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Visa, Inc. (V)

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MANAGEMENT DISCUSSION SECTION

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Okay. Great. Good afternoon, everyone. Thanks for joining us. I'm Moshe Orenbuch, financials analyst and also cover some of the payments companies at Credit Suisse. I'm joined by my colleague Paul Condra, who covers the fintech companies. And we're extremely pleased to have with us the management of Visa this morning. We've got Vasant Prabhu, the CFO of the company.

And I think what we would like to do is have a fireside chat. We'll go through some questions that we've got and perhaps open it up to the audience if they've got some as well.

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QUESTION AND ANSWER SECTION

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

I guess, Vasant, just to kick it off, Visa did an Investor Day back – a few months back in June. Talked a lot about the opportunities given global economies, given where the penetration and all just the related – all the related items, how much cash is still out there. Can you kind of give us an update as to how you're thinking about that and how it relates to the opportunity that investors have in Visa stock?

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

A

Great. It's good to be here, thank you. So, real quick, what makes us excited about the future here is, we're in an inflection point. I think if there's one thing that we hope you took away from the Investor Day is you had three or four inflection points in the history of Visa and we're at 1. And what this is doing fundamentally, it's the growth of a whole new way of – to pay and be paid, right? And it's a combination of transactions moving to digital transactions, so e-commerce.

And the two numbers to remember there from our Investor Day is that e-commerce is growing five times as fast as face-to-face, and it's going to keep going for a very long time. This holiday season is another example of how e-commerce makes some deeper and deeper inroads. So, five times faster and cash is not an option when it's an e-commerce transaction. And the propensity for a Visa card to be used is twice as high in an e-commerce transaction as in a face-to-face transaction because Visa is just a more desirable form of payment online. So, that's track one.

Track two then is, 25 years ago, there was only one way you could get on a rail, so to speak. Today, with all kinds of new technologies, there's a new way every day. So, there are more and more opportunities to digitize payments because of the whole range of new technologies, fundamentally starting with tokenization which digitizes the card, which is why we think, like in prior inflection points, there could be a 10x increase over the next 10 or 20 years as we saw in the last inflection points on using Visa rails to pay and be paid.

And then finally, there's a revolution going on even on the acceptance side. The cost of acceptance is coming down. You look at QR code, there's acceptance. There's almost no cost, and it's almost instantaneous to get merchants up and running.

So, you put that all together and you have the ability to go deeper and deeper into smaller and smaller merchants. You have the ability to go deeper and deeper into smaller and smaller transactions. And you have many more transactions moving away from a place where cash was an option to a place where cash is not an option.

So, our job in this environment is just to make it as easy as we can make it for anyone who wants to pay or be paid to do it using our rails. And that's our mission. It's very simple. Keep it as frictionless, as easy as we can, to get all these new ways people are coming up with to ride our rails.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

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So, on that, it feels like if you went back kind of six, seven years ago the concern about new entrants kind of coming in and taking over elements or big positions. It was a lot greater than it is now. And to me, it feels like one of the major differences was that Visa had – I think had basically, effectively really partnered well with some of the other players that are out there and kind of continued to advance your agenda. I mean, any thoughts as to how you see that – what you've done kind of over the last year or two and how that might play out over the next couple of years?

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

A

I think, clearly, we've done a much, much better job of acknowledging how we needed to change for this new world that is clearly unfolding and the acknowledgement fundamentally was that we couldn't have too rigid a view of what a payment looked like. We had to acknowledge the fact that we are at the heart of it. What we provide is a network. And we are the network that goes the most places. We connect 3 billion cards/bank accounts to 44 million – 46 million points of acceptance in 200 countries through 17,000 or more financial institutions, backed by a brand that people have come to trust, and the security and the reliability that comes with what we offer, which is so crucial when you're talking about money.

What we have done is to then say, how do we make sure that we make these rails, the friendliest rails to ride. We don't pick winners and losers. We don't know what mechanism is really going to be the best way to be – pay and be paid in the long run.

Consumers very often will determine that. Technologies will determine that. We enabled Apple Pay, but we enabled Google pay and Android Pay and Samsung Pay and so. We enabled Facebook Messenger, Square Cash. We enabled Zelle. We enable Venmo pay.

Our job is to find what we have to do to make it worth the while of all these new entities, if you want to call them that, to make our rail the most attractive way to get what they want done and do it in a way that allows us to solve their problems and find that economic solution that works for them and for us.

And that required us to become a lot more flexible. That required us to make our network a lot more, let's call it, friendly or open. That required us to build partnerships with people who may not look like a traditional issuer or a traditional acquirer. We remained deeply, deeply committed to the four party model.

But we should also acknowledge that not all merchants look the same, not all acquirers look the same. They're going to be – at one point, they were only face-to-face merchants. Now, they are e-commerce merchants. Square is an acquirer. There are new kinds of issuers. So, we need to expand the model to include new players who do essentially what some of the traditional players did.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

And you mentioned being kind of the friendliest rails. At this stage, it's been very clear to, I guess, probably everyone in the country, not just investors, that security is a paramount concern and issue for all. Can you talk a little bit about how that opening of the network still can result in maintaining the level of security that Visa has for so long?

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

A

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Absolutely. Look, I mean, if we had to – if you were inside Visa, and if we were talking about number one, number two, number three in terms of what should we be absolutely certain never to screw up – security, they're number one on the list. And I would describe our approach to security, very simply, as maximum paranoia and unlimited budgets in effect. We never say no to anything. We are often the people on the cutting edge trying all kinds of new approaches to it.

Our approach to security is best described sort of in two parts. One is deep defense, meaning imagine sort of the old traditional models of security in the days of forts, right? You had one set of walls, and if you got through them, you had another set of walls and another set of walls. So, you have multiple layers of security and you collect all kinds of information through our Cyber Fusion Center from many, many sources.

So, you have deep intelligence that backs it up. So you have intelligence, and then you have these layers of security. And then, you look at what is it people might want? At the heart of it, it's data and you make the data either useless or you encrypt it in whatever form it's in, data at rest, data in motion or data in processing. If the data at any point in time, whether it's at rest, in motion, or in processing, it's either useless or encrypted. Even if you get through, even if our intelligence fails and then the walls fail and you're able to get to the data, you're going to make it useless.

And so, so far so good but none of us – our security guys and our CTO will be the first [ph] to say (09:55). This is not something you ever declare victory on. This is an ongoing battle.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Visa, over the last several years, has shown something of a preference for making investments and perhaps partnering with other companies rather than making acquisitions obviously other than Visa Europe. Could you talk about your view as you go forward? Is that – does that – is there anything out there that would change that? Are there things that you think about and say it would be nice for us to acquire something? Or is that both – is it going to be more of that conjunct part?

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

A

Well, clearly, Visa Europe was a very obvious thing to buy and probably the largest acquisition we could have done. We did buy CyberSource a few years ago. You're right. Our approach to acquisitions is we have a great business. There are very few businesses like our business. And for us to take cash and deploy it in a business that is less, less attractive, that isn't some way perhaps not that directly related to our business doesn't make a whole lot of sense.

So, our approach to acquisitions has been we will buy businesses that strengthen our core business. So, if there are businesses that are vital to our core business, we have interest in it. Just to grow revenues or something like that, I don't think we're interested in businesses that had only an ancillary benefit. Certainly, we don't want undifferentiated businesses. Buying a consulting business because we could sell consulting to our clients, that's an undifferentiated business. Sometimes clients would rather go to the best-in-breed.

Now, there are elements like authentication, risk services, particular technologies that may be easier to buy than to build that we think have a lot of value that they add to our own business. The way we look at it is anything that creates an incremental transaction or grows volumes has so much value to us that businesses that can do that, we have a lot of interest in.

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Businesses that can further differentiate our services to either issuers or acquirers or merchants, we have interest in. So, we've been pretty disciplined about it, and we constantly ask ourselves, should we be doing something different? Should we be doing more?

And at this point, we have Visa Europe being integrated, and that's going extremely well. We did an acquisition called CardinalCommerce a year ago which we think is a very important technology, and that's moving along fine.

And we made a variety of – the minority investments are really businesses we think, are businesses that could have a lot of potential that we have commercial arrangements with and often a small equity investment cements that relationship. And we like those two.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. One of related kind of development had been Mastercard's purchase of VocaLink and entering the fast ACH space. Kind of maybe give your view on Visa's approach to what people call fast ACH and...

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

A

Yes.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

...how you think that develops over the next several years.

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

A

Well, I mean getting past sort of labels, right, fast ACH really is something close to instantaneous on transferring money between bank accounts. We have something that does that today. It's called Visa Direct, right? So, if you think about what Visa Direct is, it is a radical change in the use of the network.

For most of our history, the network only move money one way. It took money out of your account or offshore credit card and paid someone. Visa Direct then allows you to go both ways that essentially using your debit credentials, you cannot only pay, you can get paid. And so, through debit credentials, you can essentially connect bank accounts and you can do that today using our rails. And we will have most of our debit cards enabled by early 2019, which is about 2 billion or so, on a global basis, which on an instantaneous basis can move money between bank accounts. So, fundamentally, the service exists. It's backed by the security and reliability of Visa. It's backed by the trust people have in the brand.

On the other hand, fast ACH doesn't exist today, right. What you have is one privatized ACH system that became VocaLink that Mastercard bought. What you have is a fast work of ACH systems around the world, all of which are very often full technology that needs substantial investments, often either owned by central banks of governments or by bank consortiums, often without business models.

So, what you have to do to get there is a few things. As far as VocaLink is concerned, they can do fast ACH in the UK. There were consulting agreements in a couple of other places but nowhere else really. So, you almost have to go country by country. You've got to be able to buy an existing ACH system which has to be for sale. You have to create an economic model. You then have to make the investments to make it fast ACH, et cetera, et cetera.

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So, VocaLink isn't there. It won't be there for a long time. Fast ACH isn't there everywhere today. And even if they are today, it has to make the case on how is it better than what Visa does. And in some cases, you'll see this fast ACH, but it doesn't have much take-up. So, our approach is we can provide a superior capability that does what it does today and we are up and running on it and we are very excited about it.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

I wanted to ask a little bit just about obstacles to acceptance and maybe you could talk, just from kind of a geographic perspective because you have different penetration in different regions of the world, what are some of the barriers to entry in certain markets or ways that you have to do things differently? You mentioned the QR code acceptance which we don't really see that much here, but maybe makes sense in some other parts of the world.

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

A

I think there's a revolution going on in acceptance, which is very exciting. So, when you say acceptance now, you're talking about face-to-face because you've got e-commerce which is a whole different ballgame, right? So, you don't have the traditional issues when it comes to e-commerce because you're not trying to go to a merchant and set them up for acceptance.

The revolution going on there is that two things are happening. One is that cost to which cost it takes to set someone up is dropping like a rock. Square, we love Square. They're a great partner of ours. Square essentially made it possible for any smartphone to be an acceptance device, right, the so-called mobile point-of-sale model or MPOS as they say.

Fundamentally, what it did was you could now drive acceptance to smaller and smaller merchants because you no longer needed a dedicated device, landlines, et cetera. That was a phenomenal tool for a lot of developed markets where penetration of smartphones was quite high – hard to begin with.

So, that's one way in which the cost of acceptance is coming down quite dramatically in developed markets and allowing us to go deeper and deeper into types of transactions that at one point were believed to be out of the realm of cards. You can buy hotdogs using cards. You can pay for parking using cards. You can do all kinds of things now using cards that without these MPOS kinds of capabilities, you couldn't have done before.

On the other hand then, you got the QR code-based technologies which are phenomenal in emerging markets. The biggest barrier to acceptance in emerging markets was for – most of these are very small merchants, getting a dedicated device with landline, even if landlines are available, was really hard and then getting out there and getting it installed took time.

Today, all the merchants has to do to be enabled on our mVisa service is the QR code, stick it on their counter. They have a cheap smartphone, they download an app. Consumer has an app from their bank. Consumers scans the QR code, the sale is done. Zero cost and you can set them up immediately. So, that's a revolution and in many parts of the world now, we're working with governments to have standardized code – QR codes and so on.

And then, there's contractors in developed markets. We've seen what it does in the UK and Australia. What it does is it mix the transaction so friction-free, that people use their cards more and more for even very, very, very more small transactions. And merchants love it because it just keeps lines moving fast.

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It's coming to the U.S. It's certainly coming around the world. Contractors will once again make the face-to-face experience so much more friction-free, that we see again a growth in transactions as a result of that. So, there's a lot going on on this front. And that's even as – as you know, face-to-face is not the future, right? Everywhere in the world, e-commerce is the future. So, you've got sort of both things helping you, either to do face-to-face and then a high-growth segment in e-commerce.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Do you still think of face-to-face as – I mean, the way the U.S. kind of evolved as we pay for something face-to-face and it's moved through online, so we're kind of familiar with our in-person brand, like payment brands like Visa. And then, you've kind of stay with that as you move into an e-commerce setting. But in parts of the world where maybe you're kind of leapfrogging the legacy infrastructure, payments infrastructure and things like QR code, how do you think about that kind of – that dynamic and how that impacts your ability to grow in these regions?

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

A

Well, I mean we clearly have to evolve marketing and evolve the brand. But the fact is that in a lot of these instances, right, all that's happening is the card is moving from your wallet to your phone. You have essentially a digital card in your phone and you're making a card choice, like you're deciding this is the card I'm going to use. So, the card choice is not out of the picture. The card choice is still very much in the picture and you're actively picking the card that you want to use.

And so, yes, you're not physically pulling the card out every time. That does change and we have to acknowledge that to the extent that that had an element of brand building in it and reinforcing of the Visa brand, et cetera, I'll be losing something when peoples don't have to physically pull out the card, but just use a device that includes a card that they have picked. How do we evolve the brand, and we've got lots of things going on to figure out how our marketing should change, how our branding should change and all those kinds of things. But it's something definitely to be mindful of.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

And then, I just also wanted to ask on the Analyst Day, you had a really interesting slide. I think you mentioned this just a minute ago, something about 10x more e-commerce kind of payment touchpoints. [ph] When (21:11) I think about kind of IoT and the way that we just sort of enable payments in places we didn't think we could do payments, can you talk about that a little bit, what is that opportunity? And is that something that opens up the market to new competitors or does it just create a bigger market for people that are already there?

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

A

Yeah. Look, I mean, anytime there is a new way to pay or be paid, right, if we are not there making it easy, somebody else will, right? So, yes, I mean, in theory, you can have new competition when there's new ways to pay and be paid.

The heart of it is the token, right? The token digitizes the card. Once you've digitized the card, you can embed these payment credentials then into anything. So, we have a deal with Fitbit and Garmin now where they are

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token providers and they are using our payment credentials embedded in their devices and you can use it. It's early days, Internet of Things in its very early days.

So, we are working very closely with original equipment manufacturers to embed our payment credentials in the equipment that they make, whether it's cars or refrigerators, or you name it. We're working with the Fitbits and the Garmins of the world who are creating new devices that could be payment devices. We're certainly working with all the phone manufacturers, that's been underway for a while.

We have created this concept called the Token Services Providers, so they'll be intermediaries who we license, who will then work with the whole range of people to embed payment credentials into devices and essentially be a service provider to them, right? So, these would be the people who would enable, let's say, a car manufacturer to enable cars for payments and provide a variety of services to help them get that going.

So that whole infrastructure is falling into place on a global basis. Today, we've enabled tokens on 90% or more of Visa cards already in 29 countries, and we'll pretty much have it all done. So, the infrastructure is falling into place. The intermediary structure of Token Service Providers are falling into place. The initial use cases are already out there. And I would say we're in the early stages.

And I mean, look, I mean, anybody looking to embed payment credentials in a device should want to look to us first because we provide the best network. It's only we don't help them will they go elsewhere. And we're trying our very best to help them.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

And then, I guess, if we're talking about the future of payments, we need to have a conversation around blockchain and just the cryptocurrencies in general, I suppose. But I'm kind of interested to hear about your initiatives with blockchain right now. I think you're working with Chain. What are their kind of use cases or what do you want to use their products for?

And then, I guess, any kind of bigger-picture thoughts, if you care to offer, on what you're seeing with cryptocurrencies in terms of bitcoin and things like that?

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

A

Well, I'm not going to offer a point of view on cryptocurrencies. That seems to me the topic of the moment. My own view on cryptocurrencies is until there is a crisis, we won't know much about them, right? They've never been tested. And I think we're getting to a point where they will be tested, and then we'll know what they're all about.

The underlying technology of blockchain is definitely very interesting. We've been interested from the very beginning. I would say there's a little bit of a bubble in blockchain technology, too, because I suppose, as I was saying at an earlier group today, every CEO who goes to a meeting is asked about cryptocurrencies and blockchain, and they go back to their office and say, hey, what are we doing about blockchain?

So, there's a lot of experiments going on with blockchain. But there isn't, to the best of my knowledge, a real industrial quality use of blockchain that is up and running today. And we're involved in a lot of those experiments. Our approach – our view right now, at least based on the technology as it stands today, is that it's applicable in, let's call it, high ticket, low volume kinds of situation. Not our kinds of low ticket, extremely high volume situations

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because the technology is not set up for that. Maybe it will someday. Yes, we have the investment in Chain. They're a great group, very useful for us to know what's going on.

We have one product out there that is in various – two or three people who are actually working with this now called B2B Connect which is the business-to-business cross-border payments capability that Chain has built that uses blockchain technology to make transfers between businesses cross border. And there are two or three banks now around the world that are working with it. But again, I think we have one of many people experimenting with it and we're also keeping a close eye on all the other experiments, and that's pretty much what's going on.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

And just to be clear, that's not using a cryptocurrency...

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

A

No.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

...just using the blockchain technology...

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

A

Cryptocurrencies and Visa right now don't mix, we don't. We only accept, as we like to say, a legal tender, all right, which I suppose we'll accept the blockchain guys because – I mean, the bitcoin guys because I presume they think of it as a legal tender. But when I say legal tender, I mean central bank-issued currencies.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Right. Got it. One of the points you made at the Investor Day was the idea that governments aren't only there to impede progress for the improvement of growth of payments. And then, in a number of instances, you cited a number of countries. Just talk a little bit about the evolution of that. Obviously, you've had things going on in both Poland and obviously in India as well.

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

A

Yeah. I think that's been a significant change, I would say, in the last decade, right. Governments have counterview the use of digital forms of payment as something they need to get interested and involved in for a variety of reasons. Governments have become very interested and believe in the idea that digitizing cash is good for their economies. As you know, I mean, most governments around the world make transfer payments. And a big problem with transfer payments is corruption. The money doesn't go to the people it's supposed to go to. One way to fix that, as some governments have been looking at, is to give everybody a card, a debit card, and transfer the money directly to them that way. So, that gets governments interested in it.

Then, governments also realized that the more they can push transactions away from cash into digital forms of payment, the more they're able to get rid of illegal activity in their economies whether it's tax evasion or just plain

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corruption or criminality. So, cash in many ways becomes a force for evil and digital forms of payment are a force for good. And this fight between good and evil goes on. And we're on the good side.

And I think we are trying very hard to work with governments as we are in India, in Egypt, in Poland, in lots of other places to help them do these things. We are more than happy to work with them, to help them set these systems up to use Visa cards or our rails to back them up. Even if the government chooses not to go with us, we're still happy to help them because we think that building the habit of using cards in digital forms of payment in the end is good for everybody. It's good for the government and the country. And it's good for us, too, because once people get used to – once people are brought into the banking system and once people get used to using cards, that just builds the habit and takes cash out of the economy which is good for us. So, there's a win-win here. And it doesn't have to be if you're going to build your national network, that's not good for us; actually, that's good for us, too.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Have you thought about a way just to kind of size that opportunity? Obviously, as you said, it's not all going to be Visa, but being the dominant network it would ...

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

A

Well, I mean it falls into the category of all these efforts are going to increase the penetration of cash in these countries, right? So, in many of these countries, take India for example, the cash – the digital transaction penetration of the economy is still extremely small. Cash is still a vast amount of the transactions. So, all these things are going to drive up what we call PCE penetration, personal consumption expenditure penetration, and that's probably the best metric.

There are these new categories opening up like what is called G2C, government to consumer and all kinds of bill pay type capabilities that are often payments made to government enterprises, utilities and railways and people like that. Those are all things that we can look in governments to enable. I mean, some of the big progresses – some of the big things that have happened in India is with the government's push. Some large institutions that are government-owned like the railways and utilities have begun to accept card payments. And that's the kind of thing that fundamentally helps us grow penetration of cash.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

They've put out a study last week, just looking at the growth of cash and the conclusion was that even in developed countries, it's growing faster than GDP. Do you have any thoughts on that? Is that near kind of what you're seeing in terms of cash use or does it surprise you to think that cash use even in developed countries is still growing that fast?

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

A

Yeah. I think that as we shared at our Investor Day, all the evidence we have says that we've made deepened roads in building PCE penetration. If you think about our own growth rate in the past five years, if you looked at our payment volume growth, right? Most of our volume's driven up personal consumption expenditures. And in general, personal consumption expenditures grow at the same rate as nominal GDP growth. And global GDP growth nominally in the last three to five years has been very low. But as we've grown like two or three times what

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global nominal GDP has grown, and the rest of that growth has come entirely from the digitization of cash. So, you know if you look at those numbers that cash penetration of digital payments has increased quite a bit. Yet, the amount of cash in the global economy has grown, right?

And I think that is driven by a few factors. It's driven by the fact that more and more of the world is being drawn into the cash economy. It may surprise you given where we all live. But there's still large parts of the world that are not working with cash still. It's a barter economy. I mean, even in parts of India today, if you go to the smaller villages, there's a barter economy. It's not a cash economy.

So, you have cash growing because as the rest of the world develops, people are actually entering the cash economy. I mean, in Africa – I mean, there's many forms of tender. Cash is just one of them. But more and more are being drawn into cash economy. So, it's not surprising that cash continues to grow because it's replacing other forms of tender that have disappeared long ago from developed societies. And that's the first step. The next step is to get people into the banking system. And once they're in the banking system then you have an opportunity to give them a debit card and they enter the digital economy and that's the progression. So, it's not surprising.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

There's been a fair amount in the news lately about what's going on with the regulatory situation in China and their willingness to kind of allow outside entities to issue in China. Could you give us an update as to where that is and how that could evolve over the next [indiscernible] (33:28)?

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

A

Yeah. There's really no update other than what we said on our earnings call. I mean, when there is something specific to say, obviously, we will. We are in the process of doing what we need to meet the requirements to be licensed to operate in China. If and when we get that license, we then have to build a processing infrastructure that meets the requirements the government imposes.

Once we have that up and running, they have to validate it and then we have to get down to the basic business of building acceptance in China. I mean, none of us have any real acceptance in China because we were only on cards that were dual-branded which meant that, the Visa transaction was when you left China. When you were in China, it was a China UnionPay transaction. So, we need to build acceptance for Visa in China and that's going to take some time.

We have to have issuance of Visa cards in China. I mean, a lot of the blocking and tackling that has been going on in a lot of other countries, we have to start from scratch. So, there's a lot of work to do. So, if and when we are able to get in, this is a lot of investment that we will have to make over a long period of time. So, it's a long-term proposition and we should be very careful. We should do it smartly and make sure that we're doing it in a way that creates a viable business for us. So, I wouldn't say that you should expect much in the short run. This is a very long-term proposition.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Turning that around, thoughts about China UnionPay trying to move into other parts of the global economy and how you think about [ph] them as well (35:12)?

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

Yeah. That's been going on for a while. I mean, it's not unnatural. It's a very logical thing for China UnionPay to want to follow the Chinese cardholder as they leave China. So, if there's a Chinese transaction by a Chinese cardholder that has a China UnionPay card, they will want to get that transaction wherever it is in the world, which means they have to build acceptance, and they've been at it for quite a while, with the whole purpose of going to merchants that have a fair number of Chinese nationals who are their customers. Certainly, it's beneficial for them to accept China UnionPay. We saw that with Japan in the heyday of Japanese travel with JCB. Nothing unusual about that.

But for them to be fundamentally a competitor on a global basis, they need two more things which really isn't happening that much. One is they need to have issuance of China UnionPay cards by non-Chinese banks, so that you and I can have China UnionPay cards potentially. And they need to have much deeper acceptance well beyond, let's call it, the high end or airport locations that a tourist might go to. We aren't seeing a whole lot of that yet.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC
Q

Got it. I wanted to ask also about PSD2 in Europe and...

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

Yeah.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC
Q

...what are you hearing from your issuers as they kind of work to implement these regulations that I still think are a little bit unclear, and how do you kind of fit in, I guess...

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

Yeah.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC
Q

...to that scheme?

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

Yeah. My – our view about PSD2 is a little bit like what we said about China, which is it's going to take some time. Nothing is going to happen fast. Infrastructures have been set up on both the issuer side and the merchant side. That was set up in a certain way. For them to be opened up is not that easy. There's a lot of investment required on all sides for it to be opened up.

We actually think it creates some opportunities for us as the people are already doing all the connections to provide services and capabilities. And, as you know, in a world where if you believe PSD2 fundamentally is an

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attempt to open everything up, it has to go hand in hand with high security. We provide the ability to have everybody connect and also do it with high security. So, hopefully, there are roles for us to play in this. We certainly see that. We can be, as we like to call it, something like an operating system for a PSD2 world where we could help a lot of this happen.

Our own view of PSD2 is it will play out slowly over time and we'll see what kinds of new services people want to offer as a result of this. I don't think anything is going to happen very quickly just because of the infrastructural issues which are real, and they take time to resolve.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Q

Would you say that your issuers – is this is an ongoing dialog that's pretty prevalent with these issuers there or is it something that they're maybe not coming to you [indiscernible] (38:32)?

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

A

Well, we are definitely talking to our issuers about how we can help them, and they're also trying to figure out what they have to do. So, everybody is in a lot of exploratory kinds of conversations about if I'm an issuer and I'm trying to figure out what I should do, I'm also trying to figure out how I do it and whether Visa can help. Merchants are trying to figure out, okay, what does this mean for me? How do I take advantage of it?

Paul Condra
Analyst, Credit Suisse Securities (USA) LLC

Q

Right.

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

A

New kinds of business models are probably being thought about by entrepreneurs to see if they can create new services out of this. But there's nothing – nothing's going to happen quickly as you know. Nothing happens quickly in a business like this [ph] within the (39:16) nature of the business.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Great. I think we're actually now out of time. I see the red light blinking. I want to thank Vasant for his time here. There will be a breakout session across the hall in – is it D, Ballroom D?

Paul Condra
Analyst, Credit Suisse Securities (USA) LLC

No, it's Salon A.

Moshe Ari Orenbuch
Analyst, Credit Suisse Securities (USA) LLC

Salon A. Excuse me.

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Paul Condra

Analyst, Credit Suisse Securities (USA) LLC

No, it's Salon A.

Vasant M. Prabhu

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

Thank you very much.

Moshe Ari Orenbuch

Analyst, Credit Suisse Securities (USA) LLC

All right. Thank you.

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