



Keynote: Citi TTS with PayPal | Citi's 2021 FinTech Conference, November 15, 2021

Keith Horowitz:

Hey, everybody. My name is Keith Horowitz. I am head of Large Cap Bank Research, at Citi, and we are kicking off the financial conference. And we got two really special guests today. We have Jen Marriner, from PayPal, who's in charge of global partnerships. And then we have Shahmir Khaliq, who runs Citi's Treasury and Trade Solutions Business. So I think what's probably best is we start off with Jen and hear a little bit about your role at PayPal.

Jennifer Marriner:

Okay. Thank you, Keith. Good morning. Thank you so much for the warm welcome and it's a pleasure to be here. So myself and the team at PayPal, my team look after our partnerships with the broader payments ecosystem. So, effectively, that means managing the relationships that we have with the large networks, like your Visas and MasterCards, et cetera, as well as with some of the regional local networks, like JCB and China UnionPay, as well as our acquirers and processors. And, of course, also our bank partnerships, as well. And these partnerships are really critical to the way in which PayPal is evolving its strategy.

We also have a partnership with TTS on the Spring side of the business, which I'm sure we'll talk a little bit about later. And, in that sense, Spring is enabling its merchants to take PayPal as a payment method. And then, on your consumer banking side, we also work to ensure that Citi cardholders can easily add their cards into the PayPal and Venmo wallets, as well as making sure that they can spend their reward points. And then, of course, our treasury and your corporate banking have a really close relationship. And then, we're a co-brand issuer in markets around the world, as well. So it's a really multifaceted and deep relationship.

Keith Horowitz:

That's terrific. Maybe, Shahmir, if we turn over to you real quickly, you recently began running Citi's TTS business. It's got some really unique advantages and it's clearly a key part of Citi's go-to strategy. Maybe just walk us through what exactly TTS does and just how it fits into the broader Citi value proposition. And then also, since you're new to the role, maybe some of your observations as you took over this role.

Shahmir Khaliq:

Yeah. Firstly, Keith, thank you so much. Thanks for having me this morning. I much, much appreciate it. And, most importantly, Jen, a big thank you. PayPal's a large client. You are fantastic partners and thank you much for doing this, this morning.

Let me first start with TTS. And there was a few questions back in there about TTS, the broader Citi strategy and how TTS fits in there. And then some of my observations and then, hopefully, just like Jen, I'll talk a little bit about PayPal and what we do with PayPal.

So let me first start with TTS. We're part of Citi's institutional clients group. We're a leading transactional and trade solutions business. That's what the acronym stands for, Treasury and Trade Solutions. We're a payment working capital solutions business, Keith, and we effectively do three things, which are allowing our clients to make and receive payments around the globe. Secondly, manage their liquidity in the best way possible across all the jurisdictions that the clients work in. And thirdly, given our working capital solution is part of our agenda, we also inject working capital into the overall client cash cycle to

allow for as efficient cash cycle as possible for our clients. Those are the three things that TTS does globally.

Now, we carry out our business in 90 markets around the world with connections into almost 250 market infrastructures. That makes us truly, not just the biggest payment business, but also the broadest payment business in the industry. And that allows for us to service corporate bank clients, our large corporates, it allows us to service commercial bank clients, the small to mid-tier companies around the globe. It also allows us to service financial institutions, payment intermediaries and FinTech companies. So a broad scope of clients there.

And, for clients that we don't service potentially, which is sometimes the SMB space, which we don't directly service, we look at servicing that space through partners, such as PayPal and through other partners around the globe. So we've got a large footprint and we generally monetize that footprint in the most efficient way possible across the globe.

The third piece of it is what's our value proposition. TTS proposition is very much the heart of Citi's proposition. We're a global business. We enable our clients to go global. We enable our clients to do commerce globally, and that's really by owning the network, by going down into the last mile, connecting with local querying houses, that's really our proposition. And, frankly speaking, post-pandemic, going global has never been more important for our clients and understanding local markets and how we can help them expand their footprint has never been more important.

Just following on from that globality point, what are my observations? I would say that there are few. What we're seeing is, post-pandemic, if I can use the word post-pandemic, we've all got our shots, hopefully, or we're about to get there, around the globe. But, post-pandemic, I think digitization, the size of the payments getting, generally speaking, significantly smaller, the payment transactional volume increasing geometrically through banking pipes has significantly increased. And the need for us, in the banking pipes, to connect to alternative payment methods into wallets has never been more critical or crucial. So those are some of the critical observations.

And the last point I would make on PayPal is, I think Jen summed it up really well, our aspiration is to really to make sure that, as we work with PayPal, we're increasing transactional flow into PayPal wallet while allowing PayPal also to make transactions out of their wallet to clients that may not be part of the overall PayPal ecosystem.

And I'd just take one particular little example and follow on from what Jen said, and I'll give you a little bit of an example, which is, as Jen said, we help PayPal across the board, across the entire franchise, which is starting with the consumer bank, across the institutional bank, with M&A investment banking, our payments business, our lending business, and obviously our entire effects and advisory business. What we would generally do with the transactional flow, as we enable a particular PayPal transaction, would be for example, a Citi cardholder in the US purchases a service from a Citi client abroad and pays with PayPal. My wife does that fairly regularly. And for the paying Citi Consumer Bank, that has issued the card and authorizes the transaction, PayPal manages the flow of data and value transfer between the customer and the merchant.

And then, for the pay out, PayPal will sometimes use our solution that allows PayPal to fund the transaction in a currency of their choosing and pay out in the local currency of the merchant. And what that allows PayPal to do is to have an integrated FX offering from the bank. It allows it to be cost effective. It frankly removes barriers to entry for new markets by enabling cross board of payments and, last and not the least, it allows PayPal to have a very efficient treasury infrastructure, which allows for PayPal to only open accounts in currencies or jurisdictions they find strategically important.

I think the last thing I will talk about is data. And, as we talk about this transactional flow and this information that's processed, is effectively passed seamlessly between Citi and PayPal using both file connectivity and APIs to really provide transparency and build trust in this entire ecosystem between Citi, PayPal and, and frankly, our joint clients. So we are a very integrated part of PayPal's structure when PayPal chooses to use us and really our aspiration is to continue to provide that choice, so PayPal can provide that choice to their clients. Keith,

Keith Horowitz:

Just more, just to finish up on TTS, when you think about the future, you talk about with PayPal, but if you just think about the future and where you thinking about taking this business kind of going forward or the next couple of years, can you maybe expand on that a little bit?

Shahmir Khaliq:

Yeah, thanks for that, Keith and I think these are, again, subjects that I think will resonate with your audience and, and I think obviously with Jen as well. Our aspiration is built along the following pillars. First and foremost, we want to have payment ubiquity. That's choice for our clients in choosing whatever option they want to use at whatever point of time they want to use. Second, we want to provide fully integrated payment experiences along with financing as part of the overall transaction flow. Thirdly, we want to be 24X7. We want to be volume agnostic. We want to be always on. We want banking systems to move towards eCommerce systems. Fourth, we want to be truly digital, we want to be API enabled and last, and not the least, we want to talk about instant data and we'll talk about how we make that come alive as we go through this conversation.

Really all of those building blocks are centered around or centered with really hopefully a market leading client experience. That's something, we've always focused on. We are on a journey and we continue to improve our client experiences through that one Citi lens. As I think about the future, Keith, I think that we're investing in a number of different places across our platform, but I'll kind of mention a few and then we can deep dive a little bit as we go through the session, but we've committed ourselves deeply to instant payments, rolling out instant payments across the globe. We're currently live with a leading global bank. We're live in 28 markets. We think that number is going to be in the forties by the end of next year. That will truly make us an integrated global player in instant payments, fully connected in the local markets across the globe.

The second one is I think Jen talked about was a digital collection Spring by Citi. That's really our digital merchant acquiring platform. We're adding other payment methods into it as well. So talking about alternative payment methods, wallets, in addition to obviously cards and accounts that we talked about earlier. The third thing that we've focused on is really cross-border payments and enabling our clients, our corporates, the PayPals of the world to make, to use WorldLink. But most importantly, we've also worked with financial institutions where we've actually integrated with some of our partner financial institutions into their client facing apps to allow for a very seamless B2B execution of cross-border payments that allows our clients, financial institution clients to really build customer loyalty and frankly acquire more clients across the globe. That's a truly solution that allows clients to potentially make currency payments across 140 options.

Last and not the least, I talked about client experience. So we're investing in our next-gen CitiDirect platform. We're investing significantly in account opening. We've gone live digital account opening across 50 markets, 60 markets with an e-signature standpoint. It's something we continue to work on and last, and not the least the things that pins it all together for the future, is really talking about ops

resiliency. Banking platforms need to be rebooted and repositioned for ops resiliency to allow for this higher transactional flow. That's one of the things we're truly committed and that's one of the big investment agendas we have is to improve our X stack and continue to build for the future of allow for higher volume footprint.

Keith Horowitz:

Great. Thanks. Maybe Jen, bringing it back to, you talked about how you work with Citi, but maybe if we could just drive a little bit deeper when you're thinking about the key attributes you're looking for a partner, is it key capabilities or Shahmir, just walked through his vision, like how important is the vision to when you're thinking about partnering up?

Jennifer Marriner:

Yeah, absolutely. I mean, Shahmir and I have spoken at length about the commonality in terms of the vision, which makes our partnership so strong. I mean just some of the things that touched upon in the last couple of minutes around, optimized client experiences, instant payments, P2P payments, global solutions, resiliency, those are all things where we are absolutely aligned in objectives. So that's really important that when we find a partner, we have commonality in terms of goal and then specifically if I think about other areas, I think what's really important to us is around getting the basics right. We want to make sure that the partners we work with are equally aligned around ensuring that authorization rates are optimized, making sure that we are all driving to make the best onboarding experience, the best disputes management experience, making sure we're operating completely. These kind of baseline foundational requirements may not come across as the most sexy things to do, but it's so important that we're aligned to get that right.

Then of course, aligning around innovation. We do need to make sure that we are absolutely hand in hand looking at new ways in which we can offer our customers to pay, which in turn drives conversion in turn drives sales for our merchants. Then also, as I think about our journey together over the last couple of years, we've moved not just from looking at payments from your cards and your bank accounts, but also looking at rewards for example, and then in the future going onto other potential payment methods. Then the other piece, that's just really important to us is around inclusivity. Let's make sure that all consumers have access to digital payments that all merchant can access and receive digital payments around the world and again, having that corporate and working prioritization and alignment is really important to us.

Keith Horowitz:

So it sounds awesome and it sounds great. But then also from a stock investor, we have people who are probably thinking, oh, that sounds great but you're also a competitor. So, I guess the question people would have is can you really truly be, both a partner and a competitor with a bank like Citi?

Jennifer Marriner:

We certainly believe you can. I think it's a bit of a misconception that partnership and competition is mutually exclusive. They're not. In number of areas, we offer solutions to our customers, which might be very similar to things that Citi offers. I mean, if I think about we offer credit solutions around buy now, pay later for our consumers, we offer, P2P payments for them on PayPal, payouts for our high wallet for example, but the order for these services are vast and they're diverse. So, we see this as an opportunity for all of us to operate in this space because where it makes sense for us to come together and offer

joint experiences or leverage that each other's services at that point, we can create great solutions for our customers.

So if I think about, and she may have touched upon this, the fact that Citi is providing the rails for us to get money paid out to our merchants in New Zealand, in India, and in many other countries around the world, there's also marketing collaboration that we see together. Recently we've worked with Adidas to put marketing in place for Citi's products to be used by PayPal and for their consumers to get additional benefits. Then we also see collaboration around the co-brand issuance and we've seen collaboration around Spring. So there's just all sorts of spaces where together we continue to provide better experiences, greater offerings to merchants.

Keith Horowitz:

That's great. Shahmir, maybe get your comments on that, on that subject.

Shahmir Khaliq:

Yeah, absolutely. I would absolutely second, Jen. I think first, before we talk about the payments business, I would generally say if you think about the banking industry in general, I think what you would see is that within the banking industry, while banks compete with each other, I think historically, the financial institutions client segment has been one of the largest segments across the board for most banks operating around the globe. So firstly, while banks have generally competed with each other, they've also partnered with each other, they've also been clients of each other.

So I would say the conversation we're having here today – it's not unnatural. It's a very natural conversation. There will be bits and pieces where we may choose to compete with each other. But largely what we find is that we will find pockets of opportunity where I think it's actually beneficial for our clients, our shareholders, our regulators to see us collaborate with each other as, we think about attacking an opportunity across the space. And I think in the case of specifically with PayPal or generically speaking fintechs, we see as a major opportunity for us at Citi and particularly within TTS, allowing fintechs to go faster to market, allowing them access to financing, allowing them access to open up a business in a new market, providing advice and insight across the board across the 96 markets that we operate in, I think is, potentially invaluable for some of our clients.

And I've heard the same recently. We had a client during the pandemic wanting to start up a brand new business in Australia. And we were able to get that done in about four to six weeks. It was start to finish. We were able to get that client set up. And I think we heard appreciation from the client as, we went through that process, that there was nobody else because we had the local connectivity on the ground. Plus we knew the client. So we knew exact. And because of the past history, we were able to make that. I would say one thing very specifically, Keith, which is something that doesn't come naturally to some of our other competitors is, we control the network. I think... Sometimes I get asked the question "Shahmir, what's it about the network that's so special?"

And, at least what we see from our clients and, I'd love for Jen to comment on it as well. And I think Jen kind of alluded to it, which is we own the end to end rails all the way into the country. Therefore, we are able to give our client direct visibility into every transaction because we own the network. There are no third parties involved. It's not a synthetic network. Secondly, we control the development roadmap. So there are no third parties involved in the development roadmap. We control it. And therefore we can engineer that roadmap, for the benefit of clients as they think about going global. And lastly, what I

mentioned earlier, which sometimes gets ignored is we have our own team on the ground, in the markets that our clients are choosing to or looking to operate in.

And that allows us to put together last mile solutions for our clients that others may not have done or have done through third parties. So may not have firsthand knowledge of those solutions. So we think that that last mile connectivity, the connectivity with the local clearing houses, controlling our own development and controlling the network is really a vital part of bringing it all together across the globe from a Citi standpoint, for a number of financial institutions and fintechs around the globe. That to us is the choice that we offer our clients. Citi is all about choice and Citi is all about access. So those are the two building blocks, Keith, is if I think about what we offer to clients.

Keith Horowitz:

Jen, can you talk about the importance of that last mile solution when you think about choosing Citi as a partner?

Jennifer Marriner:

Yeah. Absolutely. And I'm very fortunate. My team is based in 14 locations around the world. And I can tell you there's, I don't think there's any other partners where every single one of my team can access a member of the Citi team for that partnership discussion, for iterations and innovation around what's happening in the market. And that's incredibly important. The last thing that we want from a technical perspective is hops in the transaction. We want it to be as streamlined as possible, but from a partnership perspective, we want to be able to talk to people who are on the ground, who understand what is happening and frankly can also influence what's happening. And that's really important. And the Citi here definitely demonstrated being able to do that. And it's a great value to us.

Keith Horowitz:

Jen, you've been enrolled for a while. Like as your PayPal's thinking has evolved, has partnerships become more important over the past couple of years and kind of going forward, do you see partnerships being more important or do you see more competition between some of these fintechs and the banks kind of going forward? How do you see the world evolving?

Jennifer Marriner:

So, partnership is incredibly important to us. It's a theme of kind of what we've been talking about here. And I would definitely say it is evolving without doubt. When we've been around 20 years now, we're no longer a teenager – as much as I'd like to be a teenager – we are no longer a teenager and we've had to be grown up. And, as part of that, we look back and reflect on the journey we've been on. And until the last few years we really were the main player in the digital space. Whereas actually now we've got some of the legacy companies really operating in that digital space. We've got new companies coming in. And as a result of that we really have to recognize the value that partnership has brought to PayPal into the broader ecosystem.

Because without the partnership that we struck, for example, back in 2016 with Citi, as well as with the likes of visual MasterCard, it's hard to see that we would be where we are today by enabling the scale of digital payments that we have. And I think merchants and consumers and the ecosystem as a whole have really acknowledged and benefited from these types of partnerships, because we've been able to drive, as you talked about, choice and innovation. And this open and collaborative approach that we've

developed has really meant that we've been able to bring easier, more convenient and less expensive ways for processing transactions.

Keith Horowitz:

Maybe just shift a little bit. It used to be talk about fintech versus bank, and now we're talking a lot about crypto, so that's on everybody's mind. On the surface it sounds like it could potentially be a threat to the existing financial system to Citi and PayPal's models. Can you just kind of walk me through how you guys are thinking about this as a disruptive technology, how you think about it impacting especially digital assets in terms of thinking about your strategies going forward?

Jennifer Marriner:

So, I mean, just taking a step back from crypto, just as a whole PayPal, we're constantly looking at ways in which we can shape the next generation of payments, but we are incredibly conscious of the sensitivities that you mentioned, particularly around crypto. And last year we enabled the ability to buy, hold and sell cryptocurrencies within the PayPal wallet. And this year we've also enabled the ability to use crypto for purchases, but we've done that in a really controlled way and a really thoughtful way. In fact, we've got a dedicated business unit focused on blockchain, crypto and digital currencies, because I think recognizing the importance of having the right technical infrastructure, the right partnerships, the right regulatory foundation is incredibly important. And I think that combination of putting the right expertise, the right people, the right level of investment will mean that we're building, we have built and we are continuing to build a strong foundational platform in this space, which will give confidence to our customers and to the broader ecosystem around us operating in this crypto space.

Keith Horowitz:

Shahmir, I'd love to hear your comments on it. You know, how is Citi thinking about it? A little bit more couple challenges from a regulatory standpoint for us. So how do you think about it?

Shahmir Khaliq:

Yeah. And I think, but I would say aspirationally, we've taken the same view that I think Jen kind of summed up, which is very thoughtful, engaged. And I would say first and foremost, everything that we do, Keith is about client centricity and choice for clients while obviously making sure that from a regulator standpoint we're ticking all the boxes. So if I think about the digital assets or crypto, I see that in a couple of buckets. First and foremost, right there's been a lot of conversation around Central Bank, digital currencies, CBDC various forms of them given the fact that we're present in 90 markets around the globe, we're actively engaged in conversations with a number of regulators and helping drive some of that agenda as regulators think about CBDC, we're thinking about CBDC, we're thinking about commercial bank, tokenized money and obviously e-money as part of the overall proposition.

So, we've got a few PLCs running, a lot of engagement there on that side. I would say that if I think about the goal forward, our aspiration will continue to be, to think about how we could build just like we've done in the past. If you think about 4, 5, 6, 7, 8 years ago, instant payments, regulated start to focus on it, wanted to drive instant payments. We partnered with them, we are now a leading global bank, vis-a-vis instant payments. When wallets came out, looked at wallets, we make sure we KYC, AML them work with clients such as PayPal, really collaborated, worked together and figured out how we could essentially bank wallets and connect them to the banking rails.

I would say in the future, that's something similar that would potentially look to happen because as I said, we want to give our clients ubiquity, choice around what they choose to pay with and how they receive money both in and out of their corporate accounts and how they run their commerce in the business. I would make one last point though. I don't think we see a unilateral world, we see a multifaceted world and that's why we're also big believers in the banking platforms and all the work that's going on today around instant payments around real-time equity, around digitization, around data, about improving rails. I do feel that there will be a multifaceted platform and as long as we can continue to keep all our options for all our clients open and give them that payment ubiquity, provided we meet all regulatory hurdles around KYC, AML and, and transparency around ownership and beneficiary data. We should end up in a place Keith, which is exactly similar to where we're at today, which is a world which provides choice, provides ubiquity, but also meets the smell test from a regulatory KYC and AML standpoint.

Keith Horowitz:

That's great. Another big change has been the pandemic. That's changed a lot of behavior, both on the consumer and corporate side. Commerce is a big one. Clearly, paid how has been well positioned the benefit from that. Maybe Jen start first with just how your strategies has been evolving as we see this shift towards online commerce and then also I love that Shahmir get your comment as well.

Jennifer Marriner:

Thanks Keith. Certainly, we don't expect to see any shift away from the digital growth that we've seen. We're not expecting that to slow. Customers have got used to the ease, convenience and frankly less cost that comes from digital payments. And thankfully for all of us, the world is opening up again, physical environment is opening up again, but even as that's happening, people are still leveraging digital payments. They're taking digital payments now in store with them. In fact, there was a recent survey from pymnts.com that talked about that half of US retail shoppers, who had said they just assumed they go back to shopping how they used to post pandemic, have said they're not going to do that. They've embraced digital payments and they'll continue to use them.

And our belief is that continuing with partnerships such as the one that we've established will allow us to stay at the forefront of digital payment innovation and make sure that we are continuing on that journey that maybe we were forced onto or accelerated through due to the pandemic, but it means now we can continue that journey and continue to evolve and offer better experiences to those consumers.

Keith Horowitz:

Shahmir.

Shahmir Khaliq:

Thanks for that, Keith. That's a great question. I think what I would say is banking systems frankly, held up remarkably well during the pandemic. The entire working from home, all of the processes, all of the technologies that we'd invested in over the last many years, allowed us to continue to operate seamlessly and frankly raise the bar, which frankly speaking the pandemic did. The pandemic raised the bar in how you interact with clients, how you take payments, how you provide financing. It allowed us and it enabled us to think very differently. I would just repeat some of the things that I said a little earlier, which is go forward is to Jen's point, I think digitization is absolute religion. I think we are seeing that trend being secular and non reversible.

The second thing is direct to consumer trend is again, I'd like to think irreversible, I think we're seeing more and more clients to go direct to consumer. And therefore we are seeing that optionality open up in that space as well, which means banks will have to pull up to enable that particular eCommerce for the future. I would say the entire gig economy and what that's done is where people got paid every month, to suddenly every week, to suddenly people being able to pull down the credit they had or the debit they had, gig economy that's going to drive all of this conversation around resiliency and infrastructure and capability and competency. And I talked about digital, I talked about all this on. I do see last not the least the entire conversation around alternative payment methods, wallets, the request to pay QR codes.

I think with instant payment systems getting rolled out, we're going to continue to see that secular trend forward. I think regulators want to see that trend and I think frankly speaking, Jen mentioned it earlier, teenagers want to see that trend. So, a lot of them are far more savvy than we would expect them to be. And I think that trend is one of the more irreversible ones. As I said, the last thing I will say, Citi doesn't prefer any one of these things over the other, we're big believers in giving our clients choices and payment ubiquity and options. And we will try and make sure that as we bring that network of 90 plus countries to bear, those options are available for our clients to use, for us to be able to stitch together solutions that allows our clients to run their businesses successfully.

Keith Horowitz:

That's excellent. So, we're running out of time but I think this session was great. It really shows the complimentary nature of the two businesses and how you're able to drive value for both sets of your clients. So, I want to thank you both for your time, this was terrific and if anyone has any questions, please feel free to contact me. Thank you.

Shahmir Khaliq:

Thank you so much Jen, thank you, Keith.