

## A global review of prepaid innovation David Parker – Polymath Consulting



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Before we talk about innovation in the field of prepaid it is necessary to clarify what we mean by the term 'innovation'. Whereas invention relates to ideas, innovation involves the profitable use of ideas. The challenge to innovators is to understand customers' problems and anticipate their needs – expressed or unexpressed. As Henry Ford once said, "If I had asked people what they wanted they would have said 'faster horses'." Further probing would have revealed that what they in fact needed was quicker journey times. The challenge then was to match technology to the consumer need, providing a product customers wanted and doing so profitably.

Innovation does not necessarily involve the introduction of a wholly new product. The telephone is just one example of a device that has evolved to meet customer needs, firstly to provide mass market communication but latterly to provide a wider range of services that consumers require as their lifestyles change.

In searching for new ideas, an innovator has four potential pathways. So far we have considered product innovation, that is the introduction of new products or improvements to existing products. Process innovation is where a partial change in the way things are done can reap benefits. To take one example, as an employer you might change the way you pay employees, eliminating the need to process cash or cheques. With positioning innovation benefit is reaped from positioning an existing product in a new way. The obvious example is the mobile phone but in the financial world the ATM, too, is being positioned as a provider of services beyond the simple dispense of cash. Finally there is paradigm innovation, which involves major shifts in thinking that bring about change.

### Payments Innovation

In recent years we have witnessed a number of changes in the way we are able to pay. In some instances the plastic card has remained core to the payment, though with the incorporation of microchip technology, in other instances the piece of plastic has been replaced by a virtual instrument or a mobile device. Now the consumer has a much wider choice in terms of how they pay and they are able to do so conveniently, quickly and securely. Newer payment solutions include contactless cards, virtual cards, e-wallets, one-time use cards, mobile payments and mobile money transfer.

### Prepaid Innovation

A number of different means have been used to boost the use of prepaid schemes. In some instances this has involved the use of techniques already used by credit card issuers in a number of countries.

### Loyalty Schemes

The use of a loyalty scheme to promote prepaid usage is just one example of this. In Italy, UniCredit introduced Nectar on a prepaid card, a low-cost means of generating increased card usage. Taking this a step further, loyalty cards have been combined with reward schemes, whereby card holders are given exclusive discounts on leading brands. VIP Henne Card is a co-branded loyalty card for women in Norway. It comes with a large number of rebates and charges a fee of NOK 495. Such added value prepaid cards have taken off in the UK, where examples include BaBee, Virgin Money and The Sun.

## Promotions

Another successful method of generating prepaid card usage has been via promotions. Carte d'Or introduced a six week promotion whereby six customers were awarded Volvo cars and a further 3,000 were given a World Gift Card. The response exceeded expectations, with 300,000 consumers participating and sales increasing by 30 percent over the previous period.

## Multi-function cards

Chip card technology enables the provision of multiple functions on the same card. The challenge to the card issuer has always been to define services that enable them to generate further revenue, either in terms of fees or by making it more likely that the card will be used to make purchases.

A good example of this is the prepaid functionality cards doubling up as access control mechanisms in universities in Sydney and Milan. To take the Milan example, the Carta di Ateneo is a dual interface card that provides contactless and EMV payment as well as access control and personal identification features. The student's personal data and photograph are printed on the card and access to university buildings is managed via information on the chip and magnetic stripe. The card may also be used to provide access to university web services and to provide a record of attendance at classes.

This is a card that students will always have on them and which provides a convenient method of payment. The same is true of cards such as PostPay & Go in Italy, where the card combines prepaid with transport and ticketing.

## Reaching the unbanked

When a bank issues a prepaid facility it may use this as a means of reaching currently unbanked individuals with the aim of achieving greater financial inclusion. In many countries large numbers of individuals are currently unbanked or underbanked. Absa in South Africa provides one example of this approach, having launched a prepaid card as an entry point for potential new customers. The scheme was launched in 2008 with the aim of increasing total bank account relationships by 50 percent.

## Improving processes

As we have already mentioned, profitable innovation can

involve the introduction of improved processes. In March 2010 the Dubai Bourse launched a prepaid card scheme that will replace the issuance of 30,000 dividend cheques. Companies can now use one of three cards – Classic, Prestige, Platinum – to distribute their dividends.

## Consumer behaviour – responding to or encouraging?

Prepaid can respond to and encourage certain types of consumer behaviour, thereby defining a broad market

segment. On the one hand people will wish to budget for certain events – holidays, birthdays etc - and prepaid products might be positioned to meet this requirement. Research in the UK and Italy has shown that budgeting is a significant driver in people's decision to take-up a prepaid product and in the US all state employees have the option to deposit all or a proportion of their salaries onto a payment card.

People on relatively low incomes may aspire to hold a credit card, but in the current financial climate more and more are being refused a credit line. A prepaid card can be used and marketed as a means of building creditworthiness (the fee is repaid as an instalment loan). Where UniCredit customers use a prepaid payment card for six months they can call and request a credit line. Twice a year, too, UniCredit will review the card base and offer those with good usage levels a small credit line. The company has achieved a 13 percent conversion to credit from those sent a prepaid card.

Aspirational behaviour also explains the growing popularity of up-market premium prepaid offers such as Titanium cards, demonstrating that prepaid is not just for the unbanked or those not qualifying for credit. Again, considering the needs of higher earners, at a time when international travel is common, Commonwealth Bank in Australia has anticipated the needs of regular travellers by offering six currencies on a single card (Travel Money Card) in that consumers can convert one pre-loaded currency into another of their choice and access it via the same card.

## New Technology

One challenge facing the industry is how to adapt new technologies to enhance the consumer offer and to do so in a profitable manner. The introduction of NFC will change the way we pay and also provide enhanced marketing opportunities, for example via smart posters, whereby consumers will be able to download information to their mobile phones.

In the meantime it is also possible to enable mobile payments using stickers with a chip attached and Bank of Kuwait is one example of an institution already offering a prepaid card service via a mobile phone. Another innovation has been contactless payments using a watch, introduced by Garanti in Turkey, Volksbank Slovakia and others, including a trial at the UEFA Championship final in Rome.

## Is it worth innovating?

What actually drives innovation, in terms of technology change, process change etc is almost irrelevant, the harder question is what drives consumer perception as to the value of innovation. Is it increased convenience, cost-savings, improved security, enhanced lifestyle? At the end of the day it is this that will drive the business models necessary for success and determine that the right product is available to the right market. ■