

Is The Prepaid Value Chain Consolidating?

As recently as five years ago there were few providers in the market who offered more than one element of the prepaid value chain. Today there are many companies offering two or even all three elements of the value chain: issuer, processor, programme manager. **David Parker** investigates

If we look back to 2007 when the 'Polymath Prepaid Report' was first published there were four large banks offering one stop shop prepaid solutions, but all but one with out-sourced processing: A&L, BOI, MBNA and RBS and seven programme managers, four of which were only offering gift cards of one type or another.

Today there are circa sixty European programme managers offering programmes other than their own brands, but what is perhaps more interesting is if we consider the three key elements: BIN Sponsorship, Processing and Programme Management. There are circa 15 companies now offering two or more of these elements of the supply chain.

The latest to join this group was Digital Payments PLC, which recently took over the M2 Processing platform and a prepaid programme manager technology platform giving them both processing and PM capability.

As David Carr, CEO of DPP said "Our philosophy here at Digital Payments Plc is to remove as many barriers to entry for companies

looking to expand in the prepaid card space. The best way for us to achieve this is to own as much of the value chain as possible. This allows us to minimise expense and therefore offer a competitive pricing structure to our potential clients."

The original company that combined Processing and Programme Management was PPS who along with APS was one of the first two companies who launched open loop prepaid cards in the UK. PPS now offers all three, being also a MasterCard issuer. Ray Brash, CEO of PPS, commented on PPS' view as to why controlling all three elements works so well for them: "The nature of prepaid makes the supply chain complex.

Distribution and customer care, Compliance and Risk Management and Merchant Redemption and Settlement can be supplied by three different parties. This creates friction and potential points of failure not to mention adding significant costs. We understood the need early on to provide a seamless service to ensure that our clients can expect a true one stop shop with products genuinely tailored to their needs."



Rich Wagner, APS

With the implementation of the second Electronic Money Directive (2EMD) on 30 April 2011, which aimed to encourage the growth of the electronic money market in the UK, the opportunity to become an issuer suddenly became a reality to companies such as Visa and MasterCard and allowed EMI holders membership. APS took advantage of this to become a member of both schemes with Rich Wagner, CEO of APS commenting on why they did this: "There were 3 main reasons and they are in order of importance:

- To control our own risk rather than rely on a bank partner
- Faster speed to implement – ability to approve a programme via a single entity made responses to proposals and client implementation much easier.
- Greater share of the revenue pie – actually we know we make more money by being an issuer but the above two for us is a far greater benefit

With such strong reasons it is not a surprise we have seen other Programme Managers such as Optimal Payments, PFS, PPS, Ppro, and Vincento also become their own issuers. We have also, however, seen companies that started life as processors such as FDI, now move down the food chain and become programme managers and companies like Wirecard Group who already offered BIN Sponsorship and Processing start to offer Tier 1 clients a full Programme Management solution."

As Susanne Steidl, vice president of Issuing at Wirecard AG stated: "For our top brand customers it is essential that Wirecard delivers and operates their complex, global card programmes from a single source, which it does by excelling in each service module.

"Wirecard Card Solutions as a UK EMI and German based Wirecard Bank along with our own processing and programme management services are able to provide a unique offering with a strong focus on mobile payments. In addition, Wirecard is able to combine other group solutions such as card acquiring and alternative load channels to complete a truly integrated offering."

But what of the future? is there still room therefore for the dedicated specialist programme manager, processor, BIN sponsor in the market or they going to be squeezed out by these new consolidated offerings? David Carr again thinks it could get tough: "We believe that it will get more difficult for these providers to compete in the long run, the price points in operation today are only getting lower, and therefore we believe that although there is currently a place for the individual element, providers of this will diminish over time."

As one might expect, though, this is not a view that some of these specialist service providers have. Sara West, head of sales at FIS, one of the world's largest prepaid processors commented: "Many organisations have invested heavily, only to find that by the time they are ready to participate, the industry has moved on and their investment in time, money and resources has been unproductive.

"The benefit of contracting with FIS over one of the new hybrid providers is our ability to scale with their business, our investment capacity, the knowledge and insight of our staff – all of whom are dedicated to, and experienced in the prepaid market and our long-term, on-going commitment to serving this sector. Our clients are able to invest once in a set up and then extend this platform to support issuance globally with the support of FIS partnerships."

Likewise Neil Weeks of GPS, one of the newer open loop processors added: "No, we do not see organisations that provide more than one part of the value chain winning more opportunities in the market place, we feel that clients prefer to contract with single service providers and have a partner that focuses on one part of the value

Mergers and Acquisitions

Wirecard agrees VPS deal

The news that Wirecard will acquire parts of Singapore-headquartered Visa Processing Service (VPS) and acquire all shares in VPS India for \$16m highlights the scope for consolidation not only in the value chain but amongst the 110 outsource prepaid processors globally.

VPS operates in seven countries with a customer-base of 14 financial institutions and more than 3m cardholders amongst over 70 card programmes. VPS provides financial institutions with an integrated solution for gift cards, GPR cards, single or multi-currency travel cards as well as money remittance.

Wirecard will support the global demand for prepaid cards with a wide range of product offerings, including innovative mobile and contactless payment solutions, solutions for the unbanked and cards for the distribution of government benefits.

As part of the relationship, Wirecard intends to provide outsourcing services to Visa for the provision of specific prepaid processing services in support of Visa's clients.

In addition, Wirecard has joined the Visa Issuer Processing Programme, designed to match financial institutions with leading prepaid issuer processors to help support and grow prepaid programmes globally.

Dr. Markus Braun, CEO, Wirecard said: "The issuer processing agreement, and acquisition of certain assets of Visa Processing Service significantly strengthen our position in the global prepaid market. We are very excited about working to drive the distribution of Visa prepaid cards and grow prepaid markets worldwide."

Backed by strong economic growth, an expanding middle class, and government support for initiatives that will reduce physical currency transactions, Asia-Pacific has become one of the world's largest markets for prepaid payment cards.

With Asia becoming one of the world's most advanced market for NFC and mobile proximity payments, Wirecard sees particular growth potential in innovative mobile payment solutions built on Visa prepaid cards.

chain. When a client contracts with a single provider if they are not happy with another part of the chain they can simply move to a new provider. It makes sense to work with a separate issuer and processor as these companies focus on providing one service and doing it well. We feel that each part of the value chain is complicated enough and to take on more than one part could lead to mistakes and unhappy clients."

There is of course always the issue with consolidated offerings of whether the parts can still be offered separately. It is worth noting that when Lenlyn Group, parent company of Raphaels Bank, the BIN Sponsor, purchased PCT the programme manager they were keen to stress that it was under the control of Lenlyn and, whilst a 'sister company' to Raphaels, the two would be operated separately, allowing Raphaels to still work with other programme managers and PCT to use other BIN sponsors.

Sunaina Atkar, VP, business development, one of Europe's top three prepaid BIN sponsors confirmed that she believes that competition is still an issue in the market, stating: "Clients see the benefit of an expert BIN sponsor, who focuses solely on one segment of the value chain. BIN sponsorship is such a specialist area that it demands dedication and the full attention of the business.

"Furthermore, if we were to take the same approach as other issuers and consolidate, we may find ourselves competing with our clients



Susanne Steidl, Wirecard AG

and partners and this is something IDT Finance opposes. Instead, we prefer to work closely with our clients to build their portfolio of business and launch the most innovative and successful programme in Europe."

So what of the future, here are a few thoughts as to whether the trend will continue:

Pure Processors

Neil Weeks:

"Yes, I can see this continuing but I feel it will be purely for PMs that are experienced in the marketplace and wish to have their own e-money license and MC/Visa membership. Building a stable next generation prepaid processing platform is a very difficult task and I see more PMs becoming their own issuer and continuing to outsource their processing requirements."

Sara West:

"We continue to see consolidation and amalgamation of functions and in an expanding sector like prepaid, this is unlikely to change. However, FIS believes that the real growth will be made by mature, larger, financially sound, proven providers, working together more closely to provide services that are fast to market, with one contract, and a tried, tested and proven delivery capacity."

Pure BIN Sponsors

Sunaina Atkar

"Yes, and this is becoming a more common occurrence in the prepaid space. The selection of business functions (issuer, processor, pro-



Sunaina Atkar, IDT Finance

gramme manager) becomes imperative to the consolidated entity as this determines what added value they bring to the market. Added efficiency and value would be obtained if the partners have a symbiotic offering in service, technology and innovation".

Consolidated Providers

Rich Wagner

"I always believe a good distribution channel (especially exclusive) is the main way a pure play can survive. Although I don't believe a pure play programme manager can 'thrive', no matter how good their distribution channel (e.g. O2 disaster is a good example)."

David Carr

"We have already seen the increase in PMs becoming issuers to offer a better in-house solution and adding processing is a natural step; we thus see the overall trend continuing with more consolidated offerings."

Polymath Consulting's view, as ever, is that no one size fits all and there will always be two sides to the story. Although with companies like FDI and other large groups looking to potentially enter the PM area and start driving more of the value chain there will certainly be a lot of pressure on the pure programme managers going forward.

Further, these larger groups start to offer the international reach many smaller programme managers cannot hope to offer.

Certainly becoming your own issuer has become easier, but often the true costs, complexities and regulatory requirements of doing this are not realised by people at the start. Processing remains a volume play and thus we will see less companies consolidate in this direction than any other. ■