

Global Potential for Prepaid Cards

Overview of Key Markets

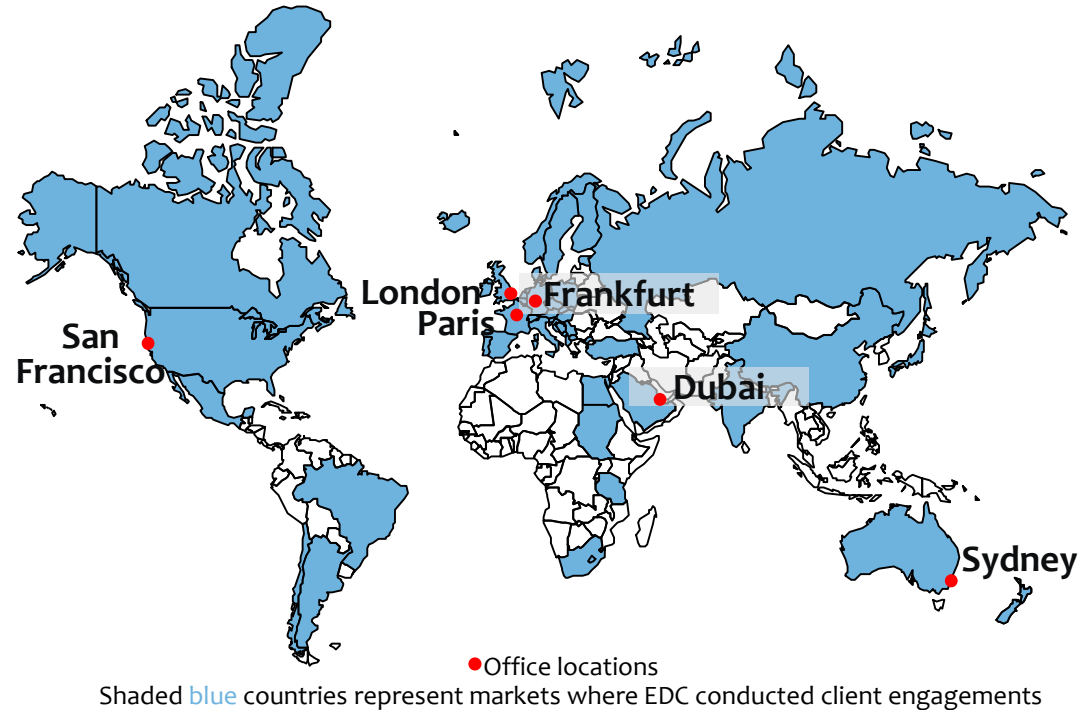
September 2019

Edgar, Dunn & Company (EDC) is an independent global financial services and payments strategy consultancy

EDC - Independent, Global and Strategic

- Founded in 1978, the firm is widely regarded as a trusted advisor to its clients, providing a full range of strategy consulting services, expertise and market insight, and M&A support
- EDC has been providing thought leadership to its client base working with:
 - More than 40 European banks & card issuers/acquirers
 - Most of the top 25 US banks and credit card issuers
 - All major international card associations / schemes & many domestic card schemes
 - Many of the world's most influential mobile payments providers
 - Many of the world's leading merchants, including major airlines

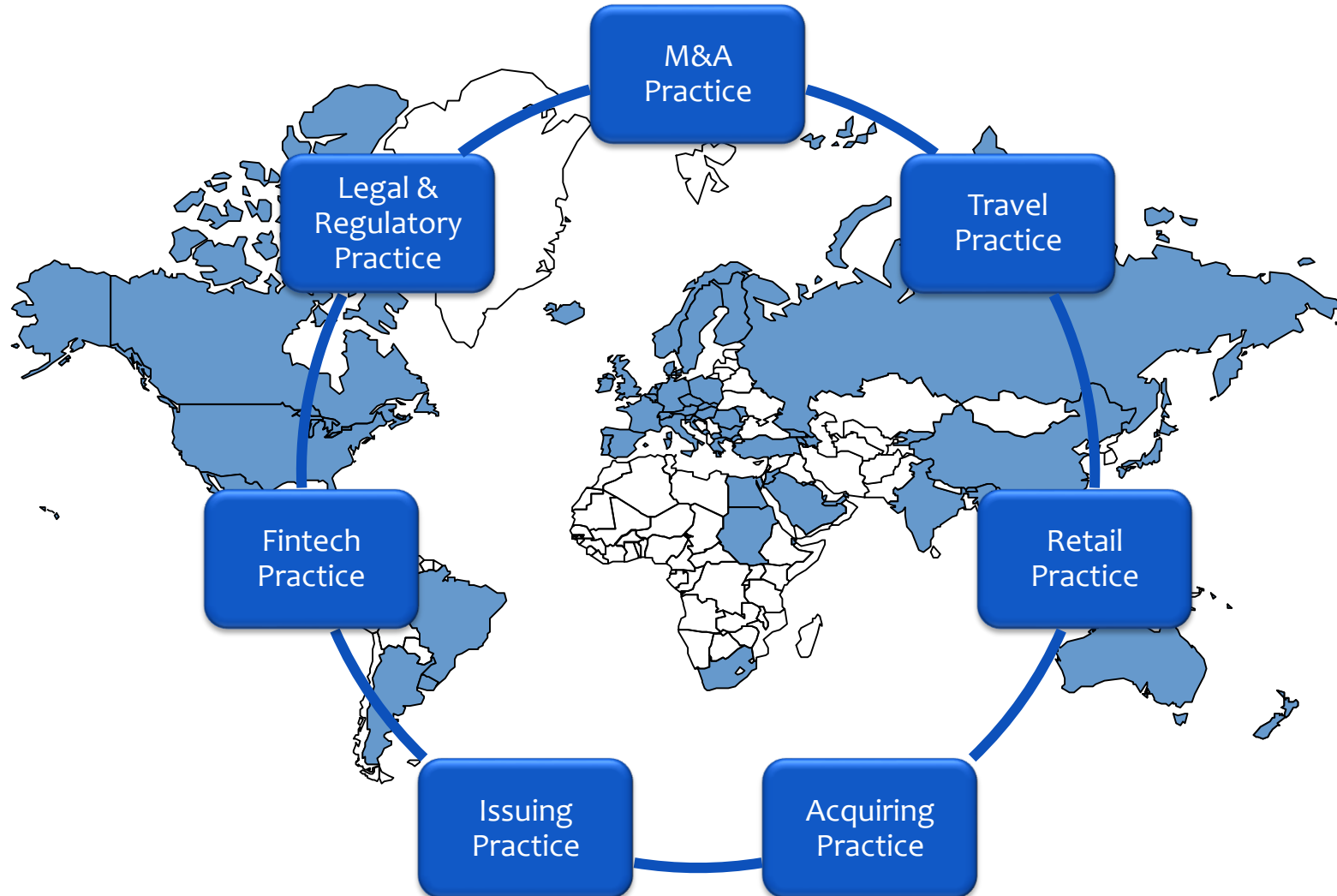
EDC Office Locations



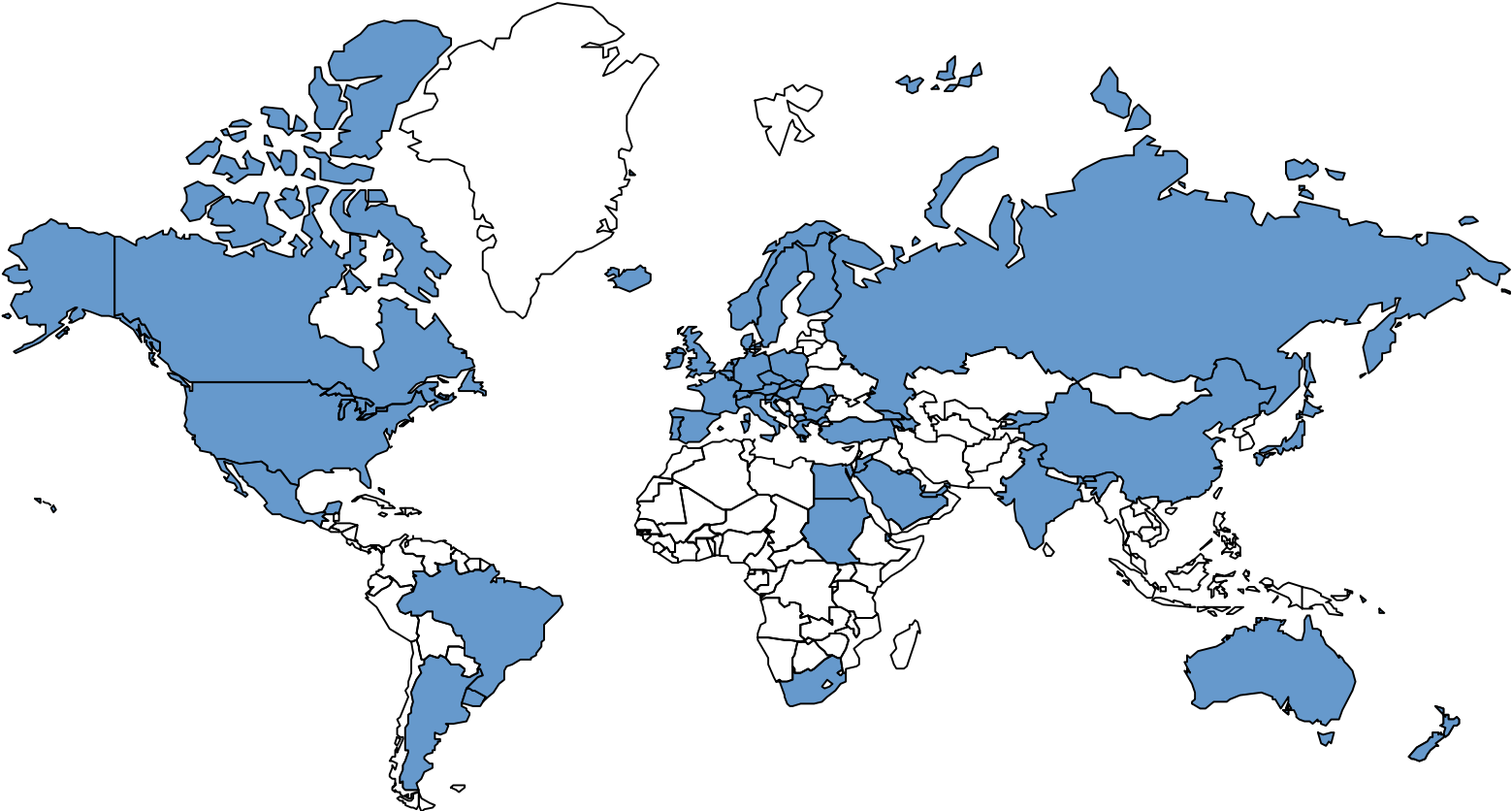
EDC Key Metrics

- Financial services and payments focus
- Six office locations worldwide
- Independent - owned and controlled by EDC Directors
- +1,000 projects completed
- +250 clients in 40 countries & 6 continents

EDC has deep expertise in across seven specialist practice areas



A global perspective of prepaid from a truly global strategy consulting firm

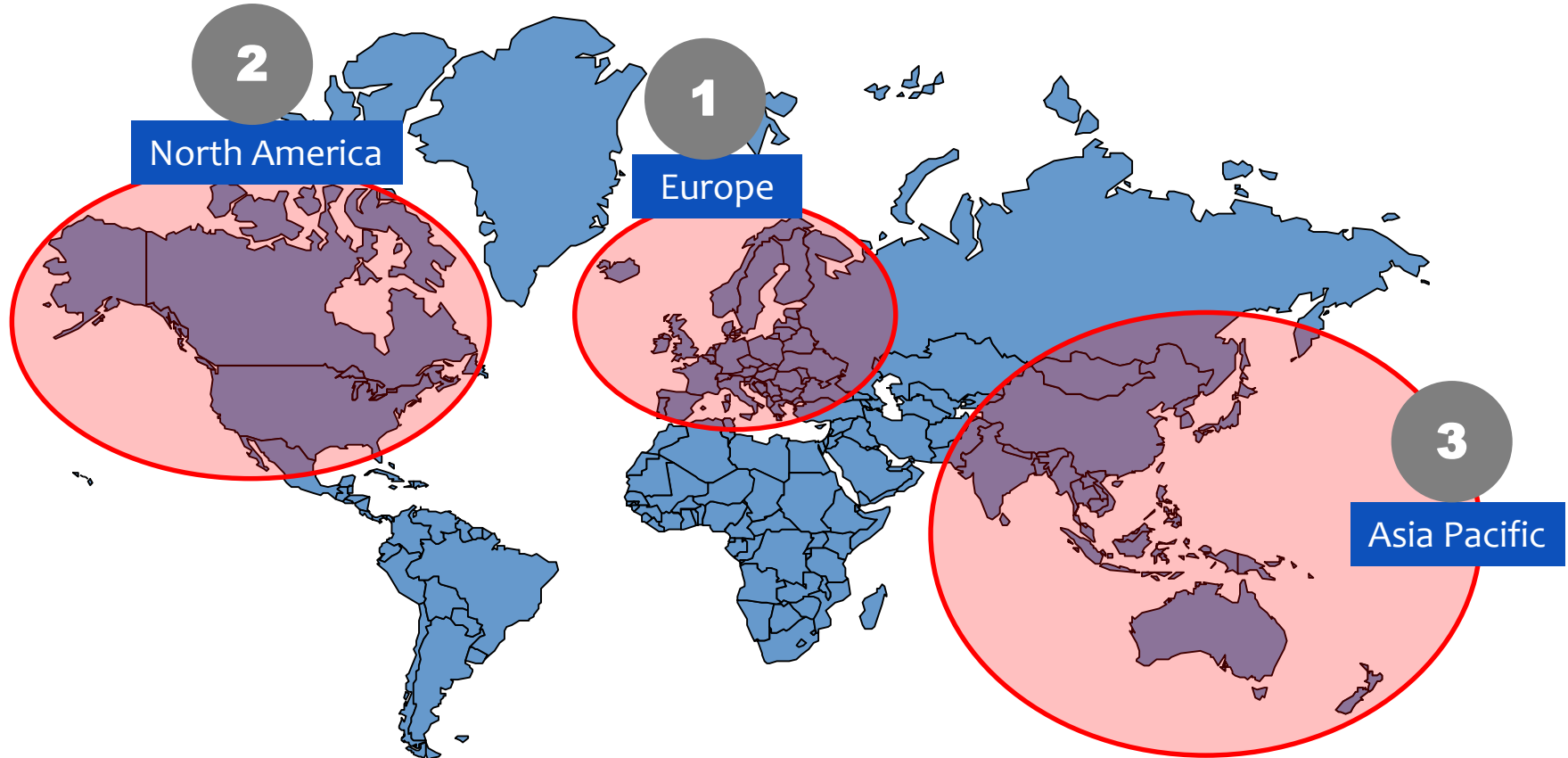


Countries where Edgar, Dunn & Company has delivered projects

The global prepaid card market is expected to reach \$3.7 trillion by 2022 - a growth of 22.7% from 2016 to 2022¹

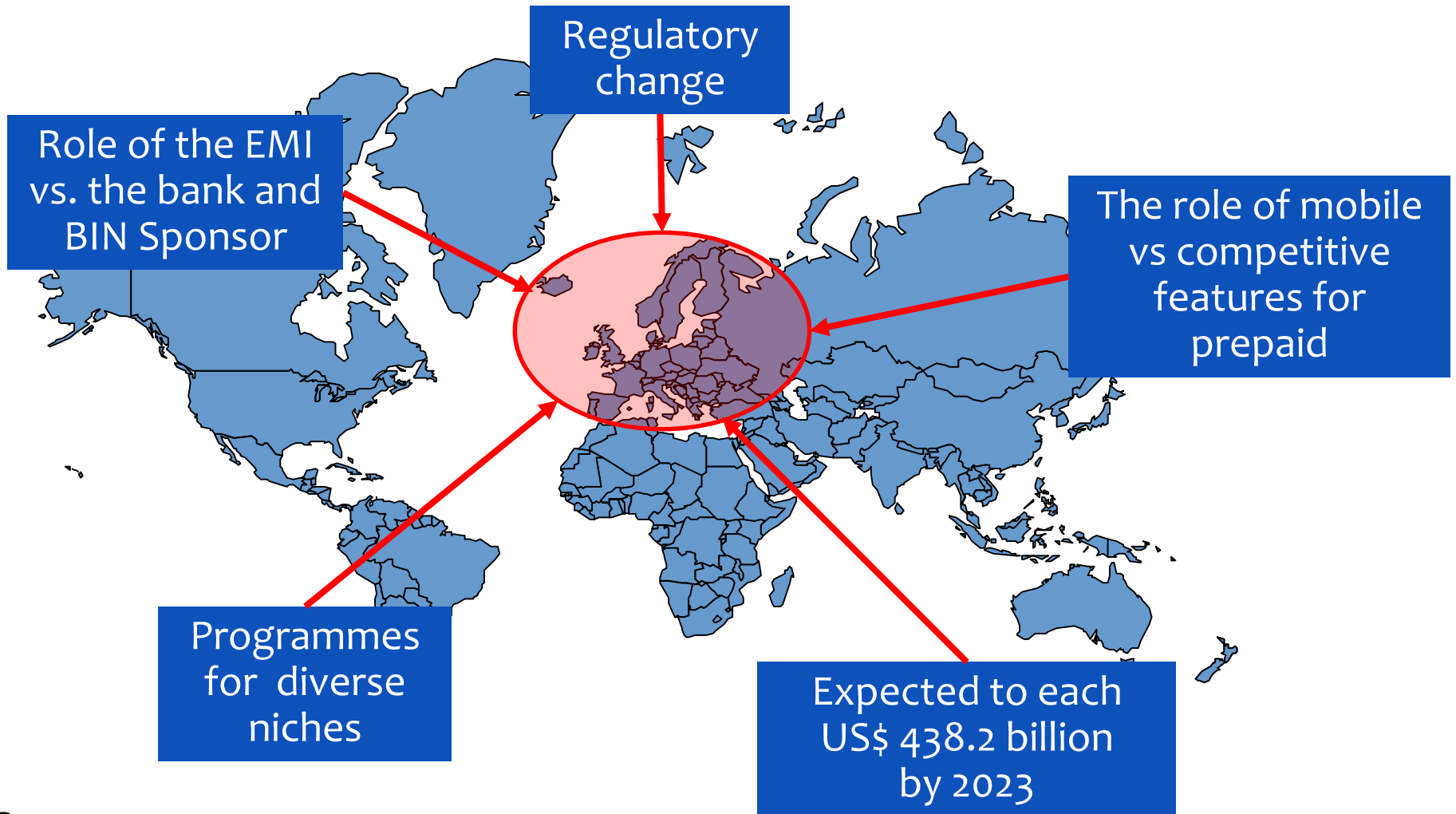


What we will cover today....

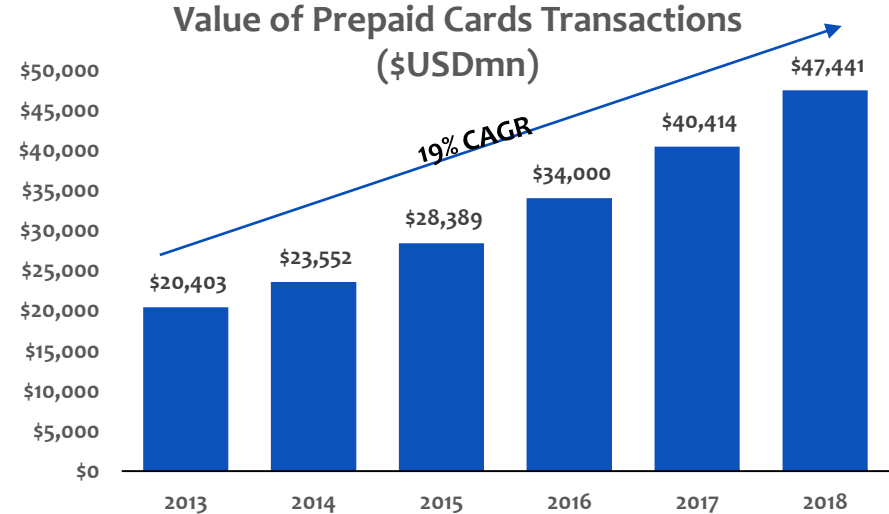
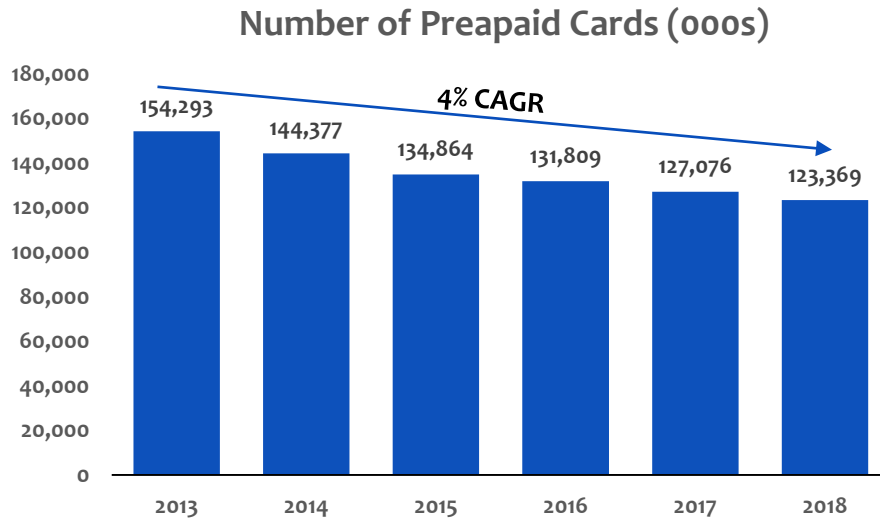


Five Fascinating Facts Per Region

Five Fascinating Facts about Prepaid in Europe



Despite the decline in the number of prepaid cards in circulation, prepaid card transaction value is undergoing strong growth in Europe, indicating increased prepaid card usage amongst Europeans



The total number of prepaid cards in issue is declining in Europe...

- The total number of prepaid cards in issue has decreased by 20%, from 154.2m (2013) to 123.4m (2018) - a decrease of 30.9m prepaid cards
- The decrease in the number of prepaid cards has been driven by France due to the discontinuation of the prepaid card brand Moneo in 2015 as well as regulatory changes introduced in 2017 impacting prepaid cards
 - Moneo was an e-system available from 1999 to 2015 in France that enabled cashless payments for transactions of up to €30
 - Regulatory changes include stringent KYC requirements, maximum balance of €10,000 and maximum monthly usage of €1,000

... but prepaid card transaction value is undergoing robust growth, indicating that European consumers are increasingly using prepaid cards for payments



The popularity of challenger banks such as Revolut has refocused the appetite for prepaid cards amongst European consumers

Renewed value proposition of prepaid cards

- Greater sense of control and security
 - Instant spending notifications
 - Built-in budgeting
 - Ability to freeze and unfreeze the card via app
 - Ability to turn off contactless payments, swipe payments or ATM withdrawals from the app
 - Location based security
- Overseas transactions – Interbank exchange rate with no fees
 - Over 150 currencies available
 - No fees on both ATM and card payment transactions
- Easy to set up – e-KYC
- Addition to primary account
- Combine banking app with physical card payments

Over 6m Europeans are already using Revolut

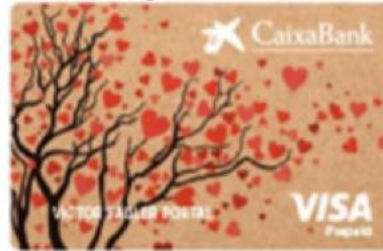
Revolut



Prepaid cards are moving away from the traditional plastic to target specific consumer segments



... to biodegradable card



- ▶ Launched by CaixaBank in Sep 2019
- ▶ Cards are manufactured with corn starch and biomass
- ▶ CaixaBank developed a complete recycling programme **targeted at consumers concerned about the impact of plastic on the environment**

... to metal cards



- ▶ Launched by Revolut in Aug 2018
- ▶ **Targeted at the high-income segment**
- ▶ The card has a monthly fee of £12.99 and offers:
 - 1% cashback outside Europe and 0.1% inside Europe
 - 24/7 concierge and one free LoungeKey Pass

... to virtual cards



- ▶ **Targeted at online shoppers**
- ▶ Users are able to instantly create a disposable virtual prepaid card through the Revolut app
- ▶ Users can have up to 5 virtual cards at the same time

From traditional plastic cards...





Italy is one of the largest prepaid card market in Europe. An example of a well established prepaid product is the Postepay card



> 19 million cards issued

- No bank account required
- Co-branded with Visa or Mastercard
- Pay bills, mobile refills, check balance
- Virtual card available
- Used for up to €2,500 per year
- Twin dual card supports remittances

Issued by
Poste Italiane

Requires photo
ID and social
security number

Can be used
online and
abroad

Postepay Junior
offered to youth
segment (under 18)

Poste Italiane and Mastercard have partnered with Lionel Messi to promote their Postepay Evolution prepaid card



➤ Key features of Postepay Evolution include:

- IBAN number that allows consumers to get their salary or receive bank transfer on the card
- The card can be managed from the Postpay app
- Adhered to BancoPosta discount programme
- Supports GooglePay

➤ Postepay has issued over 5m Evolution prepaid cards since July 2014



German's domestic scheme Girocard offers two variants of prepaid cards: Geldkarte and girogo



- Rechargeable prepaid card
- Can be used for parking tickets, public transport, and tourist attractions
- 400,000 acceptance points in Germany
- Maximum stored amount: €200

- Rechargeable prepaid card
- **Contactless enabled**
- Payments up to €25 without entering a PIN
- 15,000 acceptance points in Germany
- Maximum stored amount: €200

Some Girocard cards come with the functionality of GeldKarte and girogo integrated. Otherwise, consumers can buy separate Geldkarte and girogo prepaid cards for €14,90 each

Prepaid regulations – Europe

According to the European Council Directive on Strong Customer Authentication:

An anonymous payment instrument which does not hold funds over €150 at any time will be exempt of the two factor authentication

This will apply to prepaid cards such as gift cards or vouchers

SCA regulation came into force on the 14th of September 2019



France introduced regulatory changes for prepaid cards in January 2017

The main changes were on the maximum limits for prepaid cards:

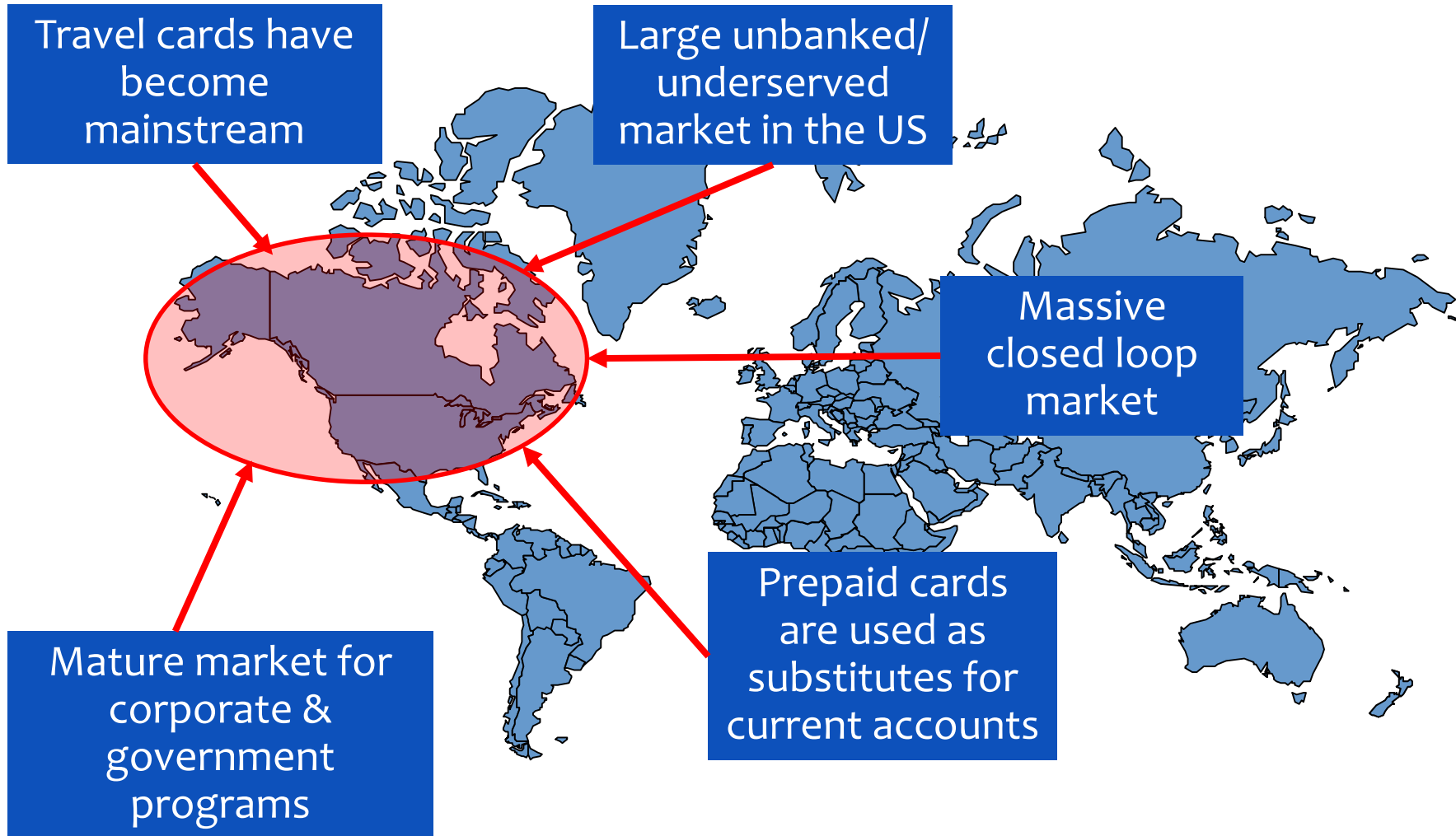
- Max. stored amount: €10,000
- Max. reloaded amount per month: €1,000
- Max. withdrawn amount per month: €1,000

In addition, since May 2017, all prepaid cards can only be issued to ‘verified’ individuals with registered addresses in France

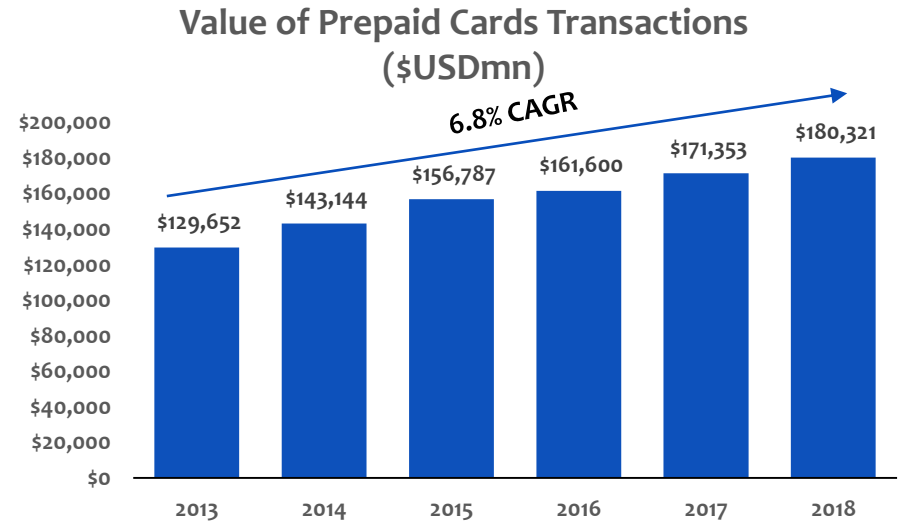
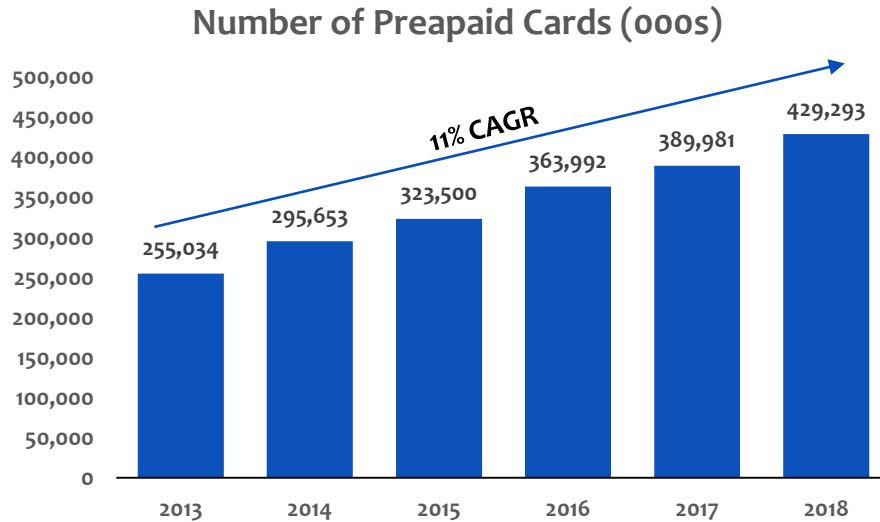


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RÉPUBLIQUE FRANÇAISE

Five fascinating facts about prepaid in North America



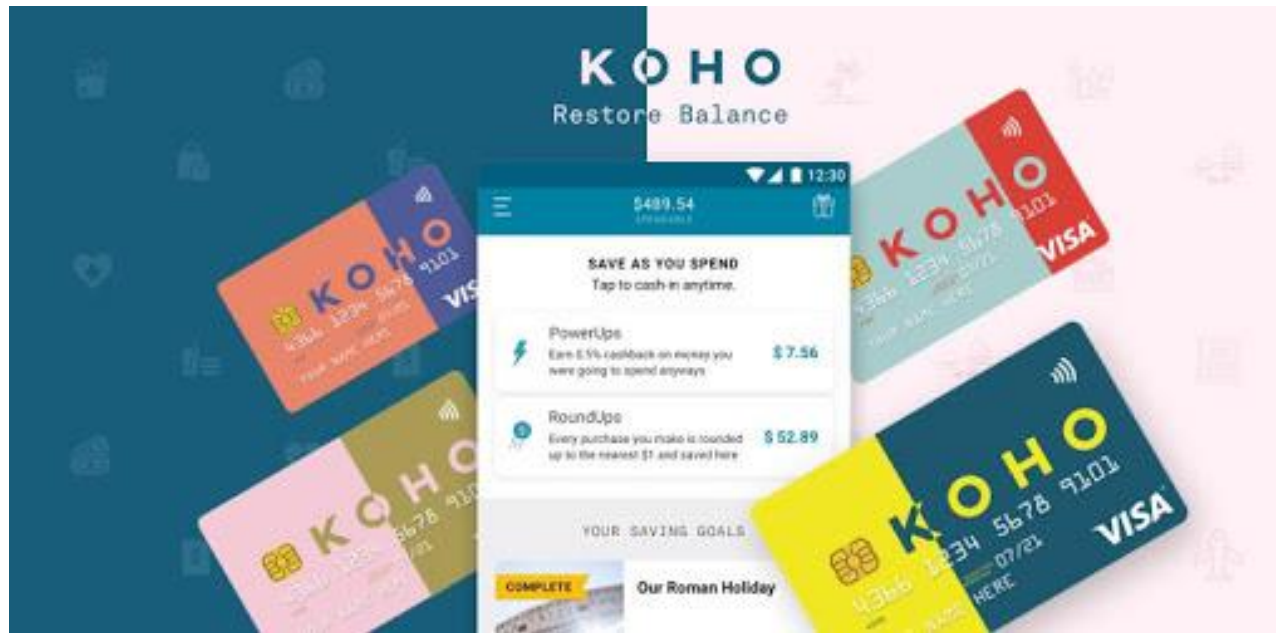
The prepaid card market is undergoing strong growth in North America



- The number of prepaid cards in issue in North America increased by 68% over the past 5 years, from 255.0m (2013) to 429.3 (2018) – an increase of 174.3m cards
- Both the Canadian and the US prepaid markets are undergoing robust growth, +103% and +64% respectively
- Growth in the US prepaid market is being driven by the 20m underbanked adult population. In addition, the market is gradually offering a higher number of products targeted at higher-income population segments, such as international travellers
- The Canadian market is experiencing positive growth across all prepaid segments (i.e. consumer, corporate and government)



Koho is a personal finance mobile app linked to a GPR card



➤ Key features include:

- Real-time transaction notifications
- **0.5% instant cash-back** on all purchases
- **Round up each purchase to the nearest \$1, \$5 or \$10 - balance automatically saved**
- Set up a savings goal
- Categorize spending by main categories such as groceries, retail, entertainment, etc.



ACconversion is a multicurrency travel card from Air Canada

Have a card - Get an App.

Visit your online retailer to download today.



Currency Calculator

Amount	Currency	=	Amount	Currency
0.00	AUD		0.00	CAD
<input type="button" value="Calculate"/>				

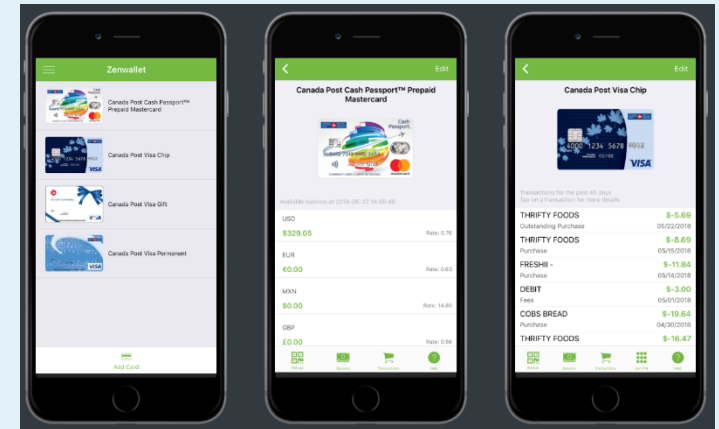
- CIBC, in cooperation with Visa and Air Canada, has launched a travel multi-currency prepaid card targeted at travelers
- Main features include:
 - Can be fully managed through a mobile app
 - Up to 10 currencies supported (AUD, CHF, EUR, GBP, HKD, JPY, MXN, USD, TRY & CAD)
 - Offers 24/7 support
 - Access to a draw to win a return ticket with Air Canada



Canada Post is one of the largest issuers of prepaid cards in Canada



- Canada post targets consumers with 4 prepaid cards
 - Cash Passport – a travel card
 - An open loop gift card
 - 2 GPR cards
- The 4 prepaid cards can be stored on Zenwallet





Prepaid regulations – Canada

The Financial Consumer Agency of Canada defines two types of prepaid cards:

- Prepaid cards issued by a financial institution
- Promotional prepaid cards

For the first type, the issuing institutions are not allowed to:

- Set an expiry date on the **funds** loaded onto a prepaid card or product
- Charge maintenance fees for at least one year after the prepaid card or product is activated



Financial Consumer
Agency of Canada

The Canadian Department of Finance published in July 2019 an Act amending the anti money laundering and terrorist financing regulations

These regulatory changes affected to prepaid cards issued by financial institutions.

Prepaid cards are defined as ‘a product that gives electronic access to funds or virtual currency paid to a prepaid payment product account held with the financial entity in advance of the transaction’

The new regulation introduces increased record-keeping and suspicious transaction investigation requirements for prepaid payment product accounts





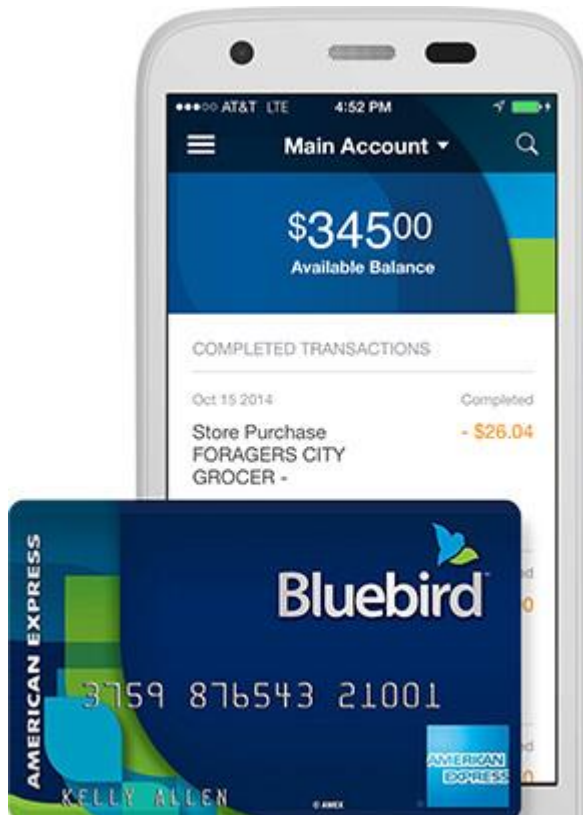
Chase Liquid – example of mainstream banks offering general purpose prepaid cards



- Chase Liquid is a GPR card that allows its users to withdraw money from ATMs and make purchases wherever Visa is accepted
- JPMorgan Chase, unlike non-bank players, charge a monthly fee of \$4.95 for the use of the Chase Liquid card
- JPMorgan Chase entered the prepaid card space to help offset the revenue loss caused by the Durbin Amendment, which limited the amount of interchange revenue earned by larger banks for debit card transactions
 - Other US-based banks such as US Bank also followed the same strategy



The Bluebird prepaid card is used as an alternative to current accounts



- American Express, in cooperation with Walmart, introduced the Bluebird card, a prepaid card linked to a mobile app, with no minimum balance requirements
- The card can be loaded online or at Walmart stores
- Key features include:
 - **Family accounts:** up to 4 cards can be linked to the same account
 - **Personal financial management:** instant notifications and categorisation of transactions
 - **SetAside accounts:** consumers can set saving goals, transferring the money to a savings account
 - **24/7 customer service**
- Prepaid cards are popular replacements for current accounts due to lower fees charged for non-banking products
 - Many unbanked consumers can not afford a current account in the US due to the high fees charged by banks



Comerica Bank shut down a component of its prepaid programme for federal benefits after over 5,000 cardholders were affected by fraud



- ▶ Comerica Bank shut down a component of its prepaid card programme for federal benefits receivers in August 2018 after identifying a number of fraud causes
- ▶ Fraudsters exploited security flaws in Comerica's Cardless Benefit Access Service to obtain accounts belonging to federal beneficiaries such as pensioners and disable people
- ▶ The service was part of the Direct Express programme, a partnership between Comerica Bank and the US government, that allowed the unbanked population to access their funds via prepaid debit cards
- ▶ Fraudsters stole Direct Express card numbers, addresses and three-digit card identifiers, enabling them to make fraudulent CNP purchases
- ▶ More than 5,000 cardholders were affected by this fraud scandal



Starbucks enables 'invisible' pre-funded payments for consumers in the US



An 'invisible' payment is a payment that does not require any action from the shopper at the check-out

- ▶ In the US Starbucks allows consumers to pre-order from the Starbucks app, prepay for it and then collect the order from the nearest store, reducing the queuing time for consumers
- ▶ Payments are taken from a prepaid Starbucks card stored on the Starbucks app
- ▶ The Starbucks app also allow consumers to send digital gift cards to their friends



Starbucks also launched an open loop prepaid card, enabling consumers to collect points for purchases at Starbucks and other stores in the US

- ▶ Starbucks and Chase launched the Starbucks Rewards Visa Prepaid Card in 2018
- ▶ Main features include:
 - 1 Star per \$10 spent
 - No monthly, annual or reload fees
 - Redeem Loyalty points for rewards
 - Loyalty points do not expire
- ▶ Maximum Load Amount: \$10,000





European issuer makes the step into North America



wirecard



- ▶ In 2017, the German banking software company Wirecard AG took its first step into the North American market through the acquisition of Citi Prepaid Card Services
- ▶ Citi Prepaid Card Services operated over 2,500 prepaid programs
 - Strong experience in the corporate incentive and corporate disbursement programs for salary and travel
 - 120 Citi employees transferred to Wirecard
- ▶ Lunched mobile wallet integration with Apple Pay, Android Pay and Samsung Pay in December 2017
- ▶ Wirecard is now amongst the TOP 30 German companies in terms of market capitalisation



Prepaid regulations – U.S. (1/2)

The Consumer Financial Protection Bureau (CFPB) implemented updates to its 2016 prepaid rules in April 2019

The rules apply to prepaid accounts, virtual prepaid accounts and other prepaid instruments and aim to give consumers greater protection – similar to that of a debit card when a card is lost or stolen, transparency in consumer fees, regular statements, etc.



Consumer Financial
Protection Bureau

The CFPB was created by Dodd-Frank Act to protect consumers from banks.

President Trump has started the process of reviewing the impact of Dodd-Frank on the US market suspecting that compliance burdens decrease the competitiveness of the market.

The process could lead to the revocation of Dodd-Frank Act, repealing the CFPB as well as the interchange fee cap on debit cards in the Durbin Amendment



Prepaid regulations – U.S. (2/2)

In 2016, the Uniform Law Commission (ULC) published the 2016 Revised Uniform Unclaimed Property Act (“RUUPA”) – a new model law that seeks to modernise escheat law

In the past 3 years ten states have adopted the new rules related to unclaimed property statutes, covering whether and **when businesses should escheat gift, payroll, loyalty, and other stored-value cards**

The UCL proposed definitions for gift cards and stored-value cards, but **the definition of escheat rules for gift and stored-value cards was left up to the states**



Uniform Law Commission

Two examples of the application of the RUUPA on gift cards:

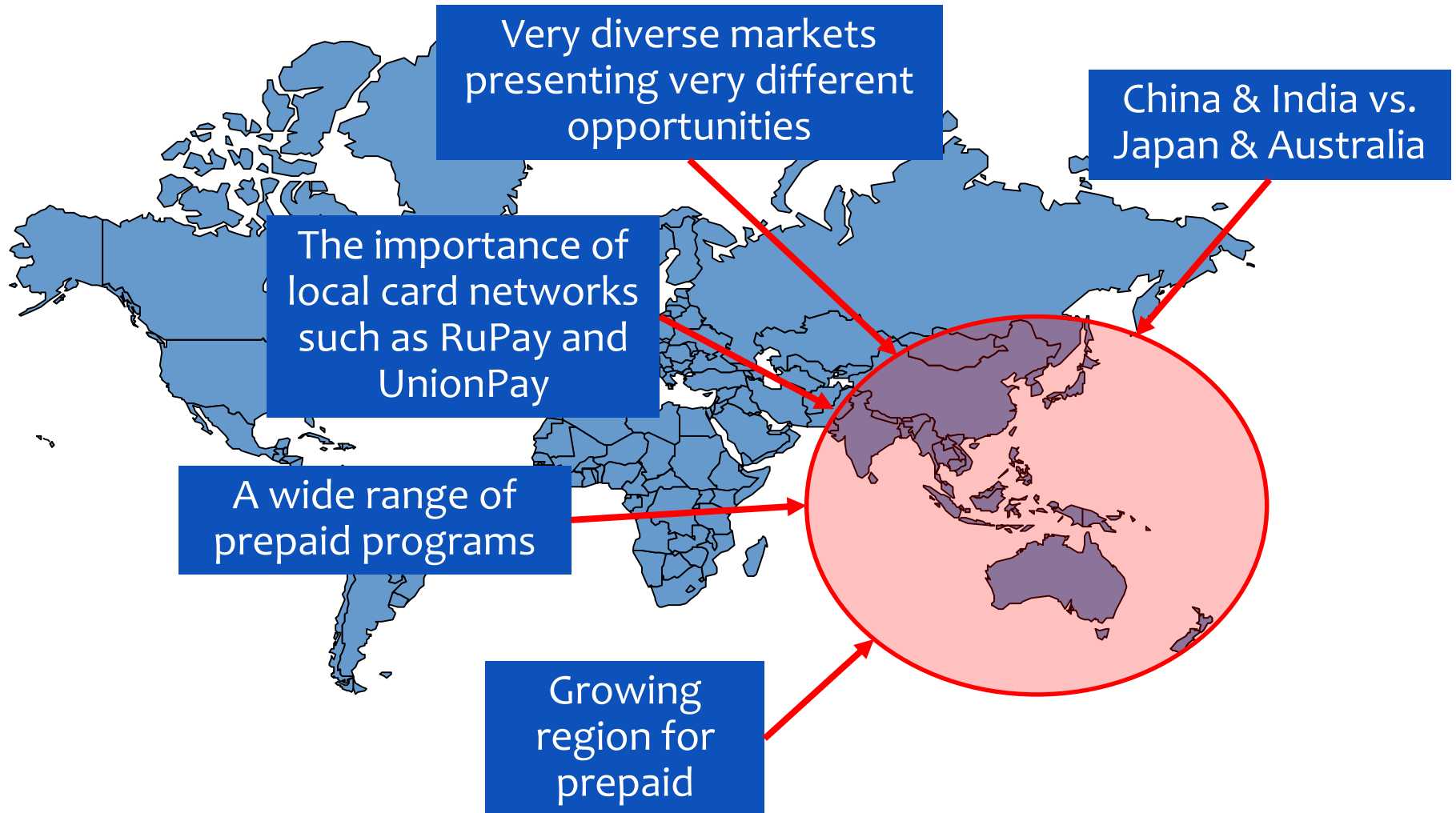


The new law in **Colorado** (effective in 2020) will oblige businesses to give 100% of the remaining balances on gift cards to the State after the card has not been used for five years

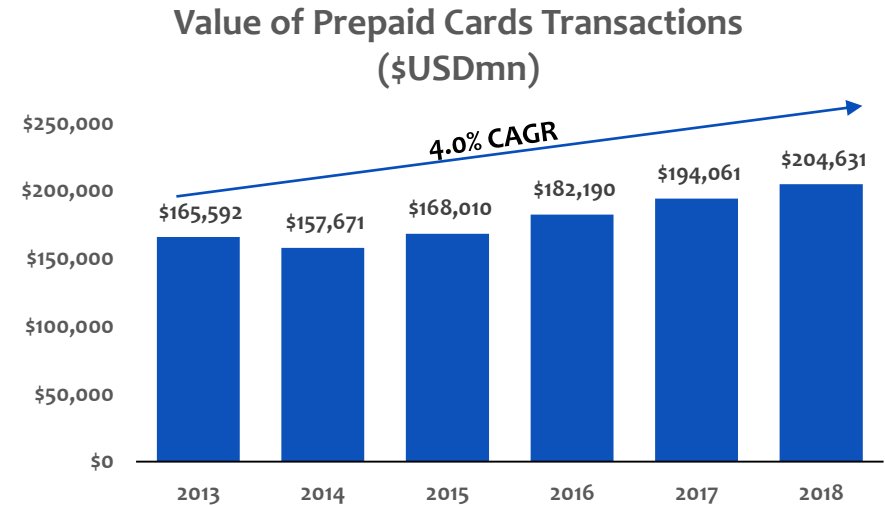
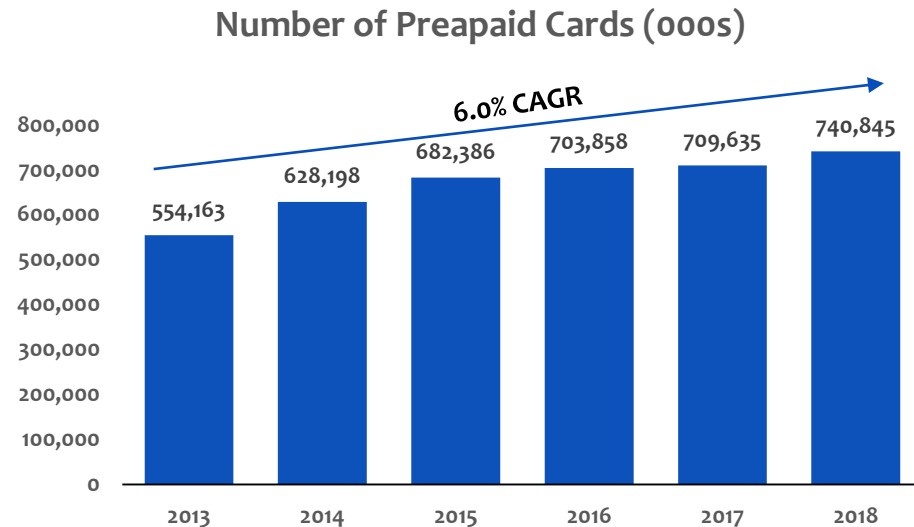


By contrary, **Kentucky** now exempts most gift cards from escheat as long as the cards do not expire or have post-sale fees

Five Fascinating Facts about Prepaid in Asia Pacific



The total number of prepaid cards in issue has increased by 34% over the last 5 years in APAC



- ▶ The total number of prepaid cards in circulation has increased by 34%, from 554.2m (2013) to 740.8m (2018) – an increase of 186.7m prepaid cards
- ▶ Growth is being driven by India, Singapore and Japan, with respective growth rates of 438%, 121% and 73%
 - In December 2016, the central bank of India permitted non-listed corporates, public organisations and sole proprietors to issue payroll prepaid cards to their employees for the disbursement of salaries and other benefits
- ▶ Australia and Hong Kong prepaid market are undergoing healthy growth, with respective growth rates of 6% and 8%

NOTE: data is for open-loop cards only and covers 7 key markets in the region: Australia, China, Hong Kong (reported separately), India, Japan, South Korea and Singapore

Confidential

Source: EDC, Global Data

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Prepaid cards in Asia/Pacific – three key markets

Australia

- High banking penetration has kept welfare and payroll cards at low levels compared to debit and credit cards
- ‘Premium’ prepaid cards connected to retailers, frequent flier programmes and foreign currency load capability are popular
- These cards are popular with the leading banks appealing to the youth/teen market

Hong Kong

- Highly penetrated market, with each adult holding five prepaid cards
- Clothing & footwear and Homewares are the top two product/service categories by transaction volume
- Bank branches, public ticket offices, and shops are key distribution channels for prepaid card issuers

Singapore

- Prepaid cards are widely used by Singaporeans. There were 9 prepaid cards for each individual in Singapore in 2018
- Popular formats include travel and virtual cards
- Prepaid cards with contactless functionality are widely available



All the leading Australian retail banks issue open loop prepaid cards



Consumer propositions include:

- Travel money
- Gift cards
- General use prepaid cards
- Youth cards



On the other hand....

- Amex discontinued its prepaid travel card in 2016 and stepped away from prepaid in Australia



Australian Post is one of the leading open loop prepaid issuers – mainly serving consumers with a travel money card



- ▶ Up to 5 different currencies (AUD, GBP, EUR, NZD, USD)
- ▶ Minimum Load Amount AUD100
- ▶ Maximum Load Amount AUD10,000
- ▶ Maximum Annual Load Amount UAD25,000





Co-branded gift cards are also popular – ANZ is one of the leading players



ANZ allows consumers to earn reward points through ANZ issued Visa credit/debit cards and to be converted to retailer gift cards



- Open loop gift cards are less popular with a few examples – such as Coles in partnership with Commonwealth Bank



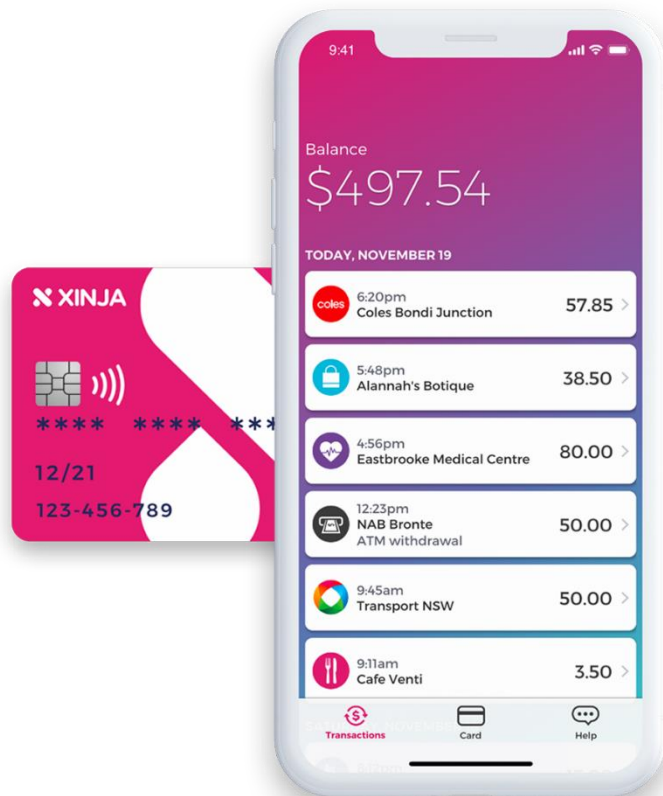


Heritage, one of the more innovative banks, launched a wearable prepaid wristband in 2017





Australia-based digital-only bank XINJA launched a prepaid card linked to a mobile app in March 2018



Key features:

- No ATM fees globally
- Zero currency conversion fees
- Spending tracker
- Ability to freeze and unfreeze the card via app

Like Monzo in the UK, XINJA is planning to move from a prepaid card offering to a full current account service

As a result, XINJA is no longer taking applications for the Xinja prepaid card



Regulation - Australia

The Australian Consumer Law has introduced the following amendments in the T&Cs of gift cards:

- ▶ **Validity** – gift cards must be valid for at least three years
- ▶ **Display** – gift cards must prominently display the expiry date or the words 'no expiry date' if the card will not expire
- ▶ **Post-Supply Fee Prohibition*** – post-supply fees are prohibited, except for some fees, which are defined in the regulations

Effective from 1st November 2019



Australian Competition & Consumer Commission banned excessive surcharges in 2016

The purpose of the ban is to stop business from surcharging consumers more than what it costs for the business to accept that payment method

The ban on surcharging affected the following forms of payment:

Eftpos (debit and prepaid), MasterCard (credit, debit and prepaid), Visa (credit, debit and prepaid), American Express “companion cards”



The Reserve Bank of Australia capped interchange fees on debit and prepaid cards

The weighted-average interchange fee benchmark for debit & prepaid cards is **8 cents per transaction, with a ceiling on individual interchange rates of 15 cents or 0.2%**



RESERVE BANK
OF AUSTRALIA

Note: * Permitted post-supply fees include: payment surcharges, FX fees and the reissue of a lost, stolen or damaged card



HKT, Hong Kong's premier telecommunications service provider, launched a UnionPay prepaid card in 2018 (March)

HKT

摯誠為你



HKT

摯誠為你



Tap & Go[®]
拍住賞



Photo source: SCMP



Octopus card is Hong Kong's most popular prepaid card, with 99% of Hongkongers holding an Octopus prepaid card

Octopus Card

- Originally issued for transport in Hong Kong
- The octopus card has expanded its usage to government tolls as well as to parking tickets and retail purchases
- Supports online payments
- Four types: Child, Adult, Elder and Personalised
- No identification required (except for the Personalised)
- Can store up to HK\$1,000

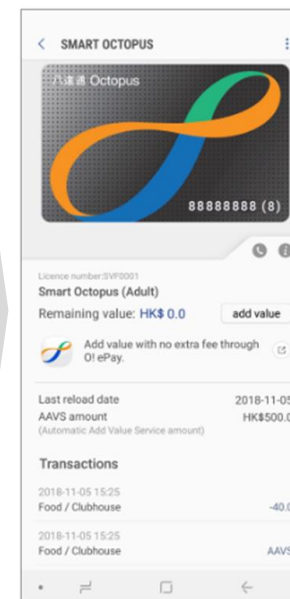
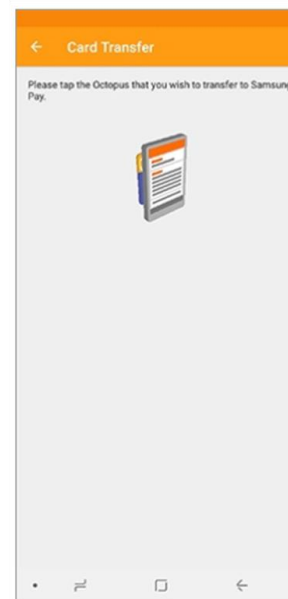
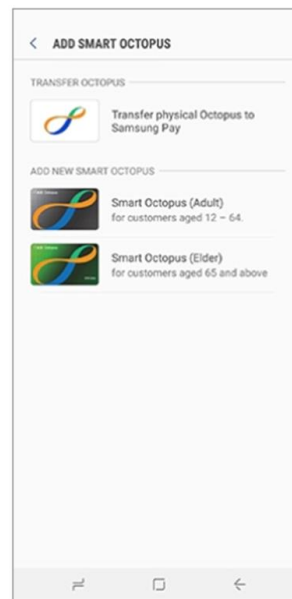
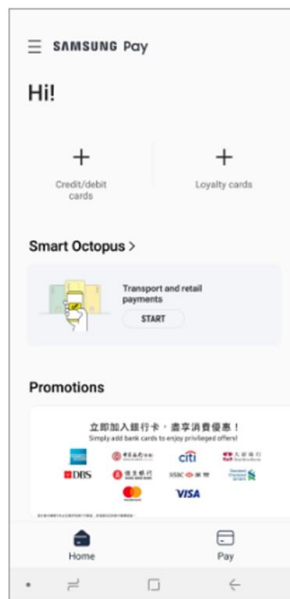
As of 2018, there were 33m Octopus cards in circulation





Octopus has launched 'Smart Octopus', a digital prepaid card that enables consumers to make mobile payments via Samsung Pay

- In December 2017, Octopus partnered with Samsung Pay to allow Octopus cardholders to make contactless mobile payments via Samsung Pay
- Stored value limit of HK\$1,000





Octopus has also partnered with Mastercard to launch O! ePay Mastercard, a reloadable virtual prepaid card that allow consumers to make online payments



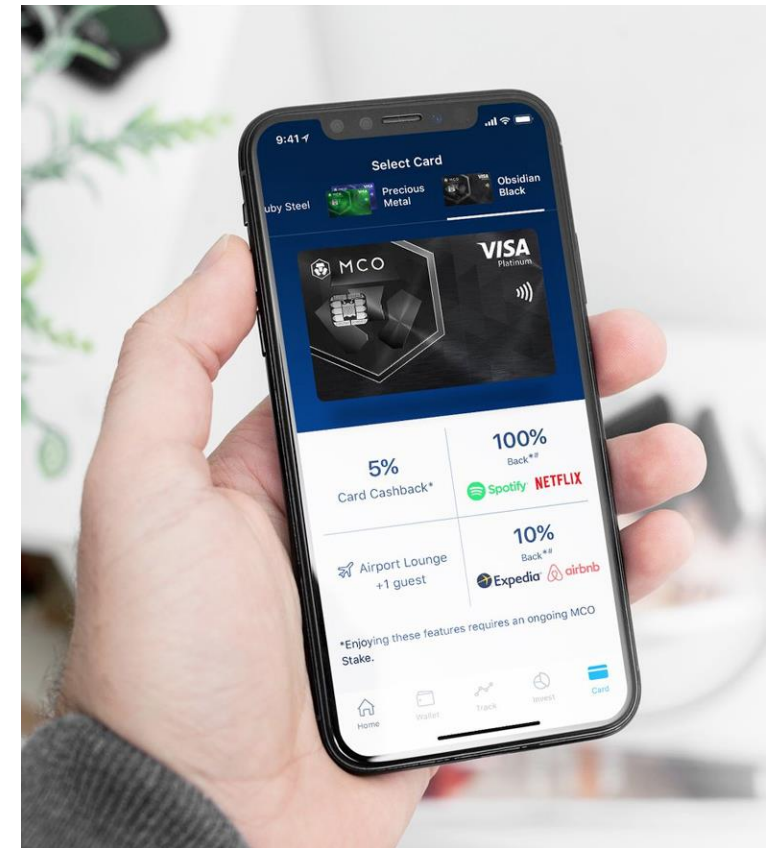
O! ePay Mastercard

- Reloadable virtual Platinum prepaid card
- Accepted globally for online purchases
- Maximum stored amount: HK\$10,000
- Daily transaction limit of account (O! ePay Pro): HK\$10,000
- Annual spending limit of card (O! ePay Pro): HK\$1,000,000



Crypto.com partnered with Visa to launch a metal prepaid card that enables users to spend their cryptocurrencies anywhere

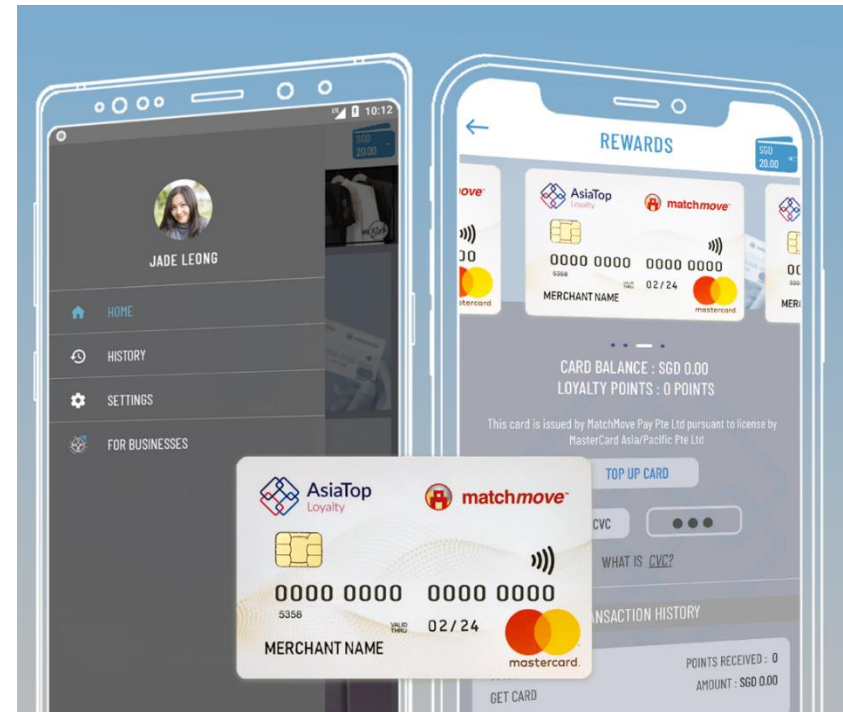
- Crypto.com conducted the MCO Token sale in June 2017 and raised USD\$26.7m shared between 15.8m tokens
- In July 2019, Crypto.com partnered with Visa to launch a metal prepaid card
- Consumers can instantly change MCO tokens into Singapore Dollars at the checkout to complete the transaction
- Cashback on all transactions
 - Chashback rates are higher if consumer holds MCO tokens in his wallet for an agreed period of time
- Capital at risk





AsiaTop and MatchMove have partnered to launch a loyalty prepaid card programme targeted at merchants

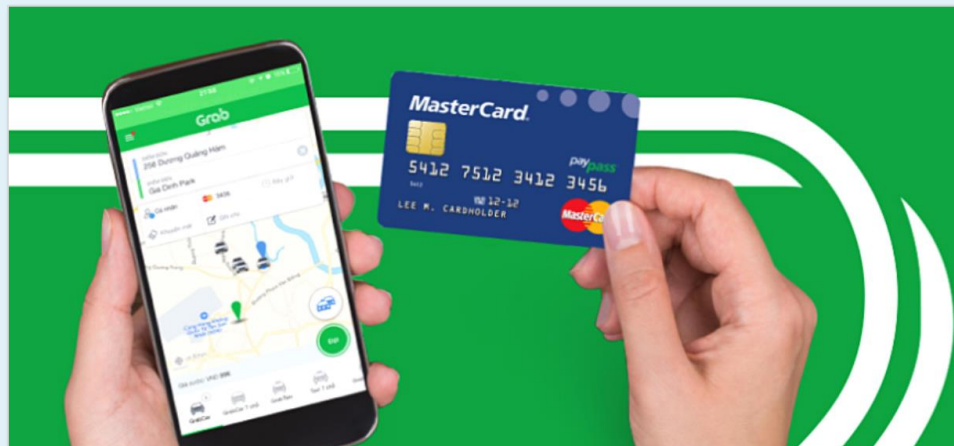
- AsiaTop, a fintech in the loyalty space, has partnered with MatchMove, a provider of cloud and mobile technologies, to launch a loyalty prepaid card programme
- Merchants can issue branded virtual or physical prepaid for their loyalty reward programme on the cloud
 - Linked to an app
 - ◆ Push notifications to consumers with upcoming promotions
 - No system integration required
 - No staff training required
 - Offline and online loyalty rewards all in one system
- Consumers can check their loyalty points on the app, and use them instantly through their prepaid card at the merchant
 - 100 points = SGD\$1



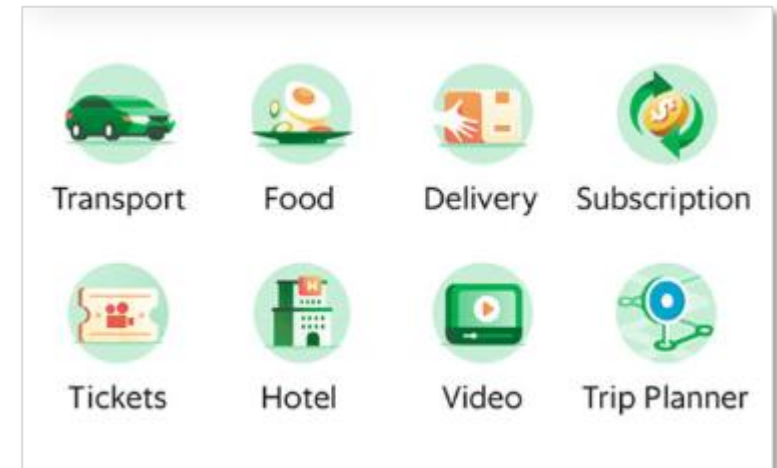


Singapore-based fintech Grab has partnered with Mastercard to launch a GPR prepaid card targeted at the 400m unbanked consumers across Southeast Asia

- Consumers will be able to apply for the the prepaid card directly from the the Grab app
- The prepaid card can be either physical or virtual and is linked to Grab's e-wallet GrabPay
 - The physical card will be enabled with NFC and EMV chip technology
- Consumers can top up the card via bank transfer, card payment or by handing physical cash over to Grab agents such as drivers or merchants that are on the GrabPay platform



Grab offers a wide range of services through its platform:



Regulation – Singapore & Hong Kong



The Hong Kong Monetary Authority launched the Stored Value Facilities (SVFs) licenses in 2016.

The SVFs are facilities to store the value of an amount of money which can be used to make payments.

The introduction of SVFs licensees has boosted the prepaid card market in Hong Kong. As of May 2019, **there were 15 non-bank SVF licensees operating in Hong-Kong.**



HONG KONG MONETARY AUTHORITY
香港金融管理局



MAS defines Stored Value Facilities (SVF) as ‘a form of prepaid electronic cash or card that can be used for payments’

SVFs are regulated under the Payment Systems Act.

SVFs do not require PIN or signature to be used.

SVFs providers are fully liable for the stored value and must refund the consumer if requested.



Thank You



**Edgar, Dunn
& Company**

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