Q3 2021 Earnings Call

Company Participants

- Michael Miebach, Chief Executive Officer
- Sachin Mehra, Chief Financial Officer
- Warren Kneeshaw, Executive Vice President of Investor Relations

Other Participants

- Bryan Keane, Analyst
- Dan Dolev, Analyst
- Darrin Peller, Analyst
- David Togut, Analyst
- Donald Fandetti, Analyst
- Georgios Mihalos, Analyst
- Harshita Rawat, Analyst
- Jason Kupferberg, Analyst
- Lisa Ellis, Analyst
- Robert Napoli, Analyst
- Sanjay Sakhrani, Analyst
- Tien-Tsin Huang, Analyst

Presentation

Operator

Good day and thank you for standing by. Welcome to the Mastercard Third Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. Warren Kneeshaw, Head of Investor Relations. Please go ahead.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you, Jumaria. Good morning, everyone, and thank you for joining us for our third quarter 2021 earnings call. With me today are Michael Miebach, our Chief Executive Officer, and Sachin Mehra, our Chief Financial Officer. Following comments from Michael and Sachin, the operator will announce your opportunity to get into the queue for the Q&A session. It's only then that the queue will open for questions. You can access our earnings release, supplemental performance data, and the slide deck that accompany this call in the Investor Relations section of our website, mastercard.com. Additionally, the release was furnished with the SEC earlier this morning.

Our comments today regarding our financial results will be on a non-GAAP currency-neutral basis unless otherwise noted. Both the release and the slide deck include reconciliations of non-GAAP measures to their GAAP reported amounts.

Finally, as set forth in more detail in our earnings release, I would like to remind everyone that today's call will include forward-looking statements regarding Mastercard's future performance. Actual performance could differ materially from these forward-looking statements. Information about the factors that could affect future performance are summarized at the end of our earnings release and in our recent SEC filings. A replay of this call will be posted on our website for 30 days.

With that, I will now turn the call over to our Chief Executive Officer, Michael Miebach.

Michael Miebach {BIO 16087573 <GO>}

Thank you, Warren. Good morning, everyone. So let me start by giving you the highlights of the quarter. Strong revenue and earnings growth continued with net revenue up 29% and EPS up 48% versus a year ago, as always, on a non-GAAP currency-neutral basis. On this same basis, quarter three net revenues are now 11% above pre-COVID levels in 2019. We're seeing continued strength in domestic spending and overall cross-border volumes are now back at 2019 levels, though there still remains significant room for growth in cross-border travel.

We're continuing to execute against our strategic priorities with good progress on the product and deal fronts this quarter, and we're excited about our acquisition of CipherTrace in the crypto services area and our planned acquisition of Aiia in open banking. So those are the highlights.

Looking at the broader economy, domestic spending levels continue to improve, even though economies are facing supply chain constraints, rising energy prices and some other inflationary pressures. According to our quarter three SpendingPulse report, which is based on all payment types, including cash and check, US retail sales ex auto, ex gas were up 5% versus a year ago and 12% versus 2019, reflecting the return to in-person shopping and the ongoing e-commerce strength. SpendingPulse also indicated that the overall European retail sales in quarter three were up 5% and 6% versus 2019.

As it relates to COVID specifically, the outlook continues to get better with case numbers generally improving, new therapeutics in the pipeline, progress on vaccinations and businesses becoming more agile in the face of remaining restrictions. We're also seeing a general trend toward the opening of travel corridors, notably inbound into the US and some easing of restrictions in Asia.

Now turning to our business, while the pandemic is not fully behind us, we're now in the growth phase in most markets domestically, and in many markets, in cross-border spending as well. We will therefore turn the page and move beyond the four-phased framework that guided us through the last 19 months and focus on managing the business for the growth opportunities ahead of us.

Looking at Mastercard's spending trends, switched volumes improved quarter-over-quarter. We saw particular strength in consumer and commercial credit. Debit spend remains elevated, although it has moderated in recent weeks in part due to waning stimulus benefits.

In terms of how people are spending, card-present volumes continue to improve as people are getting out and shopping more while we are still seeing sustained strength in card-not-present spend. So regardless of whether people want to shop online or in person, our solutions support that choice and position us well to participate in both trends.

Now let's take a look at cross-border. Overall, cross-border returned to 2019 levels in August, driven by improvements in consumer and commercial travel as well as the ongoing strength of cross-border card-not-present spending ex travel. Our cross-border travel improved from 48% of 2019 levels in the second quarter to 72% this quarter with substantial upside potential still remaining as and when borders open.

Against this backdrop, we're investing in the growth of our business, including the enhancing end of our leading technology capabilities, like expanding our network edge to connect directly with our customers through the cloud, providing faster and easier access to our products and services.

And of course, we remain focused on our strategic priorities. Number one, rolling out core products while driving the shift to digital; two, differentiating and diversifying with our services, and three, leveraging our multi-rail capabilities to offer choice across payment applications.

Now let's take them one-by-one and turn to how we're growing our core products and driving the shift through digital; through Mastercard Installments, by winning core deals and by continuing our momentum in the fintech space.

First, let me tell you about our recently announced Mastercard Installments, our scalable, open loop, buy-now-pay-later solution. Mastercard Installments is differentiated in that it enables banks, lenders, fintechs and wallets to seamlessly bring buy-now-pay-later solutions to consumers and merchants at scale and in a secure, tokenized manner.

With little to no integration for merchants, our solution avoids the need for lenders to engage merchants one-by-one to roll this out, enables them to deliver more payment options to more consumers faster.

Our solution brings choice at scale, delivered through the Mastercard network. Our consumers will be able to access buy-now-pay-later offers through their bank's mobile banking app at the point of checkout and soon directly through Click to Pay. The embedded power of Finicity will help lenders with credit positioning and enable consumers to easily choose different repayment options.

Mastercard Installments will power our core payments and enable us to provide additional value through services, such as data analytics, loyalty and fraud tools. We've seen strong interest from players on all sides of the ecosystem and look forward to growing our partnerships in this area.

As always, we remain focused on continuing to grow share and we've won deals across the globe this quarter. In the UK, we're partnering with Chase as the preferred debit partner of their new digital retail bank. In Canada, we've extended our exclusive co-brand with Costco Canada, and in Brazil, we signed a deal with Autopass to issue more than 10 million cards to mass transit users in the Sao Paulo area, and along with that, open, contactless acceptance across their subway trains and city buses.

We're also building our leading position with fintechs and mobile money providers. Here are a few recent examples. PayPal has extended its PayPal Business debit card into our four markets in Europe. PayPal will also directly leverage Mastercard Send for domestic wallet cash-outs and P2P transactions in the US. We're partnering with Vodafone in Egypt across all of their mobile money use cases, including cash-outs, P2P and bill payments.

We expanded our strategic partnership with Yandex in Russia and we'll be their preferred international partner for all of their fintech initiatives. And Finterra, an innovative market leader that connects US banks and fintechs to get cards and financial products into the market, will leverage our digital-first Finicity, Mastercard Send and cybersecurity assets.

Now shifting to services. Our services support and differentiate our core products and have played a critical role in enabling many of the wins I just mentioned. They of course also diversify our business. We had many wins in this area this quarter.

Starting with the cybersecurity space, Ethoca is helping multiple players, including AT&T and Mercado Libre, reduce charge-backs through collaboration, thereby creating purchase transparency. Banco de Bogota is using our artificial intelligence capabilities to improve consumer experiences, increase profitability, and identify new opportunities. And in Europe, (inaudible) is leveraging NuData's behavioral biometrics to help thousands of new banks authenticate online transactions.

Data analytics. The tourism agencies in Greece, Hungary and elsewhere are using services like tourism insights and managed services to gather greater visibility of trends and drive deeper insights to support their tourism campaigns. In the UAE, HSBC is leveraging our Test & Learn capabilities to innovate, experiment and roll out new products for better customer engagement. And we're having success in the loyalty space with our innovative digital solutions, driving wins with players like the global fitness chain Barry's (inaudible) and Saudi National Bank.

Now let's turn to the progress we've made in offering choice to consumers across payment applications with our multi-rail capabilities, including open banking, B2B and crypto. In open banking, we're happy about our planned acquisition of Aiia. Aiia is a leading European open banking player, whose platform expertise, strong API connectivity, and payment capabilities complement our existing open banking assets. We will combine Aiia's European footprint with Finicity's connectivity in the US and our expansion into other markets like Australia. This will allow us to extend each organization's best-in-class capabilities, such as credit decisioning, credit scoring, account information services and payment applications across markets.

Talking about markets, we continue to make progress with our open banking product in Europe with players like Entercard, one of Scandinavia's leading credit card companies. And in the US, Finicity is working with UGO to enable account opening verifications, along with future plans to expand into payments. In B2B, we continue to expand the Track Business Payment Service network with key partners like J.P. Morgan Chase as well as merchant acquirers such as Moneris, the largest acquirer and leading processor of B2B transactions in Canada, and Priority Commercial Payments, a leading payments technology company in commercial payment solutions in the US.

We're also adding new functionality to Track DBS and are partnering with Demica to launch a supply chain finance capability. This functionality empowers payment agents to provide their business customers with access to affordable working capital directly through the Mastercard Track DBS platform. And in the UK, HSBC will be the first to issue a Mastercard Track Card to Account Transfer product, an innovative B2B payment solution that allows businesses to use their commercial card program to make payments with any supplier, even if that supplier does not accept card payments. Again, a true multi-rail offering.

And finally, in the crypto space, we're making it easier for crypto players to connect to our network. We signed up a number of new crypto wallet providers and exchanges this quarter, including Bit2Me, (inaudible), Kanga by ZEN.COM, Coinmotion and CoinJar. Our crypto program, which is based on three principles of engagement, allows consumers to easily buy crypto assets with their Mastercard, spend their crypto balances wherever Mastercard is accepted, cash out their proceeds with Mastercard Send and earn rewards in the form of crypto or even NFT.

We're also seeing a growing services opportunity in this space. Earlier this month, we acquired CipherTrace, a security and fraud monitoring company with expertise, technologies and insights into more than 900 cryptocurrencies. Our recently announced agreement with Bakkt will also add to our expanding crypto services portfolio.

So let me sum this up one more time. We delivered strong revenue, earnings growth this quarter. We are seeing continued strength in domestic spending in most markets. And while overall cross-border volumes are back at 2019 levels, there remains significant room for growth in cross-border travel. We're executing against our strategic priorities with good progress on the product and deal front, as you heard, and we're doing all of that while carefully managing our expenses.

That's it for me. Sachin, over to you.

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Michael, and good morning, everyone. So turning to page three, which shows our financial performance for the quarter on a currency-neutral basis, excluding special items and the impact of gains and losses on our equity investments. Net revenue was up 29%, reflecting the continued execution of our strategy and the ongoing recovery in spending. Acquisitions contributed 3 ppt to this growth. Operating expenses increased 23%, including an 8 ppt increase from acquisitions. Operating income was up 34% and net income was up 45%, both of which include a 1 ppt decrease related to acquisitions.

Further, net income growth was also positively impacted by 6 ppt due to the recognition of higher one-time discrete US tax benefits versus a year ago. EPS was up 48% year-over-year to $2.37, which includes $0.02 of dilution related to our recent acquisitions, offset by a $0.04 contribution from share repurchases. During the quarter, we repurchased $1.6 billion worth of stock and an additional $361 million through October 25th, 2021.

So now let's turn to page four, where you can see the operational metrics for the third quarter. Worldwide gross dollar volume or GDV increased by 20% year-over-year on a local currency basis. We are seeing continued strength in both debit and credit. US GDV increased by 20% with debit growth of 9% and credit growth of 36%.

Outside of the US, volume increased 20%, with debit growth of 23% and credit growth of 16%. To put this in perspective, as a percentage of 2019 levels, GDV is at 121%, up 2 ppt sequentially, with credit at 111%, up 4 ppt sequentially, and debit at 131%, flat quarter-over-quarter.

Cross-border volume was up 52% globally for the quarter with intra-Europe cross-border volumes up 47% and other cross-border volumes up 60%, reflecting continued improvement and the lapping of the pandemic last year. In the third quarter, cross-border volume was at 97% of 2019 levels with intra-Europe at 112% and other cross-border volume at 83% of 2019 levels. Notably, cross-border volumes averaged at or above 100% of 2019 levels in the months of August and September.

Turning now to page five, switched transactions grew 25% year-over-year in Q3 and were at 131% of 2019 levels. Card-not-present growth rates remained strong and card-present growth continued to improve. Card-present growth was aided in part by increases in contactless penetration in several regions. In Q3, contactless transactions represented 48% of in-person purchase transactions globally, up from 45% last quarter. In addition, card growth was 8%. Globally, there are 2.9 billion Mastercard and Maestro-branded cards issued.

Now let's turn to page six for highlights on a few of the revenue line items, again described on a currency-neutral basis, unless otherwise noted. The increase in net revenue of 29% was primarily driven by domestic and cross-border transaction and volume growth as well as strong growth in services, partially offset by higher rebates and incentives. As previously mentioned, acquisitions contributed approximately 3 ppt to net revenue growth.

Looking quickly at the individual revenue line items, domestic assessments were up 21% while worldwide GDV grew 20%. Cross-border volume fees increased 59% while cross-border volumes increased 52%. The 7 ppt difference is primarily due to favorable mix as higher-yielding ex intra-Europe cross-border volumes grew faster than intra-Europe cross-border volumes this quarter.

Transaction processing fees were up 26%, generally in line with switched transaction growth of 25%. Other revenues were up 35%, including a 10 ppt contribution from acquisitions. The remaining growth was mostly driven by our Cyber & Intelligence and Data & Services solutions. Finally, rebates and incentives were up 34%, reflecting the strong growth in volumes and transactions and new and renewed deal activity.

Moving on to page seven, you can see that on a currency-neutral basis, total operating expenses increased 23%, including an 8 ppt impact from acquisitions. Excluding acquisitions, operating expenses grew 16%, primarily due to higher personnel costs as we invest in our strategic initiatives, including -- sorry, increased spending on advertising and marketing and increased data processing costs.

Turning to page eight, let's discuss the specific metrics for the first three weeks of October. We are seeing continued strength in growth rates across our operating metrics versus 2020, in part due to the lapping effects related to the pandemic that began last year. To provide you better visibility into current spending levels, we are once again showing 2021 volumes and transactions as a percentage of the 2019 amounts, when we were not experiencing the impact of the pandemic.

So if you look at spending levels as a percentage of 2019 for switched volumes, through the first three weeks of October, the recent trends have continued with overall switched volumes at 134% of 2019 levels, up 3 ppt versus Q3. The US has held steady with some moderation in growth from earlier levels due to the roll-off of stimulus. And outside the US, we have seen continued improvement. Trends in switched transactions remain steady and are generally tracking the trends we are seeing in switched volumes.

In terms of cross-border, as I noted earlier, spending levels as a percentage of 2019 were back to pre-pandemic levels, starting in August. That improving trend has continued through the first three weeks of October, and we are now at 105% of 2019 levels. This improvement is driven by increases in both travel and non-travel cross-border volumes. As it relates to travel, we have seen it picking up in all regions, notably within and to Europe and recently into Canada as well.

Turning to page nine, I wanted to share our current thoughts looking forward. First off, our deal momentum and service lines continue to position us well for growth and diversify our revenues and we continue to make strong progress against our strategic objectives. Domestic spending levels remain healthy and we are encouraged by the recent resurgence in international travel. We are optimistic about the announced relaxation of border restrictions in places like the US and the UK, given that we have seen travel pickup when borders have opened in the past. Further, the airlines have recently reported increased travel bookings, including long-haul travel.

With this as context, assuming domestic and cross-border spending trends relative to 2019 continue to improve, we would expect Q4 net revenues to grow at a low 20s rate year-over-year on a currency-neutral basis, excluding acquisitions. As a reminder, spending recovered progressively in 2020, so we will be facing a more difficult comp of approximately 7 ppt in the fourth quarter relative to the third quarter. It is also important to point out that this is just one potential scenario as the level of uncertainty remains related to the pandemic and therefore the pace of recovery may not be linear.

In terms of operating expenses for the fourth quarter, we expect operating expenses to grow at the low end of low double digits versus a year ago on a currency-neutral basis, excluding acquisitions. This reflects our disciplined approach to expense management while advancing our innovation agenda across payments, services and promising new adjacencies and continued investment in brand and product marketing.

With respect to acquisitions, we are pleased to now have closed on the CipherTrace transaction and we expect acquisitions will contribute about 2 to 3 ppt to revenue and 8 ppt to operating expense growth in Q4. This reflects the integration of several acquisitions in the open banking, digital identity and real-time payment areas.

Other items to keep in mind. Foreign exchange is expected to be about a 0.5 ppt headwind to both net revenue and operating expenses in Q4. On the other income and expense line, we are at an expense run rate of approximately $120 million per quarter, given the prevailing interest rates. This excludes gains and losses on our equity investments, which are excluded from our non-GAAP metrics. And finally, we expect a tax rate of approximately 18% to 19% for the fourth quarter.

Thanks, and I hope you will be able to participate in our virtual investment community meeting on November 10th. We look forward to discussing our future plans with you at that time.

And with that, I will turn the call back over to Warren.

Warren Kneeshaw {BIO 16549173 <GO>}

Thanks, Sachin. Jumaria, we're now ready for questions.

Questions And Answers

Operator

(Operator Instructions) Our first question will come from the line of Lisa Ellis from MoffettNathanson. Please proceed with your question.

Q - Lisa Ellis {BIO 18884048 <GO>}

Good morning. Thanks for taking my question. Since you launched Mastercard Installments now a few weeks ago, can you give some color on what kind of reaction you're seeing from your fintech and bank partners? And also, are you expecting that some of the specialized BNPL providers may use elements of Mastercard Installments? Why or why not? Like what would be the tradeoffs that they would be making there? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Thank you, Lisa. Let me take that question first. So buy-now-pay-later, exciting space. We talked about it for years, invested with our own installment proposition, facing off to banks five, six years ago, the partnerships, and now as of late Mastercard Installments as you said. You saw a strong lineup of initial partners, bank partners initially. I mean, the thought is to remind everybody again here is a proposition that we have built into our network. So this is really delivered with no hassle for merchants or for lenders at the point of sale. So the reaction from banks are strong. Here in the US, that's where our lineup of US partners, lending partners was. But I've spent time on the roads over the last three weeks in Europe and similar conversation emerged there. It was just a couple of days after the announcement over Italy and banks were saying, wow, this makes a lot of sense. It's really avoiding a significant headache for us and get into a space that we all believe is important from a consumer perspective.

On the fintech side, fintech lenders, novel lenders, we lean in with fintechs, some call them disruptors. We feel these are partnerships, we should enable anybody who wants to come on our network. And we're certainly marketing this to ensure that we have the full breadth of what the market has in terms of lending offering. That's going to be good for consumers and merchants. So watch this space, more to come, but I think it's a very compelling proposition.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you.

Operator

Our next question will come from the line of Don Fandetti from Wells Fargo. Please proceed with your question.

Q - Donald Fandetti {BIO 6095992 <GO>}

Hi, good morning. Michael, I was wondering if you could talk a little bit about disintermediation. And it seems like investors are more focused on it after the Square-Afterpay deal. Can you talk about that and your thoughts on more direct payments out of consumer accounts in the US?

A - Michael Miebach {BIO 16087573 <GO>}

Right. So Don, great question. Choice in payments has been a theme for Mastercard now for, I think, basically always, but specifically with our investments in the account-to-account space over the last six years. So we see the demand from merchants and from consumers. For the consumer, it makes sense because all your spend into -- you can see it all on one bank account. That would be one aspect to why consumers might like that. Merchants liked it for choice and higher baskets of more sales.

So the interest is clearly there. We've been on this journey for a while, and we don't necessarily see this as a disintermediation opportunity. I mean, that's certainly something to watch, but we look at it as an opportunity. We say this could be additional volumes that we've not been involved with. This could be what was historically the consumer finance business. This would be something that was just the direct debit business that we've seen in some European countries and so forth.

So that's broadly how we look at it. We built a full stack around this that helps to get your money from A to B, but that's just half of the story. Probably not even half of the story because it's the whole experience that really matters. You got to have the security. What happens if you do a push payment and you want your money back? Some of those best practices that we've learned over the last decades in cards is what we are intending to build here. So it's interesting to see blogs out there on how account-to-account might look like. We have four years now in Pay by Account in the UK. We've got those learnings. We're ahead of the market here, very clearly knowing what works, what the economic model should look like, what the proposition that would really make a difference for merchants, for acquirers who will be all playing in this space. So I don't see a disintermediation risk. I see an opportunity for us to extend our partnerships and gain new flows.

A - Sachin Mehra {BIO 15311008 <GO>}

And I'll just add, Don, to what Michael just said. As it relates to your question around specifically on the threat of closed loops, look, we're big believers in the benefits of the open loop system, which we believe is very powerful. I mean, for the reasons Michael just mentioned, we bring consumers at scale. We bring global acceptance. I mean, we have north of 80 million merchant acceptance points and this is growing rapidly. And the cost of acceptance is very competitive. And when you take that, along with what Michael talked about around the various technologies and the expertise we bring, everything from digital solutions, fraud solutions, merchant support, processing assets, now most recently, Mastercard Installments, that's a very compelling proposition to go and look in our view, which is why we believe that if people wish to scale, the best way to go on is open loop, which is why we've kind of -- we've invested in the business very heavily to drive down that path.

Q - Donald Fandetti {BIO 6095992 <GO>}

Thank you.

Operator

Our next question comes from the line of Bryan Keane from Deutsche Bank. Please proceed with your question.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi, good morning. Wanted to ask about cross-border travel. Visa yesterday was talking about cross-border travel, not getting to 100% on the two-year until summer of calendar year '23. Just wanted to get your thoughts on when do you think we'll get to reach back to 100% on cross-border travel. And then secondly, it looks like you guys are running a little bit fast or a little bit ahead of Visa's number for cross-border travel. I'm just wondering what might be some of the factors that are driving a little stronger demand for you guys so far. Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. So Bryan, I'll go ahead and take that. First, I know you're asking specifically about cross-border travel, but I just want to kind of put the headline out there, which is for cross-border as a whole, we have seen very strong growth in Q3, as you've seen. And yes, travel has been a big component of that, specifically, travel between Q2 and Q3 has gone from what was 48% of 2019 levels to 72% in Q3. And now in the first three weeks of October is tracking more like at 77%.

And look, what this signals to us very clearly is if people can travel, they will travel. And I think that's really, really important to recognize. And then when you overlay that with what's going on in the nature of announcements, around opening of borders, more specifically, the US has recently talked about inbound travel into the US. In fact, I think just a couple of days ago, they laid out the actual details around how people can come into the US. I mean, you combine that with the fact that Europe has opened up, the UK is showing good signals of opening up. Even in Asia, we're starting to see corridors between Singapore and Australia, Singapore and India, these corridors are all starting to open up. These are all encouraging signs for us from a cross-border travel standpoint. We remain optimistic on that front, especially given that if those borders open up and they come with what would be light burdens from a quarantining standpoint, which is what we are seeing right now.

People have said that they will travel and they've demonstrated that through Q3. So net-net, here is what I'll tell you. I think travel is something which people want to do. They're showing their willingness to do it. Now it's a question of which are the other countries which will open up in addition to the borders I've just talked about. And you're reflecting -- you're seeing this to be reflected in the bookings, which airlines are reporting as well. So we remain optimistic on this front. I can't really tell you specifically which day or which month it's going to reach to 100% of 2019 levels, but generally, the trend is more moving in the right direction there.

A - Michael Miebach {BIO 16087573 <GO>}

Right. And coming back to being on the road for quite a few weeks, you start to see also the mix changing. While initially, this was leisure travel, you start to see business travel really kicking in. So that gives us another signal that really the pent-up demand is coming across all channels. People want to see their customers. They wanted to see their family first. Now they want to see their customers. It's happening.

A - Sachin Mehra {BIO 15311008 <GO>}

And just one final point I'll make. You remember over the last few quarters, we've talked about how, in anticipation for the return of travel, we have been investing in bolstering our capabilities from a travel standpoint and we've been doing this actually for many years now. But even through the pandemic, we've been winning deals in travel as also our teams have been very focused on the ground in terms of making sure we're optimizing our travel portfolio the best that we can. So we're ready to actually jump on this as soon as we start to see this trend come back, which we are seeing now.

Q - Bryan Keane {BIO 1889860 <GO>}

Great. Thanks for taking the question.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure.

Operator

Our next question will come from the line of George Mihalos from Cowen. Please proceed with your question.

Q - Georgios Mihalos {BIO 20004433 <GO>}

Great. Thanks for taking my question, guys. Maybe dovetailing a little bit on to Bryan's question, I just wanted to focus a little bit on how we should be thinking maybe about rebates and incentives going forward. Sachin, should we be thinking this level as sort of similar -- for 4Q, a similar level to 3Q? And then again, not asking for guidance for next year obviously, but as you have cross-border revenues coming back strongly and actually eclipsing 2019 in aggregate, should that sort of put a cap on rebates and incentives as a percentage of revenue, meaning should it kind of be flattish, if not maybe even a little bit down from '21? Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. So George, a couple of things I'd kind of just point out on rebates and incentives. And I think you know all of this, but I'll just kind of state it here. A few things. We think that incentives is very dependent on the timing of deals and how volume and mix plays out. And it goes to your point around what the mix is between domestic and cross-border and how you model that and bring that in there. In Q4, we expect rebates and incentives as a percentage of growth to be up sequentially due to increased deal activity. This is pretty normal for us in Q4. And that's what you should expect also going into Q4 of this year.

Look, at the end of the day, a lot is going to depend upon, like I said, what the mix is going to look like. We have said in the past that cross-border revenues are less indexed from a rebates and incentive standpoint. So again, depending on mix between domestic and cross-border, that will inform our kind of views around where rebates and incentives will go on a going-forward basis. Of course, new and renewed deals, which we remain very active in the market, also are going to be a contributing factor.

Q - Georgios Mihalos {BIO 20004433 <GO>}

Great. Thank you.

Operator

Our next question will come from the line of Tien-Tsin Huang from J.P. Morgan. Please proceed with your question.

Q - Tien-Tsin Huang {BIO 6065319 <GO>}

Hey, thanks so much. Good morning, guys. Just wanted to ask on the Europe front with the discontinuance of the 400 million Maestro cards that's been in the press here. What are the implications there from a -- I'm trying to think from a P&L perspective as you look to convert at a time when open banking is really heating up here? Just trying to better understand that. Thanks.

A - Michael Miebach {BIO 16087573 <GO>}

Hi, Tien-Tsin. Let me start on that and then Sachin can comment on the P&L side of things. So we've been on this journey of Maestro to Debit Mastercard conversion around the world. You heard us talk about this for a number of years. In Europe, we've really made substantial progress on that front over the years, and we felt it would be important to put a stake in the ground and give assurance to consumers as well as other ecosystem participants, banks, sales force, banking associations of when we see the end of life for the Maestro product.

Why are we doing that? We're doing it because here is the 450 million consumers who cannot use a Mastercard -- a Maestro card online because it doesn't work online. Debit Mastercard is, now in its latest form, available in a digital-first form. You don't even need a physical card any longer, if that's what you want to do or you want it with contactless. It gives you the full breadth of choice. So that is why we're doing this.

The timing is right. The reaction was essentially okay, it had to do -- in some of the leading European tabloids, we made it onto the front page with that news. It is big news in Europe, as you rightly said, but it's just the right thing to do. And what we've seen from a performance perspective, it is a more engaging payment tool in your hands and people use it across all channels. And that's what we want. So we're very encouraged about that. And then Sachin, if you can look at the P&L side of that.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. So Tien-Tsin, this will not take effect until 2023. And Michael talked about approximately 400 million Maestro cards globally. Again, this is Europe-specific. This has been a trend which has currently been underway for some time now. And the reality is it's about not issuing new Maestro cards. Existing Maestro cards will continue to be in operation. We've been on this migration path. It makes eminent sense. It just provides better utility for our products in an increasingly digital world. So the reality is I kind of view this as a step in the right direction and we've been on this journey, we'll continue down this path.

A - Michael Miebach {BIO 16087573 <GO>}

All right. And one last aspect here is this -- what we've learned here is over the last couple of years as we are moving the shift from Maestro to Debit Mastercard is how do we use this as an opportunity to not only retain our business that we have on the debit front, but also to expand our business on the debit front. So we don't have any concerns on that front.

Q - Tien-Tsin Huang {BIO 6065319 <GO>}

Understood. Thanks for the thoughts.

Operator

Our next question comes from the line of Darrin Peller with Wolfe Research. Please proceed with your question.

Q - Darrin Peller {BIO 16385359 <GO>}

Thanks, guys. Nice job. Listen, when we look at -- or a couple of quick ones. First, on inflation and what the impact to your business model would be. Thinking about it from a perspective of how much is obviously basis points volume-driven, but also where you see pricing power in your model to change? And then second question would be when you think of the structural impacts from the pandemic and where you are now and thinking ahead of the Investor Day a minute, I mean, is the long-term or medium-term growth potential similar, different, better, worse than it was last time we had an Investor Day, out of curiosity? Thanks, guys.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. So Darrin, I'll take your question on inflation. So look, I mean, there's been obviously a lot of talk recently about high inflation levels, whether it's permanent, whether it's long term, whether it's just transitionary. The reality is the structure of our business model is quite conducive because of the way we price, right? I mean, we've got basis points. We've got cents per transaction as it relates to how we kind of price. So we kind of view the following, which is to the extent that inflation is moderate, right, we think that to be a positive tailwind kind of growth to our business. Again, gradual and moderate inflation is going to be helpful. And the reason I bring that up is any sort of shock to the economy, i.e., any sort of hyperinflationary event, oftentimes comes with drastic measures from an interest rate standpoint and comes with cost pressures which come along with that. So to the extent it's moderate, it's moderately kind of positive for our business.

The other thing I would say is it's important to actually see in the basket of goods and services what are the products and services which are subject to inflation and what is the amount of electronification of the flows, which have taken place and relevance to our business. So to the extent there's inflation, general inflation taking place in categories which are unrelated to card payments, I mean, that kind of is a net nonevent for us. To the extent it's on things which relate to consumer spending, which have been electronified, it goes back to my point around moderate inflation being a mild positive here.

A - Michael Miebach {BIO 16087573 <GO>}

All right. Now, Darrin, on your second question, structural changes, are they here to last, what makes a trend? Fascinating question. I don't want to upfront the Investor Day, but since you asked the question, I'll give you a couple of highlights on how we're thinking about that. So the first thing is it helps to understand the psyche of the changing consumer of the small business, so everybody who's kind of in the payment space as an end user. And we now have 19 months of studies looking at this. And the numbers have really not changed. Somewhere around 70% of people and business are saying more digital banking will be what they will be doing going forward. More online shopping is what they will be doing going forward and more contactless.

So the secular trend that was playing in our favor for years has clearly accelerated. And if you just look at this quarter's numbers, we talked about sustained e-commerce strength while in-person shopping is coming back. So behavior is truly sticking. So that is -- I think that's the most fundamental point that we're seeing coming through. The race to this digital economy is on. And what that also means is a lot of players want to come in. So there are structural changes in the sense that the competitive playing field is opening up. More partners are coming in, which for a B2B2C player like us is a great opportunity to facilitate the entry of all of these partners. So that's what we're doing.

Then you start to look around and say, well, who else is looking at this, these kind of trends and these kind of developments? Most notably governments. Governments are looking at this, and they have found that over the last 19 months, that payments is indeed a national critical infrastructure. So that comes with government engagement, which is not always necessarily positive, but what we're seeing is there's this real drive to modernize payment infrastructure. And that is where we are invited to the table because we're a true multi-rail network. And they're saying, hey, you're locally invested, you're a locally relevant partner. Let's talk about how do we make this better in our country. So that is certainly a structural change as in -- Tien-Tsin asked earlier about new payment flows coming in, open banking et cetera, in Europe, so we're playing on all of those trends going forward. So I think that is what is happening. You could -- I could go on for a while longer. B2B, clearly digitizing supply chains is a drive that is in focus. We're seeing that.

Data analytics and cybersecurity, that's the last point I want to make on this. With the race towards a more digital economy, there's going to be more data that is available, more business will seek to use that data and run their business in a better way, find more customers. Our Test & Learn capabilities, our data analytics capabilities help on that. So again, that's a structural trend that's helpful. And the same applies for cyber and security, more digital transactions need to be made safe, more people need to be authenticated as they use these tools. Again, that plays into our offering. So structural change is really driven by COVID accelerating the race to digital.

Operator

Our next question will come from the line of David Togut from Evercore ISI. Please proceed with your question.

Q - David Togut {BIO 1496355 <GO>}

Thank you. Good morning. What are your expectations over the next year for the pace of European adoption of account-to-account payments under open banking, especially given the shift online that you've really underscored during COVID? And in particular, I'm wondering if you see strong customer authentication, which is really a key to account-to-account payments in Europe, being rolled out broadly enough to really affect, let's say, broader adoption of account-to-account payments throughout Europe.

A - Michael Miebach {BIO 16087573 <GO>}

David, let me start on that and maybe Sachin wants to chime in. So the journey towards account-to-account in Europe, I think it's still early days. So if you look at how PSD2 has rolled out in Europe, starting in September 2019, including the strong customer authentication, has been a long journey. Dates have been moved on multiple occasions to give time to the industry to get this right, and get right means that the transaction isn't so secure that nobody can use it any longer. So the trade-off between consumer experience and security is actually found in a balanced way. And what we are seeing in our engagements in Europe is that balance is starting to be struck. So we will reach a point where such strong customer authentication in cards as well as in other forms of payments will be actually a reality in Europe. So that's the first thing I want to say.

When it comes to open banking specifically, so there has been, over the last two years, really a focus on driving connectivity in Europe in terms of getting the open banking ecosystem stood up. That's exactly why we put out a connectivity product in June 2019. That was the first lead into the region, and we've been quite busy with that. Use cases emerging on the basis of that really started in 2020, the UK being ahead of Continental Europe on that while this was still one Europe. And UK is still pushing ahead. You heard us talk about Lloyd's on card repayments, about our partnership with Tesco. So the payment capability part of open banking is really leading in the UK. And here, our proposition is very well positioned. So we start to see that. And I see the wave coming over to Continental Europe as connectivity is now there. Our acquisition of Aiia is perfectly timed here. We expect to close this by the end of the year to not bring in additional -- not only bring in additional connectivity, but also additional payment capabilities because I do see this is not just a data capability. It's a big data, kind of a data play, account obligation, personal finance management and so forth, but it's also a payment opportunity.

Q - David Togut {BIO 1496355 <GO>}

Thank you very much.

Operator

Our next question comes from the line of Harshita Rawat from Bernstein. Please proceed with your question.

Q - Harshita Rawat {BIO 18652811 <GO>}

Hi, good morning. Thanks for taking my question. Michael, I want to follow up on your comments on crypto. This year, you've made several announcements, including the recent one with Bakkt and the acquisition of CipherTrace. Can you talk about how you see the overall ecosystem evolving? And in what ways Mastercard can participate here in the growth of crypto and potentially CBDC when they become live? Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Yes, Harshita. So always an exciting topic, and we could not have an earnings call without talking about crypto. So I'm happy you brought it up. Looking at this from a number of perspectives, other than that there's a lot going on in the space. We are pretty clear on how we want to play in this. So the first is we see significant volumes in terms of people actually investing in crypto and selling crypto. So as an asset class, there is a lot going on. And I think we have a role to play to facilitate consumers wanting to do that, if that's what they choose to do. So these partnership programs on exchanges, crypto exchanges and wallet partners and so forth, have been quite important for us and that is good from a volume perspective. There is real activity.

When it comes to crypto as a payment tool, then we take a somewhat differentiated view on that versus the -- we just stepped into that. We're saying at this point in time, the most likely chance of this kind of technology to work for payments is issued through a government in the form of central bank digital currency. We've said that on a couple of calls before. And we said we will make our network ready to do that as and when a government is ready to put out a central bank digital currency, then it will exist alongside the dollar or the euro as settlement currency in our network. So we've done that.

But that's easily said. How will the government test that? How will a country figure out between the private sector banks and the government how to do this? That's where our sandbox comes in. So we can provide a safe space for government and private sector banks to figure out how that would actually work; questions like the last mile, how do you bring utility into the hand of your citizens if you put out a central bank digital currency, acceptance questions and so forth. So facilitating investments as an asset class, we do that and we get ready for CBDC. Should there be a private sector stable coin, we might also do that, but we have very strict principles on when to do this and when not.

Now let me talk about CipherTrace for a moment because this space is a really interesting space in so many ways. Questions on data privacy, questions on authentication, we just touched on that in the context of Europe and strong customer authentication. You have to expect the Europeans will say, well, strong customer authentication will, of course, play a role in crypto transactions as well, which is where we always lead with security and trust. I mean, that is really synonymous with the name of Mastercard when it comes to payments that we have to do the same role.

So it's a massive services opportunity. CipherTrace, 900 cryptocurrencies. What does CipherTrace actually do? They drive compliance and AML checks into crypto transactions. We can't run fast enough right now to get into the space because a lot of other people are deep into crypto and these questions are not resolved. So asset class, CBDCs and a services opportunity, those are the three ways that we feel we want to play, we need to play and we have the differentiated assets to do so.

Q - Harshita Rawat {BIO 18652811 <GO>}

Thanks, Michael.

A - Michael Miebach {BIO 16087573 <GO>}

Our next question comes from the line of Dan Dolev from Mizuho. Please proceed with your question.

Q - Dan Dolev {BIO 16010277 <GO>}

Hey, thanks for taking my question, Michael.

A - Michael Miebach {BIO 16087573 <GO>}

Hello.

Q - Dan Dolev {BIO 16010277 <GO>}

So how does the new offering by Plaid with the acquirers or any of that sort of potential disruption there impact Mastercard and the networks in general? What is the kind of general strategy around it? We're getting a lot of calls on this topic. Thank you.

A - Michael Miebach {BIO 16087573 <GO>}

Dan, so I think I touched a little bit on an earlier question that we had on this topic. So here is a blog post that describes account-to-account. We have account-to-account technology really since the acquisition of Vocalink. And we've learned how that works. We like it because it's an additional choice that is provided to consumers and to merchants, but we also have all the learnings. And the learnings go around like how do you create acceptance into that? How do you make it easy for a merchant? How do you actually convince a consumer that actually likes the card proposition? So all of that, it is about standing up an ecosystem.

So what we believe is this should be something that is built into our network, into our multi-rail capabilities, and it's actually how we're approaching it. So we're leaning into this. I don't see it as a disruption. That's been our stated strategy. And we have five years of learnings. And I think that puts us ahead of the curve to make this a reality. I think this is a interesting alternative when it comes to consumer payments in store. And we have it. We build it. It's for us to really figure out whether the economics settle, what other capabilities that are currently built into our card franchise can we extend into the world of account-to-account payments, for example, charge-backs, those kind of data protection and so forth. So that's the direction that we're taking. Not really a disintermediation question, an interesting blog, the good things we've done in reality.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah. And Dan, I'll just add to that. Just we've got to remember, right, there's a sizable TAM out there and a fair amount of that TAM is likely not going to be able to be reached by card products. This is where our multi-rail philosophy and strategy as well as our ability to provide choice across various rails, one of which would be an open banking rail used for payment services, it's very helpful because it helps open up the TAM, which is available to us from what used to be primarily card-focused to much more than card-focused. And we do see that opportunity come through here in open banking as well, so...

Operator

Our next question comes from the line of Bob Napoli from William Blair. Please proceed with your question.

Q - Robert Napoli {BIO 1526298 <GO>}

Thank you and good morning. A follow-up on the cross-border business. I mean, obviously, a very important business for Mastercard. As you look at that business and as we get to full recovery, do you think that the economics of that business will be similar to what they were prior to the pandemic? I mean, the continued development of blockchain and other technologies or account-to-account, is that going to pressure the economics of that business?

A - Sachin Mehra {BIO 15311008 <GO>}

Sure, Bob. Why don't I take that? So look, I mean, the value prop we used to deliver through cross-border payments on our carded products, pre-pandemic and post pandemic, is exactly the same. So we don't expect that the economic returns which they will generate should be any different, given that the value we delivered previously, if anything, has only gotten better over a period of time with more electronification of flows taking place.

To your point around several other account-to-account capabilities, which are there in the cross-border space, the reality is we're participating in them today, but they happen to be going after flows, which are not carded flows. They're not point-of-sales flows. They happen to be more in the nature of business-to-business payments. We do that with our -- if you remember, we acquired a company called Transfast, in addition to the fact that we have our capabilities from HomeSend. The combined capability of that is our cross-border Send capabilities, which is account-to-account cross-border payments.

And we'll participate in those flows, but those are separate and distinct from what goes on at the point of sale with our card products today. So net-net, I kind of view the whole cross-border space as a positive for us as and when travel comes back from a card standpoint. And in the meantime, we continue to actually plant flags in different parts of the world with the reach we've established on our B2B flows from a cross-border standpoint.

Q - Robert Napoli {BIO 1526298 <GO>}

Great. Thank you. Appreciate it.

Operator

Our next question comes from the line of Jason Kupferberg from Bank of America. Please proceed with your question.

Q - Jason Kupferberg {BIO 6867809 <GO>}

Yeah. Good morning, guys. Just a follow-up on cross-border. I guess, in the third quarter, the volume growth ex intra-Europe was 60%. It was again a very, very good proxy for the overall cross-border revenue growth in the quarter. So now if we just look at October month-to-date trends, if those hold hypothetically through the rest of Q4, it would seem like cross-border revenue growth could again be around 60% this quarter. And arguably, that would be even before most of the potential benefits of the US reopening kicks in. So is all that a fair characterization? Are there other moving parts should we be aware of? And can you just comment on which cross-border corridors are the highest-yielding in the system?

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah. So I think the answer to the first part of your question, I think you kind of touched upon in the second part of your question, which talks about how revenues are realized on cross-border is very much a function, even in that ex intra-Europe kind of category. It will depend on every corridor. Every corridor has got different yields. And depending on which ones come back first, which ones come back after, the numbers from a cross-border revenue standpoint will kind of move around.

As it relates to what we're seeing, look, I mean, I'll tell you pre-pandemic, important corridors for Mastercard included obviously US to Canada, the US to the UK, the UK to various parts in Continental Europe. These are all very important corridors. We've seen intra-Europe come back pretty nicely. The US inbound is still to happen. I mean, there's a little bit happening, but there's more to come as borders open. Canada has started to open up. As you know, Canada opened up in the third quarter. We've seen signs of recovery take place in terms of inbound into Canada as well.

And these are important corridors for our business. The one area which I will say is still a little bit kind of yet to be seen is Asia-Pacific, right? In Asia-Pacific, recovery in cross-border has still been kind of somewhat muted. We'll see how borders open up there and what that kind of shapes up to be, but net-net, here is what I'll tell you from a yield standpoint, intra-Europe, low-yielding, ex intra-Europe, high-yielding. In the ex intra-Europe bucket, the yields vary by corridors.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Jumaria, I think we have time for one last question.

Operator

Our next question will come from Sanjay Sakhrani from KBW. Please proceed with your question.

Q - Sanjay Sakhrani {BIO 7390132 <GO>}

Thanks. Good morning. I think Michael mentioned the waning impact of US stimulus. I mean, we've seen the US volume sort of stabilize here in terms of the growth. I'm just curious how you guys feel about the other side, which is credit rebounding and just thinking through the economic impact as lending comes back, lending-related volumes come back. Thanks.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah. Sanjay, let me just start on the rebound of credit. Back to changing in how people spend, start to see more in-person and more in-person certainly includes T&E, discretionary. Those are all use cases that are very much oriented towards credit. So that is what is driving that. The impact of stimulus on the debit side, we still see an elevated use of -- sustained use of debit going forward. So it's not a zero-sum game yet again. It's balancing out in a way that one is coming back and the other remains elevated. It really comes down to the size of the available wallet that consumers have. And Sachin, you have any other thoughts on that one?

A - Sachin Mehra {BIO 15311008 <GO>}

No. Sanjay, I think it's interesting. If you take us back to a couple of quarters ago, maybe three or four quarters ago, we talked about the same question as to what our views around credit and debit mix is going to look like. And we had kind of maintained that we think that there will be a reversion to the mean as economies come back and as discretionary spending picks up. And that's exactly what you're seeing right now, right? I mean, as people are spending more in discretionary categories, lodging, travel, restaurants, credit is definitely coming right back the top of wallet. And we expect that as the economy continues to recover in different parts of the globe, that reversion to mean will continue. And that's kind of our view as it relates to how credit plays out over the near to medium term.

A - Michael Miebach {BIO 16087573 <GO>}

All righty. Good. Thanks, everybody. Thank you for your questions. We are going to close the call now. I hope to see you at the investor community meeting. Generally, on these calls, it's not only the analyst community listening, the investor community, it's also our staff. So I want to thank our staff for everything they have done through this quarter again. It feels like a bit of like a marathon as we turn out of COVID. See you at the ICM. Please do tune in. Thank you very much, everybody. Bye-bye.

A - Sachin Mehra {BIO 15311008 <GO>}

Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.