Business and Regulatory Opportunities and Challenges for Commercial Prepaid

Tuesday 28th April, 2009
Agenda

- Introduction

- **The Expanding Opportunities in Commercial Prepaid – corporate and government applications**
  Joanne Robinson, Co-Founder, Commercial Payments International

- **EU Developments and Legal Issues with Corporate Prepaid Programs**
  John Casanova and William Long, Sidley Austin LLP

- **B2B Prepaid is Really B2B to C – focus on the end user to produce successful programs**
  Rich Wagner, CEO of Advanced Payment Solutions Ltd

- **US Legal and Regulatory Issues with Corporate Prepaid Programs**
  Joel Feinberg, Partner, Sidley Austin LLP

- **Q & A**
The Expanding Opportunities in Commercial Prepaid – corporate and government applications

Joanne Robinson
Commercial Payments International
Webinar, April 28, 2009
Agenda

• Why Commercial Prepaid?

• Commercial Prepaid Opportunities

• Commercial Prepaid Applications

• Examples of Commercial Prepaid Programs
Why Commercial Prepaid?

- Almost limitless opportunities in corporate and public sector prepaid applications
  - Replace non-electronic payments
  - Get cash out of the system
- Increase transparency and better reporting
- Increased operating efficiencies
- Revenue and profit potential higher than consumer prepaid
Why Commercial Prepaid?

• Credit crisis has tightened credit lines – shift to prepaid
• Risk management tools can now be applied to prepaid cards
• Benefits to consumers
  – Part of mainstream banked population
  – More secure than cash
  – Convenience
• Program “time to market” can be fast
The Commercial Prepaid Opportunity

- Two major segments with many potential applications:
  - Corporate segment
  - Public sector
Market Opportunity

• The opportunity is HUGE!

• Prepaid is expected spend to reach $680 billion in 2015. (Source: Boston Consulting Group, May 2008, research commissioned by MasterCard).

• Government and corporate sectors expected to provide significant portion of growth.
Market Opportunity

• Seek out non-electronic payments
• Imperfect processes
• Fairly large scale
• Value in moving cash or paper out of system
Types of Commercial Prepaid

- Corporate funded prepaid cards
  - Salary
  - Incentives/bonuses
  - Employee benefits
  - Travel expenses
  - Promotion/customer acquisition
  - Rebates & refunds
  - Rewards & loyalty
  - Corporate purchase
  - Insurance claims
Types of Commercial Prepaid

• Government funded payments
  – Social benefits
  – Pensions
  – ID cards w/financial utility
  – Unemployment pay
  – Travel expenses
  – Court ordered payments
  – Government purchases
  – Disaster payments
Other Examples

• Maritime payments
• Flight crew per diems
• Temporary help
• Lost baggage payments
• Sales force incentives
• Purchasing
Example – US Social Security Payments

• US Treasury estimates Potential savings of around $44 million per year

• Consumers have safe and immediate access to funds without paying check cashing fees
Example – Poste Italiane Food Stamps

- Government needed a way to distribute benefits to 1.3 million citizens
- Acceptance restricted to prevent abuse
- Cards distributed through 14,000 branch locations
- More than 400,000 cards activated in first 45 days
Thank You!

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Commercial Prepaid Webinar
EU Regulatory Issues with Commercial Prepaid Cards
28 April 2009

John Casanova, Partner
Sidley Austin LLP jcasanova@sidley.com
Topics

- Authorisation
- Programme Structure
- Legal Issues
Definition of E-Money

- Under the E-Money Directive, e-money is defined widely to mean “monetary value as represented by a claim on the issuer which is (a) stored on an electronic device; (b) issued on receipt of funds [of an amount not less in value than the monetary value issued]; and (c) accepted as a means of payment by undertakings other than the issuer”

- The Definition would be amended by proposed revisions to the E-Money Directive

- Negative scope of revised E-Money Directive would exclude limited networks and limited range of goods
Prepaid Card Issuance Models in the EU

Basic prepaid card issuance models in the EU for prepaid corporate cards

- **Bank Issuer** – a bank authorised by the Member State regulation issues the prepaid cards. The bank can issue the cards as part of its own program or can act as a bank sponsor for a program run by a third party program manager.

- **E-Money Institution Issuer** – a non-bank e-money institution authorised by the regulator issues the prepaid cards. May also use a program manager.
Requirements for Authorisation

- **Banks**
  - Minimum 5 million Euro initial capital – Agreed with regulator

- **E-Money Issuers**
  - 1 million Euro initial capital
  - Significant restrictions on activities
  - Proposals to change in the revision to the E-Money Directive
    - 350,000 Euro initial capital
    - Lifting of restrictions on activities, including the provision of other payment services
  - Recognises the uses of agents to distribute cards
Advantages for E-Money firms (i.e. banks and e-money institutions)

Passporting

- A key advantage of the EU banking and e-money regime is that once you are authorised in one Member State you can passport your services (i.e. issue prepaid cards) into other Member States without also having to be authorised in those other Member States.

- When passporting services it needs to be decided whether those services can be provided on a cross-border services basis or on a branch basis. This can have important consequences as regards application of local e-money and anti-money laundering requirements as well as for any tax analysis.
Legal Issues to Consider

Typical Programme Structures

- Consumer Program

Issuer \[\rightarrow\] Contract \[\rightarrow\] Program Manager

E-money \[\rightarrow\] Terms of Use

Consumer
Legal Issues to Consider

Typical Programme Structures

- Corporate Cards

Diagram:

- Issuer
  - E-Money Contract
  - Terms of Use

- Corporate Client
  - Payment

- Beneficiary
  - Cards
Legal Issues to Consider

Questions to Ask

- Who is the Issuer's Customer?
- Where is that Customer located?
- What type of legal documentation is required?
- What type of monies are being loaded Consumer, Payroll, benefits)?
- What type of legal disclosures does the Issuer have to make? Do local consumer laws apply?
- What are the legal obligations of the other parties (if any)?
- In a cross-border programme the answer may differ among jurisdictions
Legal Issues to Consider

AML

- Under the EU Third Money Laundering Directive Member States may allow institutions to avoid identification checks where (i) if device cannot be reloaded the maximum amount stored is no more €150 (€250 to €500 in the revision to the E-Money Directive), or (ii) if reloadable a limit of €2,500 is imposed on the total amount transacted in a calendar year, except when an amount of €1,000 or more is redeemed in that same calendar year by the cardholder.
- Key issue is whether AML needs to be completed on Corporate Client or Employee Beneficiary.
- Not a clear answer in the EU.
Legal Issues to Consider

Disclosure and Terms and Conditions for the User

- Warnings and other regulatory disclosures
- Fees
- Unfair contract terms
- Distance selling requirements
- Data protection
- May be determined by nature of funds on the card
- New requirements under the PSD
- Redemption limitations under the new revisions to the E-Money Directive
Legal Issues to Consider for Products Types

Payroll Cards - Employee Issues

- Some Member States’ laws preclude the use of cards to pay employees using payroll cards

- Limitations on Payroll Cards

- It is also important to note for existing employees consent for introduction of payroll cards is generally required although for new employees it should generally be possible to make acceptance of payroll cards a condition of employment

- Importantly, where there are recognised trade unions and/or employee representative forums then any union recognition agreement or employee representative agreement would need to be considered to determine whether consultation or consent was required to introduce the payroll or public sector cards
Sidley Austin provides services to meet the needs of clients on three continents. Our London Financial Services Regulatory Practice represents a broad range of financial institutions and related businesses. We act for clients with extensive UK, European and international operations, as well as for clients based in the United States or elsewhere and looking to do business in the UK and the EU.
B2B Prepaid is Really B2B to C

*focus on the end user to produce successful programs*
APS Overview

Major Corporate Credentials

- Launched first general purpose prepaid MasterCard in the UK  
  Aug ’05
- Secured electronic money license to directly issue prepaid cards  
  Jul ’07
  - 1st prepaid card company in EU admitted as full MasterCard member
- Secured 10 year agreement with Metavante for processing services  
  Mar ’08
- Posted near £6m in annual revenues in 2008, a 94% growth rate  
  April ’08
- Implemented 60 programmes including recently signed commercial opportunity with ADP  
  Oct ‘08
- Ranked as top 5 Europe (top 20 Global) MasterCard prepaid card issuer  
  TODAY
Commercial – Consumer Continuum

Corporate applications need to remember the end consumer

- All prepaid programmes require an END user to use the card ... Whether its an employee who is part of a Corporate or a direct customer using the card as part of a corporate initiative
- Consumer initiatives are usually easier to engage in but easily migrated (or sold to others) a more focused corporate applications over time
Corporate models have a lower operational risk due to direct interaction with a reputable company and provides immediate upfront cash and minimum fees to support the operational expense.

Entering international partnerships simply increases your investment/operational risk primarily due to the unknown issues not that it may be more complex.
# Commercial Propositions:
*Making decisions – risk based approach*

## Minimising the risk – Defining key markets and applications to pursue

<table>
<thead>
<tr>
<th>International Programmes</th>
<th>Domestic Programmes</th>
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<tbody>
<tr>
<td><strong>Gift / Expense/ Incentive/ Low value dispersing</strong></td>
<td><strong>All</strong></td>
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<td>Top 20 markets</td>
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<td><strong>Government Disbursement</strong></td>
<td><strong>Payroll</strong></td>
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<td>Top 20 markets</td>
<td>Top 10 markets (10m+ population)</td>
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<td><strong>Payroll</strong></td>
<td><strong>Internet Partnerships</strong></td>
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<td><strong>Electronic Authentications required</strong></td>
<td>Top 10 markets Electronic Authentications required</td>
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<tr>
<td><strong>Retail Partnerships</strong></td>
<td><strong>Major Brand Required</strong></td>
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- **Low**
- **High**

- **Evaluate with interest**
- **Evaluate with caution (Board support recommended)**
- **Avoid (at minimum proactively ... and only until full partner risk can be validated)**
Commercial Propositions:  
Attacking it from a different angle

- APS strategy is to create maximum success in commercial applications by focusing more on the consumer than the Company (post commercial deal)
- Not sure APS has it optimised but we just think the potential for success is higher when it's in our control and the risk/reward opportunity is more in our favour

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<tbody>
<tr>
<td>Commercial Frameworks</td>
<td>Cost Plus</td>
<td>Revenue Share</td>
</tr>
<tr>
<td>Primary Revenue Source</td>
<td>Corporate</td>
<td>Consumer</td>
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<tr>
<td>End User Uptake</td>
<td>Mandatory</td>
<td>Optional</td>
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<tr>
<td>Programme Types</td>
<td>Expense Incentive</td>
<td>Payroll Disbursement (Loan, Benefits, etc.)</td>
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<tr>
<td>Profit Opportunity</td>
<td>Fixed, but lower margin</td>
<td>Variable, but usually higher upside</td>
</tr>
<tr>
<td>Program Management Effort</td>
<td>Lower</td>
<td>Higher</td>
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ADP Case Study:

*Ensuring APS maximize success*

- ADP is a great example of how the APS B2B2C framework is structured as ADP is really an even harder B2B2B2C proposition to optimise
  - APS
  - ADP
  - Company/Employer (the ‘in charge’ champion, HR/FD role)
  - Employee (the ‘Customer’)

- Value Proposition is different for employer and employee

- A more complex pricing model – ‘who pays what’

- 2 party sales strategy – must be integrated
  - Payroll processing sale to the employer
  - Card sale to the employee

- 2 party service requirement – must be integrated
  - ‘I didn’t get paid’

*more complex – But more rewarding for partners*
ADP Case Study:
Ensuring APS maximize success

- By doing consumer based payroll programmes, APS has insight into companies where employees of specific companies have already signed up to our payroll card.

- This segmentation knowledge is helping ADP and APS target companies where employees already see product value and are driving the most profit.

Existing Clients

Payroll: £12 billion

Opportunity: £24 million

Profit Contribution
By industry segment
**ADP Case Study:**
Optimising profit opportunity with market segmentation

- Consumer lead knowledge base
  - Knowing what drives consumer usage will drive more value
  - Consumer Behavioural Segments
    - Internet
    - Travel
    - Money transfer
    - Gambling
    - Cash

  - APS help clients ‘move the bubbles’, with a shared goal to make the larger segments more **profitable**
**ADP Case Study:**
*Aligning product to the customer needs. Not just satisfying the company*

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<tr>
<td>Company Branded vs. Consumer Branded debate</td>
<td><img src="Image" alt="TotalPay Card" /></td>
<td><img src="Image" alt="CashPlus Card" /></td>
<td>Company brands do NOT evoke card usage or profitability. It's usually done to satisfy the ‘Company’ ego</td>
</tr>
<tr>
<td>Product Capability</td>
<td>✓ Basic card functionality</td>
<td>✓ Consumer Protection ✓ Credit Builder ✓ Cashback discounts ✓ Overdraft (in beta)</td>
<td>Giving the end user more reason to take the product with expanded value propositions drives more revenue per card, giving both ADP and APS more out of the programme</td>
</tr>
<tr>
<td>Key Stakeholder Focus (in target company)</td>
<td>Finance</td>
<td>Human Resources</td>
<td>Nothings perfect as there is a gap in the targeted stakeholder in the contracted organisation. APS are trying to get to the customer whereas ADP just want satisfy the clients payroll need.</td>
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</table>
Commercial Solutions – APS view

- Corporate KYC is a great solution for some corporate solutions but it’s not a complete solution for the KYC requirements that need to be complied with.
- Corporate solution must be a joint effort - not a supplier / client arrangement.
- Must leverage the expertise from each partner.
- Product must be ‘best’ in market and consumer driven.
- Branding should be consumer based not corporate.
- Finding, knowing and servicing customers must be an integrated effort.
U.S. Regulatory Issues – Commercial Prepaid Cards
28 April 2009

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U.S. Regulatory Issues – Commercial Prepaid Cards

• Legislative Update
  – Gift Card Bill

• Regulatory Update
  – Deposit Insurance

• Rebate Cards
  – Faigman v. AT&T Mobility
  – Young America
Thank You For Attending Today’s Webinar