Global Potential for Prepaid Cards

Overview of Key Markets

September 2018
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

Shaded blue countries represent markets where EDC conducted client engagements

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 2022\(^1\)
What we will cover today...

Five Fascinating Facts Per Region
Five fascinating facts about prepaid in the Middle East & Africa

- Cash dominant relative to prepaid
- Massive unbanked/underserved market
- Dynamic range of prepaid programs – consumer, corporate and government
- Large & highly connected youth market
- Governments leading the way
The number of prepaid cards in issue in the Middle-East and Africa (MEA) region grew by 178% over the past 5 years – driven mainly by the African markets such as Kenya and Egypt.

The growth of prepaid cards in the MEA is being driven by need to serve the unbanked and underbanked.

Government programs for food subsidies, social benefit disbursement or mandates for salary payments into prepaid cards/accounts are also driving growth.

**NOTE:** data is for open-loop cards only and covers 5 key markets in the region.
Prepaid trends in the Middle East and Africa

**Payroll**
- Largest segment for prepaid cards largely driven by government mandates for electronic payment of workers
- Companies in Saudi Arabia and UAE with over 10 employees must pay their workers electronically
- African markets such as South Africa are also using prepaid cards for salary payments

**Government**
- Government initiatives play a key role in prepaid growth as they aim to drive financial inclusion
- Government subsidy programmes
- Notable initiatives launched in South Africa and Nigeria in recent years combining national identity cards with prepaid products

**Travel / Youth**
- A growing connected youth population is being target by issuers for prepaid products for online transactions and student cards
- With a growing middle class in many markets, travel cards are becoming increasingly popular, especially multicurrency cards

**Remittance**
- Remittance payments from the Middle East total more than $60 billion each year
- Prepaid remittance products are especially targeted at expatriate workers in Middle East
- Egypt is the largest receiver of remittances in the Middle East & Africa region but only 1% of recipients have bank accounts

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1 Mckinsey: A new dawn in Middle East payments
2 World Bank
Changing payments landscape will enable growth in prepaid

- Developing regulatory prepaid framework
  - Saudi Arabia has developed prepaid card regulations set out by SAMA
  - Regulation requiring electronic payroll settlement in UAE supports issuance of prepaid cards

- Growing distribution and acceptance infrastructure
  - Increasing number of POS and ATM
  - Major banks across the region are issuing prepaid cards

- Consumer adoption
  - Growing trust and awareness of electronic payments
  - Digital technologies (e.g. mobile) driving consumer adoption
  - Contactless products for transit aiding consumer adoption
Mobile money apps are prolific across Africa, with few markets offering physical cards

Bank led prepaid initiatives

- Nigeria
  - First Bank – Verve and Visa prepaid cards
  - UBA – Mastercard prepaid cards

- South Africa
  - Standard Bank – Visa prepaid

- Rwanda
  - I&M Bank – Visa prepaid cards
  - Bank of Kigali - Visa prepaid cards

Mobile network operator led prepaid initiatives:

- Kenya
  - M-Pesa – Safaricom
  - Airtel Money - Airtel

- Tanzania
  - M-Pesa – Vodacom
  - Tigo Pesa – Tigo

- Sudan
  - MTN Cash – MTN

- South Africa
  - M-Pesa – Vodacom
  - MTN Money - MTN

- Liberia
  - MTN Money - MTN

500 million Africans use mobile phones
84 million Africans have active mobile money accounts
Only 34% of African adult population have bank accounts

Sources: GSMA annual report, EDC, AfricanRenewal
Egyptian banks issue prepaid cards targeting several consumer segments

- Arab African International Bank offers several prepaid cards:
  - Open loop gift cards
  - Teen/youth card
  - Household (expense) card
  - Internet card
  - Travel card

- National Bank of Egypt issues several prepaid cards:
  - "Al-Ahly Lel Shabab" – youth card
  - Open loop gift card
  - Internet card

- Banque Misr issues multiple prepaid cards:
  - Open loop gift cards
  - Internet card
  - ‘Hewalty’ card – for remittances received from abroad
e-ID Nigeria launched in 2014 – roll out is driving prepaid growth

Collaboration between National Identity Management Commission (NIMC) and Mastercard

Incorporates National Identification Number (NIN) - for Nigerians above the age of 16

Aimed to improve financial inclusion with free enrolment verified by biometric identification (fingerprints)

Multi purpose, reloadable prepaid card that can be used for purchases at POS, online and for ATM withdrawals

70 million cards expected to be issued by 2019

100 million cards expected to be issued upon completion
There are a variety of Nigerian banks that issue prepaid cards – serving a variety of market segments
The Huduma card in Kenya is a government initiative for financial inclusion

- Huduma card – government initiative for financial inclusion, piloted in 2017
- Aims for 13 million Kenyan citizens to be using Huduma cards in the next 7 years
- Banks offering the card include Commercial Bank of Africa, DTB, Equity Bank, and KCB
- Launched in partnership with Mastercard
Many larger Kenyan banks have started to issue prepaid cards as card acceptance network grows

- Kenyan banks are increasingly issuing prepaid cards as card acceptance network grows
- Many banks target the growing middle class with multi currency travel cards
- I&M banks issues a prepaid card that can be loaded using existing m-Pesa accounts
The Sassa prepaid card in South Africa is a government initiative for grant payments

Issued by Net1 and Grindrod Bank in association with South African Social Security Agency (SASSA)

Card can be used to pay for goods and check account balances for free at POS

- Biometric information (fingerprints and other personal information) identifies recipients, so only approved beneficiary can receive grants
- Savings of over R10 billion over the 5 years of distributing the grants

Disbursement of 17 million grants to 16 million plus cardholders worth R11 bn per month

1 https://www.grindrodbank.co.za/Pages/Sassa
Most major banks in South Africa issue prepaid cards for youth and travel segments

- Prepaid growth is being driven by:
  - The large unbanked population
  - Young consumers

- Prepaid cards are popular with young consumers as they are easier to obtain than credit cards, with many cards being linked to mobile apps

- Cards for travel, retail, healthcare and government issued are helping drive prepaid growth
The Saudi Arabian prepaid card market growing as a result of government mandates

- Prepaid cards are gradually gaining prominence in Saudi Arabia due to the high unbanked and expatriate populations.
- Several banks offer salary cards as a result of the Wage Protection Law which came into force in December 2017 mandating the payment of salaries to domestic workers to be made through prepaid cards.
Closed loop and open loop gift cards have become increasingly popular in the UAE

- Ramadan card
- Jewellery card
- FIFA limited edition card
- New baby card
- YAS mall card
- General congratulations card
Travel cards, especially multicurrency travel cards, are widespread in the region.

- Other prepaid cards include youth cards, sports cards, internet use cards.
- Salary/payroll cards are also growing in issuance following the government’s wage protection scheme (WPS) requiring the payment of salaries through banks or other financial institutions.
Five fascinating facts about prepaid in North America

- Travel cards have become mainstream
- Large unbanked/underserved market in the US
- Mature market for corporate & government programs
- Massive closed loop market
- Prepaid cards are used as substitutes for current accounts
Prepaid cards in issue in North America have grown by 122% over 5 years

- The number of prepaid cards in issue in North America grew by 122% over the past 5 years, whereas the value of prepaid transactions grew by 64% in the same time frame.
- Both US and Canada prepaid markets are undergoing strong growth, +126% and +92% respectively.
- Growth in the US prepaid market is being mainly driven to serve the 20m underbanked population. In addition, the market is gradually offering a higher number of products targeted at higher-income population such as travellers.
- The Canadian market is experiencing positive growth across all prepaid segments (i.e. consumer, corporate and government).

**Number of Prepaid Cards (000s)**

- 2012: 150,000
- 2013: 175,000
- 2014: 200,000
- 2015: 225,000
- 2016: 250,000
- 2017: 275,000

**Value of Prepaid Cards Transactions ($USDmn)**

- 2012: $120,000
- 2013: $140,000
- 2014: $160,000
- 2015: $180,000
- 2016: $200,000
- 2017: $220,000

**Source:** EDC, Global Data

**NOTE:** Data is for open-loop cards only and covers 2 key markets in the region.
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 – a multicurrency travel card from Air Canada

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
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 up saving goals, transferring the money to a saving account
  - **24/7 customer service**
- Prepaid cards are popular replacements for current accounts due to lower fees charged by non-banking products
Chase Liquid – example of mainstream banks offer 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.
European issuer makes the step into North America

- 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.


- Wirecard is now amongst the TOP 30 German companies in terms of market capitalisation.
The Consumer Financial Protection Bureau (CFPB) announced in January 2018 that it has finalised updates to its 2016 prepaid rules.

Changes include adjusting requirements for resolving errors on unregistered accounts and extend the effective date of the rule by one year to 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.

Effective 1st April 2019
Five fascinating facts about prepaid in Latin America

- **Innovative products offered by Fintech players**
- **High number of unbanked and underserved**
- **Meal vouchers in Brazil**
- **Bank issued corporate and incentive cards**
- **Government programmes in Mexico**
The number of prepaid cards in issue in Latin America grew by 37% over the past 5 years, whereas the value of prepaid transaction grew by 58% in the same time frame.

Growth in the LATAM prepaid market is driven by the need to serve the highly underbanked population:
- Non-bank players have entered the market and are offering innovative prepaid products targeted at consumers.
- Government programs for social benefit disbursement are also driving the growth, in particular in Mexico, which is LATAM’s largest prepaid market in terms of both total number of cards in issue and total transaction value.

**NOTE:** data is for open-loop cards only and covers 6 key markets in the region.
Uala is a personal financial management mobile app linked to a Mastercard prepaid card

- Using the slogan “We want you to become banked”, Uala is targeted at unbanked Argentinian population
- Uala has had a strong uptake in Argentina, with 150,000 cards issued in its first 7 months, driven by high unbanked population (51%) and a relative high smartphone penetration (53%)
Recargapay & BPP Tag – combining prepaid products with new technologies

- Recargapay is a Brazilian Fintech offering payment services such as top up mobile phone or P2P transactions.

- Recargapay just launched, in cooperation with Mastercard, GPR prepaid cards which offers 1% **cash back** on all transactions made with the card.

- BPP has launched, in partnership with Visa, bpptag, Brazil’s first ever prepaid wristband.

- Bpptag is rechargeable and accepted internationally. Additionally, bpptag is waterproof and can be fully managed through an app.
E-Prepago & Mas Efectiva – examples of prepaid products in Colombia

- Bancolombia, in cooperation with Mastercard, has launched a virtual prepaid card targeted at online shoppers who are concerned about fraud.

- The card number can be changed up to 3 times per day.

- E-Prepago Virtual Card can be used for cross-border purchases.

- Tarjeta Mas Efectiva is a GPR card launched by Banco de Bogota targeted at corporates.

- Tarjeta Mas Efectiva allows its user to withdraw money from ATMs as well as make international transactions.

- Corporate prepaid products are popular in Colombia, with large banks such as Grupo Colombia, Banco de Bogota, BBVA Colombia and Banco de Occidente offering products for salary disbursement, incentives and expenses.
Social programs are driving prepaid growth in Mexico

- Government programs are driving the growth in the Mexican prepaid market

- There are a number of prepaid programs launched by the government that aim to improve social inclusion
  - Examples include Salario Rosa and Prospera, both targeted at women

- Bienavales is a social program promoted by the Mexican government to subsidise public transport for students

- Bienavales was given 100% in paper/vouchers until August 2018, when it started its digital transition via a prepaid card, Innova Card
Ligo & Tarjeta la Magica – examples of prepaid in Peru

- Tarjetas Peruanas de Prepago and Mastercard launched Ligo, a mobile app linked to an open loop prepaid card
- Ligo card is rechargeable and can be fully managed through the Ligo mobile app
- Enables withdrawals from ATMs as well as purchases across the world

- Tarjeta la Magica is a prepaid card linked to a mobile app launched by Tarjetas Peruanas de Prepago
- Tarjeta la Magica’s unique selling point is the possibility of exchanging instantaneously $USD to $MXN with the real exchange rate without any associated fees
Bank of Venezuela is targeting foreign tourists with a travel card, Prepaid Tourist Card

Key features include:
- Cash withdrawals - limit of Bs. 600,000
- POS purchases - limit of Bs. 5,000
- When leaving Venezuela, tourists can recover up to 25% of balance remaining of initial amount deposited

No travel cards exist for Venezuelans travelling abroad

This is mainly due to the social and economic crisis that the country is going through, with level of inflation that could reach 2,349% in 2018

USD$ are traded in the black market, where Bs. 92,000 are exchanged for USD$ 1
Five Fascinating Facts about Prepaid in Asia Pacific

- Very diverse markets presenting very different opportunities
- The importance of local card networks such as RuPay and UnionPay
- A wide range of prepaid programs are found
- High growth region
- China & India vs. Japan & Australia
APAC – prepaid cards in issue grew by 115% in the region over the past 5 years

- China and India are two markets in the APAC region that are driving growth – India grew 545% (2012 to 2017) and China by 116% over the same period.

- Japan, Australia, and Hong Kong (reported separately) grew by 130%, 37% and 51% (2012 to 2017) respectively. Growth in South Korea shrunk partly because of tight local KYC regulations and competition from other products such as debit.

- Prepaid in Japan and Korea are dominated by closed loop and limited network programs run and operated by the transit networks and retailers.

- RuPay and UnionPay are powerful local network brands that have overtaken prepaid products that are branded with the international brands, such as Visa, Mastercard and Amex.

NOTE: data is for open-loop cards only and covers 6 key markets in the region.

Source: EDC, Global Data
## Prepaid cards in Asia/Pacific – four major 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 with the youth/teen market

### China
- Prepaid cards are widely used as gifts and employee benefits in state-owned enterprises
- Lack of regulation and KYC rules has associated prepaid industry with corruption, bribery and tax evasion – new rules could hurt Alipay and Tencent
- Strict anti-corruption regulations have significantly hindered growth in the prepaid sector

### Japan
- Prepaid cards are used in Japan for micropayments with contactless transport products popular – tight linkage with retail payments
- Merchants are looking to expand their closed loop pre-paid products to other retailer networks including airports, vending machines and high way service stations

### India
- Unbanked population is driving the growth of prepaid with cash still the dominant payment method in India
- Prepaid is popular in India as consumers prefer to spend within their means
- Meal vouchers are being digitalized
- The number of prepaid cards has grown from 12M in 2012 to 90M in 2017 at a CAGR of 49%
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
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
Hertitage, one of the more innovative banks, launched a wearable prepaid wristband in 2017.
In China Union Pay – the leading national bankcard network was launched in 2002

- The Chinese bankcard industry has grown rapidly
  
  **End of 2006:** 1.2 billion bankcards issued
  - 1.119 billion debit cards
  - 56 million credit cards
  
  **End of 2017:** 6.7 billion bankcards in issue
  - 4.1 million just in Pakistan!

- Open loop prepaid only represents a small proportion of total issued cards within China

Two major competitor to prepaid, especially in the tech-savvy youth market
HKT is Hong Kong's premier telecommunications service provider launched a UnionPay prepaid card in 2018 (March)
India – long history of e-money / prepaid regulation and the latest was October 2017

October 2017 – the latest RBI publication of the relevant regulations

- Referred to as Prepaid Payment Instruments (PPIs), “e-wallets”, have become increasingly popular in India

- PPIs facilitate the purchase of goods and services including financial services, remittance facilities, etc. and are classified by the RBI
  - Closed system PPIs
  - Semi-closed system PPIs
  - Open system PPIs

- Stringent KYC rules

- RBI has said that KYC-compliant wallets can load up to Rs 100k

- Cash loading has been capped at Rs 50,000 per month

- Detailed guidelines exist on co-branding arrangements by PPIs

- Use of PPIs for cross border transactions

- Detailed reporting requirements

- PPIs in the form of paper vouchers will not be allowed – implications for meal vouchers
All the leading retail banks have issued open loop prepaid cards

The leading products include:

- Travel
- Youth Cards
- Corporate Incentives
- Petty Cash
- Payroll

Amex Gift Card – targeting corporate market
ICIC Bank – Corporate prepaid meal cards and payroll cards

ICICI Bank Pay Direct Card
A complete payment solution!

ICICI Bank Meal Card
The smarter way to disburse meal allowance
Indian Railway Catering and Tourism Corporation launched prepaid card in partnership with the Union Bank of India and the National Payment Corporation of India.

- Allows passengers to book rail tickets and will expand to enable purchases and bill payments.
- Card is offered either as a physical card or virtual card with loading limits of INR50,000 (~$802) and INR10,000 (~$160) respectively.
- Full KYC required for maximum load.
- Free accident insurance coverage worth included.

Launched in 2015.
June 2017 - RuPay overtook Visa (which had over 50% of the market share)

RuPay, a new card payment scheme launched in March 2012 by the National Payments Corporation of India (NPCI), has been conceived to fulfill RBI’s vision to offer a domestic, open-loop, multilateral payment system.

All the leading banks are issuing RuPay prepaid cards.

Of the 3.3m POS terminals deployed in India, 2.7m there are RuPay enabled devices (82%).
RBI’s draft direction on PPIs
What it means for meal voucher users

- Paper meal vouchers not accepted from 31 Dec 2017
- Migration to electronic meal vouchers is mandatory
- No new paper vouchers can be issued after June 2017

- No separate employee KYC needed
- Once the law is effective, no new paper vouchers can be issued
- You can hold up to Rs. 1 lakh in meal vouchers
Last year’s announcement by the RBI not allowing paper meal vouchers has prompted a number of companies to digitize meal vouchers.
Sodexo is one of the largest players in the paper meal space with over 10,000 clients that serves around 250,000 daily users.

**INDIA**

**FAST FACTS**
**PRESENT SINCE 1997**

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(Source: Sodexo, as of January 8, 2013)
Japan – contactless prepaid cards have been in regular use for the last 17 to 20 years

Japan has numerous examples of closed loop, limited network and open loop prepaid programs

Prepaid for transport ticketing is standard practice and most of the cards can be used for non-transit payments at stores in the stations.
Over the last 10 to 15 years numerous Japanese transit operators have made their prepaid cards interoperable and now covers the entire country.
Japanese Department Stores are issuers of closed loop gift cards and open loop co-branded credit cards
South Korea – prepaid transit cards dominate the market, like Japan
All the leading convenience stores accept the prepaid transit cards to make everyday purchases.
2018: the central bank in Korea will take full charge of the issuance of electronic money

- According to the Bank of Korea (BOK)
  - “a complete competitive issuing system will strongly motivate private electronic money issuers to inflate their collateral and produce more e-money than they have if there is no oversight by authorities”

- It is necessary to regulate the issuing of money by private players, even if the private sector is allowed to create electronic money

- Concerns that private issuers can produce counterfeit collateral - therefore, there is a need for tighter regulations of the non-banks

- This has meant that open loop general purpose prepaid has not grown in Korea and the Fintech e-money companies have not gained traction
KAKAO started as a messenger app but grown to include payments whereas TOSS started with p2p payments and grown to include merchant payments

Kakao, the country’s most popular messaging app has now opened up to ride-hailing and payments

Kakao Pay is backed by Alibaba

Since Toss launched in February of 2015, it has processed over USD$10 billion in P2P payments

July 2018: raised $40 million in fresh investment from Singapore sovereign wealth fund GIC and Sequoia China
In 2018 Shinhan Bank (Korean) partnered with Samsung mobile pay to launch a consumer prepaid e-wallet in Vietnam

- Just launched in August 2018 - the new service available on Samsung’s Galaxy Note 9
- Automatic charging
- Money transfer and payment
- Allows Samsung Pay users to apply for the new service via their mobile device without visiting a bank
Thank You