

Chapter 3: Government and business products

Government and prepaid

This sector is now making significant use of the prepaid card facility, as this chapter will illustrate.

The strategy adopted by the United States government, and many state authorities, will see them achieving global leadership in the issue of prepaid cards within the short term. The US government made public its commitment to the greater use of prepaid cards in June 2008. It announced the launch of a prepaid Direct Express Card which would be used to deliver benefits electronically to social security and supplementary security income cheque recipients. This followed a one year pilot that included testing the concept with consumer groups and other stakeholders. There will be no monthly fees associated with the scheme and it should be possible to use the funds free of charge. The use of prepaid cards as part of electronic distribution programmes supporting the payment of food and cash benefits has now been adopted by all 50 states. Other regular payments being made by state governments are also being brought into electronically delivered prepaid card schemes. These include such items as child support payments and unemployment insurance payments. TowerGroup estimates that the potential size of the United States market for social benefit payments is over \$700 billion annually. The authorities are already identifying tangible administrative savings and the beneficiaries are avoiding the previous depletion of their benefits, for example through having to purchase money orders with which to pay their bills.

In passing, it is worthy of note that by 2006 there were over 350 US agencies participating in the SmartPay purchasing card scheme operated for the country's government. Spending in 2006 totalled over \$26 billion through 98 million transactions generated by 3 million cardholders. It will be informative to see whether and why prepaid cards supercede the purchasing card in any of the areas where the latter is playing a role for the US Government.

Other examples of government prepaid schemes have been launched within the European market within the last five years. In the UK, over 4 million people already receive their government benefits through a well established prepaid post office card. The benefits are accessed through cash withdrawals at the post office counter. And in 2005, PKO Bank Polski launched a prepaid Maestro Municipal card with PIN for use by local authorities, universities, and other institutions when paying out benefits such as unemployment, disability, and academic scholarships. The cards, which are available from

local municipal offices, offer access to the cardholders' benefits through any maestro merchant, with transactions limited to a maximum of €150. No bank account is required to obtain a card. Balance enquiries may be made at either PKO Bank Polski's branches or its ATMs. The beneficiaries appreciate the extra convenience and better quality service, and they also state that they feel a boost to their sense of social status. The institutions making the payments are benefiting through the streamlined administration of their schemes.

Chase, USA and government-related schemes

JPMorgan Chase has delivered payment card programmes for government agencies for over a decade and now claims to be delivering benefits to around 11 million cardholders in the United States. The bank is now supporting both national and state government prepaid card programmes in a number of different sectors, from which the following diverse examples are taken. The 70 million transactions and \$2 billion of funds that it handles in a typical month are largely related to government programmes.

Chicago police department: A campaign conducted by the city police in August 2008 collected 6,800 guns in a turn-in programme. Those surrendering their weapons were given a prepaid card of either \$10 for light firearms or \$100 for larger equipment.

State governments: Chase says that it now works with more than 35 state governments. The applications for the principal prepaid products that the bank delivers include payroll, the payment of food stamps, temporary assistance for needy families, and disaster relief. The Arizona State Quest prepaid card programme is currently used to distribute benefits to more than 250,000 households.

US Navy: A traditional Chase magnetic stripe debit card issued to members of the US Naval Service also carries an electronic purse. Value may be stored within the magnetic purse and the card can then be used in place of hard currency aboard ship.

The business sector and prepaid

The roll-out of prepaid products for business has largely been driven through the administrative benefits that they have offered to organisations. Payments made to employees (other than through payroll) are projected to run at €17.1 billion in 2015. This is 13% of the forecast overall spending on prepaid cards in Europe. These figures include

the provision of financial benefits to employees, suppliers or customers, and cover the reimbursement of expenses and allowances. However, there is now widespread growing acceptance that the advantages of many prepaid programmes in the business sector are not entirely one-sided. For example, the reports by the CFSI referred to in Chapters 1 and 2 took note of the advantages that the payroll card conferred on the holder.

The incentives card

The preloaded prepaid card is now playing a growing role as a new and efficient medium for delivering incentive and rewards to staff. A poll conducted by First Data Corporation in 2007, across a large spectrum of US companies employing more than 100 staff, suggests major opportunities for merchants wishing to expand their gift card turnover. The study looked at both open loop and closed loop gift cards, and the preferences associated with each.

Garanti Bank, Turkey

Garanti Bank operates a network of around 700 branches to support a personal customer base of 7 million people, as well as the bank's corporate clients and credit cardholders. The innovative approach that makes Garanti one of the leading retail banks in Europe also extends to its card programmes. The GarantiBank Corporate Incentive Card provides the bank's clients with a significant range of different features and flexibility. Options include variations to:

- card design – company specific, co-branded or the bank's standard;
- personalisation – company and cardholder or non-specific;
- loading - reloadable or not;
- spending – point of sale/ATM or point of sale only; and,
- merchant restrictions – focuses incentive card spending.

The card is positioned to be used for a range of purposes including rewarding employees, motivating dealers and distributors, thanking and influencing customers. The card is reloadable through the bank's branches or its Paramatik ATM network.

The median company incentive budget for incentives in the companies contacted was \$50,000. The survey found that programme managers were already spending around 49% of their incentive budgets on gift cards, with cash incentives accounting for only 32%. 33% of the programme managers expected to increase the share of their budgets that they allocated to gift card incentives. 88% of respondents mentioned performance recognition as the principal reason for giving employees gift card incentives, while 64%

mentioned sales incentives. The purchasers of the gift cards were most influenced by three key factors when making their choice of supplier. These were:

- The ability to choose the card denomination (71%);
- The ease of card ordering (66%); and,
- Volume discounts (58%).

There was an opinion expressed amongst respondents that while volume discounts are significant influencers, merchants have yet to address this issue. Only 48% said that they received any discount off the face value of the gift card in exchange for volume purchasing.

The payroll card

The administration of payroll services has long been onerous for both employers and their bankers, especially in the case of unbanked members of staff. This latter group require their employer to either make up their wages in cash or more usually issue a cheque. In practice, significant numbers of cheques are still issued to unbanked employees or those that wish to have access to their wages before they enter the banking system. Cheques are particularly onerous in that they must be printed, purchased, stored, written with a beneficiary and amount, issued (often by post), cleared through the money transmissions systems, collected by the bank, reconciled and stored again for a usually predetermined period. Where the cheques are brought to the employer's bank for encashment, significant footfall by employees not seeking an account can inhibit the quality of service available to existing clients of the branch. And a significant proportion of paycheques are lost each year, necessitating their replacement. Its ability to offer a better way for organisations and their banks places the prepaid payroll card firmly in the category that offers significant administrative benefits. In addition, it can also be said to be opening up new business opportunities in that it provides a first level of financial services experience to many hitherto unbanked consumers.

A prepaid payroll scheme provides the employee with a payment card that enable them to withdraw their wages in whole or in part at an ATM or through point of sale purchases. In order to protect the value of employees wages when they are paid through prepaid schemes, legislation in the USA dictates that they must always be able to obtain the full benefit of their earnings through at least one channel, free of fees. And this is an issue that will need to be considered in any market where such schemes are being promoted. This stipulation has been made even though employees receiving their earnings through cheque payments frequently incur charges when they cash them away from any arrangement with the bank of their employer. Payroll schemes may also offer the employee online access points at which they can obtain details of transactions or the residual balances held on their card. And the scheme may also be supported by a call centre service.

Having evaluated the potential benefits that can arise from a payroll card programme, including those for staff, best practice sees the next step as a staff survey canvassing views on the acceptability of such a scheme and capturing any objections. The level of commitment to any new payroll scheme will vary according to the attitude of both employees and management, and the nature of relationships between the two groups. In August 2007 the Network Branded Prepaid Card Association (NBPCA) published a white paper entitled, "Consumer attitudes towards payroll and general purpose reloadable prepaid cards". The issues discussed in the report were supported by the output from an investigation conducted by Kupersmit Research. 27% of all respondents stated that the availability of a payroll card would favourably affect their view of an employer, with cash based employees expressing an even stronger preference. The figure rose to 45% amongst those who use money orders to pay bills, and it reached 46% for employees without a checking account. While 48% of those paid in cash or using a check cashing store expressed a level of preference for employers issuing payroll cards.

As the implementation project progresses the payment systems organisation will prove a valuable source of experienced guidance. The implementation stage should include a marketing campaign focused on promoting the attributes of the new scheme. Beyond this, the employer may wish to develop an ongoing programme of incentives to encourage card take-up.

The transport or fare collection card

This application has been developed, typically with a contactless payment capability, to collect passengers' fares on public transportation systems. As such, it is discussed along with other business applications. Whilst the concept was originally developed to improve fare collection processes and security, transport card applications are now assuming a wider role, and offering increasing consumer benefits. The card may operate within either a closed loop, or on an open loop basis. The closed loop prepaid application is typically only used within a transport service, and perhaps includes a limited number of external retailers and pay points e.g.: parking meters. The open loop facility is based on a card that carries the utility of the international payment systems.

Major announcements by Visa in November 2008 highlighted their strong strategic interest in the transit sector. The countries where Visa are participating in either established or pilot schemes include France, China, India, Malaysia, South Korea, Turkey, the UK and the United States. The Los Angeles pilot announced at the same time will be based on two prepaid applications. Cards may be loaded with up to \$500 at readySTATION kiosks within the city's Metro system, and these will also be accepted at any Visa merchant point of sale. A personalised facility may be ordered over the telephone or online, and these may carry a maximum load of \$10,000. This card may also be used to make cash

withdrawals at ATMs. Cardholders may deposit their paycheques direct into the account that these prepaid cards access, if they so wish. Both cards will carry the Visa payWave contactless application for use in the transport system. They will also carry the proprietary 'TAP' fare application developed by the transport authority for use within the Los Angeles system.

Chapter 4 discusses the success of the Octopus card system in Hong Kong where it has provided a world showcase for the growth and effectiveness of prepaid contactless cards.

The purchasing card

Not all members of staff either carry a credit card or are creditworthy. The ability to provide a preloaded amount on an open-loop payment card, or a restricted use product, takes over from the previous need of many organisations to issue staff with a cash float. As mentioned above, in the context of government, many purchasing card functions are being transferred to prepaid products. These applications include:

- Everyday office purchases;
- Staff travel expenses; and,
- Fuel and fleet expenses.

Other institutional applications

Many other imaginative prepaid schemes have been developed and offer advantages, to different types of institutions – whether business, government or otherwise. The last part of this chapter itemises a number of examples.

The customer service card

Airlines exemplify the type of organisation that must occasionally provide temporary cash support or compensation for its clients. This need might arise from either delayed or cancelled flights.

Travelex and British Airways, UK and the World

The core business of Travelex is the provision of foreign exchange and business payment services to both consumers and the travel industry, banks, retailers and other corporates. In 1996, Travelex issued one of the earliest prepaid Visa cards which it packaged as its Cash Passport product. Following its success in a competitive tender, Travelex developed a customised version of its Cash Passport product for use by British Airways as a customer service card. Compensation payments can be loaded onto the cards as Euros, Sterling or US Dollars by any authorised airline employee at over a 1,000 service desks in 150 locations across the World. Travelex has ensured that the product complies with regulatory requirements in the 70 countries across the world in which the card is issued. Cards are loaded and activated in real time through a web based application, driven from the British Airways check-in system. In this way, the funds are made available immediately to passengers in the secure form of an internationally accepted payment card.

Emergency support

The major effort launched by Chase Bank, working with MasterCard and The American Red Cross, delivered prepaid cards with valuable financial support to victims of Hurricane Katrina who had sought refuge in most states across the country. Not only were cards in the hands of victims within a few weeks of the disaster, but the savings to the Red Cross administrative effort were also considerable. The programme was set up to include fee-free ATM withdrawals for the 600,000 cardholders that eventually received assistance.

Flexible spending accounts

United States legislation enables employees to build tax free savings with their employers that can be used to cover medical or certain other costs. The employees both control and disburse the funds and the prepaid card has found a role as the means by which the staff access their savings. Prepaid cards provide many efficiencies and have been well received by employees.

The insurance card

This type of prepaid card might be issued by an insurance company in part or full payment of a claim. The card may be open loop or it may carry restrictions on the merchants with which it can be used. This latter situation typically arises where the issuer has negotiated preferential purchase prices or even enhanced merchant service charges with certain retailers, in return for directing the business to their stores. This type of prepaid card can

also be issued to policyholders to provide a source of emergency funds, should the need arise e.g.: holiday insurance.

The airline purchasing card

The notes that follow discuss a scheme that is probably unique in both its scale and its relatively low profile. It has nevertheless been providing corporate prepaid facilities to drive airline spending for over 70 years.

The Universal Air Travel Plan (UATP), USA

This organisation was launched in 1936 to manage a successful pilot scheme whereby US based airlines had issued US\$500 of travel credits in exchange for a prepayment by corporate clients of US\$425. In 1948 the scheme was extended to embrace international carriers. Corporations agree terms with an airline whereby they will deposit money with an airline that is a member of the UATP scheme. The companies are then issued with cards accepted within the international payments network of UATP which may be used by their employees to cover air travel costs with the nominated airline. Cards may take the form of a facility 'lodged' with a travel agent, or they may be carried by an individual employee. And they may also be co-branded. UATP cards have evolved from a prepaid into charge card options as well. The UATP network provides the low cost clearing and settlement service to support purchases. A limited number of UATP plastics are issued under the auspices of one of the main bank card schemes. UATP then handles the settlement and accounting with its client airline. UATP expects to handle in excess of US\$12 billion of turnover in 2008, for over 260 client airlines. UATP state that more than 97% of all miles travelled by air are available for purchase through a card issued through their scheme. The participants benefit from an extensive range of management information and analyses.

Management information systems

One of the key benefits offered by business focused card products is the potential to simplify the administration associated with purchases and settlement. In addition, both MasterCard and Visa provide high quality online management information suites (MIS) that can be integrated with the accounting systems of the issuing bank's corporate clients. These packages are available off-the-shelf from the payment systems organisations, and avoid the need for the issuer to undertake significant software development prior to the launch of a scheme. MasterCard see such MIS as playing a strong role in both securing

new business and strengthening customer relationships. They also see them as a means to reducing costs and driving transaction volumes.

By way of example, the latest MasterCard MIS product, *smartdata.gen2*, provides features and functionality to support transaction review and approval, the accounting processes, reporting and data export, and expenses monitoring. Data is consolidated at a multi-national level and reporting can, if required, be rolled up in a single currency. The whole online system can be branded to the issuer and is capable of operating in 14 languages. The MasterCard service also carries a link to the organisation's value added tax recovery service. The VATrecovery Service is a partnership between MasterCard, KPMG and Meridian. Education and guidance by KPMG is supplemented by the Meridian VAT recovery process. Meridian manages the claims process and queries associated with reclaiming VAT on corporate expenses within Europe and other countries where the client is entitled to receive a refund. In 2004, the European Commission estimated that there was around €5 billion of VAT that went unrecovered each year.

Summary

There are many ways in which prepaid cards can serve a useful purpose within government and business. This chapter has provided examples of a number of such applications, rather than a definitive list. However, it is hopefully now apparent that prepaid cards are able to both streamline the administrative process and bring other benefits in any situation where an organisation wishes to fund an employee, customer, beneficiary, victim or other type of cardholder.