

VRL Prepaid Summit Summary

13-14 October 2010, Milan

Introduction

In October 2010, Milan hosted the VRL European Prepaid Summit. One of a number organised by the VRL team, this was the second of three conferences this year focusing exclusively on prepaid products. Speakers and delegates attended from a wide variety of organisations - banks, partner issuers, acquirers, networks, telecoms companies and retailers; and from multiple geographies - over 19 markets were represented. A front-runner in prepaid, Italy was an appropriate location for the event, and proved to be the market from which numerous examples of success were drawn.



Bluerock's Francesco Scarnera speaks on *How to set up a successful Loyalty Scheme*.

Prepaid Coming of Age

A prominent theme was the importance of knowing both your customer and target market intimately, particularly in the current climate. Speakers saw countries grouped differently according to their subject matter, but overall a broad tripartite view emerged - the US and UK, mainland Europe, and developing markets elsewhere. In the US, prepaid evolved from gift cards, and having been available for circa twenty years is theoretically a mature market. However, a general observation was that prepaid cards suffer from 'Peter Pan syndrome' - whilst old in years, they remain somewhat underdeveloped in each geography, albeit in different aspects. For example, in the US and UK prepaid has been stifled by inflexible vertical distribution channels - they're still primarily targeted at the under-banked, teenagers and young adults, and are in fact sometimes referred to as 'teen cards'. The UK is also in

danger of compartmentalising prepaid as 'travel cards'. Whilst prepaid cards are hugely useful in these areas - for subprime customers, as a budgeting tool or as a secure replacement to traveller's cheques, many speakers emphasised the wider application of prepaid - primarily as a platform for innovation.

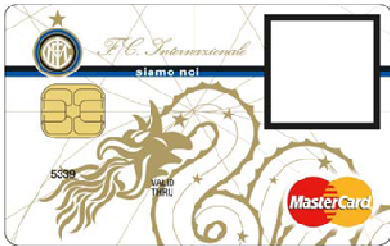
Italian Success

Europe, as a whole, has developed prepaid a little more slowly - Italy, the UK and Russia account for 60% of products here. Italy in particular has become a role model for success. Paradoxically, the characteristics that have typically seen the Italian market generally lag behind in banking have proved a congenial environment for prepaid. Consumers are traditionally credit-averse, most comfortable with cash, and accustomed to paying for even the most basic of banking services, meaning customers have more readily adopted such products. Prepaid has also been led by trusted national and local banking institutions rather than niche players, as is so often the case in the UK. By adding prepaid to other products in their portfolio, they have successfully leveraged their relationship with the customer. Add this to the fact that prepaid cards products have been bolstered by the government, keen to clamp down on tax-evasion, and it's easy to see why prepaid cards issuance in Italy has increased 187% since 2005.'



Intesa San Paolo's Carta Esperienza

Through this unique context, Italy has leapfrogged Europe's arguably more sophisticated banking markets, who will require alternative developments in order to catch up.



BPM's Siamo Noi prepaid ticketing card

Many of the inspiring case studies from Italy include several prepaid co-brands that have combined the standard payment tool functional-

ity with an additional benefit – for example Banca Popolare di Milano's (BPM) *Siamo Noi* ticketing card for Inter Milan football stadium access or Intesa San Paolo's *Carta Esperienza Italia 150*, a prepaid card offering discounts to numerous tourist attractions nationwide, and celebrating 150 years of Italian unification.² Delegates also learnt about Unicredit's *Genius* cards, an innovative series of cards with value-added services such as mobile top up. Looking forwards, enhanced mobile functionality was clearly an objective for many issuers. Both the Italians' propensity to cash (VRL's qualitative research indicated that customers would look to substitute cash spend value to mobile) and the unusually high mobile phone



Unicredit's Genius card.

penetration in Italy make it a prime market for prepaid mobile innovation.³ This is especially true considering the large proportion that remain on pay as you go tariffs, akin to prepaid topping up behaviour. MasterCard showcased their contactless (PayPass) enabled mobile phone, a good example of where the technology is headed, albeit with some problems to overcome as highlighted by the TNS market research - cost, lack of volume, and various technology obstacles. Smartphone penetration is undoubtedly another precursor to mobile prepaid success, but the oft-cited Vodafone M-Pesa scheme reminds us that innovation does not always rely on highly developed markets, or need to be carried by the most sophisticated technologies. Either way, we can expect to see many more adopters in the short term.

Concerns about regulation were somewhat quelled when it was observed that the Payment Services Directive (PSD) technically only applies to 'credit and debit'. There were also calls at the conference to ensure regulation of prepaid remains proportional to the risk associated with a pre-loaded account, and the invariably lower spend amounts. Speakers noted the potentially significant role of prepaid in

allying consumer fear about card fraud, especially online, and as such it is a concept that regulators in general would do well to explore. Piraeus Bank from Greece presented their successful *Winbank* prepaid card – one of the first entirely virtual cards which is therefore impossible to lose, and ideal for customers reluctant to use credit and debit online. However, consumer education is also vital to close the gap between the perception and the reality of online payment card security.

Prepaid Loyalty

Loyalty was another strand that ran through several presentations. In a market where cards loyalty has become something of a hygiene factor, prepaid cards have the opportunity to learn from many past successes and failures. Programmes are of course always best designed in the confines of the issuers' strategies, so their design (mechanism, target market, rewards etc.) are closely bound to growth plans rather than working in isolation. With regard to the reward mechanism, recently launched loyalty programmes suggest cash back, or rewards valued in currency rather than points are more tangible and thus highly compelling - as with the recently launched *Sconti* from BancoPosta and Freedom from Barclaycard, in Italy and the UK respectively.⁴ Both were launched across their card portfolios earlier this year, with *Sconti* being the largest cash back coalition in Italy, available to 12 million customers.



BancoPosta's Sconti Loyalty Programme

When applied to prepaid cards, rewarding customers is seemingly problematic due to reduced profitability. This can be addressed by maximising the large reduction in issuing costs (with no balance transfers, credit check or even substantial customer data to process) and also a proportionally lower value of the rewards. More research on consumer expectation of loyalty rewards needs to be under-

taken. However, it was noted that customers are increasingly looking for 'can't buy' rewards, one example being the chance to win a luxury trip to a football match, offered by Manchester United FC financial services products in South Korea. These are most easily achieved by effective partnerships with each component of the value chain – some speakers suggested that banks should not consider themselves the sole 'owner' of loyalty schemes and should maximise the relationship their customers have with retailers, networks and other players. In the *Scanti* programme, BancoPosta uses a sophisticated CRM tool where the bank provides demographic and financial information, the network analyses consumer behaviour, and the subsequent marketing effort is managed by a third party – each player's specialism is leveraged. In addition, a strong retail coalition like those in *Scanti* ensures that the loyalty programme is not only more attractive to the customers, but cannot be replicated by competitors, a concern in an increasingly competitive market.

Conclusion

With the full benefits of prepaid far from realised, dele

gates came away from the conference inspired by a diverse selection of case studies, considering how to appropriately translate these innovations into different geographies and contexts. Whilst the future of prepaid is unclear and yet to be shaped, what felt certain is that working together for future success is crucial. No one institution, of the many represented claimed to be solely responsible for a great prepaid product, making cooperation and partnership across the value chain key to building on progress in prepaid to date.

¹Taken from: *Turning Italy's prepaid progress into a pan-European success story*, Will Cain, Group Editor, VRL Cards and Payments, Milan, October 2010

²For more information see: <http://www.inter.it/siamonoi/> and <http://www.italia150.it/Biglietteria/Carta-Esperienza-Italia-150-Intesa-Sanpaolo>

³In early 2009 mobile phone penetration in Italy reached 149%, it is now well over 1.5 handsets per person. This is undoubtedly even higher as the calculation is based on the whole population, including segments less likely to own even one i.e. babies, young children and the very old. Source: <http://communities-dominate.blogs.com>

About Bluerock

Bluerock Consulting is a specialist Financial Services management consultancy. We operate primarily in the UK and Italy, but also elsewhere in Europe and further afield.

Our expertise covers a variety of markets but we remain focused on Cards & Payments, Retail Banking, Life & Pensions and Asset Management. Our team members have an industry-learned, in-depth understanding of the markets they work in, along with a keen practical capability of delivering change from within an organisation. Well practised with typically 15 years consulting experience, our people provide a dependable, high-quality resource.

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