

# Banking on the Growth of General Purpose Prepaid

*By Jim Contardi*

Over the last several years, consumers have looked for increasingly flexible prepaid products. General purpose reloadable (GPR) prepaid cards can be used anywhere debit cards are accepted, and there are indications that 2009 may be a good year for these cards despite general economic concerns. But there are still obstacles to widespread consumer adoption of GPR cards including consumer education, fees, functionality and reload capability.

---

# Banking on the Growth of General Purpose Prepaid

## The Timely Appeal of Open Loop

Prepaid financial tools such as general purpose reloadable cards can be invaluable for people on a budget or for those who are trying to control their spending. They can help keep consumers from over-extending themselves with traditional credit products.

Additionally, millions of individuals in the United States don't have access to—or choose not to have—a traditional checking account. With the current state of the economy, the number of these unbanked individuals may grow in the coming months.

“Credit issues are a real practical barrier for many unbanked. Fifty-six percent of unbanked individuals fear garnishment of their deposits by the bank if they run into credit problems. Forty-three percent simply can't have a bank account because of credit issues or problems with a previous checking account,” said Aite Group's Gwenn Bézard. “Monthly and other fees like non-sufficient fund fees for bounced checks or debit card overdrafts are also a concern, as is cash flow. Traditional checking accounts are not well designed for consumers who live paycheck to paycheck and need immediate access to their cash.”

## Adopting New Financial Services

This reality has caused some consumers to seek alternative financial services that offer a combination of security, value and convenience. General purpose prepaid cards are safe and secure, and can be used in retail locations and at ATMs nearly anywhere across the country. Cardholders can load paychecks, cash or checks, eliminating the need to carry around large amounts of cash. Plus, cards can be replaced if they are lost or stolen.

But, as seen with the growth and adoption of the ATM, online banking and closed loop prepaid products, consumer education is critical. Consumers will not use a financial product they don't understand. Trust in banks has dropped dramatically in recent months, and many consumers believe financial services companies use complex language to hide risk or to keep them in the dark. Most consumers refuse to buy

products and services from companies they do not trust, so clear communications are of critical importance.

The value proposition of general purpose prepaid cards to this audience is strong and there appears to be growing appreciation of the product. According to a recent survey by the Network Branded Prepaid Card Association, 85 percent of respondents agreed that general purpose prepaid cards provide flexibility in difficult economic times. The cards can be used to pay for a luxury or to buy necessities such as gas, groceries or school supplies.

## Acquirers and Processors are the Foundation

Clearly, one of the keys to continued growth and adoption of general purpose, reloadable products is to broaden consumer understanding. Consumers must become sufficiently comfortable that their behavior changes to encompass the complete usage cycle of these products, including purchase, spend and reload.

Today's acquirers and processors have vital roles in that process, as their pricing, policies and infrastructure form the foundation for the whole value chain. A thoughtful product strategy must address the needs of all relevant parties.

- Consumers avoid fees whenever possible, so any fees must be minimal, substantially less than the cost of a new card and communicated clearly. Network access must be ubiquitous and the user experience must be simple
- Retailers want to drive store traffic and encourage spending while minimizing clerk training and streamlining the process
- Issuers want increased deposit growth, but must realize that frequent low-dollar reloads may drive the fastest adoption and volume
- Processors benefit from increased transaction growth, so card usage is a key goal
- Acquirers and program managers realize the greatest value from program growth and extended card life, and can have the greatest impact by delivering value to all interested parties

## Banking on the Growth of General Purpose Prepaid

---

To those ends, processors must develop robust networks that offer greater convenience to consumers with the ability to provide real-time reloading, up-to-the-minute balance information and other services. Acquirers must understand the economics of the market and work with program managers, processors, issuers and retail distribution partners to provide a standard reload fee that is priced to encourage frequent loading.

The market opportunity is real. Mercator Advisory Group estimates that the dollar value opportunity for open-loop reloads in retail is roughly \$9.7 billion. The economic conditions are favorable. It's time to deliver on the promise and make general purpose reloadable cards the next breakout financial services product.

*Jim Contardi is senior vice president and prepaid division manager at First Data.*

---

### A Global Leader in Electronic Commerce

First Data powers the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment. Serving millions of merchant locations and thousands of card issuers, we have the expertise and insight to help you accelerate your business. Put our intelligence to work for you.