one follow-on on that, I mean, I guess, we've always thought that part of the challenge in B2B is trying to make kind of the traditional interchange model...

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Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

...really transfer over, I mean, is that a genuine challenge? I mean, maybe I'm oversimplifying it, but if I think about just take the average kind of small business, if you will, and I'm buying $50,000 worth of equipment from another small business, I don't want to pay $500 to complete that transaction. Is that an over-simplistic way of looking at it or is that part of the inherent challenge here of how do you find kind of a happy medium between like checks or Slow ACH versus what we might be able to offer in the future?

Jack Forestell
Chief Product Officer, Visa, Inc.
A

Yeah. Look, it's a component of it.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Okay.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

But in my experience, having tested a lot of solutions in the space, solving that problem by itself does not – is not adequate. You've got to get to the core of all of the other pieces. You've got to make it easy to have the payment service integrated into whether you're a large enterprise and you've got an ERP platform or whether you're a small restaurant and you have an ERP platform that's designed specifically for you.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

: Right, right.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

The integration has to happen into those platforms. It's got to be simple, you got to be able to understand it, you got to have counterparties in their side who can take the payment. So, there's a lot of complexity to get through beyond just the pricing piece...

Jason Kupferberg
Analyst, Bank of America Merrill Lynch
Q

Right.

Jack Forestell
Chief Product Officer, Visa, Inc.
A

...which is a component of it, frankly, that's probably a little easier to solve than some of the other parts.

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Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

We continue to get asked a lot about the broader competitive landscape in payments and perhaps sort of non-traditional competitors. Amazon is certainly one that always is fun to talk about and no shortage of headlines there. Relatively recently some talk about maybe a checking account like product coming from them details a little bit sketchy, but we just love your perspective since you kind of see everything in the ecosystem. What do you think perhaps their end game in payments may be, what do you think about kind of what they've done so far? Obviously, they've got an online check out button, they've got some actual card products, private label and co-brand. So, we just love your perspective on how you think they may be viewing their longer term role in payments, are they more of kind of an enabler, a disruptor?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

[indiscernible] (00:28:45)

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Yeah, exactly. Well, it's not an earnings call. [indiscernible] (00:28:47).

Jack Forestell
Chief Product Officer, Visa, Inc.

A

[indiscernible] (00:28:51) first Amazon, they're a great partner.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Yeah.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

I think Amazon and Visa have an incredibly symbiotic relationship.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Sure.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Amazon has done a lot for the growth of digital payments globally. And I think Visa and card networks have done a lot for Amazon in enabling a simple friction-free experience for them as they have driven that growth. So, it's yin and yang works well and we're huge fans of Amazon.

With respect to Amazon's aspirations in banking and payments, look, I read the same things you read. So, it's probably a question that's better posed to the Amazon team. But look, here's how – I guess how [ph] I take around that (00:29:36) one is if – we've seen other non-FI players enter the banking space to varying degrees of success over the years. If I were a non-FI player looking at getting into the space, I think I'd probably be looking at

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trying to find the partnership assets out there that give me the best chance of creating the best product and the best customer experience that I could create. And I'd say beyond being a great tech company, Amazon is a great customer experience company. I think if I were in those shoes, I'd be looking at partnerships with banks. I'd be looking at partnerships with payment networks, right. If I want to offer a card product to my consumers, I want to offer them the one they want, and I say this to our co-brand partners all the time.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Right.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

You want to offer your consumers a payment vehicle that they want, don't listen to me, go ask them and watch what they do. Your customers want a Visa card. So, we'll see if the rumors are true, if any of that plays out. But that's how I would think about it if I were sitting on the other side.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

What about private label more broadly? Private label cards have been around forever.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

I think longer than Visa cards actually. But clearly, more and more different types of merchants seem to be...

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Promoting their own types of private label cards, and again, Amazon is one of those as well for their Prime consumers and the Target REDcard another example I guess. Has Visa changed its view at all in terms of just kind of competitive threat from these products, because it seems like maybe the value proposition that they're trying to offer consumers is maybe a little bit richer at least in some cases than it's been in the past? Would you agree with that premise or...?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Look, you mentioned it, the private label cards have been around for a very, very long time. So, I haven't seen any abrupt changes in the relative share of open loop and network-based cards relative to private label in the last decade or so. And so, look, I think private label cards play a role, they'll be around for a really long time. As you mentioned, there are merchant partners out there who emphasize them. They use them as a platform to deliver

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value back to their consumers in ways that they can't or don't through other vehicles, and that's great. Again, more things that draw consumers into digital payments, that draw consumers into network payments, that displace cash, that habituate consumers to using electronic and digital payments, all good with us.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Yeah.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

I like our chances at being competitive with private label given the value-added services we have and the 46 million outlets where you can use a Visa card relative to a private label card.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Right, right. Yeah, it's a strong value proposition. And I guess that sort of begs the bigger picture question which is the competitive moat that everyone always talks about with Visa and with MasterCard as well. What really does keep you guys up at night when you think about out-of- the-box types of scenarios where the traditional networks could get "disrupted?" What really worries you longer term in theory and how do you try and stay one step ahead?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Look, we've got an incredibly resilient business model. It's really stood the test of time and supported by really strong secular growth. We also have kind of what I think as somewhat of a strategic runway where we can see developments across the industry, across the world, and we have the time to react to them. Lot – we get asked a lot about what about [ph] Pally Pay, what about VCAT (00:33:51).

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

I was going to – yeah.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Are those models going to come to a market near you anytime soon. I won't get into a long discourse about that. But look, there is a set of circumstances that emerged in China that are incredibly unique. We are starting to see those players spill outside of China. But we've had time to develop our own competitive response. We're building out the push payment service. We're building out QR code standards and we're starting to enable those standards in emerging markets in the regions where those competitors are spilling out. The keep it up – keeping up at night one is probably just a little bit more around the pace of regulatory change...

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Right.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

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Around the world. And again, we invest significantly to partner with governments around the world, to keep governments informed, to partner with governments. But there can always be a little bit more unpredictability when it comes to the regulatory side of things, and that's – that one makes it a little harder to react to.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

When you think about product strategy, taking let's just say a three to five-year view out and you think about the classic sort of buy versus build decisions, it feels like obviously putting Visa Europe on the side, Visa has not been very acquisitive in recent years. There was a period post-IPO where there was a decent pace of M&A, and then it seems like we've transitioned more towards more of the build versus the buy. Where are we now? Are we pretty comfortable with the sort of organic reinvestment or might we see some resurgence of acquisition activity?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah. I think we are pretty comfortable. And look, I'll give you the product guy answer to your question.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Yeah.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

When I look at it, I love our core platform. I want that to be the highest performing, safest, [ph] most (00:35:47) secure platform in the world. I think we're good at that. I also want it to have the most feature-rich set of services to enable partners and developers to come onto our platform and build new solutions. That's where I'd say – look, we're building new services at a breakneck pace, but we're under no illusion that we're the only ones in the world to have good enough ideas to attach to our own platform. So, we're very much in the market to add product and service onto the platform through acquisition. We obviously would be very diligent in the way we think that through and what we do there. So, it's probably a balance.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

How are you preparing for Internet of Things? It seems like Visa and others in the payment space should certainly have a play there, right...

Jack Forestell
Chief Product Officer, Visa, Inc.

A

Yeah.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Just with all the connected devices that are coming down the pike. But how much of a focus is that internally? Do you have a dedicated team underneath you that just thinks about IoT or how do you address the opportunity?

Jack Forestell
Chief Product Officer, Visa, Inc.

A

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Yeah. Look, IoT is nothing but goodness.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Right.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

[indiscernible] (00:36:53), when a payment moves from physical space to digital space, our sort of share of transaction volume almost doubles.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Yeah.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

And IoT is sort of a vehicle for fueling an explosion in the endpoints that can take a payment. The way we think about it though is more like these are hardware devices that are going to be sitting everywhere around the world. What really powers the hardware devices though is software. And so, our job as we see it is to ensure that it's easy to integrate Visa payment services into the software that runs on those IoT devices.

So, we're working hard to ensure that we're easy to integrate into voice-based AI platforms that are going to power a ton of IoT devices, that we're easy to integrate into connected car platforms, that we're easy to integrate into basic card on file using the SRC platform that I described. You want to make a payment on the scooter that you rode here today or the bike, it's going to be a card on file payment and that's delivered by an SRC experience. So, there are some use cases when you get into certain types of IoT like wearables, where you might want to make a transaction happen at the physical point of sale.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Q

Right.

Jack Forestell
Chief Product Officer, Visa, Inc.

A

That's where we have to interact with the hardware. We have a program called Visa Ready that we've built out to enable smaller players in the wearable space to be able to quickly onboard and connect payments to those kind of devices. So, yeah, we're absolutely excited about it, thinking about it. We have a team of people working on it.

Jason Kupferberg
Analyst, Bank of America Merrill Lynch

Terrific. I think we're going to leave it there. Thank you very much.

Jack Forestell
Chief Product Officer, Visa, Inc.

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All right, thank you. Thanks, Jason.

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