

NEW TRENDS IN FOREX PREPAID CARDS



Executive Summary

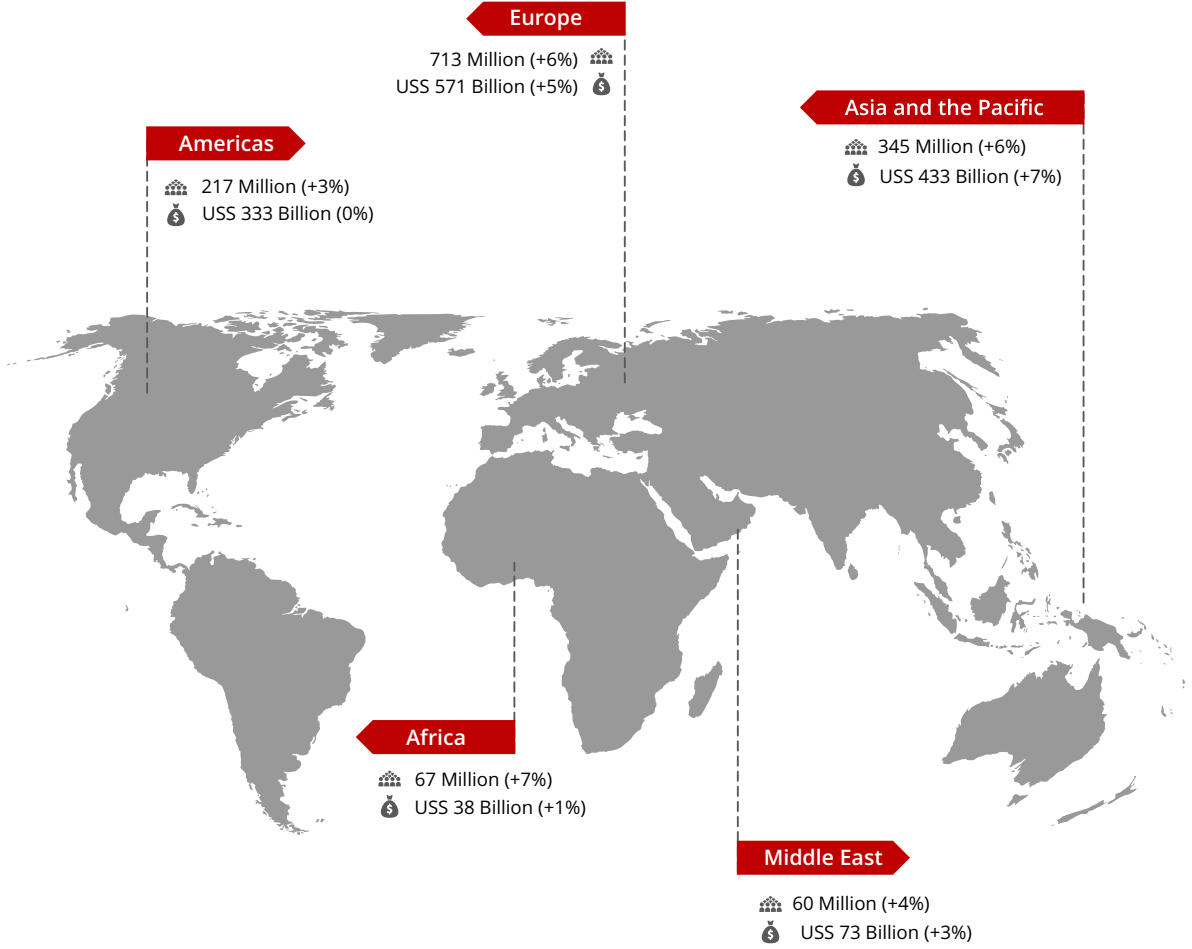
More than 2.2 Billion people are expected to cross international borders for leisure, business and other purposes over the next 10 years, according World Travel and Tourism Council. With cross-border travel increasing rapidly, tourist spending is also expected to rise. Prepaid cards are fast-emerging as a preferred transaction instrument among international travellers due to the inherent protection they offer to customers from currency fluctuations. With growing adoption, the role of prepaid cards has expanded from being a mere store of value to include added value functions such as loyalty, card controls, expense management and budgeting,

This paper provides insights into how issuers can enhance traveller experience with added value offerings, tailored to the needs of multiple sub-segments. With growing demand for innovative features; financial institutions need to have the right underlying infrastructure to bring new prepaid products and services to the market rapidly, expand card usage, customers and improve revenues.

International Travel Fuels Growth

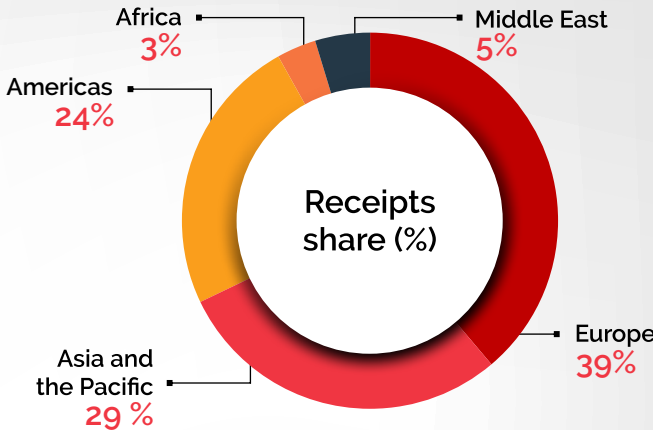
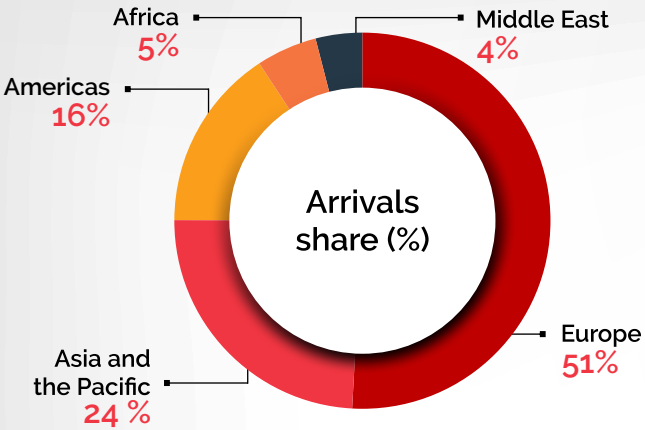
International travel has experienced tremendous growth in the last few years. According to the UNWTO World Tourism Barometer, international tourist arrivals totalled 1.4 Billion in 2018, registering a 6 per cent year-on-year increase in 2018. This trend is slated to continue, with the rise in the number of tourist arrivals across regions, favourable economic environment and increased tourist spending. UNWTO forecasts a growth of 3 per cent to 4 per cent in international tourist arrivals (1.5 Billion) worldwide in 2019.





International Tourist Arrivals in 2018
1,403 Million

International Tourist Receipts in 2018
USD 1,448 Million



Source: World Tourism Organization (UNWTO), May 2019

With the growth in the international travel market, there has been a corresponding increase in customer demand for prepaid cards. A key advantage of using a prepaid forex card over cash, traveller's cheques, credit or debit cards is the ability to lock the currency exchange rate at the time when the money is loaded on the card, protecting customers from currency fluctuations. Hence, in a depreciating currency market, prepaid forex cards enable consumers to save monies. Prepaid forex travel cards also serve as a money management tool to help with budgeting, tracking and controlling travel expenses. Further, unlike debit cards, any misuse of the prepaid forex card doesn't give fraudsters access to the customer's bank account.

A survey by Consumer Intelligence in 2018,¹ among 1,000 respondents in the UK, who had taken a winter holiday in the past year, indicates three quarters of people used cash, 23 per cent used a prepaid card, 27 per cent a debit card and 55 per cent a credit card. Likewise, another study by the RFI Group² in 2016 among 1,000 UK respondents shows 11 per cent used a prepaid card when travelling abroad in the previous 12 months, which indicates a growing adoption of prepaid forex cards. Although prepaid forex travel cards account for a relatively small percentage of total non-cash payments, it is the fastest growing travel payment option.



¹ <https://www.consumerintelligence.com/blog-banking/how-travel-money-providers-can-make-the-most-of-winter-travel-trends>

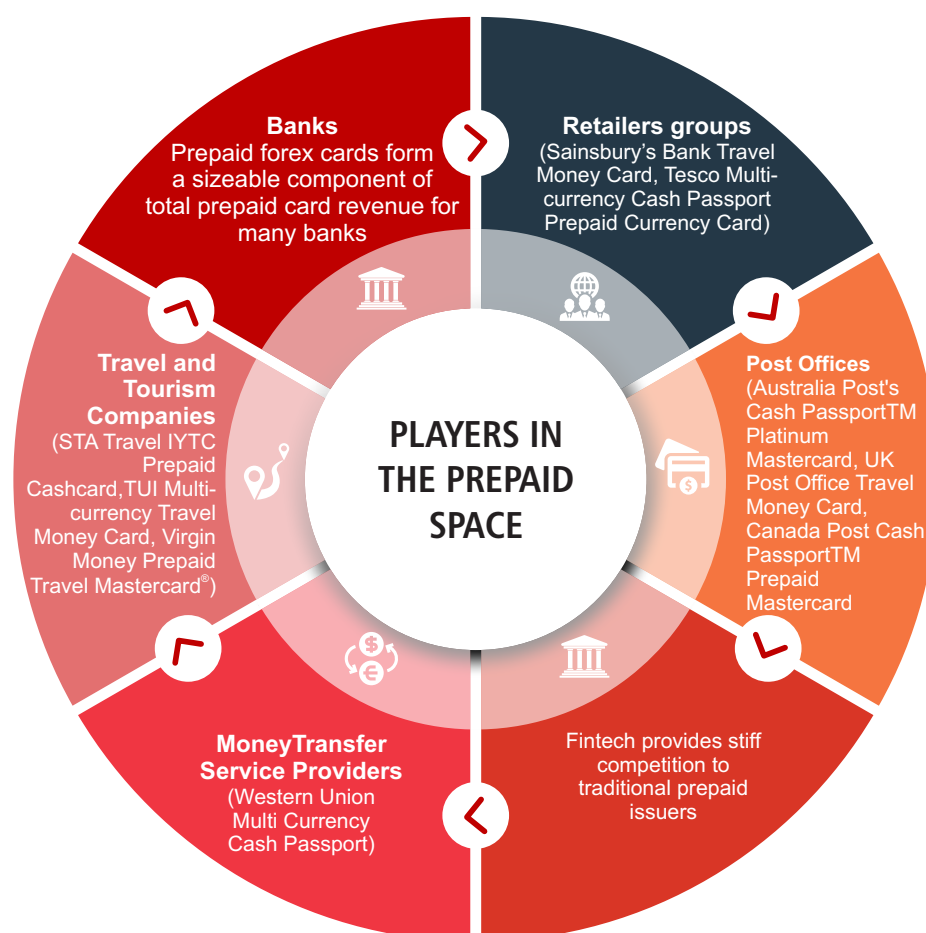
² <https://www.rfigroup.com/global-retail-banker/news/uk-realising-opportunity-uk-prepaid-travel-card-market>

Adding Value to Every Transaction

Prepaid forex travel cards have an inherent value proposition which includes:

- Access to multi-currency purses on a single card that can be linked to a mobile app for travellers seeking convenience
- Protection against foreign currency rate fluctuations
- Tool for money management and spend control among budget conscious travellers

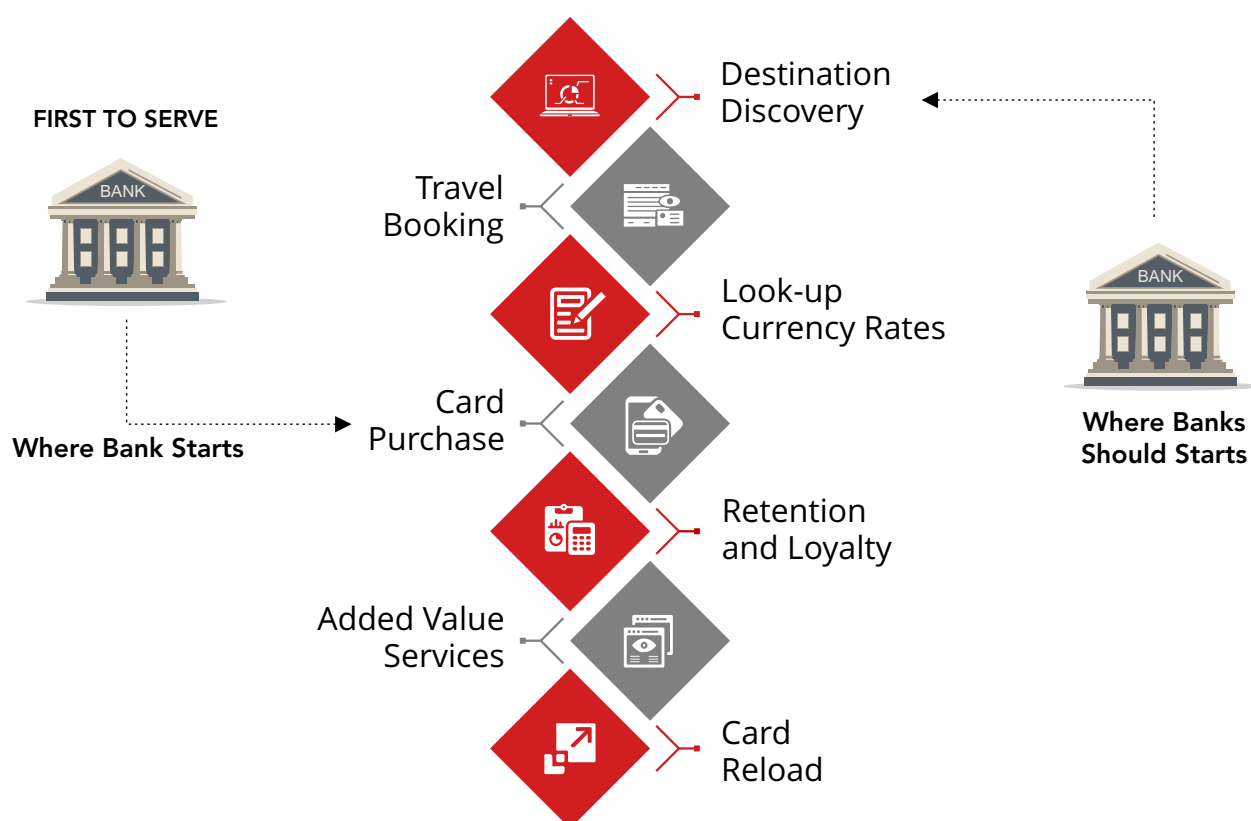
The prepaid travel-card market is, however, crowded with financial and non-financial service providers, including fintechs, jostling for market share.



In a growing competitive landscape, beyond standard offerings such as a issuance of prepaid forex cards with multi-purse functionality, prepaid issuers can differentiate their card programs by becoming involved in the customer's journey early-on.

A customer journey comprises the full suite of interactions for a given activity and prepaid issuers need to streamline and make the entire value chain, efficient, consistent, and personalized from the vantage point of the cardholder. Currently, issuers get involved with customers at the time of card purchase. Engaging with customers early-on in the journey, from the time customers research and plan their travel itinerary, can help issuers reinvent the cardholder experience by introducing a range of added-value services. The critical services that can help issuers maintain top of the wallet status include:

- Developing digital capabilities
- Reaping the loyalty dividend
- Building a captive customer base
- Manage topline via efficient card design
- Adopting transparent fee structures, and
- Partnering with third parties



Develop Digital Capabilities

Card issuers must develop their digital capabilities to stay ahead of the curve.

Digitisation essentially entails:

Frictionless Onboarding

Customer experience is a crucial success factor in the onboarding process. Digitally-minded customers have set the bar high in terms of their expectations around speed, convenience and security and expect a smooth customer experience. Juxtaposing this need for immediacy is the need to conduct adequate Customer Due Diligence (CDD) and Know Your Customer (KYC) checks in line with regulated money laundering and terrorism financing risk guidelines.

Many issuers are AI-enabling customer onboarding to balance the need for CDD and KYC and AML compliance requirements with growing cardholder expectations for a quick and frictionless onboarding process. According to Mckinsey, simplifying the application process can optimise completion times by up to a third, raise fulfilment rates by a quarter, and increase digital applications by 40 per cent. Applicants, for example, can provide their name and address and authenticate identity through facial recognition software.

As an example, Volopa, a London-based payments and FX fintech, offering consumer and corporate multi-currency prepaid card programmes, enables new customers to onboard in less than five minutes by allowing the user to simply take a selfie and a photo of their physical identity (ID). Onfido's technology validates the ID by comparing it captured their facial biometrics and cross-referencing the identity against international watchlists.³

³ <https://www.bankingtech.com/2018/09/onfido-helps-customer-onboarding-for-paytech-volopa/>

Appification of Cards

With the mobile emerging as the preferred consumer medium to interact with service providers, the physical form factor is being replaced by virtual cards. Many issuers are launching mobile apps linked to a virtual card as a strategy to sustain cardholder engagement and build long-term value. The app enables customers:

- ✦ Manage lifecycle of prepaid accounts;
- ✦ Prevent card misuse and fraud using a broad suite of controls
- ✦ Receive alerts and partner offers

Card Controls	Interactive Alerts	Self Service	Partner Products
Transaction Limits	Every Transaction	Load Account	Airline Payments
Location Controls	Account Activity Notifications	View Balance	Hotel Bookings
Merchant Category	Balance Notifications	Transfer Funds Between Accounts	Third Party Merchant Discounts
Transaction Type	Spend Notifications	Expense Claims	Travel Insurance
Spend Limit per Transaction	Fraud Alerts	Dispute Transactions	Medical Insurance
	Upsell/Cross-Sell	ATM Locator	
	Currency Alerts	Transaction History	

Source: FSS

Thomas Cook's Borderless app enables customers to manage and control their multi-currency Borderless Prepaid Card account anywhere, anytime using a smartphone. The app provides real-time access to account statements, deals and offers; ability to block and unblock cards in case of an emergency; ATM locator and in-app customer support. Thomas Cook's Foreign Exchange business, recently, reported a 47 per cent surge in mobile transactions.⁴

Aimed at exchange houses, the UAE-based payments processing and acquiring company, Mint Middle East, launched a multi-currency prepaid card solution with a mobile app, which supports up to 25 currencies. The app provides customers the flexibility to open and link multiple accounts each supporting up to six currencies. KYC upon card delivery.⁵ Online authentication that and instant card issuance.

For a mobile-first generation, the Flight Centre Travel Group, a travel agency group in Australia, offers a digital travel wallet that combines its multi-currency Travel Money Oz Currency Pass card, travel itinerary details, travel insurance policy and a global SIM card.⁶



⁴ https://www.equitybulls.com/admin/news2006/news_det.asp?id=236832

⁵ https://www.zawya.com/mena/en/companies/story/Mint_Middle_East_launches_multicurrency_travel_card_online_identity_verification_solution-ZAWYA20190409115840/

⁶ <https://www.finder.com.au/key-to-the-world-currency-card-review>

Reap the Loyalty Dividend

Meaningful reward and loyalty programs can drive long-term value. Rather than vanilla loyalty products, issuers are leveraging cardholder data to create segment specific propositions and forging partnerships with a range of third-party service providers to extend the scope of card usage and differentiate loyalty programs.

Personalization and added-value services include free ATM withdrawals (basis customer transaction spends) travel insurance, baggage allowance, executive club membership, access to global airport lounges, concierge services, golf access special offers and promotions to encourage repeat and higher purchases.

Airlines such as Qantas (Qantas Travel Money Card), Virgin Australia (Velocity Global Wallet), Etihad Airways (Etihad Guest Walletplus™, a Visa prepaid card) have integrated their frequent flyer membership card and their prepaid travel card.

British Airways Executive Club Multi-currency Cash Passport™, likewise, allows travellers to load up to 10 currencies on a single prepaid travel card and for each pound that is loaded, the executive club members can collect one Avios travel reward point on flights booked with British Airways (BA) and partner airlines. Members can redeem points Avios on flights, hotels, groceries, fuel, car hire and online shopping. Every time they fly with BA and select partner airlines, members earn Tier Points, which lets them move up the club's membership tiers to get exclusive benefits. This includes priority boarding for bronze members, lounge access for silver members, first lounge access and spa treatments for gold members.

Developing Segment Specific Loyalty Propositions

Segment-specific loyalty propositions help issuers differentiate their loyalty programs. For instance, many issuers offer multi-functionality prepaid forex cards that act as a global student ID, discount card and payment card, offering convenience, flexibility and security to international travellers.

The HDFC Bank ISIC (International Student Identity Card) Student ForexPlus Card⁷ is a co-branded prepaid travel card (available in USD, GBP, EUR) for students travelling overseas. It not only functions as a forex card for students but also a global student ID card. Additionally, ISIC has partnered with various merchants and institutions to offer exclusive deals and offers on books, food, shopping, travel and accommodation, among other things, to students holding this card. Likewise, STA Travel ISIC Cashcard for students is a prepaid currency card that also doubles as a globally recognized student ID discount card.⁸



⁷ <https://digiqom.com/clientnews/hdfcbank/2017/08/forexplus/>

⁸ <https://www.statravel.co.uk/sta-isic-cashcard.htm>

Build a Captive Customer Base

Issuers can provide a differentiated prepaid offering by introducing a savings purse built into the prepaid card account. Customers can set aside funds for future travel plans and earn rewards in the form of interest from the amount accumulated in the savings purse.

Caxton FX, for example, a foreign exchange company, offers a Travel Savings Plan to enable travellers to steadily build up travel funds in Caxton account that removes exchange rate uncertainty. The monthly currency savings plan, which can be set up free of charge for the currency equivalent of between GBP 200 and GBP 10,000, allows the customer to lock-in the exchange rate based on the currency, the duration and the amount. After the final monthly payment, the total amount is added to the prepaid Caxton card.



Leverage Popularity of Contactless

Contactless payments are gaining traction across the world. A new research by Mastercard corroborates the rise in contactless payments in Europe, with 97 per cent increase in transactions in 2018. The US Payments Forum, likewise, reports that active NFC-based terminals have reached 20 per cent penetration in the US market and the pace of adoption is gradually increasing.⁹ Outside the US, over 40 per cent of in-store Visa transactions are tap and pay.¹⁰ Prepaid forex card issuers can capitalize on this global trend and promote contactless payments, while embracing initiatives that make authentication easier.

Contactless Payment Penetration by Region

(Rate of Visa F2F Transactions as Contactless)

CANADA

Canada sees **nearly 70% of domestic transactions** that are less than \$50 occur with a tap

EUROPE

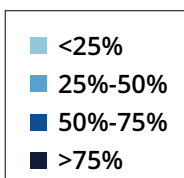
Poland is on its way to being the first country in the world to have **100% of its checkout terminals** tap to pay capable

ASIA PACIFIC

Malaysia has seen growth in tapping to pay with more than **four million contactless transactions** a month.

LATIN AMERICA & CARIBBEAN

In Costa Rica, **more than 80% of checkout terminals** allow customers to tap to pay



CENTRAL & EASTERN eUROPE, MIDDLE EAST AND AFRICA

Russia has seen continued adoption of contactless payments with **more than 200% YoY growth** in contactless transactions.

Contactless cards account for 40% of in-store transactions in the UK, Europe and Canada and 50% in some markets, according to a study by Auriemma Group.

Visa expects more than **100 million**

Visa contactless cards to be issued in the U.S. by the end of 2019

⁹ <https://www.paymentsource.com/list/data-who-wants-contactless-cards>

¹⁰ <https://usa.visa.com/dam/VCOM/global/pay-with-visa/documents/vsa215-02-contactless.pdf>

Card Controls	Interactive Alerts	Self Service
<p>Thomas Cook supports contactless payments on its prepaid forex card (the Borderless Prepaid Cards and One Currency Card) to provide an optimal transacting experience to customers.¹¹</p>	<p>RHB Bank Singapore¹² issued its first digital multi-currency prepaid card- RHB TravelfX app. With this multi-currency mobile wallet, customers can manage the card wallet via the app. It provides added security with locking/unlocking feature on the card when it is lost or stolen.</p> <p>It gives customers total control over the FX rates that they want to buy, by enabling them set alerts for preferred rates their preferred rates, and exchange for foreign currencies anywhere, anytime - enhancing the travelers' experience.</p>	<p>UAE Exchange's multi-currency prepaid travel card (16 currencies) uses go cash app and contactless payment technology via wearable devices, delivering convenience and a frictionless payment experience.¹³</p> <p>Athletes and fans of the Olympic Winter Games PyeongChang 2018 in South Korea, were able to pay for food, souvenirs and other goods and services with payment-enabled lapel pins, stickers and gloves.¹⁴</p>



¹¹ <https://www.thomascook.in/press-release/thomas-cook-india-empowers-customers-with-contactless-payment-across-its-prepaid-forex-cards/95>

¹² <https://www.finextra.com/pressarticle/75484/wirecard-issues-rhb-banks-first-digital-multi-currency-card/cards>

¹³ <https://www.khaleejtimes.com/travel-smart>

¹⁴ <https://www.americanexpress.com/us/foreign-exchange/articles/new-wearable-payment-methods/>

Manage Topline via Efficient Card Design

The design of the prepaid card program is a top profitability lever for issuers. The crucial revenue components of the card program are:

- Forex mark-up from arbitrage on currency
- Revenue from card sale, transacting fee and added value services
- Interchange fee
- Interest on float

A “strategy before structure” approach can help issuers generate higher margins from prepaid card programs. This can mean classifying pricing into:

- Core drivers
- Margin expanders e.g. tiered pricing
- Added value services enhancers
- Revenue from bundling third party products

Whilst the design of a specific card program is a function of market context, overall strategy, and business capabilities, issuers need to carefully balance between revenues and cost to serve for sustained margin attainment. An ability to support a large bouquet of currencies, for example, can be a crucial market differentiator and unlock value from new segments, but it can also result in margin leakages. Any perceived competitive benefit can be rapidly eroded due to high forex risk exposure and low cardholder demand. An understanding of customer travel and spend patterns can help issuers decide on specific currencies to be supported. Loyalty programs, likewise, need to be carefully managed as deep discounts and cashbacks could add to overall program costs, without substantive improvements in customer lifetime value.

Innovate with Pricing

In response to competitive pressure and evolving customer needs, issuers need to offer flexible and innovative pricing plans to maximize revenues. Many issuers are adopting, incremental margin improvement measures to fend growing services commodification. This includes segmenting the offering, into basic and added value services, applying additional charges for instant issuance or a surcharge for lack of activity.

Key Pricing Components

Card Purchase Fee	Add-on Card Fee	Purchase Transaction Fee for Unsupported Currency	Balance Enquiry Fee	Currency Transfer Fee	Card Fee for Lost or Stolen Card	Inactivity Fee
Reload Fee	Overseas ATM Fee	Bank Teller Withdrawal Fee	SMS Activity Alerts	Foreign Exchange Fee	Shortfall Fee	Balance Refund Fee

Fee structure, naturally, varies across prepaid forex card providers. Issuers may levy an initial load fee or card issuance fee, or offer pay-as-you-go plans and charge for-network and out-of-network ATM withdrawals and added value services such as SMS notifications.

There is also a currency conversion fee between 3 per cent and 6 per cent for non-loaded currency transactions. To encourage frequent and repeat use, issuers may offer a combination of free to low fee for card reload. Some may offer free top-up options, while others offer a combination of free to low-fee for card reload. For example, Qantas Travel Money card charges no fee for reloading funds via bank transfer (funds available in one business day) or BPAY (up to two business days) or debit card (instant availability) for a fee of 0.5 per cent of the total load amount. Some still charge an inactivity fee for cards that aren't used for 12 months and a closure fee.¹⁵

¹⁵ <https://www.consumerfinance.gov/ask-cfpb/what-types-of-fees-do-prepaid-cards-typically-charge-en-2053/>

Collaborate for Growth

Many banks are adopting new approaches to expand their base, increase average spend per card, and offer a differentiated customer experience focused on speed and personalisation. Millennials and Gen Z travellers focused on experiential tourism are fast-growing segments and are relatively untapped for co-branded cards. Strategic partnerships with third parties provide customers with greater value-added benefits.

- **Leveraging Co-branded Opportunities** – Canadian Imperial Bank of Commerce and Air Canada offers co-branded, multi-currency prepaid travel cards – the CIBC AC Conversion Visa Prepaid Card that stores up to 10 currencies – all managed via a mobile app and targeted at travellers.²⁰
- **Collaboration with New-age Fintechs** – HDFC Bank in partnership with Happay, a business expense management start-up in India, provides the Happay-HDFC Bank prepaid card with the Happay mobile app to help corporates efficiently manage their business travel expenses.²¹
- **Niche Partnerships** – The UAE Exchange’s gocash Sony PlayStation co-branded multi-currency prepaid travel card is targeted at millennials, who can purchase Sony PlayStation products seamlessly, while benefiting from periodic offers.²² Additionally, travellers with the Cleartrip co-branded card can avail exclusive offers and discounts when booking through the Cleartrip.ae website or via the mobile app. Customers also benefit from WACAO Reward Points and travel insurance policy, which is Schengen-compliant, at no additional costs.

²⁰ <https://www.newswire.ca/news-releases/air-canada-and-cibc-launch-multicurrency-prepaid-card-for-travellers-594789921.html>

²¹ <https://bfsi.eletsonline.com/digital-landscape-in-india-is-changing-at-lightning-speed-anshul-rai-ceo-and-co-founder-happay/>

²² <https://www.khaleejtimes.com/travel-smart>

Select the Right Partner

Changes in regulatory mandates and consumer behavior, increasing competition, and rapid advancements in technology are driving innovation in prepaid forex travel solutions. Issuers require a scalable, flexible and configurable prepaid card issuance and management infrastructure to meet evolving customer requirements. Some of the key challenges facing card issuers are:

Operational Challenges

- **Compliance Risk:** Compliance with interchange rules and KYC and AML regulations can drive up risk governance costs.
- **Fraud Risk:** Fraud and risk management functionality to detect fraud in real-time, manage chargebacks, and compliance with industry reporting standards.
- **Foreign Exchange Risk:** Global market uncertainties like trade disputes and geopolitical headwinds can increase foreign exchange rate volatility and limit profit margins.

Technology Challenges

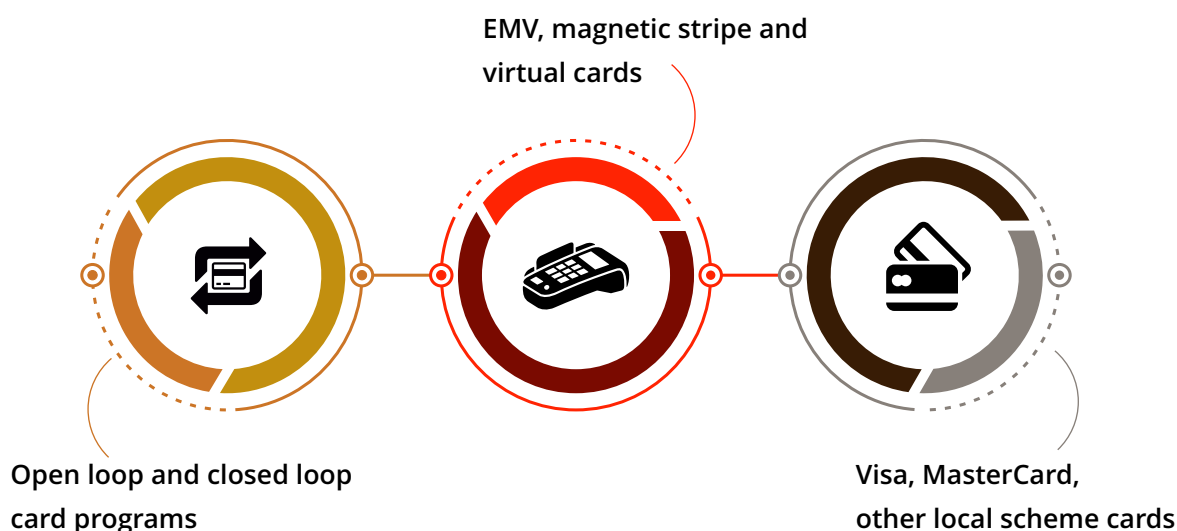
- **Lack of flexibility and scalability:** Legacy infrastructure for card operations can significantly increase time-to-market and result in loss of revenue opportunities. Lack of infrastructure flexibility and scalability to rapidly launch new card programs; support new card types, and domestic payment emergent schemes can limit product profitability.
- **Integration and configuration capabilities:** The complexity of integration with third party providers function as a barrier to anticipate and respond to market needs quickly

Business Challenges

- **Evolving consumer needs and increased competition:** With ever-changing consumer expectations, and intensified competition issuers must ensure seamless experiences spanning all interactions — registration and purchase, fund reload, card costs, card controls, rewards and loyalty, to offer differentiated products, services and card fee.
- **Prepaid value proposition lost in translation:** An unclear and 'one-size-fits-all' value proposition as well as lack of understanding about customer preferences and transacting habits, could hinder the wide uptake of prepaid forex cards.

FSS Prepaid CMS

FSS Card Management Suite is designed to manage the end-to-end lifecycle of cards. The functionality spans the complete gamut of issuing capabilities to help issuers efficiently manage their card portfolios. The system supports registration, verification, card issuance, profile and card data management, card lifecycle management, as well as administration and reporting. We have the capability to support:



FSS Card Management Suite supports parameterization of critical business functions to reduce complexity and provide complete flexibility to users to swiftly respond to evolving business trends. Further the configuration flexibility built into the business logic layer allows us to rapidly adapt systems to variations in business practices, regulatory requirements and operating environments across regions. This helps reduce costs of interfacing to country-specific processing gateways, payment schemes, credit scoring and personalization bureau.

About FSS

Financial Software and Systems (FSS) is a leader in payments technology and transaction processing. The company offers an integrated portfolio of software products, hosted payment services and software solutions built over 27+ years of experience. FSS, end-to-end payments products suite, powers retail delivery channels including ATM, POS, Internet and Mobile as well as critical back-end functions including cards management, reconciliation, settlement, merchant management and device monitoring. Headquartered in Chennai, India, FSS services leading global banks, financial institutions, processors, central regulators and governments across North America, Europe, Middle East, Africa and APAC and has 2,500 experts on-board. To know more, write to products@fsstech.com