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Visa, Inc. (V)

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CORPORATE PARTICIPANTS

Vasant M. Prabhu

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

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Thanks, everyone for staying with us and I'm very excited to be joined by our next guest, Vasant Prabhu, the CFO of Visa. So, thank you for being here.

Vasant M. Prabhu

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

Thank you for having me.

QUESTION AND ANSWER SECTION

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Maybe, Vasant, if we can just start off, about two years ago, you held an Investor Day and articulated what seemed to be some very aggressive targets or maybe just remarkable ones, in particular an expectation that card credentials and merchant acceptance points could actually grow by 10 times the current size over the horizon. So maybe we can just start there. How are you feeling about that target? How is your progress working toward them? Has anything really changed about what would cause you to achieve that?

Vasant M. Prabhu

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

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Well, if anything our confidence has gone up even more since then. Just to reiterate, I mean we do believe the industry has an inflection point and that's driven by a few things that are obvious to all of you. It's driven by the proliferation of smart devices, which are proliferating everywhere in the world. And every smart device in our view is a point of acceptance or a point of payment. And so, what we talked about was this massive 10x expansion in ways to pay and be paid. Then it is the growth of mobile connectivity and along with it the growth of commerce that grows on mobile lines as opposed to landlines and so on.

So, you put all that together and you can now enable all kinds of use cases that were not enabled before. You can increase acceptance – however you define it, whether it's merchant acceptance or individuals accepting payment in a way that is far cheaper and faster than anything you could do before. You can embed what are not cards anymore. We don't use the term cards anymore but digital credentials into any kind of device that you want to. The Internet of Things or whatever you call it, whether it's wearable devices or Alexa's or cars and so on.

So, essentially what it does is allows what used to be 20 years ago just one way to pay and be paid, which is you were face-to-face in front of a merchant, swiping a card to make a payment, to every day we're coming up with new ways to pay and be paid.

One of the things I'd like to highlight is something you'll hear us talk more about, which is new payment flows. Our entire business today, the \$20-plus billion in revenues we have, the profits we have, are driven by fundamentally one payment type, which is an individual or a consumer paying a business, call it C2B.

But the capability we now have created in our network, which we put under the umbrella of Visa Direct, you can enable a whole new set of payment flows to just to get into the alphabet soup. You can now enable [ph] P-2-Pay (00:03:27), P2P or A2A, whatever you want to call it.

Essentially account-to-account or person-to-person, we can enable B2C, which is disbursements and all kinds of payments along those lines, payroll, business-to-consumer. We can enable G2C, which is government-to-consumer, all kinds of transfer payments, et cetera. And, of course, we can enable many, many more elements of B2B.

So this whole area of new payment flows is extraordinarily important and we are seeing incredible traction in that area, and it's only just the beginning.

So, if you think about it, for our entire history you had – on the one hand you had consumers, on the other side you had merchants. And we connected consumers to merchants and money flowed one way. Now we can connect any node in our network to any other node and do it both ways. So, you can take money out of your account or put it into your account, and we can do it not just between you and the merchant, we can do it between two of you.

So imagine a network which has at this point 54 million nodes called merchants or businesses and 3.3 billion nodes called consumers or cardholders or account holders. Imagine this network now, every node being able to communicate with every other node and move money both ways. Imagine the capabilities that are opened up by that. And imagine the fact that for 60 years, and all we did was just one piece of it which was, consumers paying businesses. That's what makes us so excited.

And then you add on one more thing and then I'll finish, taking the friction out of payments. You do contactless. You make the payment experience and the physical point of sale as frictionless as we've ever been able to make it. And that is demonstrated by people voting with their feet or with their tapping of cards. And then with a single button, you take the friction out of the e-commerce transaction. And you take a lot of friction out of these transactions and then that makes them – it increases penetration and usability even more.

So, you put that all together, there are just too many things going on that make us extremely excited about this inflection point.

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Maybe we can parse some of those areas...

Vasant M. Prabhu

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

Sure.

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Q

[ph] Furthermore (00:05:55) a little bit. Why don't we start on B2B because that...

Vasant M. Prabhu

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

Yeah.

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Q

...seems to be an area that's being spoken about much more now. Two years ago, I don't even remember any discussion of B2B, and now it seems to be very much a central focus.

So, what – can you maybe describe how Visa – what products and functionalities Visa is putting forward into that space, and what pain points they are – what pain points they...

Vasant M. Prabhu

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

Yeah.

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Q

...address in the payment process today?

Vasant M. Prabhu

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

Yeah. I think a few facts and figures. I mean, we've been in the B2B business for a long time, and we've enabled certain kinds of B2B which I'll get to in a minute. A lot of it is what you're familiar with. It would be commercial cards, procurement cards, virtual cards, small business cards, and so on. And some B2B in the – let's call it, the large enterprise space. That's what we've been doing for a while. And that today, as we have been telling you, is about 11% of our payment volume, almost \$1 trillion now. So it's already a sizable business.

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\$1 trillion of a TAM, that's approximately 20%. Is that the...

Vasant M. Prabhu

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

So I was going to get to that. So its \$1 trillion, we're twice as big as the other guy and going roughly as fast, somewhere in the mid-teens. So, now one thing that I would encourage all investors and analysts to do is, in our

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core business of consumer paying businesses, it's a very homogenous business. We're enabling what is effectively the same kind of transaction, billions and billions of times, right? We do 500 million transactions a day. So – but they're all very homogenous.

When you go to B2B, it's not homogenous. And that's the first thing you need to know, is it's not homogenous. So we like to think about B2B in at least two big buckets and then there are many buckets beyond that.

The bucket that we are most excited about and is something we need to all do a better job of is the one we are already in, and that's about \$20 trillion in [ph] Visa, Inc. (00:08:03) And this is where the technologies we currently have, the solutions we currently have all work and we just need to do a better job of building it.

So, if we have \$1 trillion of that \$20 trillion and the other guy has \$0.5 trillion or so, this is a long way from capturing that \$20 trillion. Now, of course to capture that, we need our partners with us. As you know, our business model is based on partnering with our financial industry partners. So, we need them excited about it, too.

So we're definitely making progress on that. We're doing a lot more with virtual cards, something that for various reasons, we have chosen not to play in a few years ago and it's a big global opportunity, so we're throwing more resources into sales to go sell these services.

But [ph] this is something (00:08:50) we know how to do. There's no great mystery about it. We just have to do a better job of execution. And we both do. I mean, it's just an opportunity for the whole industry. Can't be confused with another number that's thrown out which is the \$100 trillion. When you get into the large enterprise space and this is where I would encourage caution. Our view has been that as the industry leader, we need to sort of be realistic and prudent and give you the facts as we see them. The \$100 trillion is an opportunity, but it is a much harder one to develop because now you're dealing with large enterprises making payments among themselves.

Now, there's a value proposition question. There's a system/technology question, enterprise systems that have to be able to handle certain kinds of payments. There's a value proposition question. What is the value you have to offer? And every – there are many, many, many segments, right? They're not as homogenous, let's say, even as the \$20 trillion.

So, we're all working on that. There are many intermediaries that have come up, companies that are providing solutions. Very often the solution may be something like help me outsource my accounts payable or help me outsource my accounts receivable, help me better automate my accounts payable or accounts receivable. It's often a cost question and we're a part of the whole solution. We are not necessarily the providers of the whole solution. We're a part of the whole solution. Often you have to partner and we partner with many of the intermediaries.

I would say that as someone – we can handle this one of two ways, we can put out a press release a week about this partnership or that partnership or we can tell you that we think this is an opportunity, it's going to take some time to develop, we're all focused on it, and we've chosen the prudent track, which is to say, look, this is a big opportunity. We're doing a lot, we are – got all kinds of initiatives underway, but it's going to take some time to develop. In the meantime, there's a \$20 trillion opportunity which is [ph] nearing (00:11:03) going well. We're investing a lot. It's growing nicely. We have a sizable business and are by far the market leaders. And that's the one I would say, you should watch in the near-term.

So I would finish by saying on B2B. Yes, there's a lot of talk about it, but there's an insufficient amount of work being done, either by the analyst community or the investor community and really understanding the complexities of that business. I think it would be a mistake to make two assumptions, assumption one, would be that it looks a lot like the business we've been in. Assumption two would be that, it's around the corner. There are elements of it that are around the corner, but there are elements of it that will take some time.

And then, there's the whole question of value proposition and what yields are achievable in the B2B business.

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Maybe another area that you touched on was Visa Direct, so maybe can you just contextualize...

Vasant M. Prabhu

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

Yeah.

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...what Visa Direct sort of does with respect to the expansion of Visa's capabilities and relevance...

Vasant M. Prabhu

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

Right.

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Q

...outside of the traditional homogenous transactions?

Vasant M. Prabhu

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

Yeah. Now this is a topic I can go on for a very long time, so I won't but stick to a few highlights. The potential created and in a way we do ourselves a disservice when we call it Visa Direct and it seems like one little service, which it isn't. What it really is the capability, right? And fundamentally what the capability is, is to enable money to flow not only out of your account but into your account, number one, and to allow money to flow from account to account, not necessarily just from account to a business. Any account within our network now can send money or accept money. That is fundamentally the capability.

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The other extraordinary aspect of it is that we can enable this very fast compared to alternatives like real-time payments because real-time payments as you know are a patchwork of national systems. In many cases there are no real-time payments. I would say the vast majority of the planet today does not have real-time payment networks and it will take a long time to deliver them and they are complicated. Even countries that have had real-time payments for a long time like the UK have had very little take-up on them because they're clunky, they don't work very well and they're expensive for banks to connect to. Whereas, we already have the connections, we have the global scope. We are ready today and it is not that hard to get our partners to enable the Visa Direct capability.

In addition, we are willing to use other rails to close out or to get to points we can't get to. So, we can mix and match. We can use our rails wherever they go and where they don't go certain places, we can jump onto other rails for the last mile or whatever, and those could be even traditional ACH and so on.

So fundamentally, we are moving really fast to enable this capability on a global basis. And we've already moved money across 150 countries which would be impossible to do with any other service. And the other thing about a capability like this is that it just doesn't move money around, it has things that RTP and ACH don't have which is a level of security, a level of immediacy, and a level of protecting the user whether it's fraud protection or disputes, chargebacks, et cetera, capabilities and value added services that other alternatives don't offer.

Having said that I mean, will we use RTP rails where it makes sense, absolutely. We will use ACH rails where it makes sense, absolutely. So it's not one size fits all. The excitement about this from our standpoint is that it enables a whole range of use cases. P2P is the most obvious one. So clearly, most P2P now is enabled on these rails. We're very excited about disbursements. That's the next big use case that is growing fast and there's a whole range of disbursements. I mean, you could actually think of these as businesses, right.

We can enable large chunks of payroll using this capability. We can enable all kinds of payments you get from businesses you do business with whether its insurance companies, healthcare companies, et cetera.

So, disbursements, we're very excited about. There are services that are now being offered for instant payments to merchants, right? Small merchants often don't get their payments for a couple of days. You can get it daily [ph] for a fee (00:16:00) being offered right now, Bill Pay.

Those are some of the early businesses that we're developing. But there's many, many, many opportunities here. There are – the range of possibilities here is quite vast. And we're partnering with a lot of people to scale this, because we want to move as fast as we can and there are intermediaries that can help us scale this.

So, you will see us doing a lot more. And it'll all come under the sort of headline that you will hear us talk a lot more about, new payment flows, right? New payments flows are things that didn't flow on our networks before that are now possible to have on our networks. So it's not just – don't think of Visa Direct as though there's debit, there's credit, there's prepaid, and then there's Visa Direct. No. We're enabling a whole new set of businesses that'll become evident over time.

Q

Yeah. Maybe, Vasant, can we turn to a couple of the other things that you mentioned that are more about functionalities like contactless?

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

Yeah.

Q

On the fourth quarter call, [ph] it seemed (00:17:09) that Al Kelly thought that contactless here in the States was also at a point of significant inflection.

Vasant M. Prabhu

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

Yeah.

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So, can you help us understand what it is that you're looking at that make you feel so strongly about that?

Vasant M. Prabhu

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

Sure. Yeah. Look, I think people are beginning to understand, because initially when we started to talk about contactless, we had the impression that many people didn't understand why we were talking so much about it. You have to understand that the power that comes from taking the friction out of a transaction is really, really critical to this business. And in the entire time we've been in business, there has not been a technology that consumers overwhelmingly voted with their feet to say, wow, this is good. To the point where when they don't have it, they get really mad and contactless is one of those.

The face-to-face payment experience with contactless is so easy and so frictionless that it takes off like a rocket. And there's a chicken and egg problem like everything we do. The early days are slow because you got merchants saying, well, I mean, I'm not going to turn on contactless because I'm not seeing consumers show up with contactless cards. And issuers saying, well, no merchants are really enabling contactless so why should I issue cards with contactless chips.

Well, once that is solved it really takes off. So in Australia we talk about how in the first couple of years it went from 1% penetration to 7%, and then in the next couple of years it went from 7% to 50%, and now it's in the 90% and we're seeing that in every country.

The other thing we're seeing as AI pointed out is that this experience is so good that people use their cards a lot more. So it goes deeper and deeper into smaller and smaller transactions. Because it's so quick, it's much faster than using cash even for a tiny transaction.

Merchants love it because it speeds up lines. In fact if you are in the UK and you are an American you now stick out like a sore thumb because you're holding up the line.

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Yeah.

Vasant M. Prabhu

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

Because you can't expect...

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Yes.

Vasant M. Prabhu

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

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... [ph] if (00:19:16) you don't have a contactless card. So the reason we're excited about the U.S. is that finally the chicken and egg problem is falling into place. EMV was the enabling technology, more and more merchants are turning on contactless. I believe 7 of the 10 largest merchants in the U.S., including people like Costco have turned it on. Issuers are noticing that.

And you will see issuers make announcements to say that they will be issuing contactless cards and you will soon get cards, maybe initially when you have a replacement that has that little symbol on it that shows that it's contactless. We have a commitment internally that we will try to get 100 million cards to be contactless in the U.S. by the end of next year. We feel pretty good about it.

I think we're solving the problem on the merchant side. So, you will – if you have a contactless card now, more likely than not, you're going to be able to use it. And if you're not an American-issued card, you'll most likely have a contactless card and soon you will start getting contactless cards in the U.S. too.

So, I would say the next two years are probably when it goes from 1% to 7%, and then two years after that, we hope it grows. Today – last year, one in eight transactions on our network was enabled through contactless. Last year, I believe it was one in four. Outside the U.S., it's already 40% and growing really fast. So, this is happening very fast.

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And the 100 million is relative to what figure today in the United States?

Vasant M. Prabhu

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

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Well, it's a large number of cards in the U.S. but it's a meaningful dent in that. And that's the start because then it will really take off from there.

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And one of the interesting things about contactless is that it obviously emanates from the physical card and yet one of the other trends of course is the increasing growth of e-commerce and mobile commerce where it's the credentials, but not the physical card.

Vasant M. Prabhu

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

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Right. Yeah, I'm talking here strictly about face-to-face payments, right? This is where we think contactless makes the big difference.

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So, does it suggest that in fact the physical card is going to stick around awhile?

Vasant M. Prabhu

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

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Well, what we are noticing in countries that have adopted contactless is that people stopped using – even people who had shifted to using phones, stopped using them. Because remember, I mean it's much easier to tap a card than to [ph] fettle (00:21:46) with your phone and get to the app and all those kinds of things. We're noticing people shift away from phone-enabled contactless to just tapping the card. I mean, you can even have the card at the back of your phone and all you do is just tap it and you're done.

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Right. Maybe again, switching gears a little bit just to talk about may be trends in different geographies.

Vasant M. Prabhu

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

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Yeah.

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Maybe we'll start with Europe. Of course you guys have – now it sounds like gotten to the end of this Europe integration. Can you tell us a little bit about the experience there now? I think the contracts have been closed with all the issuers. So, how are you thinking about the European growth opportunity?

Vasant M. Prabhu

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

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Yeah, we're very excited about Europe. I think it's got long ways to go in terms of growth. We passed the two-year mark in June of this year. And at the two-year mark, we are already past double digits accretion, well ahead of schedule. If I look at the financial performance of the business, it has significantly exceeded our expectations for a whole host of reasons, revenue reasons, cost reasons, tax reasons et cetera.

If I look at the EBITDA that we get from Europe today as a proportion of our total EBITDA and I look at, therefore, what the implied value of the European business is and I look at what we paid for it, our investors have done extraordinarily well. So, even as we were doing significant amounts of integration and we're largely on the defensive for the last two years, the business has clearly delivered from a financial standpoint.

The good news is two complex integrations were done. One was we had to redo well over 100 contracts and make them commercial arrangements and that was done with very limited leakage which was better than our expectations. When you reopen that many contracts there is always the risk. So we're thrilled about that.

And then the second piece is the technology platform integration, very complicated, also done. The reason we're excited is there is plenty of opportunity in Europe. I mean [ph] this was an (00:23:58) association before – for various reasons it did not build a business of a quality and size and share that we're typically getting in most parts of the world for various reasons. So there are clear opportunities in certain parts of Europe, there're clear opportunities in certain segments of the business. There's a lot going on with fintechs and PSD2 coming which we feel very excited about. So we think there's just a lot of upside over time.

Now, like anything in this business it takes time. It's not going to happen overnight. We're going to be disciplined, we don't want to disrupt markets, [ph] there're (00:24:40) contracts in place. The fact is that, with our brand with us now owning Visa Europe, with our technology, we're just a better partner than banks in Europe had before. And in many parts of Europe, our market position is surprisingly weak, because of the history and over time, our goal would be to address that.

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And is the product set now fully available to European issuers? Is your on-the-ground sales people [indiscernible] (00:25:16)?

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Vasant M. Prabhu

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

Everything we can do globally, we can now offer in Europe. And most of our European customers are aware of it. Many are already using it. And in Europe, we will do things we don't do in other parts of the world because of PSD2 and all the things that are possible as a result of that.

So we have a lot to do in Europe. Don't expect things to happen overnight. Nothing in this industry happens quickly, just given the nature of the business. But rest assured that we are moving from defense to offense and we are quite excited about the long-term opportunities in Europe.

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I'm glad that you just touched on PSD2. Maybe you can just talk to what your initial experience is in the PSD2 environment?

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Vasant M. Prabhu

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

Well, [indiscernible] (00:25:58) again, I would say, don't expect PSD2 to sort of have immediate impacts, right? It is early days, we feel very good about it. We think we can offer a range of services that are possible in the PSD2 world. We think it opens up a lot of opportunities for us. Strong customer authentication is a pillar of PSD2. We have a lot of capability in that area. We think we can help a lot of people with strong customer authentication. Broad account to account connections is another pillar of PSD2. We can help with that.

We certainly see PSD2 as an opportunity. We're working very hard to work with new players emerging to try and take advantage of what PSD2 allows. I would describe PSD2, internally, we think of it as an opportunity not a threat by any means. Anything that requires greater connectivity, greater security, greater authentication is something we think is very much what we provide.

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And maybe just quickly on a couple of other geographies. In India, we had Paytm speaking here yesterday.

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Vasant M. Prabhu

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

Yeah.

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One of the things they talked to was their extended relationship with Visa. What is the strategy for India in particular?

Vasant M. Prabhu

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

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Yeah.

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And how are you sort of making use of the indigenous payment system opportunity?

Vasant M. Prabhu

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

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Yeah, I'm optimistic on India. I think you should give it some time to evolve to become clearer. And I would echo exactly what Paytm said. I think we are natural partners rather than competitors. I think there are many parts where our interests are aligned and we would both benefit. Remember, they're a payment bank which means that they can be an issuer of debit cards and prepaid cards. There is no reason why they shouldn't either be acceptors or issuers of debit and prepaid cards. And that would be true of other players in the Indian market too.

We are not – we don't view alternative [ph] rails (00:28:12) as threats. We view them as complementary and allies. India is a very large market. The penetration of cash is still extremely high. In other words, there's very little digitization that has happened. We are happy that the government is so focused on digitizing cash. We think we can be important allies of the government in helping make that happen. We are willing to make big investments in India, [ph] we have to, to (00:28:41) promote acceptance and we're already doing it and the usage of digital forms of payment. We are talking to all the players in the market.

Don't be surprised if you see partnerships and alliances emerge that you may not have thought possible. I think that a market like India requires, not just us and Mastercard developing it, it needs lots of people because it's a big effort. And in many cases, these efforts are very complementary and help everybody. Anything Paytm does to build the digital payment habit or anything Paytm does to build acceptance in the long run is good for all players. It's anything we do to build acceptance, anything we do to build the card habit in the long run is good for all players and achieves the government's objectives of digitizing cash. So, I'm very optimistic about it.

The good news about India – there's some confusion now about some of the new rules. The good news about India is that the government has kept the markets open unlike a couple of other places. We are definitely very interested in working with all parties, including the government, to achieve their objectives. We've been in India a very long time. We have a great market position. We expect to be in India very long time and we're very committed to building the use of digital forms of payment in India. So I have nothing but optimism about what's possible there.

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And just lastly on India, of course, the primary form of mobile commerce is through the QR...

Vasant M. Prabhu

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

Yeah, which is fine. I think scan-based payments we think could be the method for payments in India. Just as I said, tapping is the way it's going to be in I think most of the developed economies [ph] for (00:30:40) face-to-face payments.

Scan could very well be the mode of payment. There is a standard QR code, we all accept it. It's an easy form to pay, we have scan based solutions like everybody else. That could well be the way to pay. I wouldn't rule out tapping. At some point, tapping could still be a viable option in India, i.e., contactless. But in the meantime, scans are the way it's going.

And maybe quickly touching on China, I think the big news in the payment space [indiscernible] (00:31:10) American Express is receiving their one of the multiple licenses that are required to operate there.

Vasant M. Prabhu

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

Yeah.

What's your view about the development of the Chinese market? It seems that the authorities there have not particularly opened the market in the way that we'd hoped or thought or even that the WTO required. So maybe, what's occurring?

Vasant M. Prabhu

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

Yeah, I don't think there's much I can tell you other than what's already been in the public domain. I think we are waiting for the government to let us know where we stand with our own application. In the meantime, because of history, the Chinese market has evolved in a certain kind of way. We want to be able to shape the evolution of the Chinese market because we were not in there. I think if and when we are let in, clearly we should then craft a game plan for China that will allow us to succeed. And by succeed, I mean have a profitable business. And it would have to be adapted to what is going on in China because China has become quite different than many other parts of the world. So I think we'll just have to wait and see.

And just lastly on China, again another presenter here at the conference in the past couple of days had talked to the benefits in the – as the indigenous players have grown up. It's an environment where many payments effectively don't have discount rate, right, because of how we pay [indiscernible] (00:32:41) their thing. Does that market environment potentially create a challenge for the more typical four-party model?

Vasant M. Prabhu

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

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I think the Chinese market is also an evolution right because essentially the regulators in China allowed sort of a banking system to develop outside the regulatory environment. And now, I think they're trying to get their arms around it. As you know, I mean the Alipays and the Tenpays of the world were fundamentally deposit takers and lenders entirely outside the regulated environment. So we'll have to see how that evolves as they come back into the regulatory environment just as in other parts of the world as soon as some of these schemes showed up, they were regulated immediately. They were told you are a payment bank. So go out there and you have certain rules and we are seeing some of that start in China.

Many of these entities are going to have to behave more like banks. The question then is what does it do to their economics and what happens at that point? Was the phase we just went through a transactions accumulation phase and now are we going to enter a phase where people have to have viable economic models? I don't know, we'll have to wait and see.

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Maybe we can move to digital commerce. What have been Visa's sort of key advancements in that area in the past year or two that's helping to really accelerate growth there which has been a big contributor to volume growth it seems over the past...

Vasant M. Prabhu

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

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Yeah. I mean, [ph] there's no doubt (00:34:19), I mean e-commerce and m-commerce are engines of our growth for a long time to come. I mean, if you look at the rate of growth in e-commerce and m-commerce including cross-border e-commerce and m-commerce, that is here for a long time. There is no question that the shift away from bricks and mortar continues and it's not going to stop and it is a global phenomenon and it's happening in every country and it's happening cross-border too.

Clearly, there's a lot of things we are doing to enable it and make it easier, tokenization, a big enabler. Finally, we're beginning to see I think a fair amount of traction there. Card-on-file tokenization is going to take off. Some very large card-on-file merchants have already done that. We have enabled many partners to help with that so that we can scale it. We have many, many more token requesters. We want tokenization not because in some way it is going to make us stronger or whatever, tokenization fundamentally is the mechanism by which these credentials become digital. It's a mechanism by which security is far greater. It is very useful for merchants to tokenize so that they no longer have the risk of having that information be compromised. It is very much in their interest to do that. It is also in their interest to do that because then they don't have to worry about whether the credentials they have are up to date because once you're tokenized, it doesn't matter. If I got a new card, you, the merchant, don't have to worry.

There are lots of reasons why this is important. The single button, another big development should have happened a long time ago, takes a lot of friction out, makes it easy for merchants, makes it easy for consumers, enables e-commerce and m-commerce. We are continually trying to take the friction out of it, increase security.

So, on a whole bunch of fronts, we are enabling it through scan, tap, whatever mechanisms are easiest and frictionless for people to do. But this is the flywheel of this business. I mean it has been for the past decade or so and it's going to go on for quite a while.

Q

And maybe one just quick follow-up on the single button. Can you update us a little bit on where the initiative stands and sort of again in terms of expectations, how we should think about it evolving?

Vasant M. Prabhu

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

A

Yeah, I mean, the technical standards have been issued. We have a 45-day comment period, so that everybody can comment on it. Then, we have to enable our systems. We then have to make sure merchants start getting ready for it and then hopefully, you will begin to see the first button show up on merchant websites. We are all hoping that that will happen early next year. Clearly, all of us have to be aligned on this. We can't do this on our own as Visa. This is meant to be done by all of us together.

The intuitive thing about this should be obvious to everyone, which is in the face-to-face space, it was so easy for merchants. They had one set of standards. [ph] They connect it (00:37:38) once, they could accept all forms of payment. And at the point-of-sale, you had a single device that accepted all forms of payment. And that is exactly what we want to do in the e-commerce space. Arguably, this should have been done a long time ago but we're getting down the curve there.

But again, this is not going to happen overnight because this is a long slog of getting merchants to adopt it and then in the end, it will depend on you, consumers. Do you like it? Is it taking the friction out? Is it a better way to shop online? Is it making life easy for you? It will be more secure. It will be more frictionless. So for all those reasons, it is a better way to pay. We sincerely hope that we can move it along as fast as we can. And we think it's an important component of making our [ph] rails (00:38:31) sort of the easiest, the most reliable, the most flexible [ph] rails (00:38:36) to use.

Q

And the one thing also that's occurred in the past year or two is your relationship with PayPal has really strengthened and you've become much stronger partners. Do they play some role in enabling this functionality for you and others going forward?

Vasant M. Prabhu

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

A

Yeah, I mean, right now, PayPal, as you know, is providing a great way to shop on e-commerce sites. And clearly, we are benefiting from that, as Visa, because effectively you get to pick the payment credential you want to use and given the strength of our brand and the fact that we have more people with our credentials, we are clearly a beneficiary.

So PayPal is an ally and a friend and they benefit from us as we benefit from them. It doesn't help them if they tell you that you can't use the payment credentials you want to use. So, it is exactly in their interest to do what they're doing with us, which is to partner and it doesn't help us to have PayPal steering away from us. So, we are happy with how things are going. I think we're both happy with this and that's the way it's going to stay.

Unverified Participant

Okay. Lovely. All right. Well, thank you very much for joining us. Let's thank, Vasant.

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