

Caryn Kaiser

Welcome to the Visa Navigate podcast series and thanks for joining us today. We're super excited to be able to have a conversation with Kim Lawrence, the head of the U.S. business here at Visa. I'm Caryn Kaiser, a senior leader in business development. I manage relationships and strategy with our financial institution clients, and today we'd really like to have some insights shared from Kim on what is going on in the U.S. market and the trends we're seeing. So, thank you Kim for joining us and taking time.

Kim Lawrence

Thanks Caryn, it's great to be here with you.

Caryn Kaiser

Well, I'd love to jump right in. You know, everyone in the industry is really focused on spending trends, no matter what size of business you run. But particularly as the recovery continues, I would love to start with getting an update from you on your perspective on what you're seeing across the U.S. in terms of spending in the recovery.

Kim Lawrence

Sure, I'll start with highlighting some of the trends we have seen persisting over the past year. First is the shift to ecommerce. In 2021, the number of monthly active ecommerce credentials and spend per active credential continued to grow. In the U.S., we saw both of these metrics grow by nearly 20% on average relative to 2019. In Visa's most recent quarter, ecommerce volume, excluding travel, slowed a bit but it was still growing at 53% over 2019 levels.

The second big trend we have seen is tap-to-pay, which is quickly becoming the default way to pay at the physical point of sale. In the U.S., tap-to-pay penetration is now over 15%. This is more than double than what we saw just a year ago, and we now have 400 million contactless cards in market, which is quadruple what we had two years ago. The pandemic and want for touchless payments has really given consumers a reason to tap at the point of sale.

And the third big trend is consumers continued reliance on debit. While debit spending slowed slightly in our most recent quarter, it still remains very strong growing at 44% above 2019 levels. The first two trends I mentioned, the shift to ecommerce and the rise of tap-to-pay, both have had an impact on driving debit growth at the expense of cash usage.

So, these trends have been consistent over the past year, but we are also starting to see improvements in both credit and card-present spending as the recovery continues. U.S. credit spend improved 17% above 2019 driven by consumer, small business, and

commercial spending. Card-present spend improved three points to 15% above 2019, which is the highest level we have seen to date since the pandemic started. Drivers here are largely higher fuel and restaurant spending.

And it's really interesting to note that debit and ecommerce have continued to outperform, even as we've seen credit and in-store shopping start to recover. The last thing I'll touch on related to trends in recovery is cross-border travel. I know everyone is keeping a close eye on this. As popular travel destinations open borders, we tend to see an immediate upswing happening there.

So, for example, travel to Mexico. The borders have been open for much of the pandemic between the U.S. and Mexico and the growth for that corridor has been strong and remains robust. We're seeing spend more than 60% above 2019 levels in our most recent quarter. And broader cross-border travel is starting to recover as well, with total cross-border volume increasing 38% in Visa's most recent quarter, but still well below pre-COVID levels. The pace of recovery is very dependent on borders being open. So, just to kind of close out on this, we anticipate recovery will continue, especially in these last two areas of credit and cross-border travel.

Caryn Kaiser

That's good news to hear! I think we're already to be out traveling. Having just completed a few trips, it was nice to feel back in gear again out there in the world.

Great statistics but what it does bring to mind is that there are a lot of things changing in our industry rapidly, some of which will, you know, maybe bounce back to the old normal, but many which will continue to be prevalent. So, I would love to talk a little bit about some of those new and emerging trends that we've sort of seen develop over the last 18 months. You know, things like ordering your food ahead, curbside pickup in restaurants, just behaviors that we've picked up during the pandemic and all the changes that we've lived through. Like what are those experiences and are those experiences that client should be embedding in their strategies as we move forward?

Kim Lawrence

Sure. All of us have been introduced to new ways of shopping and paying over the past year. And nearly all of these new shopping experiences are happening in the card-not-present channel. And the concept of card-not-present has expanded dramatically over the past year. It's not just buy online and ship it to my front door anymore. We're seeing significant growth in traditional ecommerce, that example I just gave, as well as new channels and experiences: on demand, click and collect, order ahead, and curbside pickup, which you mentioned Caryn.

A great example of this is what we're seeing in restaurants, which is one of my favorite examples. At pre-pandemic, you would walk into a restaurant, be seated, get a physical menu, give your order to a waiter or waitress, and now it's very common to be seated in a restaurant, scan a QR code, place an order, and make payment and add a tip all through an app. It is incredibly easy and convenient for the consumer, and many restaurants are turning to this model or similar models to increase efficiency in their businesses.

If you think back to the beginning of the pandemic, we were staying home, stores and restaurants were closed for anything but pickup, and these new ways of ordering and paying started to emerge and it was really out of necessity. But over the past year, these new experiences have become a habit. Consumers are expecting to be able to get goods and services when and how they want. And many of these new ways of shopping are so easy and convenient, they have become part of the new normal. Our clients should definitely be thinking about how these trends and customer expectations apply to their business models. If it adds convenience, speed, and safety to our daily lives, it is likely worth exploring and promoting to customers.

Caryn Kaiser

Yeah, absolutely. I mean there's clearly lasting shifts in the way people pay for things, how they buy things, where they shop, and I think it's really important to what you noted to pay attention to what is sticking and what seems to be, even through the recovery, a behavior change. So to that point, I think one of the most important things for businesses to think about, banks, merchants, you know on all fronts, is how do you know what changes are going to stick and how do you know if you're keeping pace with those changes in your business model, in your rewards and recognition programs? You know, how do you know you're on track as a business in this changing marketplace?

Kim Lawrence

Definitely an important part of all of this. On the surface with ecommerce spend increasing for everyone, it likely feels like a really positive story for everyone. But it's really, really important to be sure that we all understand the underlying drivers of growth in our respective businesses to identify additional opportunities.

So for example, we are all seeing robust growth in ecommerce, we've talked about this already through the first couple questions, but it's really important to understand if the growth in your business—that your business is seeing—is consistent with what your competitors or industry peers are seeing. It's so important to look at benchmarks and data across your organization, look at external market research, and really interrogate the effectiveness of your strategies. Do you have a cost-effective digital customer acquisition

and marketing strategy? Do you have measures to streamline the online buying journey and reduce abandoned carts? Are your payment authorization rates competitive? And if not, why? Do you have capabilities to instantly provision digital credentials for ecommerce channels? Whether you are thinking about issuance or online shopping strategies, it all comes back to the customer. The best advice for anyone looking to keep pace is to understand the drivers of your business and to get as close to your customer as you can.

Caryn Kaiser

Yeah, I think that that's an important point. I mean, one of the ways businesses, both merchants and financial institutions, get close to their customers is through rewards programs, right? And that's a fun question. That's a fun topic, rewards programs. But boy has that evolved, you know, throughout the pandemic. Often, rewards programs pre-pandemic were all about travel. And we've seen businesses and merchants need to adjust their reward programs based on the changing habits of their customers. So when we think about reward programs, and as you noted with travel rebounding, is this an area where folks should be investing? And how do you think about rewards programs in the future?

Kim Lawrence

Yeah, this is a really good question. And as you said, a lot of focus and talk around rewards programs. When is the right time to ramp up travel programs and travel rewards programs again? And really some of the trends I talked about earlier that we're seeing, as we start to see a return to travel and non-discretionary spending more broadly, this becomes an even more important conversation.

Over the past year, as you pointed out, traditional rewards programs that were focused largely on travel and entertainment type rewards really came to an abrupt end. We saw many of these programs quickly pivot to give their customers alternative and relevant reward and redemption options to try to keep that spend on the card. More options for consumers has resulted in more competition vying for consumers attention and spend.

Overall, it's really important to keep in mind three primary drivers of rewards programs. One is people want to earn rewards where they spend the most. The second thing is that they want rewards to have a high perceived value. And the third is that they want to redeem rewards easily and in ways that are relevant to them. So these drivers are all consistent in successful rewards programs, but just like everything else that's evolved over the last few years, this area has as well. So it's really important to take into consideration additional elements for how these three trends kind of have evolved. Providing more flexibility and variety in how consumers can earn rewards is really important, developing rewards of higher perceived value. For example, we've talked about sort of this pent-up demand for travel. Some companies are starting to invest even more in travel rewards.

And finally, thinking about flexible options for redeeming rewards. We also saw a lot of this over the last 12 to 18 months. A good example is as we saw dining restrictions take effect, some programs adjusted to allow redemption for food service deliveries.

Caryn Kaiser

Well, it's an exciting time as I listen to all of the examples and considerations. What an exciting time to be in the market because things are picking up, trends are changing, things are forever going to be different in some places and some places not. So it's really important to know your business, communicate with your partners, use all your resources, understand your data. All of those points that you made today I think are very important to the to our listeners regardless what business they're in. So thank you, Kim, we really appreciate it having your time today as the first guest of Visa Navigate podcast.

I will say to the listeners if you're interested in going deeper in some of these points and trends, please subscribe to Visa Navigate or reach out to your Visa contacts, who could totally guide you on where to get the most information and thank you for listening! Have a great day.