

Becoming a BIN Sponsor – why and how

Contents

- This document tries to address five key questions, prior to this it will outline the overall position of the BIN sponsor in the Prepaid Value chain
 - 1. When are BIN Sponsors relevant**
 - 2. Why become a BIN Sponsor**
 - Typical BIN Sponsor Financials
 - 3. Relationship Structure**
 - 4. BIN Sponsors Risks**
 - 5. BIN Sponsor Responsibilities and Programme set up**
- How Polymath Consulting can assist you

The BIN Sponsor

- The BIN sponsor is a member of the relevant payment network e.g. MasterCard, Visa with rights to issue cards in the market required.
- Within the EU the BIN sponsor may not be a bank and may not be domiciled in the country for which it is BIN sponsoring i.e. A UK, E Money licensed MasterCard member could passport its E Money Licence and purchase the rights to issue cards in other markets e.g Germany.
- In summary as the BIN sponsor the organisation is responsible for providing access to the VISA or MasterCard network and for other regulatory compliance. They are also responsible for the submission, approval and compliance of any of their programmes through the network.

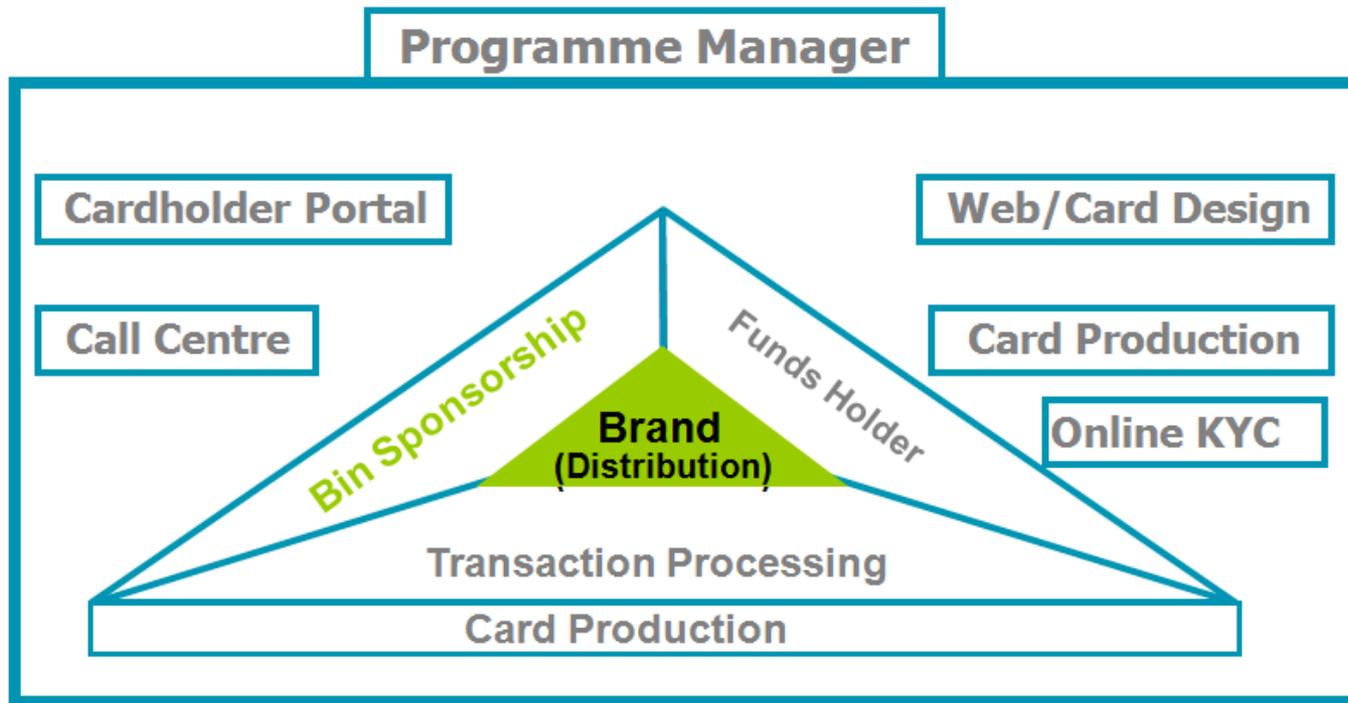
When Are BIN Sponsors Relevant

- Prepaid cards are the same as debit or credit cards in their structure if a bank chooses to do everything:
 - Manage the programme
 - Issue the cards
 - Potential for a co-brand/white label partner or branded in the banks name
 - With some applications a party is involved called a 'Programme Manager'.
 - This is when a BIN sponsor is involved, programme managers are not 'issuers'
 - In some markets over 80% of all prepaid cards are co-branded/white labelled products
 - The brand is thus at the centre of the need, distribution of the product and the relationship with the customer
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Prepaid Card Open Loop Industry Structure

BIN Sponsorship

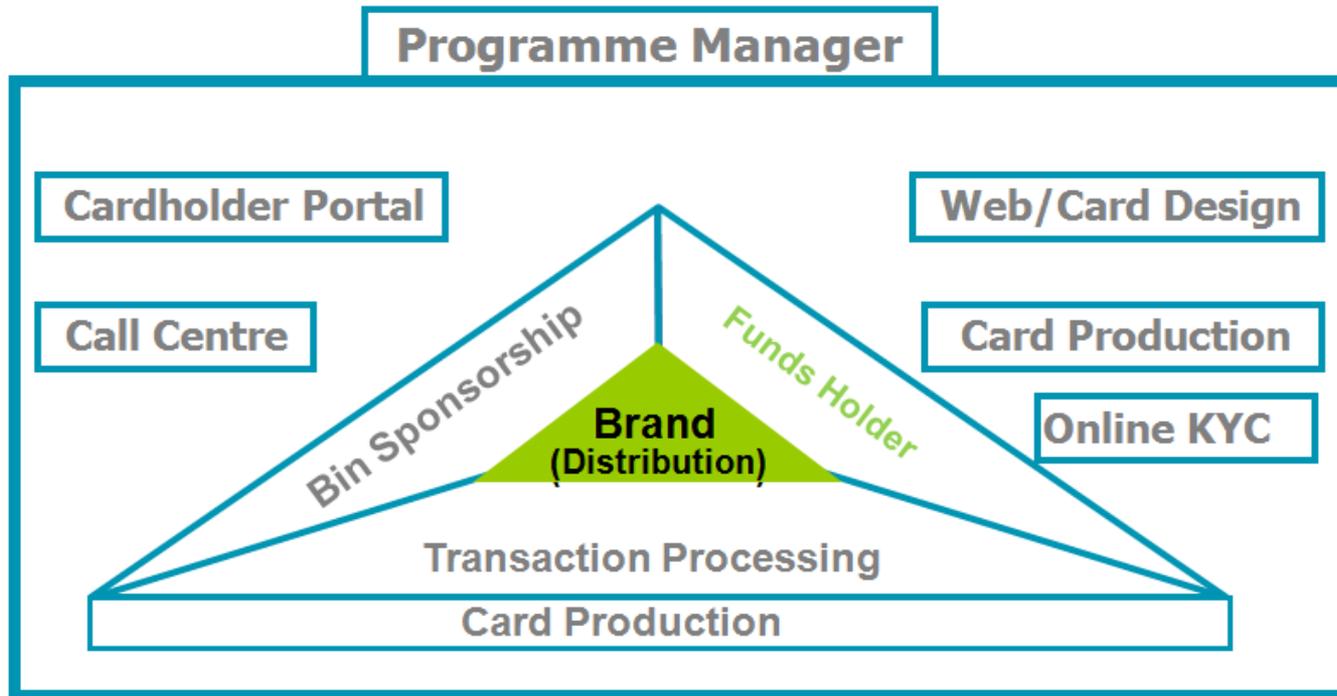
- Provides the access to the Network and the FSA compliance
- Has full financial and compliance obligations and is responsible for submission and approval of the programmes through the network
- Must be a full network – MasterCard/Visa Member.



Prepaid Card Open Loop Industry Structure

Funds Holder

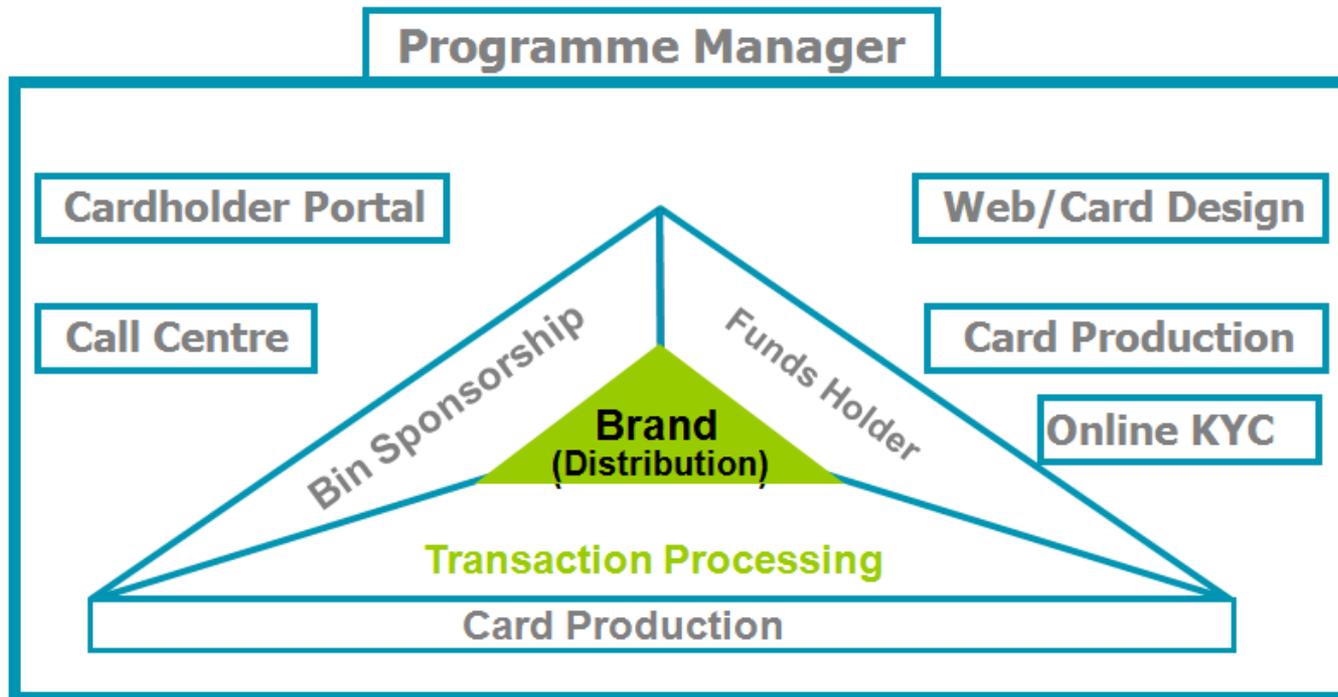
- Within the EU full EML holders can hold the funds, a bank without an E Money extension cannot. Payment networks do though for banks, or EML holders normally require indemnity against float and settlement risk. For one payment network in Europe either, cash deposit, letter of guarantee or a trust account is acceptable. Outside of Europe the funds deposit holder will be a bank and also the same as the BIN sponsor.



Prepaid Card Open Loop Industry Structure

Transaction Processing

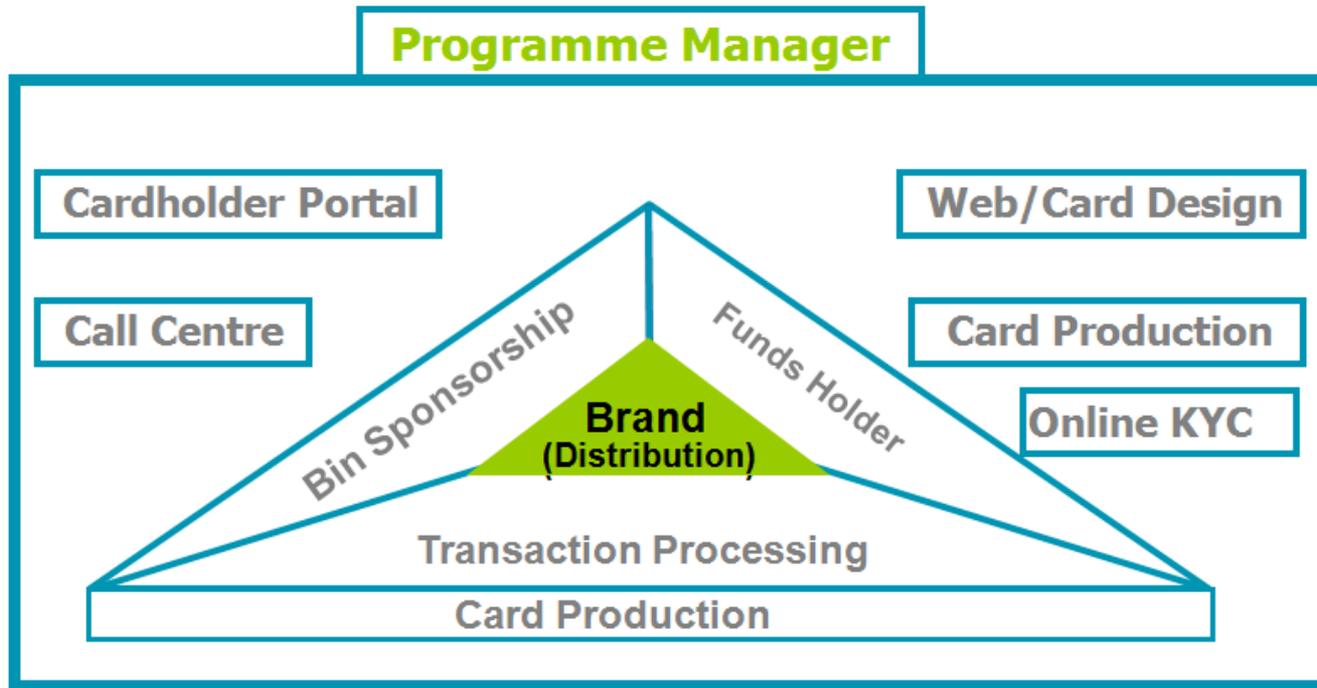
- Processor to manage the programme. Holds the virtual balance and processes the card payments
- Connection to the payment network – Visa/MasterCard.



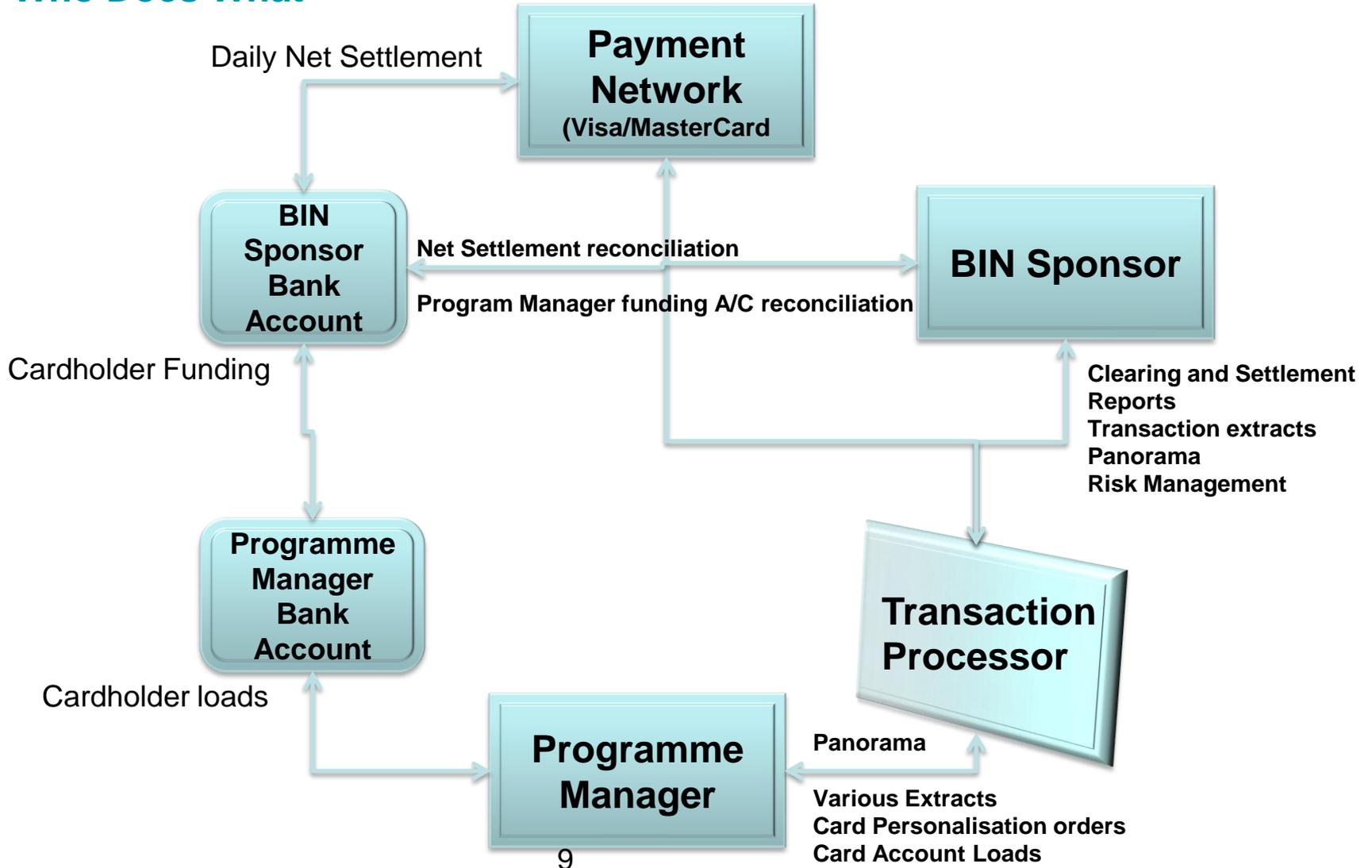
Prepaid Card Open Loop Industry Structure

Programme Manager

- Combines the many parts of these activities providing an end-to-end solution for the brand.



Who Does What



Why Become a BIN Sponsor

- The key reason must be generate profits for the organisation
- An organisation should consider its membership of a payment network as an asset
- It should then question what return on that asset it is getting or if it would like to obtain a greater return on the asset
- If the answer is yes then the organisation may wish to consider BIN sponsorship.
- The following slide outlines some of the factors that may contribute to BIN sponsorship being the correct route rather than trying run/launch all the programmes itself. . . .

In summary: R.A.R.

Reach

- Do you know everyone who might want to use prepaid or market it to their customer base
- Do you have relationships with everyone who might want to use a prepaid application?

Assets

- Is your bank looking to new revenue streams?
- Does your bank want to 'sweat its assets' harder?
 - A valuable asset is your membership of Visa
 - Another is your banking licence

Resources

- Does it have unlimited resources?
- Does it have resources that understand all the different prepaid applications?
- Does it have resources to go and educate, communicate and close deals with everyone in the market?

In summary: R.A.R.

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Typical BIN Sponsorship Financials

- Combinations of all of the following, with flexing based on more fixed less variable or less fixed more variable
- In addition likely to be some monthly minimums or guaranteed total income per month/year or with 'management fees' kicking in below certain volumes
- Set up fee for the programme manager/processor \$10,000 - \$30,000
- Set up fee per program \$2,500 - \$10,000
- Per transaction revenue
 - 0 - 99,999 transactions per month \$0.07 - \$0.20
 - 100,000 – 149,999 per month \$0.05 - \$0.10
 - 150,000 plus per month \$0.03 – 0.08
- Interchange Share 25% - 50%
- Interest Share on the residual float 25% - 50%
- Breakage share on unspent balances after expiry 25% - 50%
- Potential other areas for fees include a share of cross currency FX or other client charges

Source: Polymath Consulting analysis 2009

Target Overall Minimum Profit \$50,000 - \$150,000 per programme by year 2/3

What Else can the BIN Sponsor offer

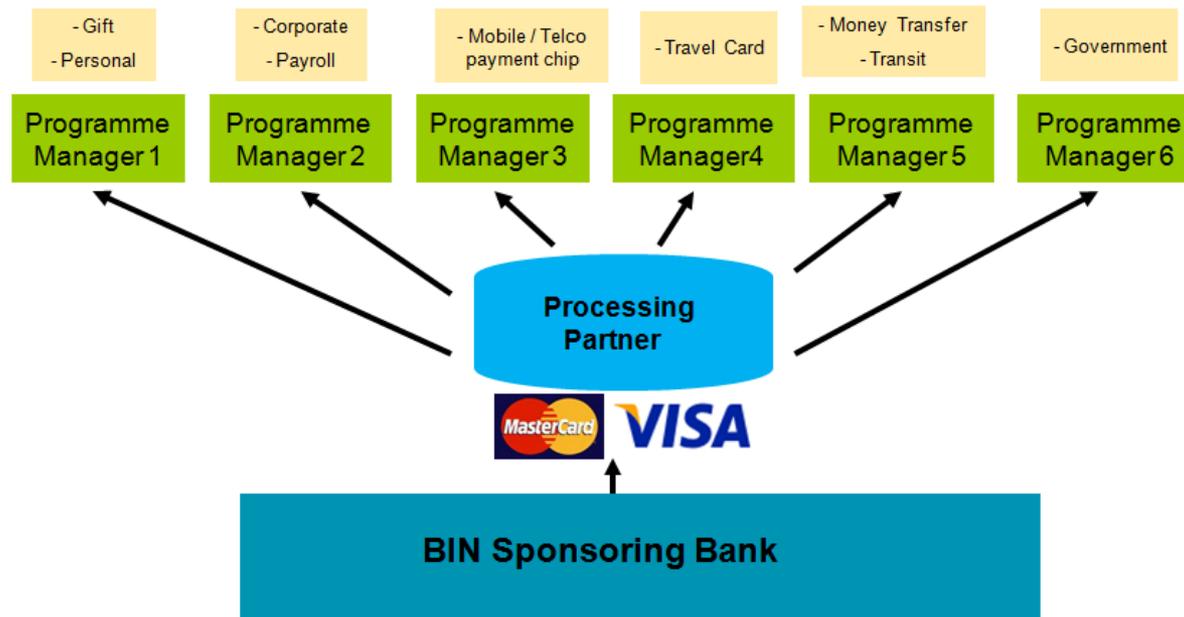
- Commercials are not always a simple financial matter
- What other functionality or facilities will the bank want to or are capable of offering the partner:
 - Acquiring, prepaid card programmes often require acquiring to acquire loads from Credit/Debit cards
 - Cash loading onto cards through branches
 - Additional Corporate banking services to the partner
 - Use of existing relationships e.g. Card production, processing, call centre; of which through greater utilisation may reduce your own bank costs

Relationship Structure

- Whilst banks will need to have a direct relationship with the processor it is often the programme manager who leads the tri partite relationship
- Both programme managers and processors provide a route to market to deliver multiple programmes
- In reality though a 'light touch' relationship is more likely when the BIN sponsor works closely with the Programme Manager as the direct relationship

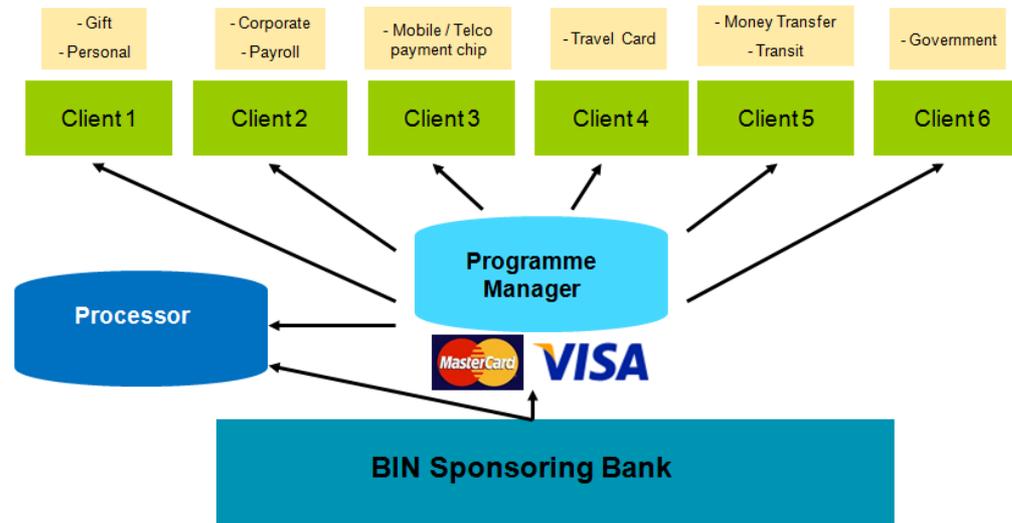
Processor Led Relationship

- Most processors will have or look to have multiple programme manager relationships as their business is volume based. The amount of potential clients/programmes that a processor can bring to a bank may therefore be greater
- They are the key partner the bank will need to integrate with
- Often the bank can use an existing outsource processor relationship if they have one



Programme Manager Led Relationship

- By the very nature of the programme manager running the programme on a day to day basis they are closer to the client
- The bank has a potentially a greater understanding of the clients, the programmes and the risks
- The programme manager should bring with them significant experience and understanding of running prepaid card programmes
- Knowledge of risk levels with different types of programmes
- Pre-screening of business cases to ensure only 'sensible' ones are presented to the bank



BIN Sponsors Risk

- There are two types of risk/issues:
 1. Those associated overall with BIN Sponsorship
 2. Those associated with each specific project

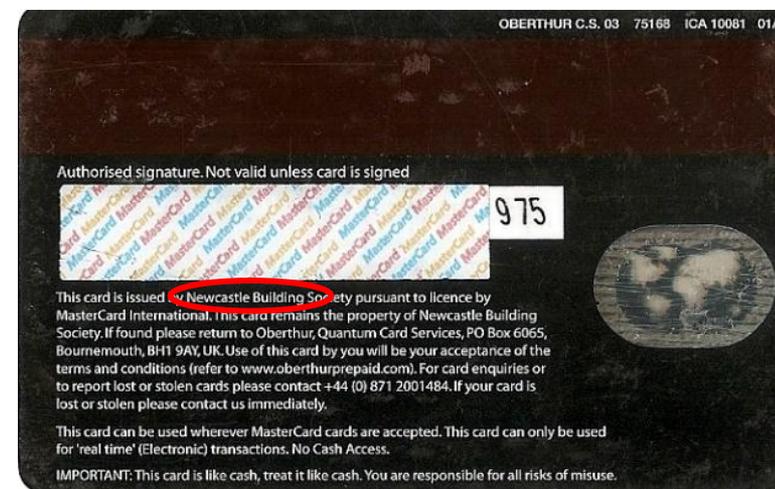
Overall Risk

Brand Reputation

- Often considered by many as the most important
- Very small name on back of card

Day2Day Operations

- No contact details



Overall BIN Sponsorship Risk/Issues

Funding within Bank

- The payment networks may require certain levels of capital

Resource Requirement

- Should be costed in and thus in effect resource use is profit generation

Fraud Liability

- Many banks will offer some level of fraud monitoring as part of the BIN sponsorship
- Where a bank offers fraud monitoring fraud liability for those areas covered by the monitoring – this is always a key negotiation
- Programme manager and their staff fraud is always excluded

Project Specific Issues

- Assessment of Bank's Financial exposure
- Reputational issues associated with that specific programme
- Review and integration of Governance within the Organisations existing controls
- Legal, Regulatory and Compliance
- Implementation / Management of the relationships and their complexities
- Identification and acknowledgement of Stakeholders / Experts

Risk Assessment

- Each institution will have its own format and procedures.
 - Provide direction as to what should be considered
- A Risk Assessment will form the basis of any Business Case
- Typically there would be 3 sections
 - Outline Document detailing the Programme the partner wishes to deliver which then allows you to assess further its Purpose, the Risk Rating and the Rational for this Rating
 - Project Execution Risk and the Post Implementation Risks identified from your Outline Document
 - Identification of Stakeholders and the Governance over your Project

Key BIN Sponsor Responsibilities

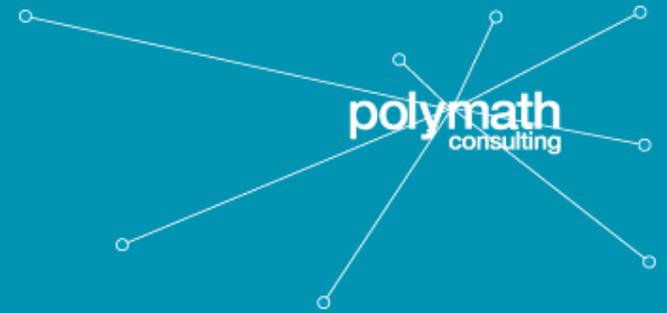
- Payment Network applications
- Payment Network compliance
- Payment Network reporting
- Clearing and Settlement
- Establish and manage cardholder funding account/clearing/settlement account
- Cardholder ID (KYC) process / controls as in management of although normally actual actions carried out by programme manager
- Cardholder acceptance criteria – again control of
- Regulatory compliance
 - Treat Customers Fairly compliance
 - Suspicious transaction reporting
- Programme guidelines / limitations through to the programme manager
- Transaction and Customer Monitoring guidelines
- Programme Manager control / audit
 - Programme Manager staff skills requirements
 - Record retention guidelines
 - Marketing guidelines

Source: Metavante/FIS, edited
by Polymath Consulting

Processor BIN Sponsorship Set Up

- Production & agreement of the BIN Sponsor Profile
- Establish test and production
- Setup & configure of Panorama and Web Services
- Communications: amend firewall to allow access to BIN sponsor Bank versions of Panorama and Web Services
- Setup production import, extract and report scripts and daily schedule
- Provision of training
- Testing
- BIN Sponsor - Project & Technical management
- Institution and card product set up under BIN sponsor Bank
 - This could be a card programme migration or new card programme
 - Scope of work would be similar to previous card programme set up

Source: Metavante/FIS



How Polymath Consulting Can Assist

Polymath Consulting

- Polymath Consulting practitioners have worked for several MasterCard/Visa members assisting them to launch BIN sponsorship programmes. The result of this work is that we now offer a two products to clients.
 1. Exploratory Assessment
 2. Full Launch Programme

- **1. Exploratory Assessment**

- As the name suggests the purpose of the analysis is to carry out an initial review for the client. It identifies the key areas of their business that will be affected and outlines what will need to be carried out in order to launch in BIN sponsorship. Areas of the business covered in the assessment including: IT, Operations, Regulatory, Sales/Marketing and membership relations.

Exploratory Assessment - Implementation

BIN Sponsor Questions	Areas of Assistance	Key outputs
What internal resources are required for the implementation of new BINS	Develop a plan for BIN sponsorship implementation and evaluate departmental resource issues	Outline implementation plan for BIN sponsorship
Which departments will be involved	Outline each departments responsibilities and key relationship strategies with the supply chain.	Document outline key resource requirements and how this related to current available resource within Vincento
Is there any Risk?	Polymath Consulting will outline “RISK” related components in line with the implementation process For both Vincento existing business and potential partner/suppliers	Develop a “RISK” based document on the potential additional requirements for each department
Will there be any changes to our existing processes as an issuer and BIN Sponsor?	What are the requirements and costs around BIN set up	

Exploratory Assessment - Compliance

BIN Sponsor Questions	Areas of Assistance	Key outputs
<p>Key regulatory and compliance issue</p> <p>What requirements of compliance should be handled in house</p> <p>Are there any key regulatory restrictions with the FSA on BIN sponsorship</p> <p>Are there any additional requirements/responsibilities the existing compliance department within Vincento</p> <p>New procedures and training – what are the requirements</p>	<p>Define new compliance and regulatory issues that will apply</p> <p>Provide pros and cons of in-house v outsource and identify potential outsource partners to provide services to Vincento for compliance and AML etc.</p> <p>Profile daily tasks for the compliance department for the additional responsibilities within the department</p>	<p>Develop a brief based on all aspects of compliance in a BIN sponsorship scenario. To include risk and responsibilities</p> <p>High level document to outline of new daily tasks within the compliance department</p>

Exploratory Assessment - Partners

BIN Sponsor Questions	Areas of Assistance	Key outputs
<p>What relationships/partners are required</p> <p>What resources or financial commitment are required to establish these</p>	<p>What are MasterCard's requirements – financial and other, how do they look to work with BIN sponsors, what are they looking for, how do you get the best from MasterCard</p> <p>What potential partnerships are required</p> <p>What if any are the set up costs and financial commitments required from other partners</p>	<p>Outline of what are the financial and resource requirements, with timelines for implementation required by other potential partners</p>

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2. Full Launch Programme

This proprietary programme is broken into two phases.

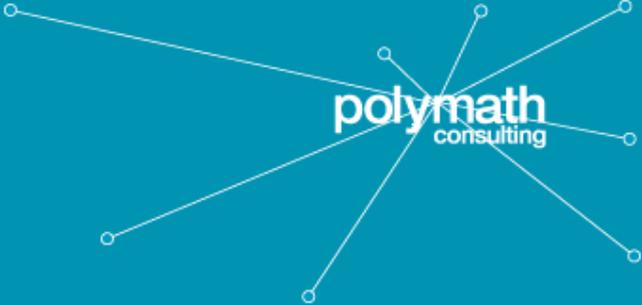
Phase 1: Proposition

- The initial phase aims to identify how the member should position itself in the BIN sponsorship market.
- Mapping you as a Member in the BIN sponsoring market place?
- What are the competitors strategies and plans?
- Which players are active in the defined markets?
- What are the key trends in customers and competitors?
- How should you position your offering to the market?
- Do you want to be more than just a 'me to'; do you want real market differentiation?

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Phase 2: Implementation

- The second part creates a handbook to enable any member bank to know what all the options are in relation to becoming a BIN sponsor. It outlines what needs to be achieved and what the options are resulting in a full detailed business case and implementation plan.
- What are the requirements to develop a BIN sponsorship capability?
- What requirements should be handled in-house what could/should/might be outsourced along with pros and cons?
- What are the costs involved to put in place these resources?
- Key regulatory and compliance issues?
- Business case for launching a BIN sponsorship service (financial modeling optional)?
- What BINs should we set up and who with?
- How long will the process take us?

The logo for Polymath Consulting features the company name in a white, sans-serif font. The word "polymath" is in a larger font size than "consulting". The text is centered within a network of white lines that radiate from a central point to eight small white circles, creating a starburst or network effect.

polymath
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