

Prepaid Solutions:

Increasing the impact and efficiency of payments

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Agenda

- Definition of Prepaid
- The B/G2C payment landscape
- The pains associated to paper based payments
- Why Prepaid?
- A snapshot of the Prepaid card market
- G/B2C Prepaid Payment Targets
- The importance of Mobile phone advancement
- The future!?

What is a Prepaid Solution?

- Definition of Prepaid: Pre-funded value, not linked to a bank account, but stored on a server based electronic account that can be redeemed for goods, services or cash
- “Prepaid” funds Typically stored on a card account, either
 - “Closed loop”, e.g. Starbucks or Oyster
 - “Open loop”, e.g. Visa, MasterCard or AMEX account
 - “Virtual”, e.g. a card number that may be used to transact on the internet



- In Europe Prepaid is considered e-money which is defined widely to mean “monetary value as represented by a claim on the Issuer which is
 - a) stored on an electronic device
 - b) issued on receipt of funds and
 - c) accepted as a means of payment by undertakings other than the issuer



What is a Prepaid Solution?

- Solutions such as mobile “Top-Up”, phone cards and retail paper vouchers are not considered e-money
- Prepaid payments can be initiated by business, government or consumer
- Funds delivered electronically onto Prepaid account
 - Loaded via cash, ACH, EFT or other methods



Payments Landscape

A large proportion of:

- Business-to-consumer
- Business-to-business
- Government-to-consumer

Payments today are made via cheque, cash or voucher as:

- The banking details of the beneficiary are unknown
- The beneficiary is unbanked
- The payer wants to create a special payment experience, hence separating the payment from the usual electronic payment flows
- Instant remuneration/compensation is required



Paper-based Payments

These 'paper-based' payments are extremely costly to the organisation and individual:

- Payment creation, production, distribution cost and resource requirement
- Low level of automation
- Fraudulent, lost and stolen payments
- Inability to create reliable audit trail, lack of control and transparency
- Ineffective and inefficient delivery of payments
- High customer service cost
- Provide poor level of payment detail
- Does not offer any means for ongoing communication between payer and payee
- Are inconvenient for the beneficiary
- Deliver a poor payment impact



Question for the Audience No 1

How do you rate the importance for your organisation to replace paper based beneficiary payments with automated payment methods?

- a) Low
- b) Moderate
- c) High



Why Prepaid?

Prepaid Solutions replace the ineffective and inefficient paper-based payments with a simple electronic payment tool. This enables corporations and government to:

- Reduce cost
- Streamline operations
- Eliminate fraud, lost and stolen payments
- Provide detailed payment reports and audit trails
- Deliver payments in a more timely and traceable manner
- Improve communication



Question for the Audience No 2

What would be the main driver for your company to consider moving towards Prepaid payment solutions?

- a) Reduce costs
- b) Improve transparency and reduce fraud
- c) Strengthen communication with the beneficiary and increase brand recognition
- d) Improve the beneficiary experience
- e) Other

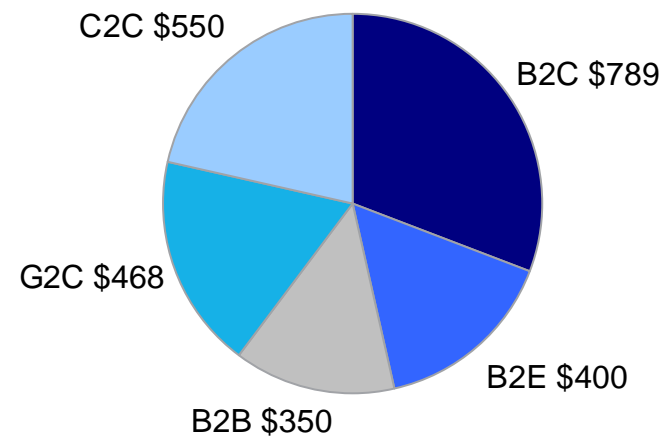


The US Prepaid Market

Corporate and Government Prepaid is one of the fastest growing segments of the payment industry

Year on year, debit card payments have increased rapidly and is estimated to have a share of over 25% to the detriment of cheques now below 40%

MasterCard International Estimate (US\$bn)



Total US\$ 1.5 trillion



The International Prepaid Card Market

According to Visa, Prepaid solutions can replace approximately \$5 Trillion in cheque and cash volume, \$1.4 Trillion in Europe alone of which 37% is Payroll

The total Prepaid opportunity in CEMEA (Central and Eastern Europe, Middle East, Africa) is estimated by Visa to be \$160 Billion of which 60% is in the unbanked/underserved category

2.3 billion prepaid card transactions, at a value of €75 billion, across all segments is expected in Europe by 2010 as per a recent PSE Prepaid Report

In 2006, the European prepaid card market was estimated to be 40 million cards and 150 million transactions. The 2010 prepaid card market estimates by PSE would represent an annual increase of 110% over the next five years



G/B2C Prepaid Payment Targets

Workforce rewards and incentives

- Payroll
- Sales incentives/Bonuses
- Remuneration for "good behaviour"
- Relocation packages
- Per Diem allowances

Government Disbursements

- Pensions & Social benefit payments
- Child benefit support
- Tax refunds and compensation
- Distribution of grants, loans and subsidies

Consumer rewards and promotions

- Refer a friend
- "cash-back"

Claim payments and reimbursements

- Insurance settlement



Assessing the Need: Payroll

Situation: Large and growing unbanked employee population

- Globalisation and the expansion of the European Union increases the amount of foreign workers
- Many foreign workers do not have bank accounts, some out of choice some due to circumstances
- In most markets, low wage earners are kept out of the banking system by banks
- Typical industries with high level of unbaked foreign workers include construction, catering, security, shipping and sanitation
- Across EMEA the primary payment methods for this segment is cheque and cash
- Cashing cheques is costly and impacts productivity
- Cash is costly too, risky and difficult to manage for the employer AND the employee

Need: New payment method outside the traditional retail banking system that

- Automates payments and eliminates paper
- Reduces costs
- Deliverers fast and reliable payments
- Provides a good payment experience for the beneficiary

In the News

RECENT UK PRESS RELEASES

“52% of new jobs go to immigrants”



UK Press October 31 2007

“Migrant jobs fiasco: official numbers goes from 800,000 to 1.5M in 24 hours” (relating to the discussion of what is the real number of foreign workers who have come to the UK since 1997)



UK Press October 30 2007

“Unofficial numbers suggest over 1M Poles now live in the UK” (Polish immigration to the UK has exploded since Poland joined the EU in 2004)



BBC 24 October 21 2007

“700,000 Poles living in London alone may be eligible to vote in the Polish elections”



Polish press October 21 2007

EGYPT – CASE STUDY



Egypt has a labour force of 21.3M of the Egyptian government alone employs 5.8M people. 30-40% of all government employees are estimated to be unbanked and are paid by cash or cheque. These are low age earners, and due to the low revenue potential banks are not actively pursuing this segment.

UAE – CASE STUDY



The majority of the population, around 3.23M or 80%, are foreign nationals mostly from South Asia. Roughly 54% of the population and 30-50% of most large corporate employees are considered unbanked. Most banks require a monthly salary of AED 2-3,000 to qualify for an account whilst most low wage earners make only between AED 800-1,500 a month.



Payroll Case Study: Stein Mart

Situation

- High fashion, off-price retailer with about 300 stores, coast-to-coast in 30 states, 18,000 active associates
- Expensive and inefficient process in-house printing and distribution of pay checks and paper pay stubs bi weekly
- Ongoing delivery issues associated with uncontrollable forces over the past several years (9/11, hurricanes, strikes, etc)
- Less than 50% direct deposit adoption

Results Since Implementation

- Savings of approx. \$100K annually
- Eliminated cheques within 2 weeks of rollout
- 100% electronic paperless pay
- Redeployed payroll resources to other areas
- Significantly reduce payday disruptions
- Guaranteed pay delivery on-time, every time





Assessing the Need: Sales & Channel Incentives

Situation: Corporations wish to provide a unique and powerful reward for sales activity

- In some industries, e.g. car manufacturing and pharmaceuticals, sales incentives are the primary motivational vehicle to encourage whole sellers, agents and dealerships to sell more
- Incentive payments constitute a significant portion of the sales force's disposable income
- Communication between manufacturer and sales force is often lacking
- Cheques and electronic bank transfers lack payment detail and provide a poor payment experience resulting in
 - Poor reconciliation
 - Low payment impact
 - Little "bang for your buck"

Need: An easy-to-deliver payment that enhances productivity and communication.

- Provides enriched payment detail
- Offers customised communication channels
- Builds loyalty and brand awareness
- Educates
- Creates an exiting payment experience



Sales Incentives: Case Study

Toyota: 15,000+ sales representatives nationwide, some at multi-line outlets

Goals:

- Increase program participation and reinvigorate stale sales incentives
- Pay sales representatives faster while reducing cost and eliminating administrative nightmare of issuing checks

Results:

- Eliminated all administrative delivery hassles
 - (over 100,000 checks)
- Dramatic reduction of administrative costs
 - (5,000 labour hours saved)
- Increased participation & sales performance at multi-line outlets significantly
- Pay Reps instantly vs. 3 week delay for checks
- When surveyed, 90% prefer to get paid via card





Assessing the Need: Consumer Incentives

Situation: Corporations looking to provide incentives and rewards for desired consumer behaviour

- It is being adopted across industries to boost promotion results and increase lift of marketing campaigns
- Incentive payments are generally tied to conditions to qualify:
 - E.g. buy more or more often
 - Refer new customers, e.g. “refer-a friend” programmes
- Beneficiaries bank details are unknown
- Aggregators/third party providers often act as the middle man validating purchase, processing forms and subsequently submitting payment
- This is a slow inconvenient process with a low payment impact
- Relationship ends with the payment

Need: New type of payment method that:

- Decreases cost and increases efficiency
- Develops an ongoing relationship
- Builds loyalty and brand awareness
- Creates an exiting payment experience



Consumer Incentives Case Study: Sprint

Sprint Referral/Acquisition Program

Program Goals

- Increase program lift, take rate vs. previous offers
- Increase Sprint brand exposure
- Direct spend to back to Sprintpcs.com
- Reduce fulfilment costs



Results

- Increase in lift/take rate of 500% versus invoice/service credits
 - Program dramatically increased referrals—only change was the Sprint Prepaid Visa Card
- 30% of total reward funds spent back at Sprintpcs.com or Sprint retail stores
- Fulfilment costs reduced by 10%



Question for the Audience No 3

Is your organisation currently in the process of introducing Prepaid solutions to replace existing beneficiary payment methods ?

- a) No, not considering it at the moment
- b) Considering it
- c) In the process of implementing a Prepaid solution



Assessing the Need: Government

Situation: Governments issues millions of beneficiary payments annually

- The number of unbanked in EMEA remains high
- Approximately 10-20% of all social benefit payments in Europe are for the unbanked
 - Payments for this segment is generally facilitated through postal vouchers at a cost of €4-9 per transaction
 - These 10-20% of payments account for estimated 80% of all combined payment costs
- “Financial inclusion” of great concern for European governments
- “E-government” and the objective of automation and cost cutting is at the top of most government’s agenda
- Governments passing new laws encouraging the banking industry to provide bank accounts to the “disadvantaged” free of charge
- Banks reluctant to serve the “undesirable” segment

Need: New payment methods outside the traditional retail banking system that allow governments to automate payments and eliminate paper, whilst delivering a reliable payment experience cost effectively.

In the News



DENMARK



Denmark introduces “Nemkonto” (“easy/light account”) for 4.5M people and business to receive tax refunds and other public payments. Out of the total 60-80M annual payments 3.5M are today paid by cheque and 0.5M by cash.

Danish Press October 12th 2007

IRELAND



Over 30% of social benefit recipients are considered unbanked and the Irish government submits over 50M cheques, vouchers and post drafts a year at very high costs.

UK

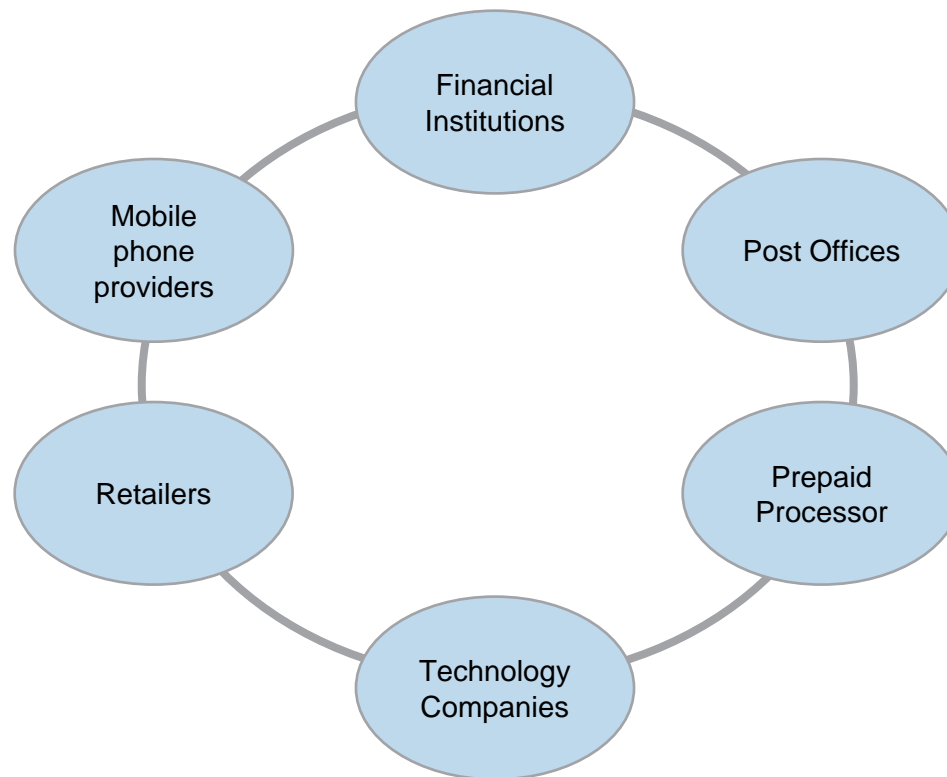


A replacement for the Post Office Card Account will be sought to continue facilitating payments after 2010 when the contract with the incumbent provider expires to the 4.3M benefit recipients who are paid via a card account.

UK Press Summer 2007

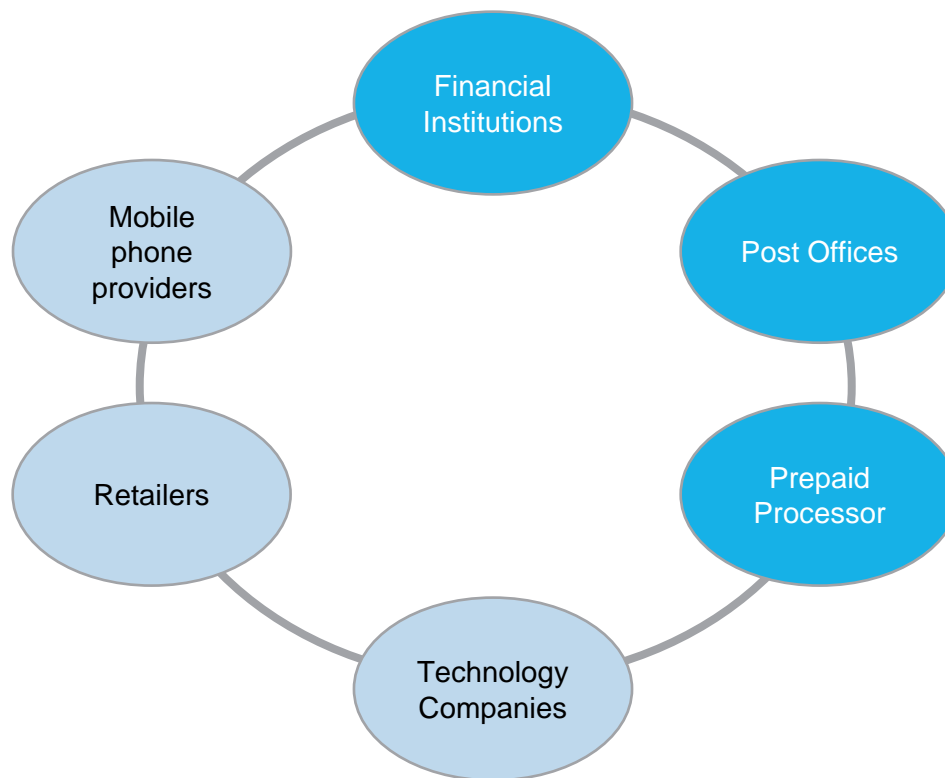
Industry Responses

The market has responded to these needs in different ways and we see different combinations of industries coming together:



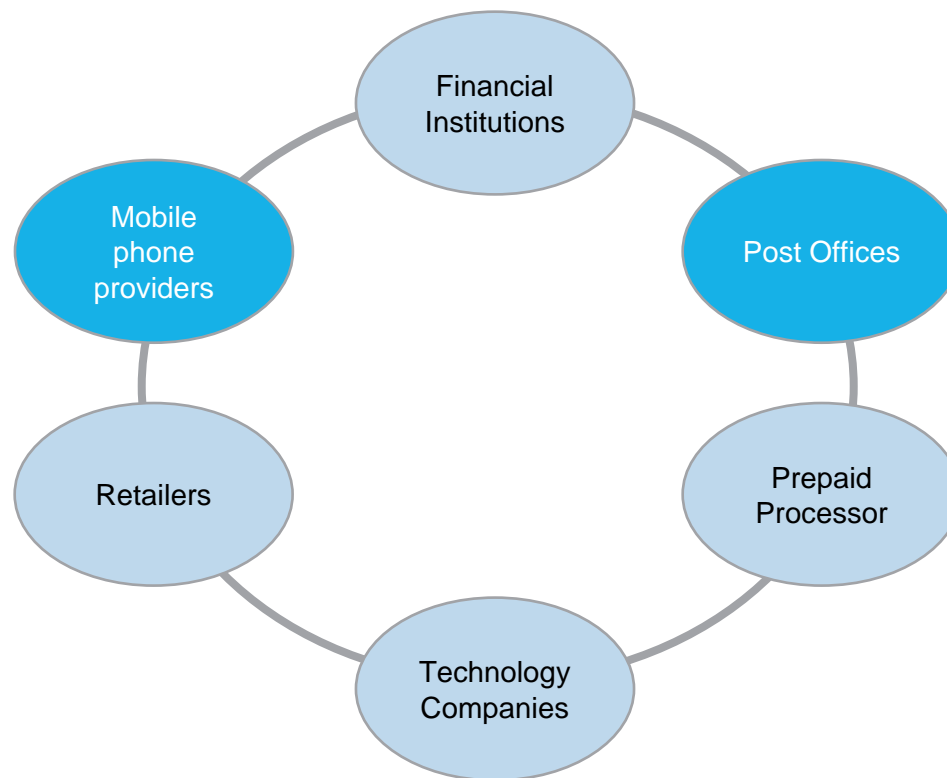
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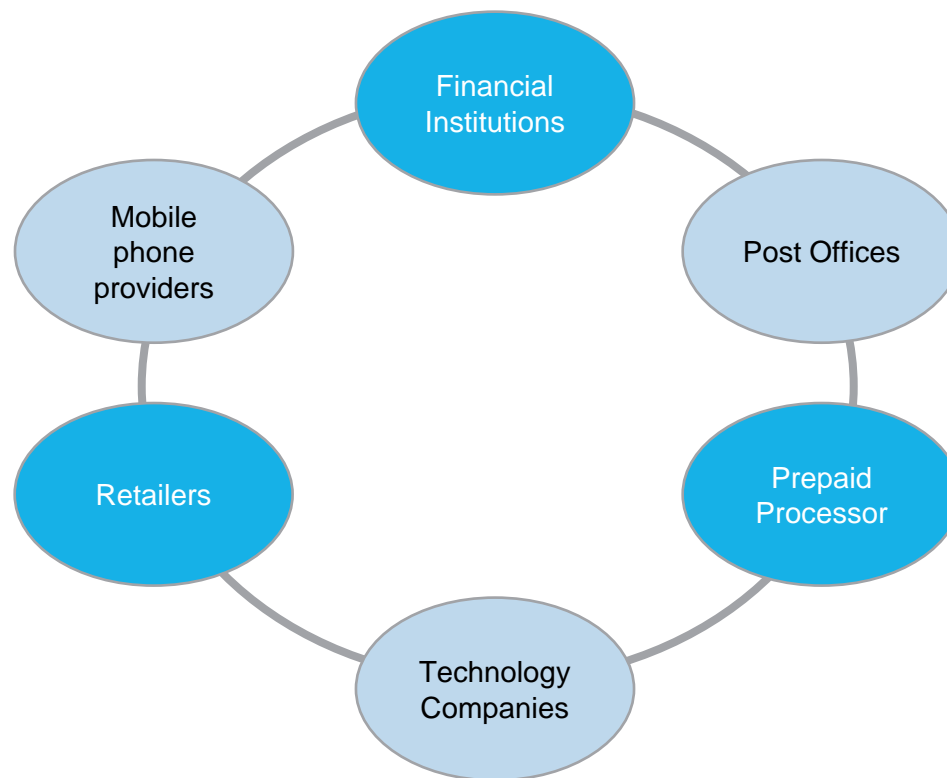
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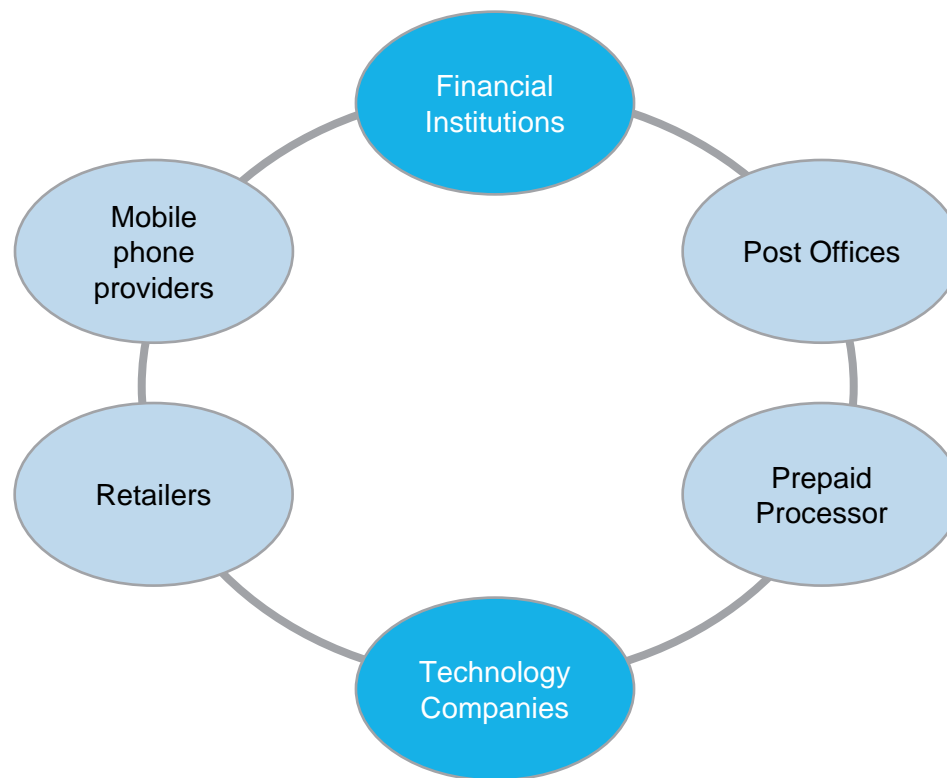
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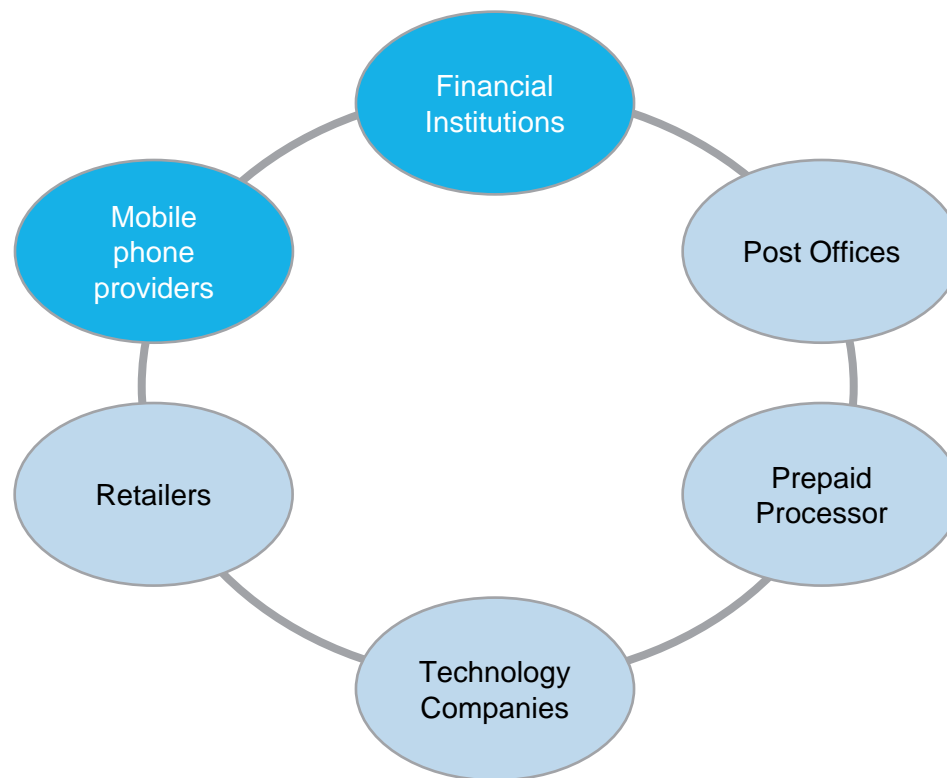
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Mobile Landscape: EMEA

In some EMEA markets more people are mobile phone users than are banked

Country	Population banked	Mobile users per cap
Morocco	25%	40%
Italy	75%	100%
Saudi Arabia	75%	80%
UAE	75%	100%
Poland	75%	100%
South Africa	50%	80%

Source: Economist Intelligence Unit October 2007



Mobile Landscape: EMEA

Europe

- EU (27) 89 mobile prescriptions per 100 inhabitants
- In 2003 EU (25) had 50 landlines per 100 inhabitants, experienced .3% decline

Middle East

- Added 35 million users between 2006 & 2007, which was higher than America and Western Europe
- 100 million users by the end of 2007

Africa

- Over 100 million users
- Air time used as virtual currency
- Poor banking infrastructure



The Future!?

The collage features four main elements:

- Top Left:** A red ecount card with VeriSign and ecount logos. The card number 4000 is visible.
- Middle Left:** An ATM machine with a screen and keypad.
- Center:** A screenshot of the Citi Prepaid website dashboard. It includes a welcome message for Michael, a balance of \$123.00, a \$50 reward, and a message section.
- Right:** A mobile device displaying a prepaid account with a balance of £150.65 and buttons for 'See Transactions' and 'Make Payments'.

