

Prepaid Debit Cards Overview

22 September 2009

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Agenda for Today

- Overview of payment cards
- Overview of prepaid debit process flow
- Mobile technology and impact on money remittance
- Prepaid cards and Law Enforcement

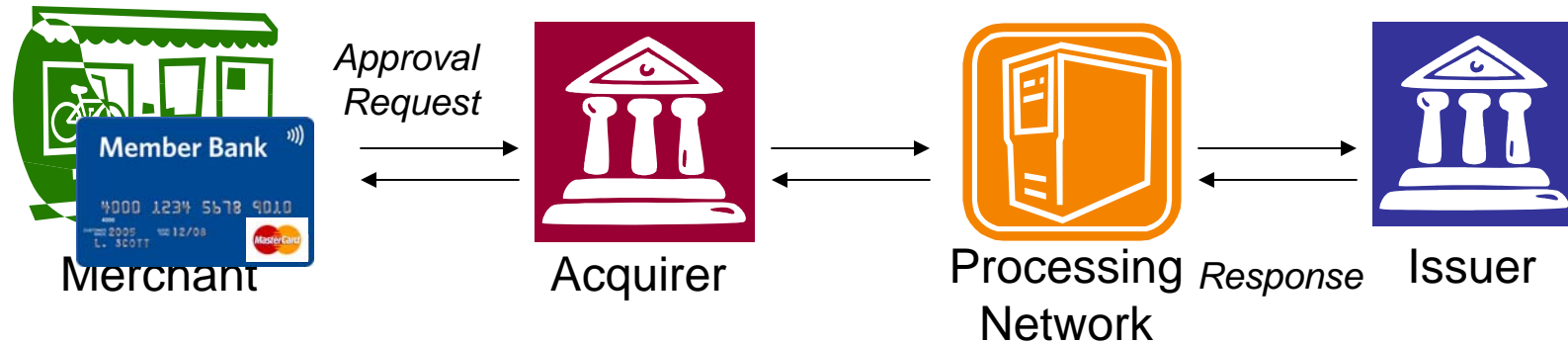
What is Prepaid Today?

- Prepaid is a virtual account that holds a value balance, maintained in a financial institution whereby funds are accessible via;
- *Plastic card*, point of sale, bank teller or ATM
- *Mobile Phone*, remittance funds movement, balance and activity history, soon commerce at point of sale
- *Internet*, funds movement, balance and history and on-line purchases
- *Interactive Voice Response (IVR)* balance and activity history, remittance

Industry Players

- **Cardholder** – Card recipient
- **Issuing Bank** – Card sponsor, holds funds, clears and settles transactions
- **Network Brand** – MasterCard, Visa, Discover, American Express for signature. NYCE, Star or Pulse for PIN networks
- **Processor** – Facilitates funds movement and tracking, holder of all transaction and account information
- **Program Manager** – Marketing and sales of cards

The Transaction Process



Response Types for Branded Prepaid Cards

- Approved
- Denied
- Partial Authorization
- Balance Inquiry
- Card Activation
- Referral

How Prepaid is Different

- A prepaid card can be loaded in many ways, ACH direct deposit, credit card, or with cash at any one of thousands of loading merchants nationally
- Cards can have a wide range of attributes
 - Open Loop – Universal acceptance; network branded
 - Closed Loop – Merchant specific
 - Limited Merchant – Set of defined merchants
 - Anonymous
 - Personalized
 - One time use
 - Reloadable

Prepaid Card Types

- General spend – *everything a bank offers but a security deposit box*
 - Direct deposit, bill pay, online banking, transfers, etc.
- Payroll, expense, per diems
- Teen/family
- Travel
- Government payments
- Gift cards
- Loyalty

The Prepaid Market

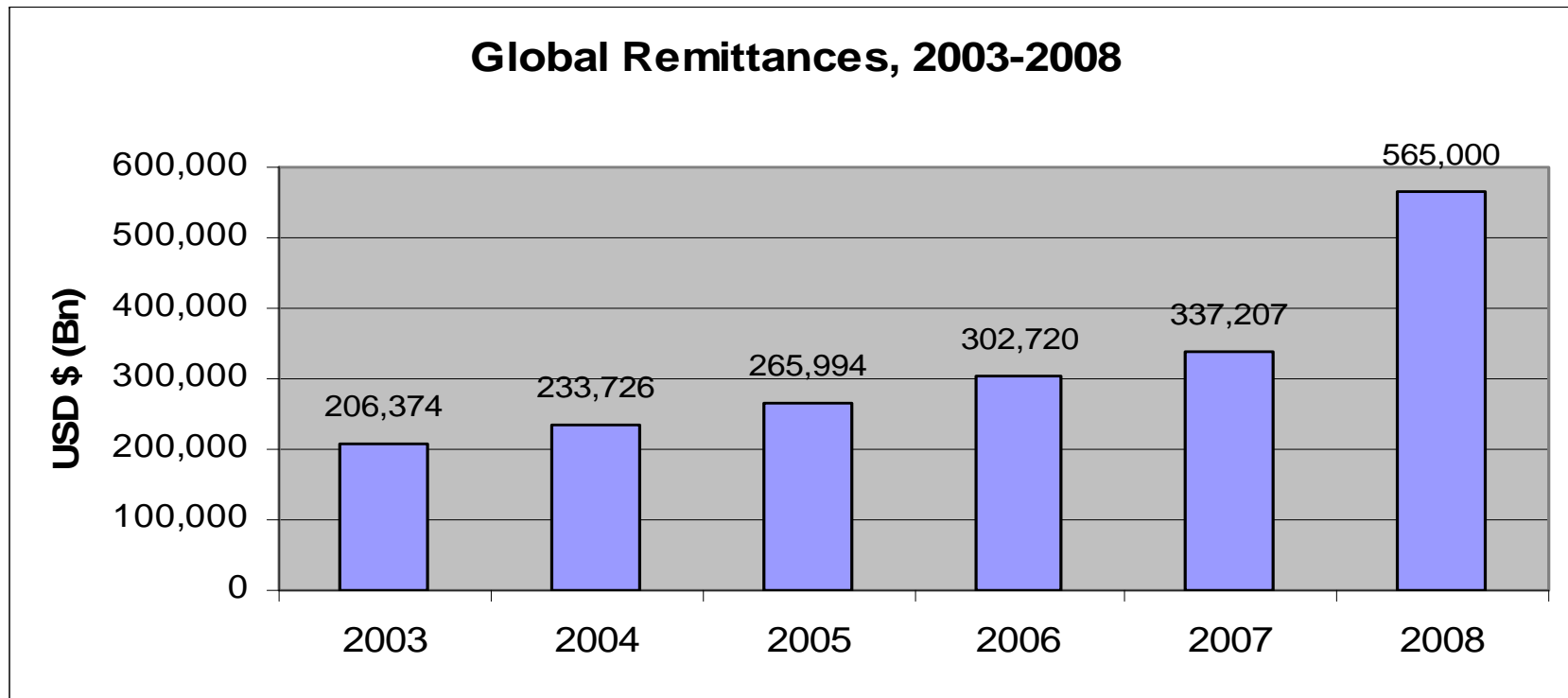
- Over \$312B spent with prepaid cards in 2008
- Estimated that over \$1.3T will be spent on prepaid in 2012
- Appeal to a variety of different markets
 - Govt. disbursement 44.8% of total, growing at 101%
 - General spend 33.0% of total, growing at 117%
 - Incentive cards 5.3% of total, growing at 48.5%
 - FSA card 5.0% of total, growing at 69.8%
 - Payroll 4.6% of total, growing at 27.2%
 - Gift 3.8% of total, growing at 22.2%
 - All others, 3.5%, growing at 66%

Where is the growth coming from

- The movement to prepaid debit card is being driven from the cash and check market
- In the US in 2009, it is estimated that the total cash and check market will be \$7.6T
- The “cardable opportunity” from cash is estimated to be \$2.4-\$2.9T
- Almost all will be on open loop prepaid debit card accounts, both with PIN only and Signature/PIN configurations

Global Remittance

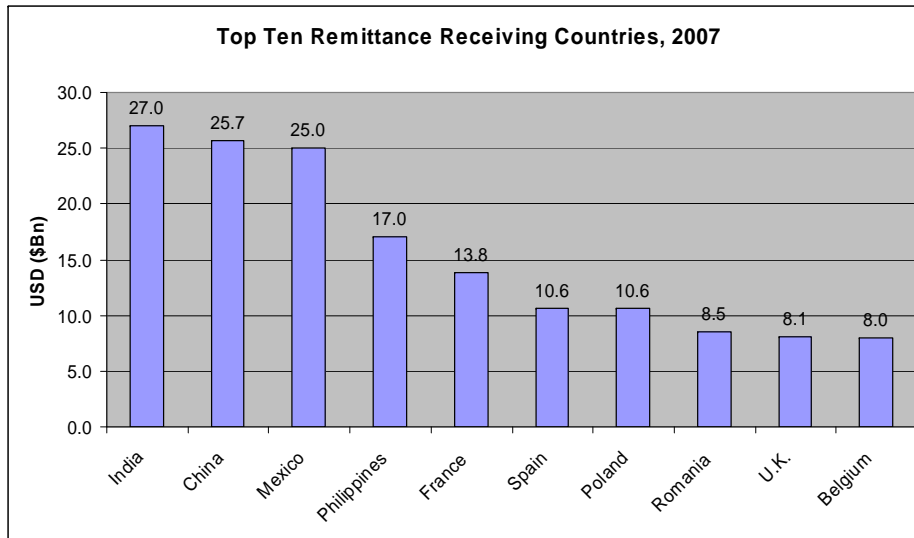
Rapidly expanding global remittance market



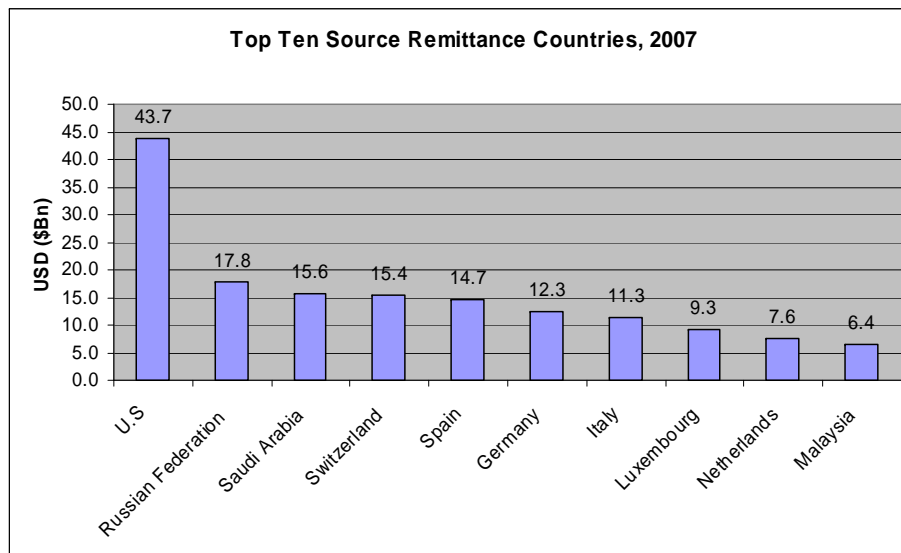
- Total global remittances growing at 63% over the last 5 years. Note that unrecorded remittances can be up to 50% more in size.
- Formal remittances to developing countries have grown from USD \$143 Bn in 2003 to \$251 Bn in 2007, resulting in a 75% increase.

Source: World Bank, July 2008

Top Ten Remittance Countries, 2007



- India, China, Mexico and the Philippines receive approximately 28% of global remittances



- The U.S., Russian Federation, Saudi Arabia and Switzerland account for nearly 39% of all source remittances

Source: World Bank, July 2008

PIN Networks

- Are used for all ATM traffic, some POS traffic
- ATMs are supported by either domestic or international networks
- Domestic networks are for traffic that is from a card with a US issued card and for transactions performed at US ATM
- International networks are used when a US issued card is used overseas
 - Requires international routing of the traffic and international clearing of the settlement files for payment and funds movement
 - Is used for cash access via ATM globally

Signature Networks

- Used for both credit and debit transactions worldwide
 - Used for the purchase of goods and services at merchant locations
 - Not used for cash movement with exception of cash advances at a bank teller window
- AMEX, MasterCard and Visa operate as primary global gateways
- Discover, JCB, Diners and others will often use rails of primary gateways
- Accepted in many more locations than PIN, thus preferred by issuers as more profitable
- Signature revenue to issuer is about 1.3% of transaction; PIN revenue at point of sale to issuer is about \$0.22 per transaction

Mobile Remittance

- Mobile phones are the preferred channel for global remittance program managers and money launders because:
 - Prevalence
 - Mobile phones are the first consumer technology to be more prevalent in developing countries than developed*
 - Speed and lack of trackability
 - Accessibility
- Requires extra vigilance for security and funds tracking
- In 2011, transactions worth \$657 billion will be handled worldwide by mobile financial services*
- Uses for the mobile device continue to expand, such as bill payment

* Source: GSMA

SMS

- Use of text messaging to send funds, check balances, etc.
- Near universal technology
- No barrier to use
- However, there are security concerns
- Short codes for easy movement of SMS can be obtained easily



Downloadable Application

- One time download of application to phone
- Utilize to send money, check balances, pay bills, manage accounts, etc.
- Requires more sophisticated phone
- Multi-step process to sign up
- Highly secure, utilizing PIN technology



Mobile Commerce Mobile Functions



Main Menu

- Easy to use interface
- Work on any phone
- Customizable
- Multi Lingual

Account Balance

Shows the current balance according to the transactions listed in the transaction history. Available balance takes into account any brand new transactions that have not been added to the history yet.

Load Money

Allows customer to move funds from the credit card on file onto their mCash card. Customers enter the amount to load and the PIN for their mCash account and then click on Load Money.

Move Money

This allows mCash customers to move money from one mCash account to another mCash account. Customers enter the amount to send, the mobile number OR mCash card number of the recipient, their own PIN, and then click on Move Money.

Activate Card

This section allows customers to Activate their new mCash card. Customers enter their card number from the card provided at sign up, the expiration date and CVV security code from the card, and create a PIN for the account.

Prepaid and the Law

- Rapidly growing prepaid market is great for the industry
 - Millions of people use prepaid legally and for substantial good
 - It is only a few that use them illegally
- However, it represents unique challenges for law enforcement
- Money laundering and cross border smuggling are a few of the illegal applications of prepaid cards
- Nevada has passed a bill that became law on 1 July 2009, (SB-82) to make prepaid debit card funds and personal information available to law enforcement.

Innovations on the Horizon

- Continued movement toward a global economy and processing environment, prepaid is not domestic it is global
- Criminals are using prepaid as a means to replace bulk cash to the extent possible
- Financial services to America's underbanked will become a reality for millions, not just a sales pitch
- Many other applications now being developed to meet an ever changing processing environment



Conclusion

- International money remittance using prepaid physical and virtual accounts and mobile technology is rapidly growing and here to stay
- It is erasing borders globally, funds from anywhere to anywhere in seconds will become the standard
- Use technology to your advantage - we must find ways to get ahead of the curve
- Questions?



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