

**COMMERCIAL PREPAID:
BROADENING THE SOLUTION SET
FOR EUROPEAN COMPANIES**

October 2007

Commercial Prepaid: Broadening the Solution Set for European Companies

INTRODUCTION

Prepaid cards have become an established and fast growing segment of the overall payments environment. Growth has been driven largely by consumer payment applications such as mobile phone purchase and top-up, gift cards, money transfers, and general-purpose cards for the “under-banked” population. Prepaid cards are now one of the payments industry’s fastest growing products in Europe and throughout the world.

Prepaid has served particularly well those emergent and cash oriented markets where cards have not developed as a well-established payment option, or have not been available to large segments of the population. The developmental path for consumer-prepaid cards has been one of extending payment options to more people with broader utility.

As we move to the next phase of prepaid product evolution, and though it is still early in the development cycle, commercial applications offer substantial opportunities for prepaid card issuers and programme operators.

Payroll cards have been the most common prepaid application in the commercial sector, used to replace more costly paper cheque distribution or to compensate employees who do not maintain traditional bank accounts. As prepaid becomes more generally integrated into the overall payments infrastructure, companies are putting prepaid solutions to work in innovative ways - not only to achieve operating efficiencies, but to strengthen their positions and brands among both customers and employees.

As prepaid emerges as an increasingly important payment option, prepaid solutions will become an added component of the overall commercial relationship. Prepaid will be incorporated among the requirements of a broader portfolio of payment solutions.

In this paper, we will explore the existing and emerging applications of prepaid solutions in the corporate environment, and identify the benefits of these programmes to companies, their employees and customers. Through this examination, we can highlight the developing opportunities for prepaid issuers and programme operators in the commercial sector. We will:

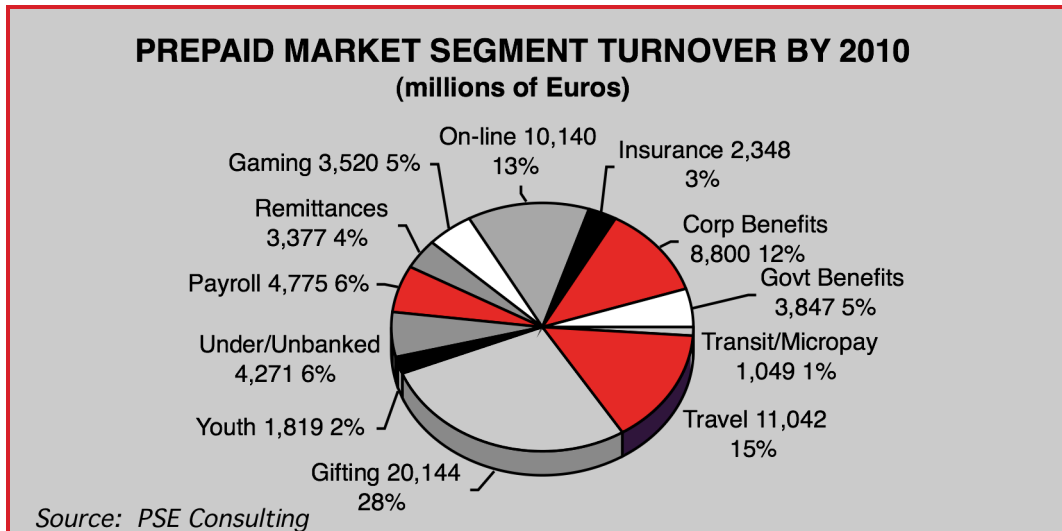
- *Identify the range of possibilities and opportunities for prepaid in the commercial sector*
- *Align the benefits of prepaid programmes with prepaid applications*
- *Explore important trends that will affect the market for prepaid programmes in the commercial sector*

Through a clear understanding of the opportunities and benefits that prepaid programmes can bring to companies, we can move more effectively toward developing this area of payment activity and opportunity.

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THE COMMERCIAL OPPORTUNITY FOR PREPAID

Research commissioned by MasterCard Worldwide projects prepaid spending in Europe to reach €75 billion by 2010.



The commercial market in Europe is in the early stages of the product development cycle. While there are pockets of activity, there are few significant programmes in place. According to most industry studies, however, as we move through the next phase of prepaid product development, commercial programmes will become an increasingly important aspect of the payments environment. MasterCard research conducted by Boston Consulting Group projects commercial prepaid spending in Europe by 2010 at about €14 billion. Projections for a number of key markets in Europe indicate growth in several commercial prepaid applications. Chief among these is issuance of payroll cards, but there are other areas of growth as well.

Projections are for 360 million prepaid cards issued across Europe by 2010. In perhaps the largest anticipated market, the UK, nearly two-thirds of all payments are still made in cash, emphasising the enormous opportunity for card payments, including prepaid, over the coming years. While projections vary, industry consensus is that the opportunities for prepaid programmes across Europe will be sizeable. Despite industry-wide projections on the growth of

prepaid, however, there is much to be done in terms of generating interest and overall acceptance and usage. According to research by the payments software and transaction processing company eFunds, 76% of the UK population is unfamiliar with prepaid cards.

This highlights the necessity for issuers and programme operators to position prepaid cards in terms of the benefits to be derived, particularly in the still developing commercial sector.

DISTRIBUTION OF SELECTED PREPAID SPENDING 2010 (BILLIONS OF EUROS)						
SELECTED COMMERCIAL APPLICATIONS						
Application	Europe Total Prepaid	France	Italy	Spain	UK	Central/Eastern Europe
Total Prepaid Spend	75.0	16.6	5.4	3.7	15	4.2
Corporate Benefits	9.0	1.5	0.8	1.1	1.2	0.9
Insurance	2.3	1.7	0.1	0.0	0.6	0.0
Payroll	4.5	0.8	0.5	0.2	0.8	0.5
Total Selected Commercial Applications	15.8	4.0	1.4	1.3	2.6	1.4

THE RANGE OF PREPAID APPLICATIONS

While broad-based consumer prepaid cards generally offer consumers an alternative payment method, corporate interests are different. Companies are not so much interested in developing alternative payment methods but, rather, in improving administrative practices. Companies have two primary interests regarding the possibilities for prepaid programmes.

Most often, prepaid cards are used to improve efficiency by replacing paper-based business processes. Additionally, companies are putting prepaid solutions to work to help promote and strengthen their brands among both employees and customers.

These two factors drive new and innovative prepaid card programmes that are (and will continue to be) of interest to companies cross Europe.

Issuers and programme operators can achieve greater success in developing this market opportunity by positioning the various applications according to the benefits to the client company. Clearly, product positioning that is responsive first to the administrative efficiency concerns of companies and, secondly, to the marketing value will find broader receptivity than simply offering up new payment products.

In broad terms, and from the perspective of the client companies, prepaid programmes can be usefully divided into Internal Applications and External Applications.

Internal Applications enable companies to achieve efficiencies and administrative cost reductions with increased control in their internal operating environments. *External Applications* best serve companies' interests in strengthening their brands and images among employees, business customers and consumers.

Internal Applications	External Applications
<ul style="list-style-type: none">▪ Payroll▪ Commission payouts▪ Rewards and incentives▪ Agent/contractor payments▪ Petty cash▪ Purchasing▪ Travel expense▪ Employee expense accounts▪ Insurance claim settlements▪ Loan distribution	<ul style="list-style-type: none">▪ Consumer rebates▪ Customer gift cards▪ Customer refunds and claims settlements▪ Airline credits

Within these two areas, there are a broad range of prepaid programmes and opportunities to put to use prepaid technology to meet commercial interests:

Payroll Cards - The primary and most common commercial prepaid application is payroll cards. Companies distribute payroll cards as a cost effective replacement for paper cheques or as a direct deposit alternative for employees that do not maintain traditional bank accounts, or who do not want their salaries deposited into their bank accounts. Payroll cards enable companies to efficiently distribute salary payments while providing employees with immediate and convenient funds access.

Commission payouts – Companies are able to distribute funds to compensate commission-based employees. Periodic payment amounts may vary and companies can replenish an existing commission account as required. Employees have convenient and immediate access to funds. Using prepaid technology, commission payouts are faster and avoid more costly cheque or voucher distributions.

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Rewards and incentives – Companies can provide employees with easily accessible and variable cash rewards or incentive payments for sales contests or other performance-related activities. Prepaid cards used for incentives and rewards help strengthen the company and brand relationship among employees, while providing fast and convenient access to funds. Prepaid card accounts can be replenished as necessary and can avoid the more costly processing and distribution costs of paper cheques and vouchers.

Agent/contractor payments – Prepaid cards can be used to pay outside labour services that do not require full payroll accounting. Prepaid cards allow fast and efficient payment. Accounts can be replenished as required, or funded on a one-time or project oriented basis.

Petty cash - By issuing prepaid cards to selected employees companies can reduce the procedural inefficiencies required for even small routine purchases, empowering employees to conduct small but vital tasks without bureaucratic procedures while maintaining control over expenditures.

Purchasing – Companies can issue prepaid cards to selected employees for larger but routine purchases, restricted to particular merchants, amounts and types of purchases as may be required. Companies maintain control while empowering employees to exercise responsibilities with reduced paperwork and bureaucratic procedures.

Travel expense – Use of prepaid cards for employee travel enables control over expenses while providing employees with an easy and efficient, broadly accepted payment instrument. Funds can be replenished as required, and spending can be controlled as necessary. Using prepaid for travel expenses can avoid much of the inefficient processing required of expense claim filing and reimbursement claims and distributions.

Employee expense accounts – For those employees that require access to funds for the conduct of business, prepaid cards can be a flexible and efficient payment method. Spending may be restricted as required enabling the company to maintain control over expenses, while providing employees broad flexibility and avoiding the necessity of out-of-pocket expenses and inefficient expense reimbursement procedures.

Relocation expense – Employers can use prepaid cards to manage and control relocation expenses for employees, while providing employees with easy access to funds. Prepaid cards can reduce out-of-pocket expenses and limit cumbersome expense reimbursement procedures.

Meeting planners – Prepaid cards assigned to meeting planners within the organisation can help control and limit expense locations and purchases, while providing planners with necessary flexibility.

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Insurance claim settlements - Insurance companies are using prepaid cards to satisfy small to mid-size ticket claim settlements. The prepaid cards are more efficient than paper cheques or vouchers, and can provide claimants with easy cash access. The insurance company is able to reinforce its brand image in the card distribution, and the convenience and ease of card usage helps establish a favourable relationship with customers. Prepaid cards can be used for a number of types of insurance claims including workman's compensation, auto claims, home content, employee health compensation benefits, dental benefits and catastrophic/accidental damage.

Loan Distribution – For the small lending business or employee loans, small to mid-ticket disbursements can be made through the convenience of prepaid cards. Prepaid cards can also be used for recurring, periodic disbursements for small loans where repeated documentation is not required.

Consumer rebates – Instead of paper cheques or vouchers, companies can issue rebate cards to their customers, reinforcing a positive brand image and providing a quick, easy method of distribution.

Customer gift cards – In addition to the broad consumer-based gift card programmes offered by many retailers, prepaid gift cards could be issued by companies to their customers and employees, reinforcing the positive brand image of the company.

Customer refunds and claims settlement – Prepaid offers an efficient method for settling customer claims with a convenient and easy to use payment card. Companies can use this distribution method to strengthen their brands and reinforce a positive image among customers.

Airline credits – For cancelled or “bumped” travel, airlines can issue customers easy to use prepaid cards, often in pre-denominated values to be issued at the gate. Airlines can reinforce a positive company image among customers by offering cards that can be restricted in their use, yet flexible for customer convenience – accepted by the airline for later travel or possibly food and hotel stays at airport locations.

In the context of these programmes, companies may apply either “open” or “closed-loop” prepaid solutions. In closed loop schemes, cards may be used only at the company controlled or partner locations where acceptance is pre-arranged. Open loop schemes are developed with broad payment networks and brands, such as MasterCard, where they can be used at millions of locations around the world, including ATM networks for cash access. A decision to issue closed-loop or open network cards is based upon the objectives of the company and the requirements of the cardholders – employees or customers.

ALIGNING BENEFITS WITH COMMERCIAL PREPAID SOLUTIONS

Commercial prepaid programmes can offer a number of advantages to a company, its employees and customers.

As with virtually all other aspects of operation, commercial enterprises are most interested in new business processes that can improve efficiency and, ultimately, reduce operating costs. Prepaid solutions help achieve these objectives by replacing costly, inefficient paper processes like cheque distribution and receipt, paper voucher printing and issuance, and recurring payment distribution. Prepaid solutions continue to allow the required control and restrictions, without the inefficiencies of paper processing and accompanying procedures.

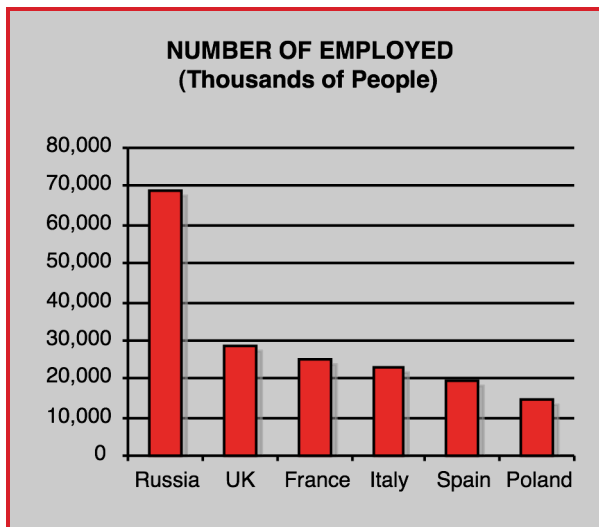
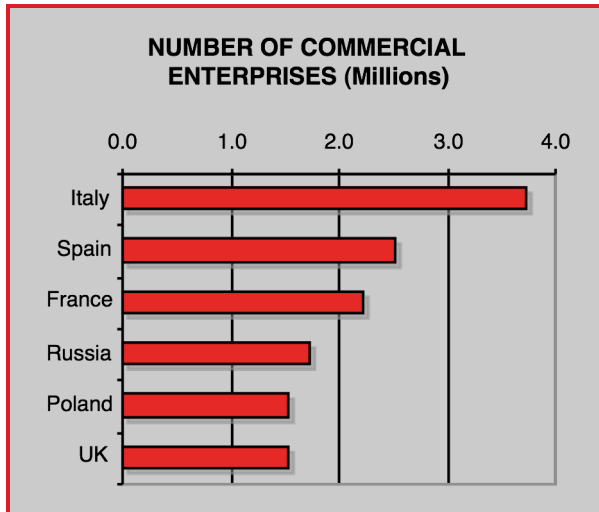
Beyond the administrative efficiencies, innovative use of prepaid applications can help strengthen a company's brand and image through prepaid solutions that reinforce security, ease of use and broad acceptance among employees, business customers and consumers.

Within the context of commercial applications and the Internal/External segmentation, the benefits of prepaid programmes can be aligned with the type of application:

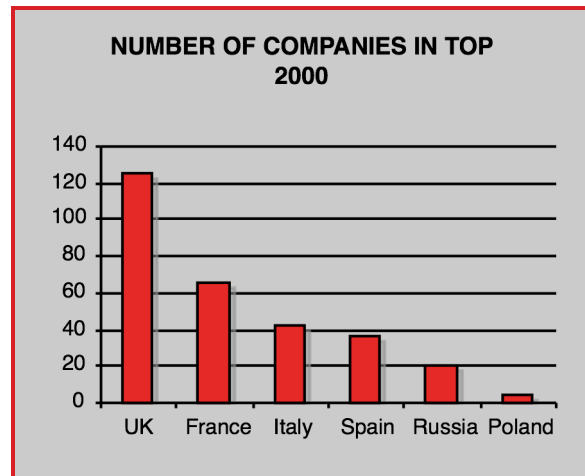
Prepaid Application	Benefits
<p>Internal Applications</p> <ul style="list-style-type: none"> ▪ Payroll ▪ Commission payouts ▪ Rewards and incentives ▪ Agent/contractor payments ▪ Petty cash ▪ Purchasing ▪ Travel expense ▪ Employee expense accounts ▪ Relocation Expense ▪ Meeting planners ▪ Insurance claim settlements ▪ Loan distribution 	<ul style="list-style-type: none"> ▪ Improved efficiency over paper-based processes; cheques and bank orders ▪ Reduced out-bound and in-bound processing costs ▪ Reduced bank fees ▪ Reduced print processing and distribution and mailing expenses ▪ Reduced cheque replacement costs ▪ Easily assign and manage cardholder loads/replenishment ▪ Transparency ▪ Control over expenditures with flexible limitations and audit trails ▪ On-line account access to facilitate management of funds ▪ Reduced risk ▪ Reduced bureaucratic procedures ▪ Faster distribution ▪ Ease of maintenance ▪ Reduce out-of-pocket expenses and cumbersome reimbursement procedures ▪ Improve employee retention ▪ Flexible distribution and authorised usage management ▪ Managed merchant/supplier usage and acceptance as required ▪ Reduced "Know Your Customer" and Money Laundering exposures based on identifiable employee and affiliated customer populations
<p>External Applications</p> <ul style="list-style-type: none"> ▪ Consumer rebates ▪ Customer gift cards ▪ Customer refunds and claims settlements ▪ Airline credits 	<ul style="list-style-type: none"> ▪ Fast, easy access to funds ▪ No waiting for cheque distribution or payment order processing ▪ No need for bank account ▪ No cheque cashing fees ▪ Broad acceptance ▪ On-line account access to cheque availability and balances ▪ Secure payment ▪ Strengthen brand loyalty ▪ Reinforce positive brand and company image ▪ Strengthened employee and customer relations ▪ Improve customer retention ▪ Reload capabilities for open network solutions

Commercial Prepaid In Europe

Because these commercial programmes can create such benefits for both employers and employees, market development and the resulting opportunity will track to the number of business entities and the broader labour force. These represent substantial opportunities in the key markets of Europe.



The absolute number of business enterprises varies. In some countries, the business community is more fragmented, with larger numbers of smaller companies. The more substantial opportunities for high volume programmes are more evident in the distribution of large multinational companies. Large companies, both multinational and domestic, have demonstrated an increasing interest in utilising payment technologies to streamline operations and improve administrative practices. These will be a prime market for prepaid issuers and programme operators.

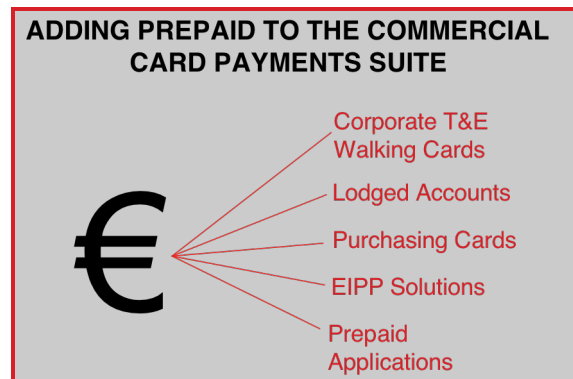


Trends Encouraging Commercial Prepaid Growth

Examining the requirements of large companies has particular relevance in considering the commercial opportunities for prepaid products. Prepaid solutions address the efficiency concerns of large companies and, more importantly, will be considered as part of their overall payment solution requirements. Large companies are increasingly working with their commercial banking partners to create operational efficiencies through payments technologies. We can expect that companies will add prepaid requirements to their tender solicitations for broader payment solutions. Prepaid applications will be added to requirements that now include corporate T&E cards, lodged accounts and purchasing cards. These companies will continue an important trend toward “one-stop shopping” to meet their payment product needs

Another important underlying factor in Europe is the advanced state of the chip card environment. Many prepaid solutions, or sponsors of prepaid solutions, will seek integration with other payment options. The multi-application and variable capabilities of chip card technology will help create a receptive infrastructure environment for prepaid – an environment far more advanced in Europe than in other parts of the world.

These trends, coupled with increasing pressures for greater efficiency and the need to build strong employee and customer relationships, will continue to encourage the growth of commercial prepaid programmes.



Understanding this trend is critical in terms of meeting the needs of large customers – customers that can generate the recurring large volumes under long-term contracts that produce annuity business for issuers and programme operators. With the growth and benefits to be derived through prepaid cards, companies will most certainly come to expect that their commercial banking relationships include a prepaid card component among the various card and payment services to be supported. Domestic operations of multinational companies, in Europe and around the world, will be subject to the increasing centralisation of payment options and sourcing.

REALISING THE OPPORTUNITIES IN COMMERCIAL PREPAID

While the range of prepaid applications is considerable, there are clear factors that will drive commercial adoption of prepaid card applications. These factors differ from consumer payments in that they focus primarily on administrative efficiencies and, secondly, on strengthening company relationships among employees and customers. As issuers and programme operators respond to the particular needs of businesses, and learn to integrate these solutions with the broader demands of integrated payment solutions, they will be best positioned to realise the very substantial opportunities in this important area of growth for the payments industry.

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