



PREPAID CARD INDUSTRY – PRODUCT OFFERINGS, LEADING PLAYERS, CURRENT TRENDS, AND CHALLENGES FACED

Prepaid cards: A boon to financial institutions

Introduction

Over the years, prepaid cards have been launched to meet payment needs of various customer segments / industry processes – gifting, payroll processing, government benefit disbursement, consumer transit, travel expenditure, healthcare reimbursements, student groups, insurance disbursement, and employee incentive processing. Unbanked customers, who either are new to banking or have a poor credit history for various reasons are also being included as potential customers for use of prepaid cards.

The prepaid card industry is facing various challenges such as keeping the product pricing competitive, promoting standardization, and improving security. To overcome these challenges, the financial institutions are pushing for a streamlined know your customer (KYC) process, allowing reload of prepaid cards in ATMs, standardizing fees, and embracing Europay, MasterCard, and Visa (EMV), to reduce fraud.

The global market for prepaid cards is projected to reach US\$3.1 trillion by 2022,

with the growing financial needs of unbanked and under-banked customers and growth fueled by innovations in card features, online transactions, and the need to go cashless across the globe. Mercator Advisory Group forecasts that the growth of open loop prepaid cards in the US will increase by seven percent through 2018 reaching a total of US\$343 billion and the closed loop prepaid will have a three percent CAGR through 2018 by reaching a total of US\$371 billion.



Overview of product offerings in prepaid cards

Prepaid cards can be classified into various categories:

Product name	Description
General purpose reloadable (GPR) prepaid cards	GPR prepaid cards are reloadable prepaid cards and typically open-loop cards (issued under one of the card network logos) with a wider acceptance at merchant outlets.
Prepaid debit card	These cards are similar to GPR prepaid cards and issued as an alternative to checking accounts for people who do not qualify for a banking account or cannot afford the fees linked to maintaining a bank account. These cards work with a wide variety of transactions in gas stations, grocery shops, paying bills, or online transactions. They work with open loop and closed loop networks.
Prepaid gift card	These cards can be gifted to anyone for different occasions and the recipient can use them for various purchases in stores as well as online. They are non-reloadable and the money loaded is fixed ranging from US\$25 to US\$500. If the card is lost or stolen, it can be replaced by providing the account number.
Payroll card	Payroll cards were introduced for the benefit of unbanked employees. These cards have the flexibility of prepaid debit cards and traditional debit cards for making purchases, paying bills, and withdrawing money from ATMs. Payroll cards reduce the cost and increase the efficiency of payroll processing.
Government benefit card	This card was introduced for the benefit of citizens receiving funds from the government sector. These cards allow users to receive food stamps, child support, unemployment benefits, veteran's benefits, pensions, or social security payments. Government benefit cards increase the efficiency of administration of government assistance programs.
Prepaid transit card	Transit cards are reloadable cards with limited usability. They can be obtained from public transportation operators and cash IS loaded through online or at onsite reload machines, or point-of-sale (POS) terminals. These cards are used solely for purchasing transit fares and at the issuing transportation system. These cards do not require identity verification of the cardholder for activation. Transit cards can be issued to anyone without any identity check of the traveler.
Prepaid travel card	As the name suggests, the prepaid travel card is designed for travel reservations and transactions during trips. They are also called prepaid currency cards where the card is loaded before departing on a trip with the home currency and all the transactions are automatically converted to local currency with foreign transaction fee. To avoid this foreign exchange fee, some travel cards ask cardholders to select the foreign currency and lock the exchange rate on the day the card is loaded with funds. Prepaid travel cards are reloadable.
Health savings account card	The employer offers a flexible spending account called health savings account, where the employee can set aside a part of the wages for eligible medical expense, which has the advantage of being tax-free. Once the threshold limit is met for the year, the employee can earn interest and this card can be used in ATMs, hospitals, and pharmacies.
Prepaid student ID Card	Some universities and colleges offer student ID cards that serve multiple purposes like making purchases or paying for services in campus. Such cards are reloadable. Colleges and universities have started special arrangements with banks and other financial institutions, which allow students to link their bank account with student ID cards, so they can withdraw cash in ATMs.
Prepaid incentive card	These cards serve the purpose of rewarding employees for their satisfactory work. Corporates can issue a prepaid incentive card to their employees instead of providing a voucher or a gift card.
Prepaid insurance card	Insurance companies offer prepaid insurance cards to improve efficiency and speed of claim disbursements. They are mainly used for vehicle accidents, worker compensation payouts, and payouts for property insurance.
Prepaid business card	Businesses that do not wish to provide corporate credit or debit cards to their employees, contractors, or vendors, turn to prepaid business cards as an alternative. These cards are intended for paying business-related expenses, including equipment, consulting services, office supplies, and meetings.

Leading players in the prepaid card industry

Table 1 provides details of product features, fees, and unique offerings for some of the leading prepaid card players. We have highlighted various aspects such as product functionality, marketing, pricing construct, loading and unloading channels, account management, customer support, and value-added services for these prepaid card offerings.

Table 1

Prepaid offering	Green Dot	NetSpend	Chase Liquid
Holding company	Green Dot	TSYS	JPMorgan Chase
Funding options	<ul style="list-style-type: none"> • Direct deposit • Add cash at 65,000 retailers and financial centers • Tax refund direct deposit • Mobile check deposit • Walmart check cashing • Bank transfer • MoneyPak 	<ul style="list-style-type: none"> • Direct deposit • Add cash at 130,000 groceries, gas stations, check cashiers, and convenience stores • Mobile check deposit • Bank transfer • MoneyPak 	<ul style="list-style-type: none"> • Direct deposit • Cash and check at 11,500 Chase deposit-friendly ATMs • Cash and check at Chase branches • Mobile check deposit • Bank transfer
Withdrawal and payments	<ul style="list-style-type: none"> • Point of sale (POS) transaction • Online purchase • Green Dot check • Card-to-card transfer • Online bill pay • 24,000+ MoneyPass ATM network 	<ul style="list-style-type: none"> • POS transaction • Online purchase • Card to card transfer • Online bill pay 	<ul style="list-style-type: none"> • POS transaction • Online purchase • Card-to-card transfer • Online bill pay • Money order • Cashier's check • Cash withdrawal at Chase ATMs and branches
Fees	<ul style="list-style-type: none"> • No minimum balance • Monthly fee of US\$7.95 (Waived if US\$1,000 or more is added to card) 	<ul style="list-style-type: none"> • Different fee plans based on usage: <ul style="list-style-type: none"> ◦ Pay as you go at no fees ◦ Fee advantage plan at US\$9.95 ◦ NetSpend premier fee advantage plan at US\$5.00 	<p>Monthly fee of US\$7.95 (Waived if a qualifying Chase checking account is linked)</p>
Account management	<ul style="list-style-type: none"> • Text alerts • Text Green Dot to receive balance • Mobile app • Online account management 	<ul style="list-style-type: none"> • Text alerts (customizable on app) • Mobile app • Online account management 	<ul style="list-style-type: none"> • Email and text alerts • Text Chase to receive balance • Mobile app • Online account management
Differentiating features	<ul style="list-style-type: none"> • Overdraft feature at no extra cost • 5% cashback on the Green Dot cashback Visa card • Add funds to PayPal cash using Green Dot 	<ul style="list-style-type: none"> • Overdraft up to US\$10 at no extra cost • Payback reward points • Savings account with interest accrual up to 5% • Refer a friend and earn US\$20 • Personalized prepaid card with custom image • Provision for virtual card number for online purchases • Zero liability protection • NetSpend for businesses 	<ul style="list-style-type: none"> • No fees towards negative balance • Zero liability protection • Chip card provides much-enhanced security



	Bluebird	Mango	Kaiku
Holding company	American Express	Mango Financial	Kaiku
Funding options	<ul style="list-style-type: none"> • Direct deposit • Cash or debit card at Walmart checkout register • Mobile check deposit • Bank transfer • MoneyPak 	<ul style="list-style-type: none"> • Direct deposit • Add cash at participating groceries, check cashiers, and convenience store checkout registers • Bank transfer • PayPal • MoneyPak • Western Union 	<ul style="list-style-type: none"> • Direct deposit • Mobile check deposit • Bank transfer • Visa ReadyLink • MoneyGram
Withdrawals and payments	<ul style="list-style-type: none"> • POS transaction • Online purchase • Bluebird check • Card-to-card transfer • Online bill pay • 24,000+ MoneyPass ATM network • Cash out at Walmart checkout registers 	<ul style="list-style-type: none"> • POS transaction • Online purchase • Card-to-card transfer • Online bill pay • Cash out at select checkout registers (Walmart, Target, CVS, etc.) 	<ul style="list-style-type: none"> • POS transaction • Online purchase • Card-to-card transfer • Online bill pay • 55,000+ Allpoint ATM network
Fees	No monthly fee but a one-time charge for the card equal to US\$5.00	Monthly fee of US\$3.00	Monthly fee of US\$3.00 (Waived if US\$750 or more is added to card)
Account management	<ul style="list-style-type: none"> • Text alerts • Text Bluebird to receive balance and transaction history • Mobile app • Online account management 	<ul style="list-style-type: none"> • Text alerts • Mobile app • Online account management 	<ul style="list-style-type: none"> • Text alerts • Mobile app • Online account management
Differentiating features	<ul style="list-style-type: none"> • Set up family accounts with limits defined for each member • Set aside funds for any purpose (No interest accrual) • Purchase protection • Fraud protection • Amex offers on dining, shopping, and retail • Roadside assistance • Amex customer service 	<ul style="list-style-type: none"> • Savings account with up to 6% interest accrual • Refer a friend and earn US\$10 • Fraud protection 	<ul style="list-style-type: none"> • The budgeting tool provided is very intuitive and easy to use • Very transparent pricing structure

Current industry trends in prepaid cards

By analyzing these products, it is evident that innovations in the prepaid card industry are primarily driven by the ease of adding funds to the prepaid card, acceptance of the card at various retailers, access to ATMs and other means of withdrawing cash, cost associated with prepaid services, and the ability to manage finances. Major prepaid cards have come up with innovative ways of catering to customer needs.

Multiple avenues to add funds

In addition to direct deposits and bank transfers, customers are offered the facility to load their cards through mobile check deposit. This feature allows customers to deposit funds into their prepaid account by photographing a check through their mobile application. The check is processed and the funds are added into the prepaid card after a stipulated time frame. Bluebird, Kaiku, and AccountNow are some of the prepaid card providers, which offer this kind of feature in partnership with Ingo Money.

Bluebird offers its customers the facility to fund their prepaid card through cash or other cards at any Walmart checkout register. Customers who own a Chase liquid card can access a network of 16,000 ATMs and 5,200 branches to deposit cash. Furthermore, prepaid card customers can also use MoneyPak and Western Union to load funds.

Card acceptance

All major prepaid card offerings carry one of the leading card network logos such as Visa, MasterCard, American Express, or Discover. Any merchant outlet that allows debit or credit cards with the respective card network logos accepts these cards.

Cash withdrawal

Kaiku, in partnership with Allpoint ATMs, enables its customers to withdraw cash at 55,000 ATMs across the USA. If customers perform direct deposits of US\$750 or more every month, the surcharge fee required to access this ATM network is waived.

Bluebird allows its customers to withdraw cash from 24,000 MoneyPass ATMs as well as from Walmart checkout counters.

Prepaid card providers are expanding not only banking channels, but also other means such as retail checkout counters to provide easier access to their customers' funds.

Cost of using a prepaid card

There are two key aspects to promoting prepaid cards. One is to ensure that the cost of using a prepaid card is more cost-effective than other means to transact. Second is to ensure the fees are transparent and there are no hidden charges.

Prepaid card providers understand these nuances and provide a flat pricing structure for almost all transactions, which not only makes it transparent, but also makes it easier for customers to calculate charges. The AccountNow prepaid card has no monthly fee and a one-time activation fee of US\$4.95. It does not require a minimum balance, but attracts fees on transactions. The Amex Bluebird is cost-effective with no monthly fees but a one-time activation fee of US\$5.00. Most of the transactions on the Bluebird do not attract any fee.

Besides cost-effectiveness and transparency, customers also look for personalization in prepaid card plans. NetSpend offers its customers personalized pricing plans – a pay-as-you-go plan that does not attract a monthly fee but charges transactions, whereas the fee advantage plan levies a monthly charge of US\$9.95 and offers free transactions.

With increasing competition and evolving customer needs, pricing plans are evolving too. The prepaid card industry is also structuring its plan to drive positive customer behavior. Fees levied by prepaid card players on the cardholder are fee for purchase at store, fee for online purchase, ATM cash withdrawal fee, teller





cash withdrawal fee, foreign transaction fee, replacement card fee, and monthly charges. Financial institutions usually charge customers a higher fee for withdrawing cash in any form. This fee therefore incentivizes customers to use the card at POS or transact online rather than withdrawing cash. Also performing inquiries, tracking spend, and managing funds online or on the mobile application is free as compared to walking into a branch or inquiring at an ATM. Financial institutions are also pushing customers to opt for direct deposit by waiving the monthly fee (in many cases) or based on the value of funds that come in.

Ability to manage finances

Most prepaid card providers offer their customers the following means to manage their accounts:

- Text notifications
- Online account management
- Mobile application

Text alerts are cost-effective ways to inform the customer that a transaction was done above a specified limit and the limit can be configured according to the customer needs. Customers also have the option to track their expenditure through mobile applications and online platforms. Mobile applications offer an intuitive way of tracking their customers' monthly budget and expenses, and hence, are becoming more popular.

Customers can, through some mobile applications, transfer funds from one prepaid card account to another. Kaiku offers this feature on its mobile platform and calls it Pay Friends. The American Express Bluebird mobile prepaid card allows its customers to keep aside money for future spending needs through a feature called SetAside on the mobile application. Customers have access to these funds anytime and can transfer in or out with this feature. Mango is one of the few prepaid cards to offer its customers a

savings account. Customers can earn up to six percent on their savings account if they maintain an average balance of US\$800 or more.

Loyalty

Prepaid providers have taken many initiatives to provide loyalty features to their customers. Green Dot offers a five percent cashback on all purchases. NetSpend has gone a step ahead and introduced customized cashback offers. Based on customer behavior, they receive vouchers on their mobile application, which they can use at participating outlets and acquire cashback. Bluebird utilizes the rewards program of its parent organization, American Express, to offer cashback. With cashback finding its way into the prepaid industry, there will be a much needed boost to customer loyalty.

Companion cards

Prepaid suppliers are also offering companion cards to their customers. Companion cards can be issued to family members and their funds will be linked to one master prepaid card account. The primary card user can define limits and controls for the companion cards handed to the family members. This is an extremely attractive feature for parents and an alternative to cash. Parents can provide their children with companion cards, monitor spending, and define limits. Some prepaid cards also allow the customer to choose outlets where the card can be used.

Contactless

Contactless is a feature that would be great to have on prepaid cards. Contactless reduces the friction related to payments as it has a Tap-and-Go feature rather than dip or swipe and with predefined transaction limits. Prepaid cardholders will have a convenient payment option for low-value transactions.



Challenges faced by prepaid card players and solutions

Security concerns

Since gift cards are of low-value denominations, they generally do not need any documentation as opposed to regular bank accounts, which need IDs and address proofs and even credit reports in some cases to issue a debit / credit card. Thus, acquiring multiple gift cards becomes easy and legal. This loophole in the gift card product can be easily exploited by those customers who want to bypass KYC documentation. Terrorist financing is one of the key concerns arising out of this loophole and strict regulations need to be put in place to prevent illegal money from being channelized through legitimate sources, by buying gift / prepaid cards. There is also a risk of fraudulent use of prepaid cards for money laundering, which is of concern to financial institutions. Recent frauds in the prepaid card industry have highlighted the preference of fraudsters to use gift cards as the prime channel of payment to other fraudsters.

Since prepaid cards are generally of low denominations, service providers do not find them cost-effective to convert to EMV chip and pin cards. The Chase liquid card is chip-enabled and other prepaid players are expected to embrace EMV. The cost of chip card issuance would get offset by reducing prepaid card fraud over a period of time. As customers get educated on the benefits of EMV, they might be willing to incur the additional cost of the chip in prepaid cards.

Very few prepaid card players allow consumers to open a prepaid account by using an ID card issued by a foreign government, or by using an individual

taxpayer identification number (ITIN) instead of social security number (SSN). This presents a challenge, especially for immigrants, who represent a large and growing segment of consumers needing financial services, to apply for prepaid accounts.

Similarly, a functionality where the customers can upload their KYC documents via a mobile app will go a long way to improve customer satisfaction and reduce security concerns. Such innovations will drive more prospective customers into opening prepaid card accounts.

Cost to cardholders

Some of the prepaid products are covered under the consumer protection laws and regulations. Disclosure of fees associated with payroll cards, liability in case of lost or stolen cards, and others, are not undertaken for all prepaid products. Gift cards are supposed to disclose any fees that may be charged and the expiration date, if any, but there are no federal requirements to limit the liability of unauthorized transactions using the gift cards.

In addition, there is no consistency on the duration of notice required to change the terms and conditions for using prepaid cards. For instance, in case of payroll cards, banks must provide 21 days' notice before making any changes to the terms, but there is no such notice period defined for general-purpose reloadable cards and gift cards.

Prepaid cards also turn out to be an expensive alternative to traditional banking since they come with an exhaustive list of fees and charges. Some products also charge overdraft or shortage fees if a cardholder, by mistake, spends more than what is loaded

on the card. If the card is used in other countries, these fees will most likely increase. Since most players are introducing the chip and pin cards compliant to EMV, it increases the production cost, which is passed on to the end-user in one way or the other.

Loading funds into prepaid cards still remains time-consuming in spite of the expansion of person-to-person (P2P) payments, remote deposit capture (RDC), and cash reloads. A majority of the prepaid products do not allow cash deposits via ATMs, and a third of them do not allow loading checks through RDC. There is an opportunity in this space to make loading funds onto cards easier and accessible to all. Prepaid cards issued by banks should be reloadable at ATMs, whereas for the non-bank prepaid cards, the issuer should partner with third-party ATM networks to allow cash deposit via ATMs.

Lack of standardization

There is a lack of standardization of fees, for example, inactivity fees and account-closing fees associated with the products, features, and services in the prepaid segment, thus making it difficult for customers to choose between the various offerings in the market. Direct comparison between various prepaid products is a complex exercise making the process of selecting the provider a time-consuming exercise. To ease some of these concerns and accelerate the acceptance of prepaid cards, a set of common industry standards will greatly help. The Consumer Financial Protection Bureau (CFPB) has proposed new regulations and guidelines to impart standardization of features, provide security of funds on prepaid cards to prevent fraud, misuse, and theft of funds, and aid the customer in selecting the right product that

suits their needs.

Various communication channels are currently being used to educate customers about policies, new features, and special offers for prepaid cards. Players in this industry should also use these communication channels to inform customers about the various fees, and provide tips on how to spend correctly to reduce the fees applicable. High fees remain a common source of customer grievance and helping them manage this well will increase satisfaction and retain customers.

Unclear value proposition to consumer

New functionalities like supplementary cards, saving features, budgeting tools, and a few others are being introduced by prepaid providers. However, their penetration in the market is not high. Prepaid card players should focus on understanding customer preferences and spending habits to improve these features, and make the products more customer-focused. Using the cardholders' account information and transactional data, prepaid players can provide additional financial services like secured credit cards, insurance products, checking accounts, and so on. They can also use the data to assess the financial health of the customer and offer assistance to improve their credit score and overall financial situation.

Some providers offer credit access to prepaid cardholders, which is definitely a bold move. Once CFPB finalizes the prepaid regulations, providers should explore various credit models that offer a balance between customer success and provider profitability. Finally, any new product needs to bring added value as compared to the existing products, to be widely accepted by the customers.

Conclusion

Prepaid cards present unique offerings and target specific customer segments / industry processes that are in need of simplicity and cost-effectiveness. Prepaid cards, in addition to being an alternative to cash, offer customers safety, security, and greater ease of transaction. Most notably, these products propagate predictability and discipline, which enable consumers to limit spending and encourage budgeting. Prepaid cards offer a payment tool, especially for those consumers with no credit history, or a bad one for that matter, and ensure financial inclusion for the unbanked population.

Prepaid players are working to address existing challenges, especially relating to KYC and fraud. With prepaid players introducing sophisticated features, the boundaries between prepaid cards and other banking products are expected to blur. Mobile applications offered by prepaid players further shadow these boundaries and offer a dynamic banking ecosystem.

The prepaid segment is expected to grow exponentially by 2022, with the US market touching US\$3.1 trillion. In order to have a share in the pie, prepaid providers should continue evolving and innovating not only from a technological standpoint, but also from a consumer standpoint and redefine the way the prepaid product is perceived by the public.





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