

Under the hood of hybrid cards

by David Parker, Polymath Consulting Ltd.

All new, growing and evolving industries adopt new language and jargon to describe new products, technologies and services. The prepaid card industry is no different. A recent addition to the prepaid lexicon is the term "hybrid prepaid."

Although there is no definitive agreement on what constitutes a hybrid prepaid card, for the purposes of this article we will consider hybrid prepaid to be a prepaid card that also offers users some form of credit, or line of credit, they can access through the card.

Hybrid prepaid cards come in two key types: a "credit builder" and one that offers a line of credit. A slight variation on these types is the card with "multipurse" wallet functionality – the ability to have more than one account or "purse" on the card.

Credit building cards

The aim of credit builders is to help customers improve credit histories. Three different business models have developed for this type of card:

1. **The loan structure:** When a user purchases the card, the monthly management fee (for example, \$5) is converted into a loan (for example, \$60). The user then repays this monthly via a monthly management fee for use of the card. At the end of the year, when the loan is repaid, a loan repayment history is reported to a credit bureau.

This product has delivered retention and usage figures far higher than industry norms. One example is the UK's APS CashPlus Prepaid Credit Card.

2. **Lending back the user's money:** These cards come with three accounts per card.
 - The cash account is used for cash loading, money transfers, ATM transactions and bill payments.
 - The secured account is used to secure lines of credit. Money is transferred from the cash account into the secured account to increase the credit line. However, funds in the secured account are not accessible since they are used to secure the credit line.
 - The credit account is used to make all purchases.

The UltraVX Visa Card is an example of this hybrid type.

3. **Reporting history:** There are two kinds of business models here.
 - Each time a hybrid card is used to pay a bill, a report of that bill payment is sent to a credit bureau. The AccountNow card issued by Palm Desert National Bank does this.
 - Three tiers of cards are offered, each with an annual fee attached. Cardholders who opt for one of the top two tiers (those with the highest fees) are offered a credit builder facility. Eufora manages such a card.



Words of advice

The hybrid card is a new product, and there will be hurdles. One has already occurred with the iAdvance loan program managed by MetaBank, which helped users secure short-term loans for unexpected expenses. In October 2010, the Office of Thrift Supervision, a U.S. federal bank regulator, ordered MetaBank to discontinue iAdvance, which was offered to consumers via NetSpend Holdings Inc.'s prepaid cards.

The OTS said MetaBank engaged in "unfair or deceptive acts or practices in connection with its operation of the iAdvance program."

In the European Union, legal issues must be addressed as well. But that being said, hybrid cards offer the international prepaid card industry what it is known for – innovation and opportunity.

David Parker is the Chief Executive Officer at U.K.-based consulting and research firm Polymath Consulting Ltd. He can be reached at davidparker@polymathconsulting.com.