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Visa, Inc. (V)

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MANAGEMENT DISCUSSION SECTION

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

All right. Thank you and good afternoon, everyone. I think we're going to move on to our next session. I'm Eric Wasserstrom, I'm the Consumer Finance & Payments Analyst recently rejoining UBS. And I'm very very pleased to have the Chief Financial Officer of Visa, Vasant Prabhu.

And you know maybe, [ph] as I like (00:23), I always like to begin with a series of clichéd and trite jokes, but given that we're a little short on time, I think maybe we'll move directly to the questions.

QUESTION AND ANSWER SECTION

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

You had your Investor Day in June, the first in a few years time, and I think at that point the thesis that you were articulating about Visa was that, it was on a cusp of an era of potentially very expansive growth, notwithstanding the age of the company and prior periods of a very expansive innovation in its history. And I think the numbers that you put out was something could approximate a 10x increase in card credentials, in points of acceptance. Obviously, very, very large numbers. So if you don't mind me we can just start by digging into some of the components of that. And the first one of course is – is probably the most traditional one which is cash conversion.

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

A

Right. Sure, you know happy to do that, and I mean since you didn't do the trite jokes, I'll do one. We had our Quadrennial Investment Day – Investor Day and it was as eagerly awaited as the Olympics, I hope and we had an Olympic-sized presentation for it, and so I'll try not to repeat a lot of it that was in there. But we truly believe that we have been at an inflection point in our business and we did go back and show some data on the other inflection points in our history and through each of those inflection points, over the 10 or 20 years after that inflection point, the business did go up 10x or more, whether you measure it in terms of volumes on the Visa network or the number of people with Visa cards and so on.

And the reason we think we're at an inflection point is, is largely because of what is going on, on a couple of different fronts, one broadly defined that the entire digitization of cash phenomenon driven by e-commerce, simple

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numbers, e-commerce is growing five times as fast as face-to-face transactions, and in an e-commerce transaction the propensity to use a Visa card is twice as high as a face-to-face transaction. So, something growing five times as fast, where your propensity to be used is twice what it might have been, that's phenomenal, that's one dimension.

The other dimension is that technology is allowing the digitization of transactions that were harder to digitize in the past, whether that is small ticket transactions or certain kinds of segments that's bringing in a whole new set of transactions that you can pay for parking in San Francisco with cards, and you would never imagine paying for parking with cards even five years ago, right you always carried quarters to pay for parking, that's just one example of small transactions.

And then the other revolution going on is, how much the cost of acceptance is coming down, it used to be that that to set someone up to accept, you had this expensive point-of-sale device with landlines, now forget the landlines, in emerging markets and almost everywhere if you wanted, all you need to do is printout a QR code on a piece of paper, stick it on your counter, download an app, your consumer has an app, all you need is a cheap smartphone and you're an accepter, that's just an example of how the cost of acceptance has gone from expensive to almost zero, in terms of in terms of setting yourself up and the speed at which you can do that has also gone up.

And these are just a few things that are going on which is why we think we are at an inflection point. And fundamentally tokenization allows you to digitize the payment credential. And once the payment credential is digitized, you can embed it in lots of places. You can embed it in your devices, you can embed it in as you heard cars and refrigerators and the Internet of Things and which is why we are so excited about. We may be a 50-year old company, you could argue, we were one of the first companies to be in the world of digitization because we started digitizing cash 50 years ago. But there's a whole new sort of wave of digitization that is now possible because of technology.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

So if you don't mind maybe we can parse a couple of this -

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

A

Sure.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

And maybe just sticking with the thread of digital commerce which of course has been such an expansive driver of volume growth. What's going on in terms of digitizing the point of sale and what we might think of as non-traditional merchants? How are you approaching that topic?

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

A

Right. So first of all in general this is a global phenomenon, people are not thinking about opening bricks and mortar stores if they don't need to. Right, so anybody who has a concept of being a merchant and selling you goods and services initially almost anywhere in the world today thinks about doing it in the digital world rather than in the physical world. So there again so if you immediately start with the growth of retail, if you want to call it

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that, is clearly biased towards e-commerce to begin with. So that's a phenomenon by itself. Then you layer on top of that of all these other things we talked about that add [ph] balance (05:56) to that. So, fundamentally I think our opportunities are in the developed economies that some might think, well you've been at it for a very long time, how much opportunity is there. As we shared with you on our Investor Day we estimated there's about $17 trillion in cash sloshing around the global economy today.

And that's still higher than it was a few years ago, despite the massive progress we've made in digitizing cash. $7 trillion of that is in the in Europe and the U.S. So these economies are just so large, that there's still $7 trillion of cash in these economies. So there's still a long way to go even in the developed economies to bring this cash into the world of digital cash through all the things we talked about, right, new segments, deeper into acceptance, deeper into smaller transactions.

You go to the emerging markets, you're still dealing with penetration of cash being in the single digit. So, everything we did here for 50 years, satisfied all the technological things the basic fundamentals of getting people into the banking system, getting them with debit cards, growing the culture of credit cards right, building acceptance one merchant at a time, getting the habit going on getting people to use cards, that still has a long way to run in the good old-fashioned way that we did it here for 50 years and that's the huge opportunity in itself. And then you layer on top of that, the sort of the win behind our back, which is the growth of the e-commerce, and they all play a role in that.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

And maybe just on the consumer side of the e-commerce experience, obviously consumers have certainly shown a propensity to shop that way, but there's still pain points, what tools or mechanisms or technology have you put in place to help solve some of that card abandonment and some of the things that continue to be the stress point for -

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

A

Absolutely. I think that's the next frontier. We have been working very hard to make e-commerce easier for consumers. So from a consumer standpoint what do they want? In an e-commerce transaction, security is paramount, right. I mean this is people worry about this all the time, if you're a consumer, you're worried about your security when you're online, at least when you are at a physical point of sale, you have your card and you worry what happens. So, security is paramount, really important that people believe in the security of the Visa Network.

Reliability is extremely important, because if your card is being used, if you're using your card and it doesn't work, that's a problem, that's something they can count on with Visa, so security and reliability. Once you have that, people care a lot of about ease of use, right. It has to be easy to use, and that's where I think there's just tremendous opportunity for continual improvement, and increasingly what you will see is technologies that make it easier and easier for people to use their card in an e-commerce space where you don't have to do things that are adding friction to authenticate who they are, right.

Most of the friction comes from authentication like persuading the merchant or the issuer who you are, and often its things you don't want to do like putting your address and card number and all that. But authentication technologies are moving along very fast. And certainly we do a lot behind the scenes now to assure issuers and merchants that this is a good transaction. So you will see – I think the whole authentication space is incredibly important, and is key to making e-commerce transactions easier.

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And then the last component of that is just the peace of mind and the security you get from knowing you know the Visa brand has never failed you. From a merchant's standpoint, they worry about two things, authorization rates which, by the way users also, consumers also care about, because if your card is being rejected, you don't like that. We're working very hard again with newer and newer technologies, leveraging data to make those authorization rates go to be as close as we can to a face-to-face transaction. Merchants care a lot about that because they don't want to lose sales. And then the abandonment and that comes from making it easy to use.

So there's still plenty of opportunity to make the e-commerce transaction fiction free. And we have to have a single-minded focus on that, because we're losing transactions today because of that.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

And again on that point what role does Visa check out and your relationship with PayPal play in terms of trying to address some of those existing tensions?

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

A

There's a whole range of things that we are doing to make e-commerce transactions of how all the characteristics I just talked about, more secure more reliable, easy, right. And from a merchant standpoint, e-commerce transactions where they don't have to worry about losing the sale and so on. Visa Checkout is one of those tools. Visa Checkout certainly makes it much easier, because you store your credentials once. And then you don't have to worry about it again. But it's a whole range of solutions.

I mean we have a company we bought last year CardinalCommerce that does 3DS 2.0. It's another form of authentication where you don't even have to provide that in behind the scenes, we're doing a lot of analysis to authenticate for the merchant that it is you in fact, and so they're willing to accept the transaction even without let's say certain other forms of authentication. We are continually providing all kinds of [ph] risk (11:40) services to both issuers and merchants, where once again without you, the user of the card, having to do anything the issuer or the merchant can get the comfort that this transaction is low risk transaction.

So Visa Checkout as one of many solutions and Visa Checkout is a solution that is something that we have, if the merchant wants it in certain parts of the world it's clearly superior to alternatives available. In other parts of the world, it's an option that gives the merchant the opportunity to offer someone a Visa branded experience where they can have the assurance of Visa when they're at the point of sale instead of something else they may be less comfortable with. So Visa Checkout has a critical role to play but it's a menu of solutions and Visa Checkout is one of them and a very important one.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

And maybe just lastly on this topic, PayPal, you've recently announced -

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

A

Right.

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Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

– that you've expanded the relationship to them geographically. What has been your U.S. experience with them and how do you think that will be similar or different as you move to other parts of the world?

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

A

Look from our standpoint, it again falls into the category of having a single-minded focus on making an e-commerce transaction easy for Visa cardholders. If you go back in time there were two things that were not right about the PayPal experience with Visa. One was that because of tiering it was friction filled. So it wasn't easy for you to transact on PayPal with Visa because PayPal was always trying to direct you away from Visa and the second was that settling disputes wasn't easy. Those have been resolved and PayPal has been a great partner and that whole experience now of using a Visa card through PayPal is extremely friction free, right. You can use your Visa card, you can settle disputes, it is no different than any other way you could use your card for an e-commerce transaction. We're happy about that and we think it's good for PayPal too, because it never helps you if you're forcing consumers to do things they don't want to do. And so we're both extending it around the world, I don't expect that it will be different in terms of PayPal's own market position, of course, varies market by market and so there'll be differences as a result of that. But I think we thought this would be – would be a win-win, and it looks like it's going to be a win-win. And time will tell sort of how much volume might move to Visa Cards, that's really in the hands of consumers. I guess people who've been used to forever sort of transacting a certain way with PayPal may stay that way, but new people coming in have a choice now, which isn't biased one way or another. And this is a long term thing over time we'll know where it all settles down.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

Maybe we can move away from the topic of e-commerce to another one, which was a big pillar of your – of your presentation in June, which was expanding access and some of the lateral payment markets -

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

A

Right.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

– which I think, again I think the figure that you indicated was $30 trillion of potential incremental, I guess TAM really as it relates to payments. And one of the more controversial topics, of course, is this issue of Fast ACH. And I think at this point it's very well known, that another payment network has acquired a Fast ACH provider. So, what is your view about Fast ACH as a potential cannibalizing driver in certain of the payment markets and Visa Direct as an alternative?

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

A

Right. Yeah there seems to be a fair amount of confusion on this topic, so we don't have a lot of time but I'm going to try and sort of do a quick pass through how we see it. So, the way we look at it is we have Visa rails and Visa rails essentially do what Fast ACH does today. So we now connect 2 billion bank accounts and prepaid cards through debit credentials. So essentially what we did with Visa Direct is have the ability for things to go both ways.

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Right. If you thought about Visa for – most of its history was one where money came out of your bank account. Well what Visa Direct does is, it allows it to go both ways. Money can go into your bank account or out of your bank account, money can go from one bank account to another bank account on Visa rails through debit or prepaid credentials.

So fundamentally it's Fast ACH but it has several other things. Number one it's here today. So think about ACH. ACH today, Fast ACH is an imaginary concept that doesn't exist today, except in a few places. Most ACH systems were built a long time ago, [ph] they're not (16:45) enabled for Fast ACH requires a lot of investment. We're going to be essentially enabling these 2 billion cards relatively fast. So we'll be up and running with the equivalent of that service, early 2019 we think will be most of the way to enabling this. So you'll have deep access to move money around bank account to bank account through payment credentials – debit credentials, global scope.

You've got everybody already connected in because we have 44 million merchants, 3 billion cardholders, 17,000 financial institutions already connected to this network. Nobody has got to make an investment. You have the security and reliability that this network is known for and you have the assurance of the Visa brand and everything it stands for that backs you up for anybody wanting to use the service. Those are all things you have today. That Fast ACH doesn't offer.

Now, let's think about VocaLink. VocaLink is Fast ACH in one market, UK, in every other market ACH is a bank-owned or owned by governments, it's generally a public utility, it requires a substantial amount of investment in many cases to get to Fast ACH capability, and it's still country specific, and none of them necessarily talk to each other. So, you have to go country-by-country to build that capability. There's going to be investment, and then there's a question of, there's, owners today, the business model really doesn't exist et cetera, you're talking about a very long process, whereas we're up and running today with many, many more capabilities than what Fast ACH can offer.

The last point on Fast ACH is, it does exist in many places today, just because something exists, doesn't mean this being used. We're not seeing a lot of take up of Fast ACH in a lot of markets, because you have to ask, okay, what's the value of this versus what we are offering, and is there an incremental value that causes people to want to say, I'm going to use this versus this. So, you can go around the world and look at markets where Fast ACH has been enabled for many years, and you can look at what progress there has been in building volume on Fast ACH and that will give you an indication of what could happen.

So, it's a, it's a multifaceted issue and there's been a gross oversimplification from what I can see in some of the conversations going on about it, and I think it's useful for the investment community to really dig in and understand the issue, because it is an issue that requires some sort of real multifaceted look at it, and some real live examples of where it's been in place and what's really happened.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

And so, maybe just a couple of other questions on this topic, in part, because there is so much -

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

A

Yeah.

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Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

– debate and maybe misunderstanding about it, but for those markets where and I'm thinking really primarily outside of the consumer to merchants, but business to business -

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

A

Yep.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

or government to individual, where they currently run on ACH rails either by option or by a lack of option.

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

A

Right.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

What, in your view, ultimately compels that onto products like Visa Direct, is it the – is it all of the things that the Visa Network give like what overcome the inertia of just how its functioned for so long.

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

A

Yeah, so you can break the – first of all the B2B space to think about it as a – you can think about the B2 – the space we operate in is relatively homogenous, right, the transactions looked relatively the same, there's just billions of them, right. But once you get to B2B, I mean they're very different, right, there is different kinds of B2B. And I'm going to oversimplify and talk about sort of let's call it low-value B2B transactions and high-value B2B transactions. There's a lot of low-value B2B transactions, that could be between businesses and consumers, think about disbursements of various sorts or between businesses and small businesses who look a little bit like consumers, right, and that's a fairly large market. I mean our guys estimate that as maybe $15 trillion or $20 trillion by itself.

Solutions like Visa Direct are very applicable there and if there's a richer data set to be required in the messaging, we can do all of that over time those are the capabilities that you could build into Visa Direct, but we've talked at the Investor Day about solutions we have in the gig economy for example that are working today where drivers are being paid on their cars through Visa Direct or insurance payments to you from your insurance provider are made through Visa Direct. So there's a whole range of what I would call lower value transactions that happen between businesses and consumers or even governments and consumers, which are transfer payments or between small businesses that these kinds of solutions like Visa Direct are applicable.

Then you get to high value transactions, and then they get, they all look very unique and different. We do have a suite of solutions there too, I mean we have tokenized, single-use virtual cards that we offer for certain kinds of users there's some [ph] health (22:10) space or the travel space, we have blockchain based technologies, we're experimenting with like B2B Connect that we're doing now. We have automated accounts payable systems that electronify invoices and then they ride on our rails. You often have to come up with solutions that are relevant.

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And then you get to sort of transactions let's say I'm a – I'm a manufacturer of toys and you sell me plastic, I'm selling – I'm buying large quantities of plastics from you that's B2B. I have 60-day terms or 90-day terms, would I have want Fast ACH?

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

No.

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

A

So, you have to ask the question of value too, just because a payment is being made doesn't mean that the mechanism being used today isn't the best mechanism, it may be. So there has to be incremental value that any new solution provides. And that's – for us and everybody else that's the challenge.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

Maybe if we can pivot once again and do a little bit of a geographic discussion and I'm going to incorporate some other the questions that we're getting. Maybe we'll start with China because it's -

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

A

Sure.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

It's in the news quite a bit.

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

A

That's right.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

Just in this past week there was a little bit of confusion about what China may or may not be requiring from the payment networks. I think the initial news reports was that Chinese regulators were going to require some sort of partnership with a local partner and then subsequently it seemed that they [ph] kind of now (23:44) to deny that. So has there been any change in terms of the less required regulatory lead to potentially operate as a payment network in China.

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

A

We keep looking at it, but there's nothing I can comment on that suggests any change.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

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Okay.

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

We remain committed to doing what we need to, to meet the requirements that the regulators have in China. We remain committed to finding the best way to get into the Chinese market. That process continues to evolve and it's hard for us to give you any precise sense of timing on that. So really there's no new news in China than whatever you heard us say on the call a month ago.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS
Q

And I think that you've underscored pretty consistently that China is a very long-term opportunity, but a more perhaps medium-term one is India. Can you talk a little bit about what's happened with demonetization there and what opportunities that's kind of created for Visa?

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

Yeah, we definitely are bullish on India for a variety of reasons, It's an open market, we're in there today. Our brand is well established. We have a great market share. The issuing partners, we have are very strong. We've had a good constructive conversations with the Central Bank and the government all the way through this demonetization.

We really are 100% behind the government's desire to move to more of a cashless society. We're looking for example with the state government in one of the states to create a cashless city concept. They seem keen to give it a go. So we're doing a lot.

In addition, we're doing the basic blocking and tackling that you need to do in this business to digitalize cash. So, we're working with our issuers to build acceptance, and our acceptance points in India, I think in the last year has grown by more than it did in the five years or so before that. The government has kept its foot on the pedal in terms of working with the industry to promote use of cards certainly many, many more people are in the banking system now. The habit of using debit and credit cards is beginning to be established.

As we said, through the demonetization our transactions doubled. We're now entering a crucial period in the next few weeks where we'll start to hit the time that last year the demonetization was going on and we had a real spike, because the society essentially had no cash, and people had to only – could only use their cards for a period of time, and then things sort of settled down. So, once we get to that settled down timeframe, we'll get a sense for how much the underlying growth rate is in the business.

But all in all, look the Indian business wasn't very large when we started, it's obviously grown a lot in the meantime, and we really like what we see and we are very committed to working with our partners in India and the government in driving all of this.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS
Q

And I'm going to throw out a couple of statistics and in June, please correct me, if I'm wrong. But I think, the official statistics something like there's 260 million merchants in India, which I imagine does not include many

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micro businesses by [ph] 260 large (27:09) merchants, and that traditional network acceptance is like – it's something at 2.9 million or something or so.

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

Yeah.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS
Q

Does that sound like the right level of magnitude -

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

No, it's a very small fraction of the total and your numbers are in the ballpark. But, there is a real opportunity to grow that, as I said one of the things and we shared a video with you at our Investor Day that really opens up these markets for us is things like you know QR Codes and the ability to use tokenized scan and pay kinds of methodologies. You know what we call mVisa where you know all you have to do is – is print the QR Code and have a app that makes you accept – allows you to accept cards and very easy for the consumer. I mean, lowering the cost of acceptance to get people set up and making it faster is a critical element of it.

But an equally critical element, and I think probably the toughest part of this as this continues is changing people's habits, right. I mean, India has been a cash-based society for a very long time, and for a time people were forced to use things other than cash. Now cash is freely available in the economy. So, I think time will tell how much the habit of moving away from cash at least for some transactions, and using some kind of card whether it's a debit card or a credit card has become part of the habit. And whether we can keep building that, I think we'll know more in the next six months about how much of that has gone on.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS
Q

And last question on India, but Paytm was here earlier in the day and talked about there are much more expansive payment network relative to Visa and just the market more broadly. How do you think about competing with indigenous payments network?

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

Yes.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS
Q

And what has your experience in other places taught you about that?

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

Yeah. I would say that India is one to watch because there are some unique things going on there because of what Paytm is doing. I think time will tell, our view is Paytm can write our rails too, now they are licensed as a bank, they have other ambitions to build financial services and maybe even Alibaba type e-commerce business

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potentially there are things that we can do to help process payments how it all evolves remains to be seen. It's still very early days.

So I think, I think we'll just have to watch India. We are certainly investing a lot in India. We are very committed to building our business there. We've always had a view that our four-party model is sacrosanct and it is a critical central element of what makes us who we are. But at the same time all the time we need to make sure that we are acknowledging sort of who is in the four party model. The definition of who is an issuer, who is a merchant keeps evolving and we just need to make sure, who is an acquirer. We just need to make sure that, that our four party model evolves and India is a great place where we just have to figure out how that industry there is going to evolve and how we should evolve our model.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS
Q

And maybe moving to the last geography that's of interest of course is Europe. You guys are in the process of integrating Visa Europe into the broader Visa global network and organization. And that's coinciding at the same time that there is a very disruptive regulation going into place in Europe which of course is PSD2. So can you perhaps just talk about what constraints and opportunities PSD2 might create for Visa?

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

Yeah, I know there's a lot of sort of talk about PSD2 as something of a potential disruptor and all that and I don't think anybody has the best crystal ball on this, but it gives out sort of view of it. First of all nothing is going to happen very fast, there's an existing infrastructure that has been setup around merchants and issuers that has to change and that change is not easy so. So they're all working on it. And it involves investment and a lot of these things were set up in relationships between me and my bank, between a merchant and an acquirer changing all those and enabling your systems to do a lot of different things take some time, that's part one.

Part two is to provide the services that might be possible with PSD2. There have to be people who can provide them. We are quite excited about that because once again, we see ourselves as – we have rails that we need to make sure are friendly to anyone who wants to process payments. And if I were to oversimplify PSD2, I see it as an evolution of something that's been going on anyway. And fundamentally, there are two things you can say about PSD2. One is, PSD2 is trying to promote significantly more connectivity, right. They want it to be easy and faster for people to connect in ways that they couldn't before, whether it's across banks or across merchants or whatever. But coming with that is a heightened need for security and authentication, because if you're going to open things up, you better have security and authentication. Visa has a big role that we can play in all of that, in effect we could play a role of being some kind of an operating system for the new world.

I mean, we have the connectivity. We have the tools that can provide security and authentication. We can do a lot of things to enable things that people may want to do in the PSD2 space. So the way we look at these things is make sure our network is friendly to what people want to do. And then figure out what the economics have to be to make it a viable proposition. I think these will all develop slowly and over time and we will we will be players in it.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS
Q

We have a little less than 10 minutes left and there is two topics that I want to touch on. One is Visa's financial model and then some of the other is – and other is kind of risks to the to the model.

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

A

Right.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

And then particularly around interchange pricing which of course is always part of the discussion as it relates to Visa. But maybe just talking about the financial model for a moment. Again, referring to the Investor Day, I think you did an attribution analysis about the driver of your earnings growth, and I think you concluded that most of that came from revenue growth, and most of the revenue growth came from PCE expansion really. And so, I guess maybe just starting with PCE is sort of the starting point, your volumes and your revenues have typically grown at a multiple of a global PCE, given the going back to the beginning of our conversation given that the growth expansion that you're looking at over multiple year view, how do we think about the sustainability of that relationship between PCE and revenue?

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

A

Well, I mean if you accept everything we talked about earlier about how we're at an inflection point and how the digitization of cash has been increasingly enabled by all the things we talked about whether it's the growth of e-commerce or the ease with which you can build acceptance, or the ease with which you can drive usage of cards into smaller and smaller transactions that contactless or other technologies. We don't think the engines that drove the digitization of cash are losing steam at all. If anything that is robust as they were, and hopefully getting more robust as this kind of phenomenon rolls around the world. If you look at the last five years, I think our payment volume grew roughly 10% and global – the two drivers of it; one is growth of global nominal GDP, the key word is nominal, because consumer expenditures typically move with nominal GDP and the other was penetration of cash. If we could get double-digit growth when you went through probably one of the weakest periods of global nominal GDP growth, because not only did we have weaker rail growth, but we had almost no inflation.

You can imagine how we were growing 10% with actually one engine which is nominal GDP growth not functioning. And the only real engine that was functioning was penetration of cash. If anything if you think the future is somewhat better growth that should help. And I don't see any sign of slowdown in the ability to digitize cash. I think the best sort of description an analyst had coming off of our Investor Day was something like, I like Visa because they have a weak competitor called cash.

I mean the wonderful thing about this is that governments now have embraced the idea of that cash needs to go, because it creates corruption, it creates inefficiency it just doesn't fit their own views of what the future of their countries are that's a new phenomenon.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

And the, sort of the obviously the corollary discussion is about pricing. And there's a number of dynamics that go into that of course, but what maybe if we can just parse interchange and what the risks are where the opportunity to – to extract the pricing comes from, maybe just to start with the competitive environment, well I'll start with the regulatory environment. The regulatory environment, there are certain regions where it's the – interchange has been regulated down to a very low level. But do you see anywhere on the horizon where the regulatory environment is evolving in a way that's potentially negative to pricing today?

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

A

I think that's – it's not a question that can be answered on a broad brush basis. As you know, there's been interchange regulation in Europe, issuers have adapted to it, we've adapted to it, there's been interchange regulation at least for a portion of our business in the U.S. issuers adapted to it, we adapted to it. I think you know you've seen a few of these play out and the industry has figured out how to adapt to it and still have attractive economics.

So, you've seen a little bit of the future. I wouldn't say that what you've seen in Europe is necessarily what you're going to see in the rest of the world. We find it very different country-by-country, priorities are different. You know a lot of governments know that if they take interchange to low, if their goal is to get to a society with less cash, somebody is going to have to make the investments, that actually they know that if interchange is too low they will still have lots of cash in the economy because nobody has the money to invest and building acceptance, investing and getting people to build that card habit. And so governments are pretty balanced in their view, they actually understand that there is a role that interchange plays here to get the level of investment required to move to a more cashless society.

So there's various views around the world. In many cases, we work closely with governments to help them do some of the things they want to do, we have many governments we are talking to where we're helping them with national card schemes where they will use our rails and our cards to make all their transfer payments. So there is no single kind of story, when it comes to regulation or how regulators think of our business or how governments think of our business. You really have to go country by country and we have to do a good job of making sure, people understand the value we can create.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

And so maybe doing the same analysis in the competitive environment, a number of geographies are characterized by let's call them an emerging rival, whether it's Paytm in India or other schemes and in many geographies across the globe. Many of whom are pricing at a discount to Visa or in some cases not pricing for things that Visa prices for, what is the secular outcome of that from your perspective, in terms of your pricing strength?

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

A

Yeah. What you're describing is not as widespread as it might seem from what you said. I mean, China is unique and we can spend a lot of time talking about China and what happened in China. But we don't need to do that. It's not necessarily the case that what happened in China will happen elsewhere. There are some big differences. So when you say about people giving away payment services, we're mostly talking about China and one particular business model, whether that's transferable of China a soon open question and there's a lot of topics we can talk about as to why there are differences and all that.

India has another where Paytm, through the same ownership of the Chinese entity is trying to do similar things, but in a very different environment, but it's not that widespread around the world, where there are people who are giving away payment processing services free. I don't think that's really as widespread. Are there experiments going on in a very small scale here and there. There's always experiments going on.

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Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

We're down to our last minute or two, but I'm going to sneak in two quick ones if I can. One area of moderate controversy I think as it relates to your financials has been the incentives line. And can you talk a little bit about what your incentive strategy is in terms of driving the pin and behaviors and how the benefits of that are manifested in the P&L?

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

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Right. Yeah. Look I mean incentives they grow with volumes. So if our volumes are growing close to double digits you will see growth in incentives that should be somewhere in that ballpark. Incentives also grow when we get into situations where there's a certain level of competition and there's a market clearing price and you're either going to be at the market clearing price or not. Incentives could grow, because we're incenting people to do certain kinds of things to invest in their business that's a win-win that may pay out in the long run.

Clearly, we all need to do a good job of managing incentives to be reasonably within sort of the levels that make sense for our business in the end what counts is net revenue growth. Net revenue growth is the real money you make and as long as net revenue growth is growing at a healthy clip, how you get there is not as important as the fact that you are able to grow your business at a healthy clip.

We're all very focused on it, we want to make sure that incentives growth is disciplined and rational. Would you like it to see – would we like some moderation in the rate of growth absolutely, but that's a function of a whole range of factors how much of volume is growing, where the level of competition is and so on.

Eric Wasserstrom
Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Q

And last one if I may. So clearly competitive environment is dynamic maybe more dynamic than it's been in previous periods, because of the introduction of new models, technology enabled models Technology-enabled models. But to me one of the more interesting components of it is that major merchants are themselves starting to take over parts of the payment value system and part of the ecosystem. How do you see that given that they're both your one of your major stakeholders but also potentially starting to move down the value chain closer to where you are?

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

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Yeah, again I mean that phenomenon is not very widespread. It's spotty and in some cases people are experimenting with things. I wouldn't say that it's as widespread as new trend. Right, having said that our four-party model is what makes us who we are and at one end we have issuers and on the other end we have acquirers and we have merchants and we have consumers.

But like everything else what an issuer is changes over time. I mean you and I were talking earlier about when fintech companies. Fintech companies look very different perhaps in a traditional bank, but they could very well the issuers of Visa cards and they are an issuer. Similarly, merchants could start to look like acquirers. Acquirers look different than traditional acquirers. I think we should all – our goal is to make our rails the best rails for anybody who wants to process payments and who that is may not look exactly like who it was in the past. But I think our four-party model needs to be flexible enough and broad enough to acknowledge that. Tomorrow's issuer may not look like yesterday's or tomorrow's acquirer may not look like yesterday's and that's really a lot of what

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you're seeing going on. So we don't see that as anything significant and we don't think it's our job to pick winners and losers. Our job is to make it easy for everyone to use our rails, follow our rules to process payments.

Eric Wasserstrom

Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Vasant, thanks so much for joining us. Really appreciate it.

Vasant M. Prabhu

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

Thank you.

Eric Wasserstrom

Managing Director & Senior Equity Analyst, Consumer and Specialty Finance, UBS

Thanks.

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