

## Multifunction Prepaid Cards

What are they & what are their future?



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The logo for Polymath Consulting features the word "polymath" in a bold, blue, sans-serif font, with "consulting" in a smaller, grey, sans-serif font directly below it. The text is centered within a network of thin blue lines that radiate outwards from a central point, ending in small blue circles. There are eight lines extending from the center to the periphery, creating a starburst or hub-and-spoke effect.

We are often advised that prepaid cards are not one product, but in reality many different products with many different uses. Sure, there are general prepaid cards where the consumer decides what the use is, and likewise there are specific cards such as money remittance or travel cards. But what is noticeable is that although many prepaid cards are launching, few pure prepaid card propositions in Europe have yet to really gain significant critical mass, especially in cards sold/distributed directly to end consumers.

Corporate-loaded prepaid cards, which encompass promotional cards, insurance payment cards, bad debt management cards and others, have an advantage in that they are often given to consumers as an enabler and thus derive their distribution from an existing customer base.

Gift cards are held out as the big hope, but in reality most gift cards currently being launched are closed-loop; certainly this Christmas there will be hardly, if at all, any open-loop gift cards on sale through the various Gift Card Malls we will all start seeing in many major UK grocery outlets. Others say it is money remittance cards, but these are only ever going to be relevant to a section of the population, and with Amex's withdrawal from the travel market, the question that could be asked is whether that market really is as big as many hope.

In the UK specifically, Ken Howes, director of Edgar Dunn & Co says: "If up to 70 percent of UK customers do not pay for a basic current account, then a prepaid card must provide the cardholder more value than the debit card." The answer would therefore be that the unbanked offer the greatest opportunity, but is this the answer to the question of what is going to be the big thing that really drives open-loop mass consumer prepaid cards?

One insight to the future just starting to be seen in the US and the UK and even across Europe may be in considering prepaid cards not as a product themselves for consumers, but as a feature of a broader product. That is, prepaid cards where the prepaid functionality itself is either secondary or merely part of a broader product proposition. Further, the main product proposition can itself be the reason for the distribution, rather than the prepaid functionality.

A simple example of this could be a membership club of some sort, where the membership card gives a log-in to a website and a range of other benefits. The twist is that the membership card is in fact also a prepaid card for those members. In this instance, although a relatively expensive basic membership card, the prepaid functionality becomes an additional feature for the overall membership proposition. Again, as Ken Howes says: "Any additional value placed on the card by the consumer which lengthens the lifecycle of the cardholder has a dramatic impact on the business case."

In order to explore this, four case studies are detailed below, two each from the US and UK and one from Italy. All of them share in common the fact that the prepaid functionality is not the major product, but a feature of the overall proposition. From the UK we have the InsureandGo combined travel and insurance card, along with the heavily publicised Barclays OnePulse Card. From the US there are the Central National Bank combined Students ID and prepaid card, and the Metabank combined prepaid card with deposit account.

## **Students ID Card**

Central National Bank in conjunction with Heartland Payment Systems has launched the first ever combined student ID and prepaid card in the US. The 'Rock Dollar Card' has been issued to all students and staff at the Slippery Rock University in Pennsylvania. The card's primary function is that of a campus ID card. The secondary function is that of a prepaid card and it has with it a token-based RFID solution. The token can be stuck to the inside or outside of a mobile phone.

Students are not forced to use/activate the 'Rock Dollar Prepaid' functionality, it is their choice. However, given that the University has designed many services through RFID and the card to take Rock Dollars including the bookstore, dining halls, vending machines, copiers and laundry services, a high take-up and activation level is experienced. The card is magnetic stripe and PIN-based, and in addition to using it on campus, 16 other local retailers have signed up to accept the Rock Dollar Card.

"The university students are the true beneficiaries of this development," said R.S. Baker, president and CEO of Central National Bank. "This is one card that does it all. It's convenient, high-tech, and because it is a prepaid card, it allows students to be in charge of their financial matters without any commitment to creditors down the road."

The Rock Dollar element of the card is loaded through financial aid, direct from checking and savings accounts, scholarships, direct deposit of payroll, and users can also take the card to designated points on the Slippery Rock University campus and have it loaded via cash payments.

The Rock Dollar card also gives rewards to the users by paying them back 1.5 percent of the money spent. These funds can be donated to a charity of their choice, placed into the Rock Scholarship fund or given as a cash rebate to the user.

## **Ultra VX Card**

Launched in April 2007, the Ultra VX card, issued by Metabank and processed by Galileo, is targeted at the subprime sector, allowing users to grow their credit limit up to \$25,000. Trent Sorbe, senior vice-president of MetaBank Payments, called it a "multi-purse product". A single card offers cardholders access to a credit line when the card is used with mag stripe and signature – generally at POS; and when used with mag stripe and PIN access to funds from a prepaid purse – generally at ATMs. The credit line has to be secured with equivalent funds held in a deposit account. The card has no annual fee and a fixed APR that is very reasonable when compared to many of its competitor subprime credit offerings.

Most loads to the prepaid account are direct from payroll, although a number of other cash deposit and electronic options are available. The user pays off the credit line using funds transferred from the prepaid card purse, and the credit card purse can not be used for cash advances to fund the prepaid card. The prepaid card also offers electronic bill payment to over 30,000 merchants. To help the user and safeguard their credit score, Metabank automatically takes the minimum payments from the prepaid card's cash account balance on the bill cycle every month, so the user no longer has to worry about mailing checks and if they get there on time.

The card also comes with account alerts about activity on the card by email and SMS. It also offers a rewards programme for the user, earning 1 point for each \$1 spent. Points can be redeemed at Southwest Airlines, American Airlines, jetblue, Marriot, and more with no restrictions.

## **Barclays OnePulse**

BarclayCard won the three-year exclusive deal to launch the combined credit and Oyster card in December 2006, and earlier in 2007 saw the launch of the OnePulse Card with high levels of advertising in the London area. The Barclaycard OnePulse card is in effect two cards in one piece of plastic - an Oyster London travel card and a Barclays credit card. In addition the card has the Visa RFID technology PayWave. Oyster is the prepaid contactless smart card that contains London transit tickets. Since Oyster was launched in 2003, over 6 million cards have been issued.

The two payment functions, credit card and Oyster, are kept separate with the only linking being that Barclays promotes the standard Transport for London auto top-up feature by suggesting this is done from the credit card. This is, in effect, a cash top-up of a prepaid card and is treated by Barclays as a normal POS transaction and not a cash advance.

The advertising slogan of 'It's the three cards a Londoner needs' tried to convey the product as the only piece of plastic that a London person would want. However, it will be interesting to see if Londoners respond to this, or whether consumer behavior of desiring to keep things separate prevails. As one person said: "Lose this card and you can't pay for tube or the taxi to get home!"

## **InsureandGo combined FX and payout Card**

InsureandGo launched their MasterCard insurance payout card in June 2007. Unlike the Norwich Union prepaid card launched the previous year, which was only issued to customers who make a claim and select the card option, the InsureandGo card, issued through Altair Financial Services International Plc, was sent to all customers who applied for travel insurance seven days or more before travelling.

The real twist in the tail was that in addition to being a simple insurance payout card, the consumer could register to also use the card as a travel prepaid card. Customers were automatically sent a euro or US dollar-denominated card, based on where they were due to travel to. Customers could deposit funds either online or through mobile text message even whilst away on holiday.

As the chart opposite shows, although all three providers do offer free-to-purchase travel cards (Caxton has a minimum deposit of £500), the majority of the market charge for similar products, thus InsureandGo were able to offer their customers a real 'added value' in the form of the travel prepaid card. This was further supported by their marketing activity at the same time, highlighting that 1.3 million consumers had suffered debit and credit fraud whilst on holiday in the last five years, with 23 percent having over £1,000 stolen.

For customers making a claim, there was also the added benefit in the fact that claims could potentially be settled within hours of it being approved and paid to them whilst still on holiday, with the claimed sums being paid directly onto the prepaid card ready for spending.

For InsureandGo there were a range of benefits including:

- Cutting the cost of processing claims (predominantly by eliminating cheques and bank transfers)
- Improving customer loyalty by fulfilling claims in an efficient and flexible manner onto a card which can be used in ATMs or other outlets worldwide
- Offering revenue sharing opportunities on a number of transaction points including providing foreign exchange revenue
- Delivering marketing opportunities by providing information on customer lifestyles
- Building brand loyalty in that the customer is reminded of the insurer when not only on this trip but also on future trips abroad

Thus whilst the requirement was for an insurance payout card, InsureandGo were able to deliver to their customers a real added-value proposition.

In conclusion, prepaid solutions can be part of a far bigger proposition. With the Rock Dollar Card in particular, every student received the card, thus the issue of distribution was tackled almost like a corporate loaded card, with it being issued rather than applied for. As such, penetration of the target audience was extremely high and this must be one of the best examples of creating a multi-function prepaid card where the prepaid element was only an enabling feature. It is only by creating 'real value' for users over and above that of cash replacement that prepaid can really hope to penetrate consumers wallets.

### **Sanpaolo IMI Torina Olympic Games Card**

Although Sanpaolo IMI issues four different Visa prepaid cards to support their sponsorship of the Torino 2006 Winter Olympic Games one in particular is very interesting in terms of functionality. The Sanpaol Soldintasca reloadable card was as its name suggests a standard reloadable prepaid card. However, what made it different is that it allowed skiers to buy on the internet a skipass for Via Lattea, the location of the Olympic Games, or for the largest skiing area called Dolomiti Superski. The skipass was uploaded onto the card and the RFID application enabling the card to become the users skipass, avoiding queues and hassles at the venues. Thus the card became both the method of payment and the skipass for the user, a true multi function prepaid card.