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Prepaid: Doing More, But There's More to Do



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In today's economy, consumers and businesses are more vigilant about spending, looking for new and better ways to make every dollar go further. As a result, prepaid is taking on a larger role in the payments industry — giving consumers the means to compartmentalize their spending, giving the underbanked a cost-effective and secure financial services tool and letting businesses and public-sector agencies drive cost efficiencies, transparency and accountability.

It is no wonder that global prepaid spending is estimated to reach \$680 billion by 2015, according to a May 2008 study commissioned by MasterCard and conducted by Boston Consulting Group and PSE Consulting.

However, to capitalize on this opportunity, prepaid providers first and foremost must ensure their programs solve a specific end-user need. Unlocking prepaid's potential requires long-term vision and commitment — not a blind focus on short-term profitability.

As a relatively new payment tool, prepaid is less dependent on legacy infrastructure, opening the door to innovation and allowing traditional issuers and nontraditional players to develop payment programs that provide enhanced functionality and make consumers' lives easier.

As a case in point, the globally interoperable TaiwanMoney Card, a prepaid card featuring contactless payment technology, has revolutionized the way commuters pay for transportation in Taiwan. This money card, issued by Cathay United Bank and E. Sun Bank through our platform, is now a leading payments vehicle in southern Taiwan that also supplies POS access at more than 29 million sites, including 153,000 contactless merchant acceptance locations worldwide.

Similar prepaid innovation is happening with mobile phones. One of our partners is pilot testing a functionality that lets cardholders "turn on" a card through a mobile phone, pay the bill at the point of sale and then immediately "turn off" the card. This type of innovation — which gives easy access and total control to the end user — is a great example of the convergence of technology and payment functionality to create more consumer-friendly products that cardholders are likely to use for everyday purchases.

To support enhanced functionality in prepaid cards, tremendous advances also are being made in behind-the-scenes processing technology. Agile, end-to-end platforms provide local and global processing support to customized prepaid programs, giving providers easier and

faster access to new markets and user segments. This is true even in segments that have been around for years.

Prepaid cards used by government agencies, for example, are already established as cost-effective alternatives to paper-based, government-sponsored benefits disbursement, shrinking the time spent on back-end paperwork and increasing spending controls.

More recently, we have seen innovation solving "pain points" in tax-advantaged, health-care spending accounts. Previously, consumers were challenged to determine which health-care-related items were eligible for Flexible Spending Accounts or Health Reimbursement Arrangements. Because eligible items could easily not be sorted from ineligible items, transactions often were declined at supermarkets, pharmacies and other merchants. To address this issue, MasterCard led an industrywide effort to support substantiation at the point of sale, as required by the Internal Revenue Service.

Today, health-care merchants can identify and substantiate qualified health-care purchases right at the point of sale using an inventory information approval system. Split-tender transactions also streamline the consumer experience. These innovations increase the number of successful transactions and encourage use of FSA and HRA programs.

Most important, they make it fast, easy and convenient for consumers to pay for qualified health-care items and services through real-time access to funds, eliminating the time-consuming process of paying with personal funds, submitting claim forms and receipts and waiting for reimbursement.

Prepaid also is providing opportunities to reach new audiences. For underbanked people worldwide, reloadable prepaid cards can supply cost-effective access to the financial mainstream. Take for example the Treasury Department's prepaid debit MasterCard program for Social Security payments, issued by Comerica Inc., which has already seen significant adoption.

Since the program's introduction in spring 2008, more than half a million Social Security recipients have signed up for the card, according to the Treasury.

The program is a welcome innovation for federal benefit recipients — helping avert lost or stolen checks, fraud or other problems associated with paper checks. The cards give recipients access to their money on payment day — rather than on mail delivery day — and bypass costly check-cashing fees.

Still, to continue the momentum behind prepaid, it is crucial that prepaid providers focus on consumer education. Increasing adoption and use of prepaid cards rests on end-users' understanding their benefits and

functionality — and on how prepaid can help meet specific, everyday payment needs.

Though awareness is increasing, thanks largely to the growing number of public-sector programs, work remains to be done. The more education that financial institutions or retailers can give their customers about how to obtain and use prepaid cards, the more adoption and use we can expect.

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