Prepaid Cards – What Can they learn from other industries

With consumer said to be tightening their belts what learnings or hope do other sectors offer for prepaid cards.

Hardly a day goes by without some comment in the main press about the credit crunch and how this is and will affect the UK/European economy. Consumers will tighten their belts, less disposable income and interest rates up. Surely this though is good news for prepaid. The one market many in the prepaid card industry have always referred to is the mobile market where it is reported that up to 65% of all mobile phone accounts in the UK are prepaid that is Pay As You Go (PAYG).

However it looks likely that this may increase further with Sony Ericson's UK Marketing Director only recently announcing that the headset manufacturer is dedicating more of its marketing budget to PAYG. But it is not just the hand set makers who are driving forward on PAYG; Orange has followed by extending its animals tariff packages to PAYG as Jeremy Morris, Head of PAYG Acquisitions commented “We are seeing customers choose PAYG for its flexibility and control”.

But it is not just the mobile phone companies that are heavily into PAYG, many other business sectors are starting to recognise that consumers often do not want to be tied into long contracts for fixed period. Gym and leisure clubs have for years tied people into to 12 month contracts with them but Virgin Active is now allowing customers to cancel with 30 days notice at any time during their agreement.

Operator	Customers on PAYG
Orange	64%
O2	62%
Vodafone	60%

Other financial service product though have also now started to recognise this consumer movement with for instance the AA Travel Insurance running an outdoor campaign reminding holidays they can purchase cover for £5 a trip, as opposed to £32 for the year. Another insurance group HomeServe has relaunched as a direct to consumer proposition on the basis of ‘Jobs on Demand’ for consumers who can’t afford or do not want to take out their year long emergency cover policies. Even Norwich Union or recently suspended their pay as you drive insurance solution using satellite technology due to consumer concerns of it being a bit too ‘big brother’ have stated they are committed to the principle of PAYG in the long term. This is hardly surprising though given that Erik Nelson from NU commented that ‘average customer savings were about 30% and the retention rate was about 90%”. Key to NU relaunching this solution is for car makers to start building the tracking solutions into the cars, as NU stated “we are saying the policy has ‘paused’, but it will return”.

Even in the Utilities sector where prepaid has been well used for the poorest consumers, although often with very poor press due to the ‘high charge’ rates there is a move to bring technology into providing a more effective and better value solution. Smart metering as it is called is expected to roll out over the next few years and NPower in August 2007 launched it first trails in the North East of England. The devise allow PAYG via the internet or SMS and can be read remotely make them far more convenient that the card, token or current cash solutions on offer.

The PAYG model though has been taken to heart by Streetcar who in effect believe it is the future. Quite simply you pay for a car as you go, as you use it. The hire out cars based in city centres for £3.95 an hour or £39.50 a day and have over 30,000 members using cards from 600 locations in 6 UK cities. As co founder Andrew Valentine said ‘When times are hard, people look to do everything in the easiest and cheapest using this type of service more.” Interestingly Streetcar have seen rental periods drop from days to hours far more. In a similar but different model several hotels around the world have sprouted offering room hire by the hour and almost scarily a survey in the USA by Kayak.com found that nearly one in ten people there had actually done this.

Interesting whilst the many other industries seem to be adopting the PAYG model PSE at a recent conference commented that in their next forecasts covering prepaid card growth to 2015 they are downgrading the growth rates for prepaid cards as compared to the USA where they are aware they are being increased. A key issue does though still seem to be the perception across many industries using PAYG/Prepaid of ‘ripping off’ the consumer. Many would argue, and often quite rightly, that the higher charges reflect the higher operating costs and to some extent high risk of non utilisation when it comes to certain products.

However, the issue around the concept that prepayment equates to higher cost/ripping off will need to be addressed within the prepaid card industry if it is ever to really establish itself. With the growth of other sectors though offering PAYG/Prepaid it does potentially offer the opportunity for strategic alliances as a customer using prepaid in one product/service is probably far more likely to do so in other products such as financial services. Piggy backing on another products communication or using their database is always far more cost effective.

In summary the growth in PAYG/Prepaid services in other sectors must be good for prepaid cards. If more consumers get used to paying up front or in effect as they use goods and services they are likely to find it easier to adopt and use prepaid payment cards as part of their everyday living.