Center for Strategic and International Studies

TRANSCRIPT

The Reopening

"Mastercard CEO Ajay Banga on Technology's Role in Recovery"

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CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

Scott Miller: Thank you so much for joining us today. We're really looking forward to this discussion. I'd like to talk to you about something your company did less than a week ago. MasterCard launched an initiative called the Recovery Insights, and you're using all the data you collect, making it freely available to help inform the economic response to the pandemic. It's, I think, a wonderful display of information as a public good. Can you tell us both about what what it is and what you're learning?

Ajay Banga: So Scott, first of all, thank you for having me. You know, this topic is really important. The fact is, we see billions of transactions in a year. But when we see a transaction, and this is around the world. We don't actually get your name.Or we don't get what you buy. So, what we get is anonymized by the nature of what we get through the data feed, which is a 16-digit account number, the dollar value what you purchased total (not what you bought for the dollar value), a merchant code, and a date and time.

So, in a way, if you were to put all that together the insights you can glean from that. Particularly if you have years of this data and you're able to build regressions to overall consumer spending, not just on our rails, but in totality. Then you create a very powerful instrument that can be used for public good.

So, the idea here is to use the insights from consumer spending for everything ranging from where should governments direct their benefit and subsidy programs at a time like what we're going through right now so you help them to be more efficient and more honed in on their spending to even before this. We were using this information to inform mayors and municipalities in many countries around the world, about how to think about tax breaks to set up something versus other forms of incentives and what really they needed to focus on as compared to throwing money at an issue. So to give you an example in New Orleans. We help them think through, remember the one that God-destructive hurricane Katrina one night?

Scott Miller: Sure. Yes.

Ajay Banga: Well, guess what happened? They became a food desert in the sense that people began to go outside their wall to shop for day to day food and grocery items. And therefore, the government attempted to put incentives on the table to get food stores to come in, and somehow, they were never able to do that.

What they needed to do instead was to figure out why people were going elsewhere and try and solve for that. And most of that had to do with the environment for the food store would be to make it more welcoming. It wasn't giving them money to come back. It was just to make the infrastructure more interesting, so that families and consumers would want to be there. And once you have the right data, it's amazing how much light it sheds on a simple issue which otherwise feels very complicated. We did that. They saved the taxpayers. They put the money into the infrastructure. To me, that's a win-win for everybody.

Your second question there was, what am I seeing? So what we're seeing is the following. Every week in March was worse than the prior week on consumer spending across the world. Every week. Because we were going through what I call the containment phase of this crisis, meaning you're shutting down things all the time. They're shutting down stores, they're shutting down borders, offices, everything. When we got into the stabilization phase, which is the first couple of weeks, three weeks through April, things kind of bottomed out. There was nothing more shut first of all, and people had begun focusing on e-commerce for their, you know, their goods of toilet paper, groceries, and the like. And you'd kind of reached the bottom

And then we're getting into what I call the normalization phase, which is not really normal. It's normal visibly the bottoming out of stabilization, it's not normal visibly pre-Covid-19. That would be the growth phase, which I think is still some time towards the end of next year when we get a vaccine and we get back consumer and business confidence. But this normalization phase is kind of where people start doing pent-up demand, you know, home improvement. You've probably done that because you're locked up or you suddenly realize, hey I needed to change that darn refrigerator, why don't I go get it done, or that bedside table had a broken wheel, I've been living with it for two years, now's my time.

Scott Miller: Yes, I bought latex paint hardener because we had old cans of paint that I wanted to get to the dump. That was my project.

Ajay Banga: There you go. You're kind of getting into doing home improvement.

Scott Miller: Sure.

Ajay Banga: You will find that alcohol sales, home consumption alcohol sales, began to go up. Out of all, of course, are down, but enormous up. Things like as soon as Connecticut began to reopen, you could see the beginnings of spending in restaurants, in haircare. That's just the nature of what you can see.

By the way, around the world, things bottomed out in the middle of April and have begun to improve every week from then. Every week. I'm literally, every week you can track it. Now, some countries went backwards. So it's important to remember these four stages: containment, stabilization, normalization, growth. I don't think of them as linear. I actually think of them as being, you could go back and forth. Remember, Singapore and Japan went backwards a little bit. And they've come back out of it again. And I suspect we may well do the same in the fall, if you listen to the medical experts currently, in the United States.

And so I think we should be prepared for a year, year and a half until vaccines are freely and widely available for these four stages to play back and forth. And this data will reflect where we are in different countries and states on those stages. And then, if he started using that kind of taxonomy, or that kind of lexicon, it might lead to a more, you know, uniform way of thinking a lot of respond to the property.

Andrew Schwartz: This is Andrew. I want to ask you, if things are progressing as you say, lots of investors are looking to you as a technology company, as a company that is a safe investment, as a company that's going to continue to grow. How are you, in addition to the initiatives that you just discussed, how are you thinking about reimagining your business going forward?

Ajay Banga: Yeah, so it's a really good question, Andrew. I would say that what's happening, first of all, in this last few months, is that a number of the trends that lay under our business, that I used to call tailwinds in our sails. You know, digitization, reducing use of cash, some things like urbanization, maybe less so today because no one knows where the trend towards urbanization will go in the coming couple of years. That's speculation, but no one actually knows. But the rest of it is pretty much all that's happened is the tailwind has picked up in intensity. What would have taken five years to happen has happened in three months, and it's happened across generations and across socioeconomic categories.

But, I do worry that those who are less digitally clued in even before the crisis will be even more left behind coming out of the crisis if we don't make real efforts to bridge this digital divide the right way coming out of this. You know, inequality is now staring us in the face in the United States, even more so. And in fact, the new circumstances, this thing on racial tensions. The racial issue is not a new one. It's been a simmering issue in our country for a long time, but its reflection is clearly exacerbated by what people have been through over the last three, four months.

Andrew Schwartz: Yeah.

Ajay Banga: So, how you think about this going forward. I think about the digital underlying tailwind as having gotten a boost. And I think what we have to do as a company is to make sure that we recognize that, and we play to our best strengths there. So, for example, I would say that the merging of online and offline commerce is going to become more of a reality. I don't think you'll have only offline stores, and I don't think you'll have only online. You will see them coming together. Amazon was already depicting that over the years, with its acquisition of Whole Foods. But you're seeing pure offline players trying to become online. There's a real role there for a company like ours, enabling them to get payments electronically, protecting them in a cyber security and fraud sense, things that right now, we're seeing enormous demand boost for. Or contactless transactions. So, you know, you don't really want to touch a pen to sign anywhere right now. That's the last thing you want to do.

Andrew Schwartz: That's right.

Ajay Banga: So whereas a tap is what do you want to do. So whether you tap your phone, or you tap a card, that's what you want to do. And you've seen contactless transactions zooming through the roof while touched, you know, pin-pad based transactions have a lower rate of growth. They're still growing because cash has declined so much, but it's all relative.

And then, like that, there's series of things we can do to enable the digital world using our technology for enabling merchants, to enabling fin techs and their ability to make it easier for you to engage with your finances, or your shopping, or your travel when that comes back. I think all those are tailwinds in our sail.

And then the cyber security services, data analytic services, back to your first question, Scott. Those are all heavily in demand. And then there's a series of services and demand from the public sector. Things like benefit distribution, getting benefits into the hands of people quicker and safer than they would otherwise have got. Those kinds of things we're seeing in hundreds of markets around the world.

Scott Miller: Wow.

Andrew Schwartz: In addition to the worry just said about people who Have and Have Not. I went to school in New Orleans, at Tulane and so when you talked about the story in the Ninth Ward and the grocery desert, it really resonated with me. Do you worry that as the United States and other countries continue to look inward that international growth is going to be lower and it's going to affect your business in the future?

Ajay Banga: Yes, I think that, look, we are a global company that we are headquartered in the US and we're registered here, but we've got 65% of our revenue from outside of the United States. And we're not alone or unique. I think if you think about America's commotion strength. I mean, forget about America strengths, there plenty, right. Or we tend to forget them as we're going through a crisis like this, but if you look at our commercial strengths, it has to do with the global scale and opportunities of our global companies. And second, it has to do with our human capital and the ingenuity and innovation engine that this country has had for many years, right. If we as a country, right now and we if we turn our backs on those two, both through inadequately thought-through immigration reforms or even the openness to others coming in on the one hand, and inadequate thought to engagement policies with the global world where we concentrate on standards and the free flow of data information and capabilities. I think we will do our own country an enormous disservice for the next generation because those are our competitive advantages and we would shoot them in our own feet, kind of thing if you were to not pay attention to them. So it's not just my company. This is true of most of corporate America, of larger corporate America, which is brilliant in its capacity and skills through its ability to offer seamless, high-quality service around the world.

So, whether you look at data Balkanization which I think has been happening for a period of time, but actually may accelerate if we go through a nationalistic, inward-looking phase around the world coming out of this crisis. Data Balkanization would impact our entire tech sector, not just our Silicon Valley firms, but tech-manufacturing firms or the provision of firms like a Microsoft or a IBM, not just a MasterCard, so I believe that looking inwards is a problem for a great deal of our economic model going forward, not just one company.

Scott Miller: Let me ask you about small business. Many of us have watched the shutdowns here in the US because of the public health crisis, and I personally been very concerned about the small businesses that operate on cash flow, they've never really financed a lot, and all of a sudden cash flow drops 90%. What are you seeing and what can a company like Mastercard do to help small businesses recover, now that the economy's reopening?

Ajay Banga: So I think that small businesses, in every country, Scott, are the backbone of economic growth. If you look at the employment level in small businesses and you look at the natural innovation that happens, our small businesses. If you lose the energy and the dynamism of that sector, you lose both the employment growth capability and the innovation and dynamism that comes from small businesses. So to me, this is just, it's kind of like as basic as managing your economy 0123 kind of learnings. You've got to get it done. We have to make our small businesses energizable. And that's why I think the government is rightly focused on trying to get liquidity to them. And you can criticize the implementation of the scheme. It's very easy to be an armchair critic right now. The fact is, they did a pretty good job by bringing the full firepower of the United States' financial capacity to try and inject funds into the system. I think I think they've done a pretty good job of that.

Andrew Schwartz: They've already got $1.1 trillion to all of these companies.

Ajay Banga: Yeah, and I think people forget that as we go along. So, you've got to be careful not to get mixed up about implementation issues. There always will be some when you try and do something so ambitious in such a short time in the middle of a crisis when nobody can physically come to work. And so, I think you've got to give them some credit for that. The real issue is, what are companies like us, what can we do? We don't lend, remember, we are not a lending institution. Banks lend, FinTech's lend. We are the technology rails that enable a lot to happen, but we don't lend. We have data and we have analytical rails. So, what we've done is we've made a commitment to put $250 million over the next few years from our pockets into helping small business grow and develop. Everything from helping them go online, you remember where we started, every physical business needs to figure out how to go online, which includes everything as simple as a website to inventory management to accepting payments to accepting disputes and charge backs to enabling the physical movement of goods from them to a customer. It sounds simple, but it's not. And so we can help them because we've got a bunch of tools, payment gateways, website content creation, cyber security tools to protect you as a small business and your customers when they shop on you, that kind of thing is one big piece of what we're doing.

Another one, and I call that kind of helping mainstream small business. But another one has all to do with giving them the tools to comprehend financial education, how to manage credit, how to manage insurance, how to manage cash flow. Basic stuff for them to be more comfortable with it.

A third category is actually digitizing their transactions. So if you, if you look at number of them, they end up getting caught in a cash economy, they can't really get credit. Take the hot dog stand guy on Manhattan street side or in New Orleans where you grew up, right? There's no way that that guy or gal gets access to credit.

Scott Miller: No chance. They don't need it if they've got good cash flow, but when the cash flow dries up, they're in big trouble. Yeah.

Ajay Banga: Well, and then secondly, by the way, if they got credit, they may be able to open a second hot dog stand or a third hot dog stand, and get out of the cycle of being employed by somebody who owns the hot dog stand. See, there's a whole thing to this. Credit at a reasonable price, not credit at a tough price. Now, if you were a bank underwriting you Scott, who runs a hot dog stand, it's impossible because I don't know enough about how much revenue you're making or not.

Scott Miller: Right. I'm a terrible risk.

Ajay Banga: And yeah and that's a different topic, but yes. You could be a terrible risk, so how do you underwrite someone like that? But if I knew some nature, digitized nature of your transactions, meaning, maybe not every individual is paying for the hot dog electronically, but I knew how much you bought of hot dogs, of bread, of soft drinks, of things you sold in a day, and I was able to have that data regularly for you. It's not rocket science for me to underwrite you and figure out Scott's buying $1,000 worth of raw materials every day, he's got to be selling more than that each day because he couldn't be buying it otherwise every day. And then I could maybe give you a $5,000 loan, you see?

And all of a sudden, I empower you, at a lower price, to have a second hot dog stand and employ somebody and give that person a chance to have a job. And maybe that person will get a chance to open their own stand later. That's the, virtual cycle that we need to encourage, and we need to try for small businesses to grow, for micro businesses to grow. Digitizing your transaction chain and then underwriting it, that's something they've launched in a number of emerging markets. There's no reason why it doesn't apply to micro SMEs in our own country.

Andrew Schwartz: Absolutely. Ajay, do think that the US government's going to be more or less involved in your business going forward?

Ajay Banga: Well I think that that any government that has put trillions of dollars into the economy in a crisis, the role they play in the private economy will change by virtue of that investment that they're putting in. We saw that in the prior financial crisis when the governments did inject a great deal of money. And now, as it turns out, the Treasury made a profit on that money over time. But the fact is they stepped in when they have to. And I think you have to stabilize the economy over very dark periods.

I think this period we're going through is even darker and therefore, they've come in with an even bigger war chest. You have to expect them to play a bigger role in the private economy coming out. Now, that doesn't mean by nationalizing, that's not what the US does, but I think you should expect that federal deficits, and therefore the implication on future tax policies, will change. It just will.

Andrew Schwartz: So, taxes will go up.

Ajay Banga: I can't see how you come out of this without some change in the form and manner of the way the tax regime was being conducted. Because otherwise, even if economic growth returns to great levels and you do the dynamic multiplier effect of economic growth to fund future deficits, we were already using that prior to this problem to be able to justify the tax cuts that have been put into place. I think you're going to be stretched to do that going forward. And independent people like the CEO and others will be able to demonstrate that they're going to need some change in the form and manner of taxation in the future. Now, whether that is aimed at individuals, corporations, whether they're direct or indirect, I don't yet know. I think that's going to be a great topic of debate for the next period of time, but I can't see it not happening.

Scott Miller: Let me ask about financial inclusion. You said that inclusion is just a fancy word for human decency, which I wholeheartedly agree with. We have a lot of Americans that don't have a relationship with a bank, aren't part of the financial system as we would be aware it. What do you think can be done and what's your vision for greater inclusion?

Ajay Banga: So I think that financial inclusion is a key cornerstone for getting people over the first hump of being left out of everything that they could benefit from. And what do I mean by this? If you are excluded financially, most likely, you don't have the right kind of identity in the first place. Because, you know, when you go anywhere, you go to hire a car, what's the first thing they ask you for? Of course, a driving license, that you may have. And then they'll ask you for a credit card as a deposit. If you're excluded, you just, you don't have that. So how do you plan to take the car out of the Hertz parking lot without a credit card? There's no way. By the way, checking into a hotel, something we take for granted, you do your credit card at entry. That's a deposit. What do you do when you don't have one or a debit card? What do you do? You have to give a cash deposit up front. I mean, imagine standing at a Marriott trying to give a cash deposit for the next two nights of your homestay and how you're going to feel about that. So, you know, we don't really understand what being financially excluded actually means. It is to be at the lowest end of what life looks like for people like you and me.

You know, I tell people the story all the time. I moved to this country in 2000 as a relatively senior middle manager at Citibank coming out of living overseas. I had never lived in the US at that time. Those days, I was not a US citizen. I was an Indian citizen coming in on an L1 visa with Citibank. I had a green card application in the works. I hadn't yet got it. I tried to get a cell phone, and I couldn't get it because I had no credit history. So I went to an at AT&T store, and there was this young kid who basically said give me your social security number. I told him, it's not going to work. He said, what do you mean not going to work? It's a correct number, but there's no credit history on it. And he refused to believe me. So he entered it in and said, how come we don't have a credit history? I said, because I told you, young man, I came from, I got off a boat yesterday from the United Kingdom, and I don't have a credit history. So he says, I can't give you a phone.

You've got to be kidding. So I produced by brokerage statement at Smith Barney. Those days, pre-Morgan Stanley. And the guy said, you've got too many zeros in this statement for you to get credit. And I said, I'm trying to explain something to you. And he then faxed that to some back office, so I imagine my personal financial details with this young man and on the fax machine in some back office. All of this to try and get a phone.

Andrew Schwartz: That's an incredible story.

Ajay Banga: I call myself financially excluded at that time. Financial exclusion is not just people who don't have an income. It's people who cannot fit into the way we have built our financial system, so we need to find ways to help people navigate that. And navigate, also the bottom of the pyramid, but also navigate this, and I think that's my vision of what I'm trying to drive.

Now, we made a commitment in 2014 to reach 500 million people globally to bring them into the system. Give them an identity. Give them an instrument, an account. It could be on a fingertip. It could be a card. It could be a phone. I don't care about form factors. I actually don't care. I just care about giving them access. And then we did that by now. And then we have now gone ahead and doubled it to a billion. And we've said we'd also reach 50 million micro SMEs, back to our hot dog vendor example, and we will reach 25 million women entrepreneurs in this process.

So the point I'm trying to make is, I'm not doing this by writing a check. If you try to do this by philanthropy or government funding, there is not enough funding of philanthropy, to make this happen. You have to make it a part of your business model, which in our case was easier because we happen to be in the network business, so I could use my network business technology to enable an excluded person and get them into being included either through an identity or through an instrument of payment and saving. That's what we're trying to do. And that's my vision and that's my belief.

Andrew Schwartz: How many people do you expect, in the next 10 years, that you're going to bring into this system?

Ajay Banga: Well, we’ve brought 500 million in, first-time people, over the last five years. We’ve talked about bringing another 500 million over the next five years. I haven't even thought out to the next 10 years, just five years more.

Andrew Schwartz: And what will the effect of that be on things like the future of work, the future of travel, the future of entertainment, the future of how we interact?

Ajay Banga: The Internet of Things is being spoken about by everybody as where we are going. Every device will be connected. 5G will make this possible. You know, your phone will talk to your refrigerator, which it’s already maybe doing, and you could prolong your alarm system in your lights remotely, and when you are out buying a chicken in the marketplace, you could turn on your oven, and by the time you got home, it would be at 350 degrees. That’s the vision. In addition to better medicine, better tele, better education. I think it's very exciting.

But here's the problem. If you're excluded, if you don't have an identity, if you don't have an account, then the Internet of Everything will not be the Internet of everyone. Yes, that's a problem, that's a real problem. In fact, the digital divide will increase, not reduce. In fact, the Internet of Everything will get used an instrument to make it harder for you to get into the system. That's a really bad place to be.

So I think we’ve got outstanding opportunities with the internet, and I think we've done a great deal with it over the years to democratize knowledge, to reduce the barriers to entry for small business. I think the internet is an amazing tool. It comes with some things which we need to manage, from cyber security, data privacy, to this digital divide issue. And so that's what I was referring to. Now your question was a little beyond that. You said, what will it do to travel and entertainment. Well, entertainment today is going virtual. Netflix, e-gaming, all those kinds of things. You have to have a point of view to answer that question about what do you think life will look like when we're out of this crisis because this too shall pass.

And one day with a vaccine widely enough distributed, let's assume it's towards the end of next year. And if it's earlier, wonderful. But if it's towards the end of next year, then what happens in 2021 will people get so used to the idea of these digital games that they will no longer go back to mass entertainment and sports? I don't think so, but that's me.

Others think that this will be irreversible, that this is a real transition. I think it's somewhere between a transition and a transitory phenomenon as Michael Spence would say. And so somewhere in the middle of that is where we will be, and I don't know the answers, but I think you've got to prepare for it being different from where we were, but not where we are today because human beings are social animals. And human beings thrive on interaction, and it's not digital interaction alone. It's also our creativity, our innovation, come through some physical interaction as well. And I think when you when you want to look forward, you know, there will be some reversal to the mean. And so, my view is that we need to be thoughtful about both the future of work and the future of entertainment and the future of travel. I don't believe people will be satisfied with a 3D version of going to the Galapagos. I just don't think so.

Scott Miller: Yeah, there's still experiences, there's still a joy of that experience that is a very human characteristic.

Andrew Schwartz: Scott and I could keep you on the phone for hours hearing your insights, but we want to really thank you for today and wish you well in your business and good health and all good things. So thank you so much.

Scott Miller: You've showed us the human side of technology which is genius. Thank you.

Ajay Banga: Thank you very much, guys. Thank you for the opportunity. Both Andrew and Scott. Thank you.

Andrew Schwartz: Thanks so much.