PREPAIDCONSULTING

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Customers spend less time queuing and the retailer sells more product in those peak 'spikes'.

Is there a profitable model for either client or processor for prepaid contactless payments?

What is it about new technology? The new product development departments that build some of the most advanced payment functionality rarely pause to consider the commercial application. For customers or clients to offer this technology, can anyone make money from this? Enter Contactless.

That's the Oyster style 'Tap&Go' payment method. Great idea. Designed to replace cash, quicker than your dock and PIN transaction and just as secure. The carrier of the RFID can be a card (old skool) or mobile phone, watch, wristband. The card itself carries an Radio Frequency Identifier (RFID) which transmits information to RFID enabled point-of-sale readers. The transaction takes 300 milliseconds, the customer gets a flurry of green lights from the reader and the transaction is complete. So why aren't clients and customers signing up for this new product in their droves?

There's many reasons why they should. Any environment where the average basket size if sub-£10, this payment method is the ultimate queue buster. Convenient for the customer and taking the headache of cash out of the retail environment. Customers spend less time queuing and the retailer sells more product in those peak 'spikes'.

However there is a Mexican stand off. Our retail amigo is saying they have mastered the handling of cash. They recently upgraded their POS systems to chip & PIN under the promise from their merchant acquirer 'the kit is good for 10 years plus'. Also why should they upgrade their kit at their expense when nobody has one of these cards. Then there are our banks, literally. Why should they upgrade their customers' cards when the vast majority of retailers have yet to implement or even commit to implement this POS technology.

Technically the product is 9 out of 10. A minus. Here are the main three problems; first we have the issue of two balances. The model the UK is running with is a card balance and a server balance. If the transaction is going to be so fast the transaction is off-line so the balance must be held on the card. So the card must 'sychronize' which means going on-line 1-in-N transactions to update the card with the server balance. The second issue is receipts, should they be mandatory? And finally - what is the best type of card? Debit, Credit or Prepaid? Would you change your bank account to take one? Your credit card?

Probably not, so is prepaid your new disposable promiscuous friend?

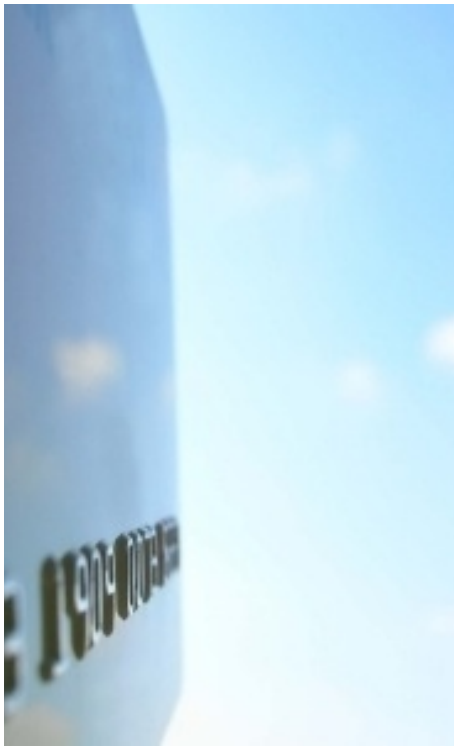
There is a lot of talk about profitability within payments at the moment. Is profit the new black?

Prepaid cards can make their providers money but these need to be broken out into 3 areas. Saving costs, driving incremental sales or collecting cardholder fees.

With contactless the prepaid card is replacing cash. However retailers are pretty good at handling cash although shrinkage remains a major issue for the bar and night club environment. For music and entertainment venues, it's a tough gig to argue contactless saves costs.

Contactless undoubtably drives incremental sales. Stadia tested this by allocating a segment of season ticket supporters a prepaid contactless card. Their time in motion study and actual retail sales showed shorter transaction times and over 50% higher sales sustained of food and beverages in their 15 minute 'pee and pie' half times. Handheld readers enables programme sellers to 'Tap&Sell' and capture data on who was buying what.

Tests underway with one of the largest night club operators are already showing an increase in sales without increase in staff during their 11pm to 1am peak 'rush'. Modeling basket size by time of day for a major high street retailers show that queue times reduce which is a top 3 reasons 'not to shop' from all customer feedback. Add to this the knowledge that electronic payment over cash uplifts the basket value. There is something about card payment which makes it easier to justify that extra item. The obvious incremental marketing promotions is ensuring the card is either closed-loop or branded which means the customer loads £20 on Monday for their lunches but only spends £6 on the day, bringing them back again. Starbucks in the US enable customers to load $10 for $11 credit, effectively securing tomorrows coffee purchase.



"so is prepaid your new disposable promiscuous friend?"

Finally you have cardholder fees. I'm yet to be convinced that customers are prepared to pay extra for a contactless payment. Not sure I'd cover the 10p cost to save myself 20 seconds at the till. However, would I buy the card for an initial outlay or be a member with contactless being a benefit for £1 a month? Still probably not, however cool - even for Yo Sushi.

So our prepaid contactless providers need to assess their cost savings and sales uplifts to offset the cost of running a prepaid contactless programme. Then they need to prove it to their FD.

For those that have taken the plunge the data stacks up. Lower cash shrinkage and higher incremental sales in basket size, more customers and higher repeat purchases.

Is it time to invest in contactless? Maybe. Definitely if the customer base is 20 something or the brand is urban technology. Should retailers just wait for the banks to enable their customers? If they do, the branded contactless loyalty window has closed. Meanhile, their competitors are investing.

Fortune favours the brave.

Give every e-wallet a prepaid card
Transfer funds instantly or even better operate a real-time shared balance.

Are prepaid cards the next e-wallet?

E-Wallets are here to stay and they are recruiting customers fast. The top three brands, you know which ones, are all recruiting 10,000+ new customers a day. Scary.

So why bother. Why don't these customer just use their debit or credit card on-line. The answer is they want to use the e-wallet. Period.

It's no surprise that loading funds into an e-wallet is easy, cheap and quick. Transferring money between e-wallets is easy to which means money remittance and purchasing goods is easy. It's the ultimate e-closed-loop programme. However taking money out, now that's a little different. It costs you and it takes a false amount of time.

Enter open-loop prepaid. Give every e-wallet customer a MasterCard or Visa prepaid card, funds can be transferred instantly or even better operate a real-time shared balance and you have instant ATM or global POS spend from your e-wallet balance.

The question is whether this drives or destroys value of the e-wallet model. Either way, once launched the customers will love the new choice.

What can and can't you do with a gaming prepaid card?

By Stuart Butler

I've met companies that have set up prepaid card companies with the sole purpose of facilitating gaming payments. So why after 5 years of prepaid in Europe are there still no successful prepaid gaming cards?

Let's start with the business objectives of prepaid cards, specifically what problems are they trying to solve. The usual prepaid check list applies which is facilitating payments from customers who currently can't buy direct as well as reducing cost and driving efficiency of making payments to and from customers. Add the fluffy stuff around customer loyalty and customer spend insight and we're off to the races.

Let's start with the first issue which is providing customers a way to pay or deposit funds. Most on-line gaming sites have a very high percentage of customers who register but don't pay, they try but the fund deposit is unsuccessful. Thousands of customers a day fall into this "registered not paid' (RNP) category. One of the main culprits to this failure is the ability of a card issuer to restrict payments to certain types of merchant category code (MCC) of which gaming is 7995. It's not that gaming is illegal, it's that the card product architects within most banks are not the marketing teams but the risk teams. So a customer with plenty of funds or credit can be denied placing a legitimate bet on-line as it's often prohibited through MCC restriction.

The second issue is cost and efficiency. Pokerstars is the largest on-line poker site globally with 12m customers playing for cash at any given moment. They pay out over 500,000 cheques every month to the lucky winners who want to withdraw funds. It costs Pokerstars over $4 to cut and send a cheque, admin and postage. The customer requests their funds and the cheque arrives a week later, they have to deposit it at the bank and the funds will clear 3-4 days later. Ouch.

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So customers can load a prepaid card, which can then load a gaming site as 7995 is not restricted. The customer can request their fund withdrawal and the web server sends a real time API resulting in instant fund transfer. As the card is open loop, the customer can spend or withdraw anywhere. Bingo. Plus a card can be given to any customer who has passed KYC which is already done on all on-line players for AML reasons.

So what's the hold up boys? Everyones a winner surely. A new way to pay and be paid.

Hang on, is the hold up real or perceived. MasterCard and Visa are US based, a country where it's perfectly fine to carry a gun but not place a bet on-line. Which raises a couple of questions. Firstly there are about 20 'no go' regions where on-line gaming is illegal. The US for one, China, Russia, Israel, Turkey to name a few more. Controls need to be in place that cards that are 7995 enabled cannot be issued to customers resident in these regions. Plus you have the cultural mindset of a US company approving rules for regions outside of head office clearly

Product Architects
The ability of the card issuer to restrict payments to certain types of merchant category codes.

"prepaid card can solve gaming companies 'registered not paid' huge breakage issues and drive loyalty from these hugely valuable customers by giving them instant payouts"

will not get a smooth passage of approvals from the compliance teams.

The next challenge is that the card issuance models are territory specific. Put another way, cards can be issued within the country where the card issuer has a license to issue. the internet and international businesses that want to issue cards are challenging this national view of the world. The internet has little respect for national borders. However the schemes do not allow cross border issuance, otherwise every card issuer would issue cards in every country. The answer might be the phrase or loop-hole of "international passive issuance'. This follows the view that if a customer has an existing primary relationship with a company, and that company has a legal entity in the country it has a license to issue, it can passively issue existing customers cards wherever they are in the world. Confusing, you bet. Let me provide an example, 888.com are based in Malta as are Bank of Valetta. BoV have a license to issue cards in Malta. If you are an existing customer of 888.com then you could be offered a prepaid card for loading or receiving funds from your 888.com account regardless of whether you lived in Malta or Manchester.

The next challenge is branding. Following the nervousness of brand association between schemes and gaming brands, you will not be allowed to produce a *PartyGaming* MasterCard or *Ladbrokes* Visa card. You could have a "*goldfish*' card or a '*lucky dragon*' card as long as it isn't a gaming card with any gaming images by association.

A small but fascinating point I come across regarding cost saving is that these gaming companies are making so much money, saving $4 on a cheque is really not on their radar. Building new platforms or games into new markets is their focus, they'll drive cost efficiencies later if they have to.

Finally there remains an element of ambiguity around whether a customer can have just 'one' card that loads and receives funds. The current model approved by MasterCard is that this is only permitted when the card points to an e-wallet. Whether this is visible to cardholder or not is a mute point, the point being that the card can load or receive loads from an e-wallet which may or may not load funds to a gaming account. Bear in mind a prepaid card is an e-wallet with a global scheme enabled 'spend or withdraw' functionality with the piece of plastic being optional. This needs further clarification.

So prepaid cards can solve gaming companies 'registered not paid' huge breakage issues and drive loyalty from these hugely valuable customers by giving them instant payouts. Will 2009 be the year? BWIN think so which is why they have built their own prepaid processing platform and their necessary licenses to do it themselves. Other gaming companies are probably just having too much fun to sweat the small stuff.

Neither the schemes or the gaming companies are committed to finding a solution. Meanwhile, the gaming industry charges ahead, worth an estimated $500 billion in 2008. Tracking a decision maker down to invest £50,000 in a prepaid card scheme to increase fund deposits or speed up withdrawals remains elusive. The odds are that another year will pass without a successful prepaid gaming card launch. I hope I'm wrong.