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## **Prepaid cards market continues dynamic growth**

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**PREPAID CARDS**

# Prepaid card market continues dynamic growth

By David Cavell

## New RBR report

This article draws upon a new executive report *The Prepaid Cards Phenomenon* published by RBR

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## A broadly based success

In recent years the prepaid card sector has experienced dynamic growth. A report published recently by Retail Banking Research, entitled *The Prepaid Cards Phenomenon*, provides ample evidence that this exciting trend will continue despite the problems faced elsewhere in the financial services industry.

A prepaid card is a facility where funds have been deposited for the benefit of and in anticipation of disbursement by the holder. The funds may be loaded onto a chip in the card or they may be placed on a host computer system at the card issuing institution. One of the principal reasons behind the continuing growth of the prepaid sector is the ability of these types of payment cards to offer a diverse range of solutions.

Many product propositions have been built around either a closed or open loop prepaid card. The closed loop variety may only be used at a limited number of points of sale, but this does nothing to inhibit its attractiveness – gift cards issued for use in the shops of a single retail group, for example, are now arguably one of the most successful applications in the sector.

In contrast, open loop cards typically offer access to

one of the major global payment systems networks, and support product propositions that provide cardholders with international buying power. The prepaid cards that have replaced travellers' cheques exemplify this category of application.

An intermediate or restricted category of card is also available, which may be used at a wider but still limited range of outlets, perhaps within a particular shopping mall. Many of these products also allow ATM withdrawals.

## Something for everybody!

Both closed and open loop cards have been issued within consumer and institutional schemes, with benefits usually arising in two different ways. Firstly, the financial services sector has long been preoccupied with both its obligation to extend financial inclusion and the new business opportunity that this represents. The prepaid card has already begun to open up valuable new business development opportunities, having now established itself as a means by which the basic elements of banking – the secure storage and disbursement of money – can be made more widely available to the unbanked. In addition, prepaid products compatible with Sharia (Islamic) law are available for all segments of the market.

Secondly, prepaid applications provide the means through which to achieve beneficial process re-engineering. For example, the development of payroll card schemes has greatly streamlined the process of delivering employee earnings. Other examples of the types of prepaid card applications now being offered to both consumer and institutional clients include schemes for travel, remittances, benefits payments and insurance (see side box).

Furthermore, high quality management information packages available from the major payment systems organisations enable commercial and other

## Examples of prepaid card schemes

### For the consumer...

- General spending
- Gifting
- Online spending
- Remittances
- Travel
- Young persons

### For the institution...

- Armed forces personnel
- Customer service
- Emergency support
- Benefits payments
- Incentives
- Insurance
- Payroll
- Purchasing

organisational clients to draw additional benefits through the analysis and control of card spending.

### **Delivering and supporting the products**

In the 1990s many chip card trials were conducted, offering the public its first experience of prepaid payment products. Visa International was associated with such schemes run in over 30 countries over the decade. Major trials were undertaken in the United Kingdom from 1994 under the auspices of three different industry programmes based on a reloadable electronic purse. However, these early card schemes typically required the development of a dedicated infrastructure.

Today, prepaid cards are sold, serviced and reloaded through all the main retail banking channels, and many are available for purchase at points of sale. Cards issued under the auspices of the principal marques can be used at up to 29 million merchants in more than 200 countries. Both MasterCard and Visa are committed to global programmes that will ensure cards can be reloaded at a growing number of locations.

The numerous advantages of the prepaid card demonstrate its potential for further growth and development. The introduction of some prepaid card products, for example for payroll and remittance services, has better facilitated the migration of onerous transaction volumes from the teller to the ATM. Additionally, the recently developed capability to dispense prepaid cards through ATMs offers a further efficient means of handling applications. Prepaid cards also offer a low-risk approach to purchasing and payments through the internet, and the potential of this feature has already been recognised in products created to exploit the young peoples' market.

Across the world, the early strategic commitment of Visa to contactless payments in transportation systems exemplifies the further huge potential for prepaid cards. This potential has already been realised locally by the Octopus payment system in Hong Kong where 18 million cards are in circulation, issued in conjunction with a variety of financial services companies, amongst a population of around 7 million people.

### **Growing pains...**

The prepaid market has grown with such amazing speed that there has been too little time for the smooth resolution of issues along the way.

Two surveys conducted on behalf of MasterCard in 2007 and 2008 provide insights into how this growth is likely to continue. Research conducted by Boston Consulting Group projected a global prepaid card turnover of \$645 billion (€503 billion) by 2010, and the 2008 investigation commissioned from PSE Consulting forecasts a European turnover of €132 billion by 2015.

In the USA, there are still concerns by a wide range of consumer and government agencies over the terms and conditions of many programmes. Over 20 different types of fees have been identified, which are being charged for prepaid schemes. Whilst these are often necessary to sustain the viability of a programme, many have the effect of aggressively destroying the value in the card. The status of the prepaid account and the measures to protect deposits accumulated by such schemes are also among the issues requiring resolution.

However, in order to address these concerns, in some major markets a framework of trade associations is emerging that will assist the adoption of best practice and the resolution of industry issues.

### **But optimistic!**

Unlike other areas of the card market, the prepaid sector has yet to develop a consensus on the financial prospects for each of the different types of schemes. Indeed, with such a diverse range of product propositions available to issuers, there are few schemes in the market that share the same features in order to allow the establishment of benchmarks. On the other hand, a vast pool of experience has been built up by the industry, much of which is available to prospective issuers through service providers and other suppliers. The many papers published by consumer bodies and other advocates also offer useful insights for both prospective and existing issuers.

In summary, whilst each proposed new scheme should still be the subject of a rigorous individual feasibility study, prospective issuers can proceed knowing that the prepaid card sector remains one of the few areas of continuing optimism. ■

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**One of the principal reasons behind further growth of the prepaid sector is the ability to offer a diverse range of solutions**

**The European prepaid card turnover is forecast to reach €132 billion by 2015**