

iQ. Market Report.

Government Loaded Prepaid

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Issue 58: 20.01.10



Governments worldwide are increasingly embracing prepaid cards to move away from less efficient paper-based solutions, such as cash, cheques and vouchers. Just as retailers and corporations, governments have realised traditional paper-based methods are costly and an administrative burden compared to electronic payments. Measured against paper, prepaid cards entail lower costs, faster payments, increased control, and more customization options.

This IQ, explores government loaded prepaid programmes, from the Azure card in the UK - targeted at recently-arrived refugees, to the Dubai eGovernment Prepaid Card aimed at the unbanked and tourists alike. Use this IQ to increase your awareness of government loaded prepaid as a phenomenon and of particular card programmes around the world.

Defining government loaded prepaid

Global Prepaid Exchange distinguishes between three main types of prepaid: consumer loaded, commercial loaded and government loaded. Government loaded prepaid refers to prepaid solutions where a government organisation - central, municipal or state - transfers funds to a card or other payment device. The application areas of government prepaid programmes range from travel allowances and purchase expenses for government employees, to public benefit payments, e.g. pensions, unemployment wages, child support, and disaster relief. Our focus will be on the latter category, i.e. prepaid cards used to pay out public benefits in different forms and/or targeted at the unbanked. PSE Consulting has estimated European government benefit prepaid turnover to reach € 9.1 billion and 478 million card transactions in 2015.

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Prepaid cards vs. direct deposits

“Why the prepaid card - why not simply use direct deposits?”, some would ask. While it is true that many government transactions can be made using direct deposit, these require recipients to have a regular bank account, which may not be available to low-income groups in many countries. Prepaid cards allow governments to pay out funds to the unbanked, which tend to be strongly represented among recipients of public benefits. Prepaid accounts function as “quasi bank accounts”, allowing governments to pay out benefits and for recipients to take greater part in the financial system.

Prepaid cards also offer a greater element of customisation and control for governments than direct deposits do. Cards can be open loop or closed loop, and they can carry further restrictions, e.g. limiting purchases to certain categories or retailers, limiting cash withdrawals, or resetting a card’s balance to a certain daily amount. The versatility makes prepaid viable for a broad range of programmes, varying in size and complexity, as we shall witness later in this article.

Growing popularity

We challenged two of the prominent figures in the prepaid industry, Robert Courtneidge at Salans, and David Parker at Polymath Consulting, to share their views on the growth of government loaded prepaid around the world.

“Government prepaid programmes are growing in popularity as they have shown to be successful,” says Robert Courtneidge. “As well as benefit payments; pension, child allowance and meal voucher replacement, there are new programmes for disaster relief, refugee payments etc. It is clear that the benefits both in cost reduction and better data management are being embraced, and new schemes, such as a daily allowance for persons about to be deported, show the utility of the cards.”



David Parker adds, “Although the US very much led the way, we are now starting to see countries around the world recognise the cost savings that Prepaid Entitlement Disbursement cards can offer. What I think is also very interesting is the way the United



Arab Emirates (UAE) government has now launched their own card so that all payments to the government must be done through this card; significantly reducing any risk of fraud and their cash handling costs.”

Challenges

Despite growth in the number of programmes around the world, there are hurdles that must be overcome for players entering the arena of government loaded prepaid. David Parker shares his experiences. “Whilst we are seeing more and more of these programmes, they appear to be growing relatively slowly. The reason is that they take a long time to both sell in by the suppliers and implement. You are also dealing with the requirement often to integrate to other IT systems to enable the payments to be made. Lead times of 12 – 18 months are quite common in these types of programmes, meaning sometimes governments change half-way through a project.”



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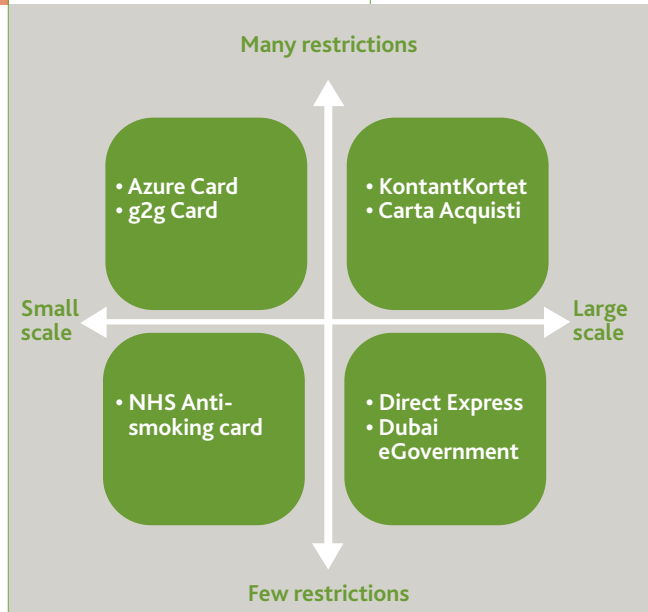


A key challenge in many emerging markets is the lack of POS and ATM infrastructure. "It is all well and good paying people electronically, but they will need to have access to locations they can spend at and also withdraw cash from," David points out. "This will, in many markets, continue to be a key restricting factor in the growth of benefit cards, especially where there are large under-served rural areas."

A third and final challenge is educating the cardholder. "Whilst understanding of payment cards is good in many 'emerging' markets, once you move into the rural areas it can become almost non-existent. One of the big issues recently when the UAE introduced electronic payment of workers' salaries i.e. through salary prepaid cards, was that many companies complained that they were having to educate their workers on how to use a card and an ATM machine. This is a key factor that is often overlooked but for Prepaid Entitlement Cards to really roll out in many countries the overall education on payment cards and prepaid cards is a real issue."

In fact, many factors will influence the suitability and availability of government prepaid programmes for any country, including the maturity of the banking sector, payments infrastructure, financial regulations, the size of the unbanked population, payments education, and the extent of public benefit programmes. Thus, it is interesting to observe how widespread government loaded prepaid has become, especially over the last two years. In the following, we give you a brief introduction to select government prepaid programmes from the UK, US, Italy, Dubai, Australia and Norway.

We have categorised this set of programmes in a matrix with two dimensions - scale of programme and degree of card restrictions. Scale refers to the estimated size of the programme, while restrictions refer to limitations on usage. An open-loop product with no merchant or ATM restrictions would be classified as having few restrictions, whereas a card that supports POS transactions only at certain retailers (or ATM transactions only) would be classified as having many restrictions.



Social security
The U.S. Treasury's Direct Express debit MasterCard for Social Security benefits is the largest public sector prepaid programme in the United States. One year after the introduction in June 2008, 500,000 out of 4 million Social Security and Supplemental Security Income (SSI) recipients without bank accounts had signed up for the card. In a cardholder survey, 95 percent said they were satisfied with the card and 86 percent said they would recommend it to family members or friends who receive a federal benefit payment.

One year after its introduction, 4 million Social Security recipients without bank accounts had signed up for the card.

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Also, of note, three-quarters of cardholders said fees associated with the card are equal to or less than what they paid before with alternative solutions. The card is issued by Comerica Bank. According to usnews.com, it cost about \$1 to issue and mail a paper cheque, while processing a card transaction costs the government roughly 10 to 12 cents. Direct Express has also reduced social security fraud, e.g. reducing the number of SSI cheques that were lost or stolen.

Asylum seekers

The Azure Payment Card, administered on behalf of the UK Border Agency by Sodexo, is currently being rolled out across the UK. The card replaces the vouchers that are part of the Section 4 programme for failed asylum seekers awaiting voluntary departure. It operates on the Visa network and can be used at select retailers, including Tesco, Sainsburys, Asda, Morrisons, Co-operative/Somerfield, Boots and Peacocks, and more retailers will be added to the list, according to saycarevouchers.co.uk. The card will also allow the UK Border Agency to investigate cases and cease support if it is not being used, provide management information and cut down abuse of the support system.

Underprivileged children

Cambridge County Council and Raphaels Bank offer the g2g card, a Maestro card which allows looked-after children from low-income backgrounds to spend up to £40 a month on a range

of council-approved educational and leisure activities, including bowling, driving lessons and dance classes. The card helps offset social inequalities and allows underprivileged children to participate in social events and activities. Experiences show the g2g card has also improved communication between care workers and the families with eligible children. Data provided from Polymath Consulting and MasterCard shows that 87% of the issued cards were used at least once, the most popular activities are cinemas, swimming pools, leisure centres and bowling alleys, and the average transaction value £5.32.



Disaster relief

Prepaid cards allow for efficient distribution of funds to disaster victims. For example, in Australia, a country troubled with brush fires, government loaded cards have been used to administer disaster relief funds in cooperation with Westpac Bank. In the aftermath of Hurricane Katrina, Bank of America provided 200,000 prepaid cards to the Salvation Army for much needed victim relief. These experiences eventually led Bank of America to launch a product suite around

Emergency Relief Cards that can be set up in advance and incorporated into recovery plans.



Food and utility bills

The Carta Acquisti is one of several prepaid cards distributed by Poste Italiane in Italy. It is a social card programme which allows targeted delivery of aid to low income citizens. Transactions are restricted to food merchants and utility bills, and the card cannot be used for ATM withdrawals. Two months after the launch in December 2008, the number of cards issued had reached 500,000. The media coverage on the card was also impressive.

Unbanked and tourists

The Dubai eGovernment Prepaid Card, issued in partnership with the National Bank of Abu Dhabi (NBAD), targets the unbanked, as well as visitors to Dubai. The card is a Visa Electron prepaid card which can be instantly issued and loaded at any NBAD branch. National and resident cardholders can use the card for regular purchases and ATM withdrawals, as well as online transactions with the government at the official government website

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www.dubai.ae. Tourists are also advised to obtain the card to avoid currency conversion fees on foreign cards, as the Dubai eGovernment Prepaid Card is denominated in AED.



Gone postal

Post offices, with their large networks of branches, have taken a notable position in the government prepaid market for public benefits in several countries, including pensions. General purpose prepaid cards are also a venue for post offices seeking to increase their portfolio of financial products. Robert Courtneidge highlights the UK's Post Office Card Account (POCA) with 5.5 million benefit recipients, and Poste Italiane's Pension programme with over 3.3 million cardholders as two of the government loaded programmes that have impressed him. Also, in Romania, Posta Româna launched Cashplus in April 2009 – the country's first prepaid card - in cooperation with Advanced Payments Solutions (APS). The card is MasterCard-branded and distributed through 7,000 post offices, targeting the

large unbanked population in Romania, particularly in rural districts where bank branches are scarce. Originally launched as a general spending card, the ambition is to incorporate social, pension and child support disbursements in the card, project manager Cristina Catai at Posta Româna told prepaid-conference.com in an interview.

Smokers

Yes, you read correctly - a government prepaid programme to help people stop smoking. In Dundee, Scotland, a pilot project was launched in 2009 by NHS Tayside. Smokers were enticed to quit smoking by receiving £12.50 loaded to a prepaid card for each week that they managed to stay off the cigarettes. The programme lasted for 12 weeks and participants could thus net a grand total of £150 (in addition to the money not spent on cigarettes). The card, naturally, could not be used to buy cigarettes - nor alcohol. 500 people signed up for the scheme out of estimated 36,000 smokers in Dundee (see Global Prepaid Intelligence, issue 8, for more information).

Look to Norway

To provide additional details on one specific government loaded prepaid programme, we contacted the largest bank in the Nordic region, Nordea, and asked for details on their public benefit card, KontantKortet, which is aimed primarily at social security claimants in Norway. It is a classic

case, in which municipalities can automate their processes, claimants avoid social stigma and standing in line, and the bank reduces manual labour at its branch offices. Plus, we learnt that the bank has a second government card in the pipeline, to which we got an exciting preview.

Case study:

KontantKortet from Nordea

In 2007, Nordea, the largest bank in the Nordic region, decided to develop a user-friendly, customisable government prepaid card with a web-based administrative interface for social security payments to low-income groups. The card can also be used to pay out daily allowances for asylum seekers. The system was tested during Spring 2008, and has now been rolled out to a number of Norwegian municipalities, ranging in size from Oslo to Vadsø.

Social security claimants were previously given checks or vouchers at their local social security branch, and had to stand in line at bank branches to have their benefits paid out. This entailed a large amount of manual labour for banking employees, and an unfortunate stigma for claimants. In general, it was a cumbersome and costly practice for all parties involved.



Smokers were enticed to quit smoking by receiving £12.50 loaded to a prepaid card for each week that they managed to stay off the cigarettes.

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The answer was to develop KontantKortet. The claimant receives a closed-loop prepaid card, which is used to dispense cash from any Nordea ATM, reducing the workload on branch personnel and claimants no longer need to stand in line or depend on banks' opening hours. The card is a single use card with no chip or PIN, and there is no on-screen ATM text requiring cardholders to make choices, thus there is no linguistic dependency. The full amount loaded on the card is dispensed upon card insertion, and the ATM swallows the card. Unloaded cards are stored at the social security branch, and have no value until activated, loaded and approved through the web interface used by consultants at the social security branch.

According to Per Christian Narvesen at Nordea, a new re-loadable government prepaid card, KontoKortet, is scheduled for launch during Spring 2010. A literal translation is The Account Card. "The new card supports domestic payment functionality through a BankAxept debit feature*, but will not support internet and international transactions. The account linked to KontoKortet will be owned by the municipality, which administers top-ups on ad hoc or regular basis, and the cardholder will be required to demonstrate "proper card behaviour," including protecting their PIN code."



Future of government loaded prepaid

Governments will keep looking for ways to reduce costs, increase control and drive desired behaviour related to payouts of public benefits. Some of the most innovative government programmes have been small-scale, i.e. the g2g card and non-smoking pilot, though the really big gains come with size achieved by the Poste Italiane programmes and Direct Express in the US. Hopefully we will see some of the small-scale pilots rolled out on a larger scale and spread to other countries.

While the plastic card currently is the dominant technology, there is much talk about the emergence of NFC and penetration of mobile phones. David Parker comments: "Many of the emerging markets' technology may jump direct to some form of prepaid disbursement through phones; at some point, however, the customer still needs to spend or withdraw the cash and understand how to use some form of technology." Thus the key challenges outlined earlier remain, irrespective of the technological solution.

Summary

Government loaded prepaid is growing and the last two years we have seen several new card concepts. The US has been a key driver for public benefits programmes, a phenomenon which has spread to large markets such as the UK and Italy, and to smaller markets such as Dubai and Norway. Prepaid programmes for public benefits come in many forms, but establishing these programmes can be demanding. Long lead times, limitations in payments infrastructure, and educating cardholders are some of the key challenges. We could see government loaded prepaid utilising mobile phones in the future, though the challenges remain regardless of technology.

About the author

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*BankAxept is the dominant debit scheme in Norway, constituting 89.6% of the 1 102 million transactions on Norwegian debit cards in 2008, according to the Bank of Norway. The remaining 10.4% were made on international debit features, primarily Visa-branded cards. The total number of card transactions on Norwegian cards (debit, credit and charge cards combined) in 2008 was 1 182 million, whereof BankAxept transactions constituted 83.6%.

Global Prepaid Exchange Network Members Events Schedule

2010

Driving Success in Prepaid: Connections, Intelligence & Support

*Dates and agendas
are subject to change

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★ 3rd February – Mumbai – Prepaid Symposium

This inaugural event will be in partnership with ValuAccess and Venture Infotech and is designed to bring Exchange members to the new and expanding markets of India. A great chance to discover how prepaid is expanding globally, this Prepaid Symposium will develop your knowledge and extend your contacts to help you decide if India has potential for your business.

★ 21st February – Las Vegas – Prepaid@Home – Prepaid Expo

To kick-off the annual Prepaid Expo, the Exchange is hosting an international evening reception sponsored by IGH Solutions. This event is designed to boost your networking, bump-start the grey matter and stimulate discussion on all things prepaid.

★ 6th April – London – Exclusive Members – Only Workshop

Entitled, 'How to make your prepaid programme a success and navigate through the regulatory minefield', this workshop is facilitated by two of the prepaid industry's veterans. Members can attend at no charge to de-risk their future programmes and increase the ROI on their current programmes.

★ 21st April – London – Retailer Round Table – UKGCVA Conference

Set in conjunction with the UKGCVA annual conference, this dinner will allow senior members of the retail industry to discuss hot topics and summarise their experiences and knowledge gathered at the event. By getting retailers together in an informal environment, this exclusive dinner is set to drive forward innovation and best practice to new challenges in the prepaid and retail industry.

★ 9th May – Brussels – Prepaid@Home – Prepaid Expo Europe

Kick start your trip to the Prepaid Expo Europe with an evening of networking and banter at the Global Prepaid Exchange Prepaid@Home. Designed to get you in the mindset for the Expo, we will talk all things prepaid and you will have the opportunity to meet plenty of new faces as well as catch up with familiar ones at this informal international evening.

★ 13th May – Paris – Retailer Round Table

A chance for French and British retailers to get together and compare strategies across the markets in prepaid for Europe. A great opportunity to meet new faces from across the Channel, this will be followed by a factory tour to review the latest developments in card design and technology.

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GTP:
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Blackhawk Network:
Market leader in card-based financial solutions and the largest provider of third-party prepaid cards.



IGH Solutions:
Parent company of Travel Tags, Western Graphics & Data, Card Fulfillment Services and Narboni and provides design, production, packaging and fulfillment of gift cards to the largest retailers in the US and Europe.



Card Resource Group:
The Card Resource Group Inc. was established in 1994 to provide worldwide recruiting services within the payments, credit card, and money services industries.



inComm:
Gift card aggregator and distributor of over \$5bn of prepaid cards.



Comet:
One of the largest UK electrical and home entertainment retailers.



Innovative Graphics Group:
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Smartbox:
A Smartbox™ is a gift package which entitles you to a leisure activity.



Sodexo Pass:
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Starbucks:
Starbucks coffee is the leading retailer, roaster and brand of speciality coffee in the world, with more than 15,000 retailer locations.

For an introduction to any of our Members, contact Dan Stretton, Relationship Manager

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