Q2 2020 Earnings Call

Company Participants

- Ajay Banga, President and Chief Executive Officer
- Michael Miebach, President
- Sachin Mehra, Chief Financial Officer
- Tim Murphy, General COunsell
- Warren Kneeshaw, Executive Vice President of Investor Relations

Other Participants

- Andrew Jeffrey, Analyst
- Ashwin Shirvaikar, Analyst
- Bryan Keane, Analyst
- Craig Maurer, Analyst
- Darrin Peller, Analyst
- Lisa Ellis, Analyst
- Robert Paul Napoli, Analyst
- Sanjay Harkishin Sakhrani, Analyst
- Tien-Tsin Huang, Analyst
- Togut, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Mastercard Q2 2020 Earnings Conference call. (Operator Instructions) I would now like to hand the conference over to your speaker today, Warren Kneeshaw, Executive Vice President of Investor Relations, thank you. Please go ahead, sir.

Warren Kneeshaw {BIO 16549173 <GO>}

Thank you Katie, and good morning everyone, thank you for joining us for our Second Quarter 2020 Earnings Call. We hope you're all safe and sound. With me today are Ajay Banga, our Chief Executive Officer; Michael Miebach, our President; and Sachin Mehra, our Chief Financial Officer.

Following comments from Ajay, Michael, and Sachin, the operator will announce your opportunity to get into the queue for the Q&A session. It is 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 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 affect future performance are summarized at the end of our earnings release and in our 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 Executive Officer, Ajay Banga.

Ajay Banga {BIO 4676567 <GO>}

Thank you, Warren, and good morning everybody. Through the several months to COVID-19 pandemic has impacted every aspect of our society and we remain focused on supporting our employees, our issuers, merchants, small businesses, and government partners to help them navigate through what I think are completely unprecedented times. You may recall, we introduced a full phase framework for monitoring spending levels at all we would run our company on our last earnings call. Containment, stabilization, normalization, and growth.

By the second quarter, we saw a progressive improvement in volume trend over the course of the quarter, driven by the opening up of domestic economies. And today, we believe that most markets are in the normalization phase domestically (inaudible) and social distancing and mobility limitations are relaxed and spending begins to gradually recover with some sectors recovering faster than others.

We expect progressing through the normalization phase and ultimately moving into the growth phase, essentially bringing us back to pre-COVID days is very much dependent upon turning the tide on infection, which you have seen in Europe, in Asia, and the United States Northeast, but also is ultimately tied to the broad availability of our vaccine and proven therapeutic

We expect that the progress through the phases will be non-linear. We have seen that in places like Japan and potentially in the Southern United States where we are monitoring for the effects of the re-introduction on social distancing restrictions. Meanwhile, the world is becoming more digital. Our services are in strong demand and we expect that travel will begin to come back as borders reopen. The first signs of which we are beginning to see in Europe.

The COVID crisis has driven an acceleration in the use of electronic forms of payment with much greater adoption of digital and contact less solutions. We believe those will sustain beyond the pandemic and we believe we are very well positioned to capitalize on those.

The pandemic has also highlighted the resiliency of our differentiated business model, which is reflected in our financial performance. Our services growth remains strong. It's outpacing the goal and it drives meaningful differentiation and diversification. Our digital and multi-real solutions are enabling us to address key opportunities by providing customer choice and the capabilities required to capture a wide range of payment flows and we continue to win deals across all our core products.

So we are focused on what we can control. We are focused on executing against our strategy. We are focused on managing the business for the long term, and we are focused on investing in key strategic priorities in areas like open banking, real-time payments, cyber and intelligence solutions and B2B payments. Now you're going to hear lots of that from Michael and before I hand it over to him, I'd like to share a few comments on diversity and inclusions.

Through the events we watched unfold in the United States and elsewhere over the last several weeks, our society is facing the difficult truth that there is a long way to go to ensure that the fundamental human rights of all people are equally respected. There is no place for racism or discrimination in our communities, in our company, in our hearts. For years, we here in Mastercard have championed inclusion. We have focused on issues that matter to the black community as well as to others, including delivering on our commitment to bring 500 million individuals into the financial system. We have extended that pledge, as you know, to 1 billion people by 2025, including 50 million micro and small businesses and 25 million women entrepreneurs.

We are longstanding partners of several civil rights organizations, and we have closed the racial pay gap over the years.

In 2019, Mastercard employees in the United States who are people of color were paid the same as Caucasian employees. So we are proud of where we are but we recognize how much more there is still to do. And to that end, we have launched a company-wide long-term initiative to drive change for our people, for the market we work in, and for society at large, including bolstering black recruitment and training, driving financial inclusion, and addressing the wealth and opportunity gap faced by black communities. We must and we will capitalize on this opportunity to effect change, so now over to Michael.

Michael Miebach {BIO 16087573 <GO>}

Thanks, Aiay. As Ajay mentioned, the COVID-19 pandemic has triggered a series of significant behavioral changes across consumers, merchants, and businesses, which are having a profound impact on payment preferences, many of which are likely to persist beyond COVID.

Key trends include a preference for contactless, rapid adoption of e-commerce and increased diversion to cash, and merchant requirement to omnichannel acceptance and the need to automate B2B payments. Each of these provide an opportunity for our business to accelerate the secular shift to digital forms of payment.

Let me give you some examples. Let's start with the consumer. According to our latest COVID-19 consumer impact study, over 70% of consumers plan to continue or increase their online purchasing and approximately 60% believe that they'll use less cash even after the pandemic subsides. And we are providing digital first solutions that leverage our tokenization and other digital technologies to meet these changing needs.

In addition to the success we've had in the digital space with companies like Apple, we recently announced an expanded partnership with Samsung, which includes the digital first Samsung Money by SoFi products here in the U.S. and the Samsung Pay Card with Curve in the U.K.

Southeast Asian super app Grab has launched a digital first Mastercard prepaid card in the Philippines and we're partnering with emerging

Fintechs like C24 in Germany through our Mastercard debit solution and tied in the UK to provide a new commercial prepaid product.

In addition, click to pay, the streamline industry wide guest checkout capability continues to gain momentum as consumers shift to digital experiences, more than 10,000 merchants have been enabled in the U.S. and preparations for global expansions are underway.

We are differentiating our click to pay offering through an additional layer of security enabled by NuData's AI and machine learning technology and through push provisioning of consumer enrollments through banks like Citi, which will help us speed up and ease consumer adoption.

Another implication of the shift to e-commerce is the need to support merchants with digital enablement solutions. Small and medium-sized enterprises, which represent about 90% of businesses worldwide have an acute need in this area as they recover from the impact of the pandemic.

S part of our $250 million commitment to support small business globally, we have recently launched our digital doors initiative, which provides gateway, cyber security and other resources for merchants to quickly establish an online presence and start accepting electronic payments. We're also providing a comprehensive suite of installment capabilities through API based solutions, partnerships, and acquisitions, all of which provide greater choice in lending solutions for merchants and consumers of online and in store, which is particularly important in a credit challenged post COVID environment.

Our Mastercard installment solution has been available market wide for several years. Our acquisition of Vyze allowed us to advance our presence with marquee merchants in the U.S., and internationally, we forged partnerships with Pine Labs, Afterpay (inaudible) to provide tailored regional solutions.

In addition, we recently announced a new partnership with Splitit to provide interest free installments for e-commerce purchases. Now while the pandemic has accelerated consumer adoption of digital payment solutions, the crisis has also driven increased demand for all services offerings, including cyber security and data analytics capabilities.

These services allow us to offer differentiated solutions that are valued by a wide variety of customer segments, and provide us with the level of revenue diversification. This has become particularly evident in the COVID environment as our services lines grew much faster than the core in the second quarter.

Digital commerce continuously requires more advanced cyber solutions and in anticipation of that, we have been scaling our capabilities both organically and inorganically. Our RiskRecon acquisition for instance helps ecosystem participants assess and approve cyber security and it is being utilized by several governments, health care providers, and leading tech firms. Our ethical solutions are scaling quickly. We continue to have strong partners like Bank of America and our Ethoca digital receipts product has been enabled at more than 80 new merchants over the last few months.

NuData, which provides behavioral biometrics capabilities has secured new partnerships with Jack Henry & Associates, as well as others. In addition to cyber, our customers are leveraging our data and analytics capabilities to assess plan and react to the pandemic. Our test and learn platform powered by our acquisition of APT is helping partners like Citi to supplement their planning processes.

In addition, we have engaged with governments and over 100 data analytics, cyber security and disbursement programs in over 30 markets around the world since the crisis began.

And finally, our services capabilities provided key elements of differentiation to help us win several deals this quarter. We renewed key customer partnerships with Fifth Third bank in the U.S., Abu Dhabi Commercial Bank in UAE, Santander in Mexico and a credit renewal with the Bank of China.

On the commercial side, we signed a deal with PNC in the U.S. and established a partnership with Virgin Money in the U.K.In addition to our efforts in digital and services. I'd like to touch on a few of our initiatives to address a broader set of payment flows and opportunities.

Let's begin with open banking. As the shift to a digital economy accelerates, demand for open banking services will increase further. In Europe our open-banking connect protect and resolve solutions, which we launched last year continue to gain traction. These added new FinTech players like Modulr, DiPocket, and Aion in addition to the recently announced Tesco win.

And we are excited about the planned acquisition of Finicity, which advances our open-banking strategy here in North America in which we will leverage globally. This will enable a new round of innovation and inclusion in financial services and new products for consumer. Finicity brings best in class connectivity with thousands of U.S. banks along with a robust set of applications, including credit decisioning and account owner verification capabilities.

We are also attracted to Finicity's approach to open banking, including a strong commitment to data privacy and transparency, a balanced ecosystem model and their focus on API based connectivity. All of which are consistent with our principles in the open banking space. We expect the deal to close by the end of the year and believe that the combination of Finicity and our internally developed solutions will provide us with a differentiated set of capabilities.

Shifting gears to B2B, recent research conducted by Kearney indicates that COVID has made the digitization of accounts payable and receivable processes a priority for many corporation. We have now now commercially launched Mastercard Track business payment service. The U.S. launch included 13 distribution partners across the B2B ecosystems including global payments (inaudible) payment solutions and others. Cross-border payments and international expansion of planned for 2021.

Talking about cross border, earlier this week we announced the partnership with the Bank of Shanghai to allow customers of Mastercards Cross Border Services, which is inclusive of our acquisition of Transfast and Mastercard Send to send international B2B payments into China with less friction and more certainty. This is the latest example of how our cross border services are enabling financial institutions and partners to reach a variety of payment endpoints in more than 100 markets.

Whether over card or account to account infrastructure via a single connection. With that, let me now turn the call over to Sachin.

Sachin Mehra {BIO 15311008 <GO>}

Thanks, Michael. So turning to page 3, which shows our financial performance for the quarter on a currency neutral basis and excluding special items and the impact of gains and losses on the company's, equity investments. Net revenue was down 17%, reflecting the impact of the pandemic and includes a 1 ppt benefit from acquisitions.

Operating expenses were down 5% year-over-year or down 9% if you exclude the full ppt impact of acquisitions. Operating income was down 25% and net income was down 27%, both of which include a 1 ppt decreased from acquisitions.

EPS was down 26% year-over-year to $1.36, which includes $0.03 of dilution related to our recent acquisitions, offset by a $0.03 contribution from share repurchases.

Although we did not complete any share repurchases in the second quarter, we have recently reinitiated our share repurchase program and quarter-to-date through July 27, we have repurchased approximately 3.3 million shares at a cost of $1 billion.

So let's turn to page 4, where you can see the operational metrics for the second quarter. Worldwide gross dollar volume or GDV declined by 10% year-over-year on a local currency basis reflecting the impact of the pandemic. U.S. GDV declined by 5% with credit down 23%, partially offset by debit growth of 12%. Outside of the U.S., volume declined by 12%. Cross Border Volume George modest improvement progressively through the second quarter and was down 45% for the quarter recovering of a low of down 55% in mid April. The decline in cross border was due to the impact of the pandemic, which has limited cross border travel to a great extent.

Turning to page 5, switched transactions were also impacted by the pandemic. They stabilized around mid April at down approximately 24% and improved progressively through the quarter exiting the quarter close to flat versus a year ago resulting in switched transactions being down 10% for the quarter.

In addition, card growth was 5%. Globally there are 2.6 billion Mastercard and Maestro branded cards issued.

Now let's turn to be 6 for highlights on a few of the revenue line items again described on a currency neutral basis unless otherwise noted. The decrease in net revenue of 17% was primarily driven by a decline in transactions in volumes due to the effects of border restrictions and social distancing measures, partially offset by continued growth in our services offerings, which continue to help diversify our revenue base and differentiated our core, as Ajay mentioned. As previously mentioned, acquisitions contributed 1 ppt to growth.

Looking quickly at the individual revenue line items. domestic assessments were down 8% due to the decline of 10% in worldwide GDV. The 2 ppt difference is primarily driven by favorable mix. Cross border volume fees decreased 52% while cross border volume decreased 45%. The 7 ppt difference is mainly driven by an increase in the proportionate share of intra-Europe cross border, which is relatively lower yielding compared to other cross border activity.

Transaction processing fees were down 6% when switched transactions were down to 10%. The full ppt difference is primarily driven by favorable mix. Other revenues were up 14% including a full ppt contribution from acquisitions. The remaining growth was primarily driven by our cyber intelligence and data and services solutions, which continue to perform well.

Finally rebates and incentives were down 7% reflecting a decrease in volumes, partially offset by recent deal activity and were slightly lower than expectations. Moving on to page 7, you can see that on a currency-neutral, non-GAAP basis, total operating expenses decreased 5%. This includes a 4 ppt increase related to acquisitions.

Remaining decrease in operating expenses of 9 ppt primarily reflects lower advertising and marketing, travel, and professional fee related expenses.

This is lower than expected primarily due to the delay of certain sponsorship activity, which we now expect to occur in the third quarter of 2020.

Turning to page 8. Let's discuss what we've seen through the first three weeks of July, where we continue to see improvement in spending levels relative to June and the second quarter.

One point to note, while the week ending July 21, shows slightly lower growth metrics relative to the prior week, I would not make too much of it since growth in that week has been impacted by the timing of significant e-com merchant promotional activity from a year ago. In fact, when I look at the early numbers for the fourth week of July, we see a continuation of the growth we saw in the week ending July 14.

Starting with switched volumes, we continue to be in the normalization phase in most markets domestically. The U.S. continues to show positive year-over-year growth, and Europe has improved with several markets such as Italy, Russia, and Poland showing positive year-over-year growth and others, such as the UK, Germany and the Netherlands showing significant improvement.

In appearance, Europe's economy is recovering faster than others at this stage, which could bode well for us given our strong position in Europe. Each of the other regions have also shown improvement. When you look at how people are spending, we continue to see improvement in card present transactions as you would expect as markets open up. Notably, this includes further recovery in restaurant and hotel spends as well as an increase in healthcare spending, while retail continues to hold up well. Card-not-present spend remains healthy.

Trends in switched transactions are similar to what we're seeing in switched volumes and they are impacted by the same factors for the most part. One point to note, in the second quarter, contactless penetration represented 37% of in-person purchase transactions, up from 28% a year ago. In terms of cross-border, as expected, intra-Europe has shown the most improvement as border restrictions within Europe have been relaxed.

As you can see however cross border outside of Europe remains in the stabilization phase with some recent signs of improvement in Asia-Pacific and North America, which have been offset by declines in Latin America and Middle East and Africa.

Going now to page 9 for some additional color on the cross border volume trends. You can see that the trends we laid out through the course of the quarter have continued. In total, if you look at the gray line total cross border has improved modestly mainly due to continued improvement in intra-Europe travel. If you look at the orange line card present spend continues to improve.

Since June 21, we have seen a 15 ppt improvement in card present travel and entertainment volumes in particular, primarily related to spend on lodging and restaurants. We have also seen increased card present spend in other discretionary categories such as clothing and home improvement. Card-not-present, which is the yellow line on the chart has been more resilient and has held up well, looking at the green line if you exclude online travel, card-not-present spend remains positive and some shift to card-present spend as travel restrictions begin to relax and as I just mentioned some difficult prior year comps related to e-com merchant promotional activity in the third week of July.

We remain confident that cross border volumes will continue to improve as travel restrictions are relaxed and believe a return to the growth pace is dependent on an improvement in consumer confidence that is in turn related to the availability of effective therapeutics and ultimately vaccines.

Turning on to page 10 and our outlook going forward. As we established last quarter, given the ongoing uncertainty, we will not be providing a forward view for net revenues for either the third quarter or the year at this time. We do intend, however, to continue to provide periodic updates to our operating metrics to help you understand the trends we are seeing.

I would like to make a few additional comments to help you with your modeling. First, with respect to cross border in line with our previous outlook, we expect recovery in intra-Europe travel will outpace the recovery in other cross border travel. As a reminder, intra-Europe transactions are low-yielding than other cross-border transactions.

Secondly, we expect rebates and incentives as a percentage of gross revenues to increase sequentially reflecting increased deal activity in Q3.

Turning to operating expenses, I want to reinforce that we are carefully managing through this period to preserve our ability to invest in strategically important initiatives that will deliver on our long-term growth opportunities. Digital, Cyber, Data analytics, B2B, and multirail solutions.

In the meantime, we will save where as appropriate based on factors such as market readiness and customer demand, and we will continue to monitor the situation closely and adapt quickly as circumstances change. We expect operating expenses to be down low-single digits in Q3 versus year ago on a currency neutral basis, excluding acquisitions. This reflects sequentially higher annum spend primarily due to increased sponsorship activity and digital campaigns

Other items to keep in mind, foreign exchange is expected to be about a 1 ppt headwind the net revenue for each of the third and fourth quarters, and will have a minimal impact to operating expenses over the same time periods. Acquisitions will contribute about 1 ppt to revenue for both Q3 and the year, and 6 to 7 ppt to operating expenses for both Q3 and the year, assuming the transaction with Nets closes in Q3 and the Finicity transaction closes by the end of the year.

On the other income and expenses line, we are at an expense run rate of approximately $100 million per quarter given the debt we have issued and prevailing interest rates. This excludes gains and losses on our equity investments, which are excluded from our non-GAAP metrics with respect to the tax rate for the year, we now expect to be closer to the bottom end of the 17% to 18% range, we last provided assuming the geographic mix of the business does not change significantly.

So to sum it up, we are seeing signs of normalization domestically in most markets. Our service lines continue to perform very well, and we are in a very strong position to take advantage of the accelerating digital shift and address the significant opportunities that lie ahead. And with that, I will turn the call back over to Warren to begin the Q&A session.

Warren Kneeshaw {BIO 16549173 <GO>}

Thanks Sachin. Katie, we're now ready for the Q&A session.

Questions And Answers

Operator

Thank you. (Operator Instructions) And your first question here comes from the line of Bryan Keane with Deutsche Bank. Please go ahead, your line is open.

Q - Bryan Keane {BIO 1889860 <GO>}

Hi guys, good morning. Wanted to ask about the margins, they were -- they were better than we expected. Just interested to know whether -- cause expense growth looked like it was controlled more than you guys anticipated. Whether some one-time events there that got pushed out or is that just better cost control that hopefully can continue? And then kind of part to that I guess secondly, why were incentives lower than expectations? I think that's the comment you made, Sachin. Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah, good morning Bryan. So on your question on margins, you're right, our expenses did come in lower than what our expectations were. And it was like I said, it was driven primarily by just the timing of when our sponsorship activities and the associated expenses with that occurred. So we expected some of that to occur in the second quarter as we can see a lot of the events which Mastercard sponsors didn't necessarily come to fruition, because of the pandemic in the second quarter. We are now expecting for that to happen in the third quarter, and so, like I said, I kind of think about that more in terms of the shift in operating expenses between the second and the third quarter.

On your question on rebates and incentives, it's really a function of, we go into a quarter, we think about why our expectations on rebates and incentives, based on what new and renewed deals we might be entering into and really I think the lower rebates and incentives relative to our expectation in the second quarter is a function of what actually ends up closing in the given quarter relative to what our expectations were.

So like I said, we do expect that there will be an uptake in our rebates and incentives as a percentage of gross, in the third quarter on account of new and renewal deals, which we expect to occur in the third quarter.

A - Ajay Banga {BIO 4676567 <GO>}

The only thing I'd add to that is Bryan, this is Ajay, is that underlying what's going on in the expense base of the company, is a lot of effort to ensure that we are more thoughtful about what we spend, based on the readiness of our markets and our clients, to accept the new things we are doing. So, you do see an expense base reduction in totality, but that's, we're then using that ability to put it back into the investment areas that we want to and taking some of that to the bottom line. And I think that's what's going on inside our expenses. The A&M part is moving from a quarter to the other, but really worth underlying our expenses, as Sachin spoke about in his prepared remarks, is that. And Michael and the team are doing a terrific job with that.

Q - Bryan Keane {BIO 1889860 <GO>}

Got it. Thanks so much. Stay safe.

Operator

Your next question comes from the line of Darrin Peller with Wolfe Research. Please go ahead, your line is now open.

Q - Darrin Peller {BIO 16385359 <GO>}

Thanks guys. If we think about the structural goal, and you're seeing that are more pronounced and maybe sustainable, given the pandemic, you talked about contactless obviously digital being up, but you guys don't mind just honing in on the services pieces. Obviously the other revenues up and there is definitely services flowing into the other transaction lines as well, so card-not-present fraud. I guess how big can this be? Do you think that's sustainable going beyond the pandemic as well? And then, can they offset potentially some of the cross-border headwind?

A - Michael Miebach {BIO 16087573 <GO>}

Yeah Darrin, it's Michael here. Let me -- you rightly said there is this accelerated shift to digital. Yes, and we see that right now, what does that all what does all of that mean for the business overall. Well, first of all, it accelerates the secular shift to digital payments. So that's all fantastic. But it has a downstream impact into our services for sure.

So more digital transactions versus more cash transactions is more data, more data means more desire and more need for data analytics capabilities but also to protect that data, so our cyber solutions are going to benefit from that in the long run. We've clearly seen that as long as the underlying trend to digital continues, which we believe it will, our services portfolio which hits right on to these point should be benefiting.

A - Warren Kneeshaw {BIO 16549173 <GO>}

Next question please.

Operator

Your next question here comes from the line of Craig Maurer with Autonomous Research. Please go ahead, your line is now open.

Q - Craig Maurer {BIO 4162139 <GO>}

Yeah, good morning. It's Craig Maurer. So, I wanted to ask couple of questions, first, can you tell us how your value-added services revenue are distributed among your different lines of revenue and what value-added services are enabling you to win deals versus competition. And secondly, with the class-action lawsuit against Plaid pending in California. I was hoping that you could reiterate for us, the differences between Finicity and Plaid that made you more comfortable with the Finicity business.

A - Sachin Mehra {BIO 15311008 <GO>}

Hey, Craig, it's Sachin. So as it relates to where our services revenue reside, they for the most part reside between other revenues and our transaction processing fees, it depending on the nature of the service either comes into other revenues. There is some amount which comes in transaction processing fees to the extent they're related to the number of transactions which are switched. You kind of asked the question as to what services are helping us differentiate and one of the core, and I would argue that if you start from what Michael said earlier, which is ability to gain access to data, utilizing data to analyze and provide advice to our clients as to how they can optimize their portfolios, how they can end up growing their top line while still managing their expense base is a key enabler on one side and then separate from that a pain point which exists, which is around fraud is another area which where our Cyber Intelligence capabilities are key differentiating factor.

A - Ajay Banga {BIO 4676567 <GO>}

(Technical Difficulty) throw one point in and then pass it over to Michael for the Finicity answer. Just think about when you convert a portfolio during a flip, when you convert a portfolio during the flip, there are dormant cards in that portfolio and the ability for the client to come out in a better place with less dormancy, more active, more engaged customers, that is determined a lot by our ability to use data analytics, in a sensible way. That's one example, like that there are many examples, that enable us to put our best foot forward, during such an opportunity. So Michael, Finicity.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah. I just had one point to add to that. As we turn out of the COVID pandemic. I was talking earlier about understanding the crisis react to it -- reacting to planning for the future. Our test and learn stuff that works almost like a hawk. The crisis got us engaged on test and learn at a much greater scale than before. And that leads into conversations in more in the BAU realm of our business around payments with our customers. So we talked about planning processes on branch opening and what retailers are doing to start stocking their shelves and so forth, but that leads into payment opportunities, which is again a way for us to differentiate and win in payments.

Now Finicity. So I have to say from the first interaction that we had with the Finicity team with the leadership team, with Steve and Nick over there, the founders. We felt a very strong cultural affinity here. So here is a company that has been the leading voice in setting up the FDX, the financial data exchange approach, transparent business model, a model that works for everybody in open banking, open that is for syntax, that's for banks, that's for consumers, they have been a voice in that for years and that's pretty much exactly where we are going. When you dig a little more into the detail, you see a company had very strong relationships with U.S. banks. I talked about the connectivity earlier but I have a series of agreements, data sharing agreements in place with several of the large U.S. banks, Chase, Wells, and Capital One, for example. So there is that we got once we announced the deal in terms of our banking partners saying this is a good partner for you.

When it comes to data quality, one of the important things that matters for Fintechs and banks alike as well as consumers is that the data quality of what is being shared here is at the highest point. It is cleansed, it works at all times and here Finicity is clearly a leader. The applications that they bring, specifically around credit decisioning makes Finicity, a leader. This is something that we believe is a very useful, use case, it's one that will be needed certain and become out of the crisis, if you think about their boost product, here's a company, I was thinking around financial inclusion for a while. As we have with the boost product and basically and helps people improve their credit score, so they can get access to credit. So all around, I see clear differentiation of Finicity versus other players and make them as far as I can see, our best possible partner.

Q - Craig Maurer {BIO 4162139 <GO>}

Thank you.

Operator

Your next question comes from the line of Lisa Ellis with MoffettNathanson. Please go ahead, your line is now open.

Q - Lisa Ellis {BIO 18884048 <GO>}

Hi, good morning and thanks for taking my question. Question about fraud in e-com in midst of a pandemic, the higher -- significantly higher rates of fraud in e-commerce has kind of become a lot more evident. Can you just speak maybe more holistically to Mastercard's initiative to help people at our ecosystem address and rapidly reduce online fraud? Specifically things like accelerating deployment of tokens, I mean are there tools you can use like creating different interchange categories or changing liability rules et cetera to kind of accelerate and help the whole ecosystem move in the direction of rapidly addressing the fraud issues? Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Hi, Lisa. Let me take this question. As you rightly said, we talked about it earlier, we see fraud rates increasing, more transaction happening digitally, so there is no surprise there.

Our broad strategy is along a number of pillars, we want to prevent frauds to start with, as and when transactions occur, we want to ensure that authentication as best as possible. We want to help our customers' assets and their Cyber security status to start with. So those are the key dimensions of our strategy. But you pointed to an important aspect here, the underlying components of the digital economy like tokenization that we have invested so much effort in over the last couple of years come to play here, and tokens can do many things, but for once they, what they do is because it's a one-time token this compromise transaction cannot be used by anybody for anything else. So what it does is, it makes it safe but it also drives a great user experience, because the approval rates are going to be higher.

So that effort is paying off significantly, so we keep expanding our capabilities here with RiskRecon. I talked about cyber security readiness, that is, we can't run fast enough right now, there is everybody seeking all those merchants that are coming online, these days and trying to establish and we see great demand for that and then of course once transactions happen, there might be faulty transactions of some sort. The whole charge back process comes in two sides and here as an ecosystem leader as a custodian of the payments ecosystem we're putting out our solutions that help making charge back solutions, go away even before a charge back is actually filed.

That's what Ethoca does for us. So around about. I think we're quite well positioned here but tokens as you said, make a real big difference.

A - Ajay Banga {BIO 4676567 <GO>}

I mean you can see the effort of both organic and inorganic build that we've been trying to do in that space. The organic build was the token and the investment that went into developing the idea in building these capabilities and the inorganic build includes Ethoca, RiskRecon, and other such efforts. And then the organic expense all goes to help them expand their reach. So it's kind of a combination of that that come into our system and that's the discipline we follow on our acquisitions, and for a couple of years, we tell you that an ex-acquisition and then after that it's in our base because that is how it has to be.

Q - Lisa Ellis {BIO 18884048 <GO>}

Thank you.

Operator

Your next question comes from the line of Bob Napoli with William Blair. Please go ahead, your line is now open.

Q - Robert Paul Napoli {BIO 1526298 <GO>}

Thank you and good morning. The acquisition in open banking that area obviously has been getting a lot of attention. I was wondering if you give a little more color on what Mastercard strategy is in open banking and how you see that evolving? And then Mike, will you be taking over as CEO in the near future? Just wondered, any color on how you feel like you'll stylistically be different than Ajay? Will you be as colorful as Ajay, and then what are you most excited about?

A - Ajay Banga {BIO 4676567 <GO>}

(Inaudible) and that's way beyond the purview of this call.

A - Michael Miebach {BIO 16087573 <GO>}

All right. Let's go open banking first, meanwhile I can think about this question at the back of my mind. All right. So, open banking is in the end all about putting control into the hand of a consumers to use their data, in this case the data in our bank accounts to get access to better financial services, just generally benefit from that data, so that's the whole principle. Our strategy is, when you look at the ecosystem that's opening up here, as you got lot of FinTechs out there, third-party providers that are coming in and wanting to provide such financial services and there is a lot of bank that hold that data, so we believe there is a role for us to be a trusted party in the middle between the FinTechs and the banks and all that based on consumer consent to provide seamless transactions and make sure that everybody is a good player and enable the consumer to benefit from their data.

So that's broadly the strategy. We have built those solutions in Europe, we brought them to market last year connect protect with law, I talked about it earlier, good progress there. Eleven countries, 2000 banks on that works really well in Europe and then here in North America, there's a market that grew up in a different way not driven by regulatory push as in Europe, but basically incumbents are there that are having slightly different models on providing such services to consumers. We looked at Finicity here as I laid out earlier, a good fit for us that will be our starting point in North America to assume that trusted role between FinTechs and banks.

In the end what I see is, us participating in data transactions or in payment transactions both will happen in the world of open banking and as we participate in card transaction and build a portfolio of value-added services, on top of that and make those transactions better and differentiated from Mastercard we seek to do the same in open banking. So in terms of open banking applications, I'll give you an example out of our world of loyalty services that'll pay with rewards API that would be something that we seek to deploy to the FinTechs that are participating in the open banking ecosystem. There might be a neobank that says, I want to have a pay with rewards capability and here is a premium API from Mastercard. And of course around all of this, everybody is trying to figure out their open banking strategy. It's a great opportunity for our consulting business for advices.

So infrastructure, application services, it's the way that we think about the go-to-market and I think with our organic stuff and Finicity, we have the tools that we need.

Now, that gave me just two minutes to think about the colorful question, You know what, we have been since this whole pandemic started basically locked up together for the last four and four and a half months here in purchase, extended family I would say and I found out, all the things, I don't want to be like and there is a few.

A - Ajay Banga {BIO 4676567 <GO>}

Here is a guy who has known me for 20 years and now he wakes up. Don't give him too many marks for ability to be a bright spark.

In all seriousness, when you look at our strategy, what we're doing in terms of the accelerated drive to digital economy. We got to just be on that and maximize that as much as we can, but at the same time, -- do want to make the point that we do see even in these four months consumer behavior is changing. Yes, people are using more digital services, but also when there is an opportunity to go back on the street and buy that local shop around the corner, then they do that. So, the good thing is we have a business that benefits from the trend from cash to contact less and cards. And we will continue to drive that as hard as a digital part and that gives us the two legs to stand on.

And then their services. I think there is a huge opportunity, these as questions we just talked about it in terms of what else we can do the longer-term trends linked to underlying digital data flowing through and then places like open banking we haven't touched on it, new payment flows, B2B real-time payments, all that, I don't see a dramatic change to our strategy because even those are just early steps on where we are. The turban thing that would basically mean I need to get up like an hour earlier to bind the whole thing.

Q - Robert Paul Napoli {BIO 1526298 <GO>}

Thank you. Appreciate it.

Operator

Your next question comes from the line of Tien-Tsin Huang with JPMorgan. Please go ahead, your line is now open.

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

Hey, guys, thanks for hearing me. Good morning. I wanted to ask ISVs of it. So I ask you guys as well. Just, this is spread between U.S. credit and debit growth. It looks like it was even wider for you then, these -- love to hear your thoughts on why, how much of it is secular versus stimulus and also any impact on yield with this credit and debit shift here. Thanks.

A - Sachin Mehra {BIO 15311008 <GO>}

Hey, Tien-Tsin, it's Sachin. So yeah, you're seeing the spread take place in the second quarter between what you would expect in terms of a greater decline in credit and actually pretty good growth in debit. I would tell you that some of the second quarter numbers are impacted by the stimulus programs, right. So as more and more money gets deposited to people's bank account, so utilizing the debit product to go and access that amount.

A - Ajay Banga {BIO 4676567 <GO>}

(Technical Difficulty) savings in banks have gone up.

A - Sachin Mehra {BIO 15311008 <GO>}

Correct. And so, so I do think you're seeing a little bit of that impact come through. But by and large, if you just step back and you think about where we are from an economic standpoint, given the uncertainty in the economy, people tend to rely more on a debit product than they'd want credit, right? And kind of the reality is, we're well positioned to capitalize on both those trends, ie, the fact that people are accessing their stimuli funds through debit products, but also the fact that our strength in debit. I mean we go on a global basis and you think about our presence in debit globally, we stand well positioned to take advantage of that situation as people spend more on the debit products. So look, I can't tell where it's going to go, what I can tell you is we are seeing a little bit bump up in terms of our debit growth rates in the second quarter driven by the stimulus programs.

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

All right. Good to know. Thank you

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah.

Operator

Your next question comes from the line of Sanjay Sakhrani with KBW. Please go ahead, your line is now open.

Q - Sanjay Harkishin Sakhrani {BIO 7390132 <GO>}

Thanks, good morning. Sachin, you wouldn't worry too much about the slowdown in the last week, but I'm just curious if you guys are seeing a meaningful divergence in trends in states that are seeing a spike in the viruses versus not? And then just on cross border, should we just assume you can't see material improvement unless there is some kind of medicinal cure for the virus or how should we think about the progression of cross border on a go-forward basis? Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Sure. Hey, Sanjay. So on the comment around the week of July, 21, it's just exactly like I said, look, I mean let's not put too much into the week of July 21, because what I'm seeing in the early numbers for the week of July 28 is actually seeing back to the trends we were seeing on the week of July 14. In other words, the growth levels we were seeing back in the week of July 14.

What you did have is the impact in the third week of July related to year-over-year comps on account of some promotional activity is done by e-commerce merchants. But I wouldn't put too much more into that. The trajectory is a good solid growth trajectory, which we've been seeing here. On your question about impact of the back and forth in terms of pauses and reopenings taking place in different parts of the world and different parts of the country, I would just say, we continue to run the business based on the full phased framework, which we've got.

The whole containment stabilization, normalization, and growth. And the reality is it's going to be non-linear. We are going to see puts and takes, which will take place. But when I look at it on a holistic basis, if I look at the most recent numbers for the fourth week of July, we've seen the growth trajectory you saw in the second week of July.

Michael, you want to take the cross border?

A - Michael Miebach {BIO 16087573 <GO>}

Yeah, on the cross-border side. So interesting question, just picking up from what Sachin just said. So the full phase framework what we put in there is, we believe, we will see normalization on a path to growth, one social distancing measures and border restrictions (inaudible). So the point about, a vaccine will be a good thing to have, and medicine will be a good thing to have, but I don't think that we'll see flat travel on that until that point.

We are already starting to see this border restrictions being eased in some parts of the world. Europe, for example, there is some early green shoots there, people do get into their cars and drive across borders. We see domestic travel around the world happening. So once border restrictions are lifted, we will see some increase there. So that is the first step.

Then you go into the therapeutics and vaccine. For this to come back in a big way, I think you're right, but you know it's not going to be kind of like an L where it all happens at one point, it will be a gradual improvement.

A - Sachin Mehra {BIO 15311008 <GO>}

And so to add to what Michael just said, I mean we should think about border restrictions, even in the context of U.S. and Canada and U.S. and Mexico. Right. I mean we typically think border restrictions, when we're thinking for Europe but to the extent border restrictions are lifted between the Canada and the U.S., the U.S. and Mexico important corridors, by the way from a cross-border travel standpoint. Those are -- those are good things for us to have.

Secondly, the travel bubbles which are being created across various quarters as you think about in Asia Pacific between Australia and New Zealand, between China and Singapore, as those start to come into effect, you're going to see probably some of the impact of that come through. Don't know when, but I think those are things to keep your eye on as well.

Q - Sanjay Harkishin Sakhrani {BIO 7390132 <GO>}

Thank you.

Operator

Your next question comes from the line of Andrew Jeffrey with SunTrust. Please go ahead, your line is now open.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Hi, good morning. I appreciate for taking the question. Michael, I think you mentioned the services as being an important contributor to recent wins, I wonder if you and Ajay just generally can comment on sales cycles in the current environment,and whether perhaps they've shifted, elongated, whether you think there is pent-up demand and we could see perhaps more portfolio flips or more activity generally as the economy recovers, just trying to get a sense of cadence for new wins.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah, let me start on that and then Ajay can chime in. So on the services side, when you look at the different elements that we have in our portfolio. So here is starting off with cyber. There is an immediate need. So from a customer demand perspective, there is a pulse of -- in terms of this help is needed right now. There isn't any debate and that makes it fairly easy from a cycle perspective, most of our solutions, other than RiskRecon generally network delivered, so that is relatively straightforward for us to switch on such capability and make a difference.

At the other end of the spectrum would be strategy and consulting projects which involve potentially some travel and here we've had some impact though the sales cycles take longer, the demand is lesser because people are worrying more about it today versus the day after tomorrow.

So that's what I would say where we are on that. We see it, the scaling for the network delivered stuff is good, the people delivered stuff will continue to engage and we do believe as I said earlier, before being a partner, the best possible partner that we can be in the crisis, let's say with our data analytics test and learn platform, or our cyber platforms makes us a good partner for the longer term, things as we go out of this, governments, for example, they are looking at longer-term strategy product. Open banking is an opportunity like that. At any given point in time, there's a whole set of services engagements around real-time payments and we expect those to really pick up over time.

A - Ajay Banga {BIO 4676567 <GO>}

And to your point about sales cycles on other things like core products, I think we've only paid for our fund a faster sales cycle as there merchants who had co-brands and were impacted by severe need for liquidity or circumstances of navigating through this, they have re-opted many deals because that's kind of what you would do in their shoes.

But I think I haven't seen a big change in the selling cycle with issuer per se. And I don't expect there to be some dramatic change. I do see this thing with some of the merchants, there are a few of them who had directly impacted. Their business is challenged right now, and you can understand that circumstance.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Thank you very much.

Operator

Next Question comes from the line of the David Togut with Evercore ISI. Please go ahead, your line is now open.

Q - Togut {BIO 1496355 <GO>}

Thank you. Good morning. Could you comment on the composition of the 5% card growth in the quarter? Was that -- was that mostly debit versus credit as people wanted to purchase online? And then my follow-up really relates to Europe, which historically has been debit-centric and historically Continental Europe has been a real strength of Mastercard, could you comment more deeply on the trends you're seeing in Europe by country to the extent we see debit lead us out of this, what are the longer term implications for revenue yields?

A - Ajay Banga {BIO 4676567 <GO>}

Let me take the part about Europe for a second. Yes, we have had (inaudible) in Europe, in Continental Europe in particular. We were weaker on debit in the UK, that has begun to change over the course of the last couple of years with the wins we've been telling you about, but they have to all get into the market to those cards. Do I see that as good for us? Absolutely, Europe continues to be a very attractive growth market for our company

Over the years, our growth in Europe has been both due to our share growth and the flips and wins that we've been having and telling you about, were also due to the natural change, not just by the way from large global competitors, but even from domestic schemes by European countries where their ability to keep pace with innovation and the things that the issuers wanted have hamstrung them and therefore we have begun to see more and more transactions across domestic European markets. I continue to be very constructively optimistic about Europe over the next few years. So that's kind of the first part about Europe.

A - Michael Miebach {BIO 16087573 <GO>}

Yeah, just a few things to add on that when you look Europe maybe Western Europe comes to mind. But we see a huge opportunity for cash displacement in Eastern Europe that has been driving our growth there. So that will continue. And then there are countries in the middle like Germany which was cash heavy but COVID has clearly accelerated the trend there.

A - Ajay Banga {BIO 4676567 <GO>}

Most probably contributed to that.

A - Michael Miebach {BIO 16087573 <GO>}

Definitely. At least with my cross border e-commerce. No. But the point here is the contact list is rising. So here is a market that is a significant opportunity that is again riding the wave. To Ajays's point, we're partnering with all the local schemes here and bringing our best practices to Europe. I continue to see long cash displacement on differentiation services and opportunity across the board.

A - Sachin Mehra {BIO 15311008 <GO>}

Yeah and to your question around card growth, we're seening growth across both credit and debit. There's a little bit stronger growth across debit and you should expect that and the reason you should expect that is just general propensity spend on debit. But also All the work that we're doing As company On the migration from Maestro to debit Master card, and kind of quarter-over-quarter, you see that come through in our Schedules, where you see there's a declining card parks of Maestro cards relative to what's there in the debit Mastercard.

Q - Andrew Jeffrey {BIO 1493346 <GO>}

Thank you. Stay safe and healthy.

A - Sachin Mehra {BIO 15311008 <GO>}

You too.

A - Michael Miebach {BIO 16087573 <GO>}

You too.

Operator

Your next question comes from the line of Ashwin Shirvaikar with Citi Please go ahead, your line is now open.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you. Hi, Ajay. Hi, Michael. Hi, Sachin. Good to hear your Voices I have a broad regulatory question just wanted to get your views on a range of things Durbin, EPI, any long-term thoughts in the Wirecard what might be Merged from that. Any company specific update on Nets. We have seen some of the news flow recently obviously but how are you thinking on that?

A - Sachin Mehra {BIO 15311008 <GO>}

So I'm going to take a start and then you know Tim is dying to answer your question. He's exactly looking that you beaming from here to here (Technical Difficulty).

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Thank you.

A - Ajay Banga {BIO 4676567 <GO>}

Regulatory in general. I continue to believe that this industry of payments as it becomes more and more important and interesting to governments around the world as they all take on cash and try and move their economies to digital, I think you should expect attention from governments, opinion leaders, regulators, legislators, around the world to the industry. That's not a bad thing. That is part of what's driving the secular change in our favor. It raises the bar for our industry to do so in ways that seems value added to their local countries and their local businesses and that's kind of what we've been trying to do through our financial inclusion efforts, through our center for inclusive growth, through our partnership with governments. This is not a new thing we've been working on. This is a decade old effort to take some leadership positions in this space.

That doesn't make it less we should be careful about just telling you how we're conscious in dealing with it. So, Tim

A - Tim Murphy {BIO 15846989 <GO>}

Thanks. I fully agree And let me just -- in light of that frame -- let me just sort of hit the specific things you mentioned in order. So in terms of Nets, you mentioned that we continue to work through the regulatory approval process for that transaction feeling -- feeling good about it. We're making progress. I don't have a lot more to say there but that continues to be -- to be underway and we're moving forward. In terms of and staying in Europe. In terms of EPI initiative which for others is a potential effort in Europe to create an alternative sort of European payment architecture and ecosystem.

We'll see whether that gets traction or not. These have been -- there have been multiple efforts over the years. It is actively being considered and our view is we welcome it and we look forward to the opportunity to participate in it. I think we've demonstrated both in our core card business and our ACH business the opportunity or the possibility to really drive value for all parties and to earn some revenue for ourselves by participating in these sorts of local or regional initiatives and so we don't fear EPI, we embrace. We will see whether it gets traction but we intend to participate.

A - Sachin Mehra {BIO 15311008 <GO>}

With our approach to multirail, we are not just card rail dependent. And so our attitude towards multirail is our strength.

A - Tim Murphy {BIO 15846989 <GO>}

Yes. And then just coming back to the U.S. on Durbin, so 2 things there. You have seen in our disclosures that the FTC has now opened up a formal investigation into Durbin compliance. We feel very good about how we have managed this company and delivered fully compliant Durbin compliant approaches. We compete hard in debit. Debit is a a very competitive space, Durbin contemplates that. It has rules around net compensation which we are rigorous in adhering to. So I look forward to the chance to explain our approach to the FTC. And we will do that as we need to. That's an early stage investigation and we're participating -- we're participating fully. And then we might end on Wirecard and I'll make a comment and then Sachin has more to say. I think as you know Wirecard in terms of its engagement with Mastercard principally two entities that engaged in our network, one, a German-based bank and then the Wirecard business in the U.K. We're working very closely through this process. They have a number of roles in the payment ecosystem including processing, acquiring, and so on.

We're very comfortable in our close connections both with Wirecard and the regulators in Europe that consumer deposits have been appropriately ring-fenced and so we're staying very close to the situation and making sure that we're working with them and with other parties to minimize any Impact on the wider ecosystem.

A - Sachin Mehra {BIO 15311008 <GO>}

The only other thing I'll just add is I think you're all very well aware about the risk management practices which are there at Mastercard. We have very robust risk management practices and those have actually held us in pretty good state in this instance as well.

So we monitor. We've got real time engagement taking place in terms of seeing what kind of traffic is going through our network as well as putting the requisite, collateral measures as and when necessary to ensure that we're appropriately covered.

Q - Ashwin Shirvaikar {BIO 5027189 <GO>}

Great. Thank you.

A - Sachin Mehra {BIO 15311008 <GO>}

Ajay. Do you have any final comment?

A - Ajay Banga {BIO 4676567 <GO>}

Yes, all of you, thank you for your questions. I'm going to ramp up with a few closing thoughts. I am going to begin where we started in the beginning. These are difficult times for all of us. Yes, for our business. The pandemic is actually helping to accelerate the secular shift to electronic forms of payment. The foundational work we have been doing in areas like tokenization, contact less digital acceptance, cyber security, B2B. This position is very well to capitalize on this accelerating trend and our services capabilities allow us to offer differentiated solution to a very wide range of customers.

And very importantly to help us diversify our revenue base and build multiple legs to our revenues too. We continue to drive our core business forward. I think our multirail open banking and cross border solutions are enabling us to address a broader set of payment fraud and you should expect to see us continue to be very focused on these opportunities. Thank you for joining us today.

Operator

And ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.