

How is the prepaid business doing?

Well, it's a bit like a polka dot bikini!

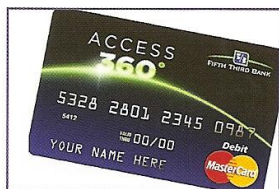
It seemed an easy enough question. How is the prepaid business doing?

It was remarkably difficult to find the answer.

Mostly the replies came in the form of questions. What country are you referring to? What party in the transaction are you interested in? Do you want to know from an issuer, a BIN Sponsor, a Processor, a Programme Manager or a Brand perspective? What area of prepaid are you asking about? Do you mean open or closed loop, gift or benefits, process replacement, retail, telco or transit?

The other questions were even more difficult to pin down. What about the prepaid charges? Is fraud a problem? Is money laundering under control? What about control of the balance on cards? Is it possible to make a profit from prepaid?

Taking refuge in a Global Prepaid Exchange Retreat, Card & Payments World's intrepid reporter was heartened by the positive and upbeat messages coming from both the speakers and the delegates spoken to, but was this



sales talk? Despite the difficulty of making a profit on the 11 pence to 15 pence profit per transaction cost that MasterCard has quoted as typical for prepaid cards, most speakers were prepared to predict growth in 2013. Even with the burgeoning number of companies entering the value chain at different points to try and make a living in the prepaid space.

David Parker, CEO of Polymath Consulting has in fact been compiling a list of outsourced, scheme certified prepaid processors over the past few months, and this is now close to 100 strong. The term 'processors' refers to the companies that actually handle the

transactions – the first stage in the value chain. After this come the BIN sponsors which are the financial institutions that take care of the risk. This is a growing category which has ballooned since the introduction of the reduced EMLI (e-money institution) asset liquidity regulations. Then come the programme manager that delivers the proposition to the end brand – the lowest entry cost, and one in which there has been growth more in mainland Europe than the UK. In terms of describing where overall the growth is taking place, Parker likens the global prepaid business to a polka dot bikini, meaning that there are a number of high activity areas (the dots) around the world that show areas where prepaid is burgeoning, surrounded by less busy areas.

When asked how the prepaid business was doing, Parker commented: "The problem is, there is no question you can ask that applies to the whole world. A good sized programme in the US will consist of a portfolio of around a million cards, whereas in Europe, a programme with 100,000 cards would be considered substantial. That is just ten per cent of the profit when compared to the US, but the costs are not divided by ten. Despite this, there are a lot of new and exciting initiatives taking place in Europe."

Whistlestop tour

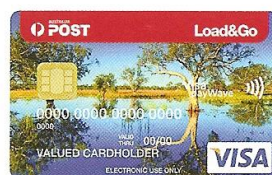
Parker pointed to France as a very fast growing market with circa a dozen programmes, whereas two years ago there was almost nothing happening.

Poland has some huge programmes, and specifically, Citi is running some very interesting schemes in the Central European region.

The Middle East, and in particular the UAE, is a big polka dot with two multi-currency cards and

wages protection programmes like the one run by C3 that has over half a million cards. While there is still only one card in Iraq, Saudia Arabia has announced new regulations, and this massive country is expected to be a big prepaid hotspot. And who would discount Egypt in the long term with its huge population base?

Asia is a mass of polka dots with Vietnam, Malaysia, and Indonesia all embracing prepaid programmes. Australia of course has almost eliminated travellers cheques through a variety of very



successful FX card programmes.

India is big, developing and with massive potential. The same can be said for China, although the latter has had some significant regulatory challenges.

Moving into Latin America, Brazil has huge employer benefit card programmes and Mexico is a major prepaid market in a number of areas from benefits to remittance cards.

Other growth areas include South Africa, Kenya, and Nigeria, where the central bank has announced its intention of moving to cashless. In Kenya Nakumatt stores (read Tesco) are converting one million loyalty cards to prepaid.

The US, the prepaid big daddy of them all, has a gift card market that increases in size every year, government supported benefit schemes, and a number of very interesting campus and transit cards. Walmart and Amex are changing the ground rules with a prepaid card that is marketed as a replacement for checking



accounts and debit, with virtually no consumer charges. It has been hugely successful.

Niche areas

The greatest growth area for prepaid currently is in restricted acceptance, where students or benefit recipients or distinct groups of people, can only use their cards in specific outlets, or even in some programmes for certain items/SKU (stock keeping unit) level control. An Australian private label government benefit disbursement card has the majority of benefit paid onto the card with only a small proportion available as cash.

Complexity

The biggest problem in analysing how the prepaid business is doing is its range and complexity. Prepaid can mean anything from a transit card to a complicated travel and entertainment reimbursement product. It can be open or closed loop, personalised or anonymous, one time use or reloadable. And it is evolving.

David Parker suggests that for many suppliers prepaid has moved on from being a product that is looking for a consumer; to suppliers and products that are identifying needs first and then creating specific solutions to meet these. Those companies that are achieving this are doing well – the others may not be thriving so well.

But is prepaid profitable?

This is not a straightforward question to answer, says Parker.

"Prepaid works best in many

"The people who are really understanding how to meet corporate and consumer needs are doing well," David Parker, CEO, Polymath Consulting.

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ways that are very diverse, one for instance is when it is not a product at all, but is just part of a broader offering. For example, there is a university loan disbursement card in Kenya, where the prepaid application is only one of a number of uses on the card." He explained: "A student card is primarily an ID card, but if it also works for library access, vending and photocopying, then it is going to be used extensively and be top of wallet. So to put an open loop contactless prepaid application on it makes a lot of commercial sense."

Charges

A major negative that is perennially attributed to prepaid cards is the high level of charges made to the consumer. Parker refuses to accept this as an issue, commenting, "The important point is that the consumer proposition must deliver value. This varies from product to product. I would gladly pay US\$50 for a prepaid card if it gave me access to every airport lounge and fast tracked me through customs. Would I use a prepaid card simply to replace cash? No. When I am travelling, I have a Euro card and a Dollar card. A multi-currency card would be better, but the proposition is not attractive enough yet to swap. These are the type of consumer propositions that prepaid companies need to wrestle with. It is complex."

Parker's argument that fees do not stop consumers using prepaid cards, and that what they are concerned about is whether they are getting value is an interesting take on the issue, and will no doubt be proven as the industry develops.

Growth

The greatest areas of growth in the next 18 months are expected to come from emerging rather than traditional prepaid markets, and also potentially the extrapolation of level 3 data as an added service through receipts collection. Data is increasingly the holy grail of payments, and nowhere is this more pertinent than in

prepaid, which promises a much sought view of the hard-to-track unbanked customer.

Preconceptions

In any room of card and payments professionals, if you mention prepaid, you will get murmurings of 'fraud', 'money laundering' and 'cowboys'.



DAVID PARKER

So is prepaid 'wild west' country, and if so, what are the regulators doing to control it?

Those questioned from within the industry are quick to refute the cowboy image, saying that the dodgy organisations are being rooted out as the industry matures. But is it still an industry based on hype?

"There is healthy consolidation," said one commentator. "There has been a lot of hype, and a lot of upselling, but this is not sustainable long term. What we are seeing now is an understanding of how prepaid can work alongside other services, and even provide a useful service in itself with spending data."

One company working in this space is Ceridian Stored Value Solutions. Steve Bradbery, VP international product solutions believes there is huge potential in additional revenue generation from prepaid customers, which ranges from loyalty schemes through to using data gained from programmes for marketing purposes.

Ceridian SVS manages more than five hundred million card products and processes over one billion transactions around the world every year. In May 2012, it launched a mobile loyalty app.

Nearly 100 processors on a growing list

The list so far of outsourced, scheme certified prepaid processors.

1. ACS (A Xerox Company)
2. Atlantic Pacific Processing Systems
3. Amara (SA) TBC
4. ATOS (CQR)
5. Aurora Financial Systems Inc
6. BPC
7. C3
8. C-Card
9. Card Express Inc
10. Carta Worldwide (+PM)
11. Comdata (Part of Ceridien)
12. Contis
13. CoreCard Software
14. Corna Banka
15. CSC
16. DrawCard
17. Denarii Systems
18. Direct Cash Payments
19. Distra Pty Ltd.
20. easycash Loyalty Solutions
21. EDB
22. Electra Card Services
23. ECS (Tanzania)
24. Encards Inc
25. enStage Pvt Ltd
26. Equens
27. Euronet/Epay
28. Everlink Payment Services
29. Fifth Third Processing Solutions
30. First Data
31. First Data Latvia
32. FIS – Cortex
33. FIS – Metavante (US)
34. FIS – Wlld Card
35. FSS Technologies
36. Fnds 3000
37. Global Processing Services (FlexeVouchers)
38. GIM-UEMOA
39. Green Dot
40. GPS Bahrain
41. FSV Payment Systems
42. Galileo
43. Global Technology Partners
44. Global Payments
45. HP
46. Heartland
47. HPS Services
48. ICPS Mauritius
49. I2C
50. Indue
51. Interactive Transaction Services
52. InterCard
53. International Card Services
54. Interswitch
55. M2 (Symmetrix)
56. M2M Morocco
57. Maverick Network Solutions (Fiserv)
58. MasterCard Worldwide
59. Mediterrean Smart Card Corporation
60. Member Access Pacific
61. MEPS
62. Monext
63. Natixis
64. NetSpend
65. Network International
66. Novopayment Inc
67. NXSystems
68. Pacific Payments Solutions
69. Paynet
70. Power2Process
71. PPS
72. Provos Bilisim
73. ProCard Services (Wirecard)
74. RevWorldwide
75. S2M
76. SIA
77. Sinsys (uses SIA SSB datacentre)
78. Sinnad (Bahrain subsidiary of NI)
79. SIX Card (Telekurs and Cetrel)
80. Store Financial
81. Tasgroup
82. TNS
83. Transaction Labs
84. TransCard
85. TriSource Solutions
86. TSYS
87. Tunz
88. Tutuka
89. Unified Payments
90. UPS Kuwait
91. Valitor
92. Venture Infotek (Atos Worldwide)
93. Visa Data Processing (Visa DPS)
94. Visa Processing Services (VPS)
95. Yalamanchili