FSS
POWERING PAYMENTS

TRENDS SHAPING THE FUTURE OF PREPAID ISSUANCE

Contents

Introduction

The Global Prepaid Card Market size was valued at USD 2.01 trillion in 2019 and is predicted to reach USD 18.47 trillion by 2030, with a CAGR of 22.5% from 2020-2030. The global prepaid card market is on a strong growth momentum, owing to the growing demand for digital payments and a proliferating e-commerce sector, higher adoption of AI and IoT technologies, as well as a need to bring unbanked and underbanked population, specifically in underdeveloped and developing countries into the digital fold. Further big technology companies like Ant Financial, Tencent, Apple, and Google have entered the market, and so have neobanks with niche offering creating an increasingly competitive environment. FSS examines the top trends that would shape the prepaid market.

TREND – 1

Cards Set for a Virtual Makeover

Whether shopping for groceries, streaming entertainment content, accessing video conferencing services or simply consuming information to keep informed - the world has become truly digital. Digital card issuance is reflective of this trend and represents a substantive opportunity for financial institutions to differentiate themselves in the market and increase payment volumes. A recent report by Juniper Research indicates the value of transactions processed by virtual cards will treble over the next 5 years; increasing from an anticipated $1.6 trillion in 2020. Propelled by developments such as open banking, an explosion in connected devices and touchpoints and consumerisation of payments, demand for virtual card solutions has spread across consumer segments and businesses.

Financial institutions are accelerating the digitalisation of core processes – KYC and on-boarding, account opening and card issuance – to align around new consumption behaviours. With virtual issuance financial institutions can instantly provision cards onto a connected device to enable secure access to funds to pay online, in-app, or in-store. The use of virtual cards for online payments protects the credentials of the primary card and can provide replacement for single and recurring use. Programmable spend controls provide added control to cardholders and they can limit usage to a certain number or value of transactions, a certain merchant, or a time limit on the purchase.

Financial institutions are broadening the scope by launching innovative business to business and business to consumer applications.

On the consumer side, customer preference for touch-free, secure, and seamless ways to pay digitally and rise of connected devices is accelerating demand. Apple Card for instance combines simplified application, instant issuance and provisioning, unique financial tools, and a rewards link to a digital wallet (the proprietary Apple Pay product)

In emerging markets that have leapfrogged to adopt digital payment instruments, incumbents as well as non-banks, for instance, are encashing on customer needs for a payment instrument India's largest private sector bank leverages FSS Prepaid CMS to creates an instant VISA-powered e-wallet wallet that customers can fund using any

bank debit card or Internet Banking. Customers can use the wallet to recharge their mobile, send money, shop anywhere, pay bills. The wallet supports QR payments as well as contactless payments.

Non-banks and wallet service providers in partnership with Issuers are linking wallets to cards to provide customers a choice of fund sources. GrabPay Philippines launched a numberless virtual card which facilitates spending from the GrabPay mobile wallet on a card - can be used at any of the nearly 53 million merchants worldwide that accept Mastercard, regardless of whether users own a bank account. Users control the card through the GrabPay app, where card details will be securely stored. Google Pay India likewise has introduced digital cards on its platform that will allow customers to send virtual gift cards from more than 150 online and offline brands, across 1,500 cities to people in India in real-time.

Virtual cards continue to gain traction in commercial payments accounting for almost 80% of virtual card transactions value, according to Juniper Research, with a focus on providing capabilities, that simplify A Accounts Payable processes. A process based on pre-spend requests ensures a business has visibility of spend -- significantly reducing erroneous claims and associate back-end work. Further to this, integration with an Expense Management System (EMS) ensures no double-touching of an expense by an employee as correct categorisation of spend can happen upfront.

Barclaycard UK launched PrecisionPay a virtual option that allows employers to issue a different virtual card for each business payment. It also allows employers to create a card for a group of payments such as for a specific business trip. Companies can add custom data fields to be populated by the employee, each time a new virtual card is requested. The employee can further upload purchase receipts via the mobile app, which can be viewed alongside transactional information in the accompanying reporting platform.

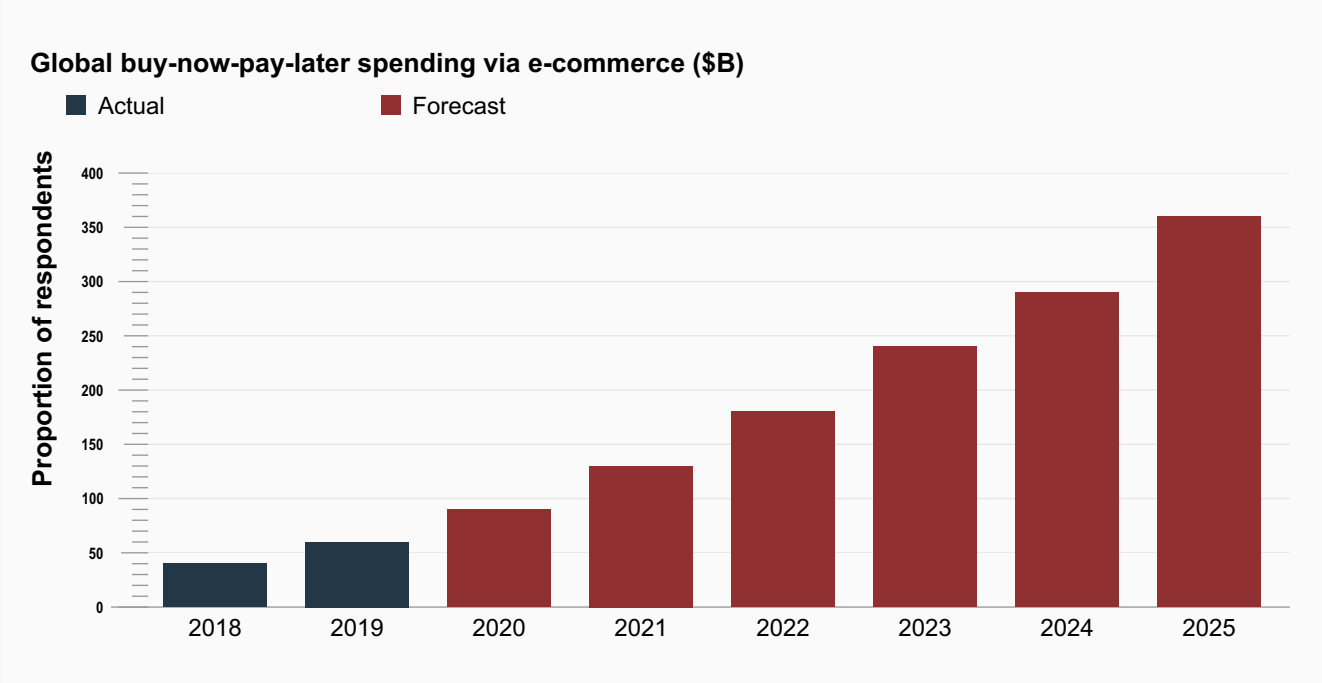
Broad-basing virtual card use among smaller, growing, businesses who are looking to manage cash flow and retain tighter spend controls remains a hugely untapped opportunity Virtual cards are also a useful tool for employers to pay out salaries to their employees through a prepaid virtual card. The cards help workers to receive funds onto mobile apps, freeing them from having to cash checks

At the back-end issuers need to have a modern card issuance system that enables third parties to seamlessly integrate virtual issuance APIs into their digital ecosystem and seamlessly embed payments into the customer journey. The system should be flexible to launch contextually relevant products for multiple segments, support single or multi-use virtual cards, single and multi-currency cards.

TREND – 2

Capitalise on Deferred Payment Products

Pay Later products have emerged as a new category of credit to help consumers finance spending and to help merchants increase average online order value (in some cases up to 30 per cent) and purchaser frequency whilst reducing basket abandonment. Unlike traditional banks, which lend to existing customers, NBFCs and neo-age lenders or fintechs cater to young, low-income, digitally-savvy customers who have small-ticket, short-term credit needs, with limited or no credit history. In markets such as India the loan size for more than 50% of small loans is USD 100. Kaleido Intelligence expects globally the market would grow to USD 360B by 2025, as consumers look to better manage their finances and spend.



Data as of November
Source: Kaleido Intelligence

By partnering with merchants and embracing digital technologies, Pay Later products compete directly with credit cards to provide customers with quick and easy short-term credit at checkout. The nascent segment is also subject to less regulatory scrutiny relative to traditional consumer credit products where background financial checks are required.

As flexible instalment products take hold across the globe it presents an opportunity for issuers to tap into the growing e-commerce segment and access a large customer pool, especially in markets and among segments with low credit card penetration. Current Pay Later products at checkout whilst convenient do not guarantee customer stickiness. Issuers can embed products along the path to purchase allowing consumers to select the payment option ahead of a purchase, at the point of sale, and after a sale. The decision at the point of sale could be prompted when a card from a participating issuer is inserted into a terminal of a merchant that has integrated with MCI. Post-sale selection of BNPL could be prompted by a push notification from the issuer to the cardholder immediately after a purchase.

Several partnership models and product variants could emerge:

Consumer Finance companies could partner with bank issuers – India's largest consumer finance company is partnering with its wide network of merchants to offer instant financing to customers through a digital open loop prepaid card at checkout.

Banks could offer variants of Pay Later Products to customers – Lunar A/S, a Danish challenger bank, has launched a pay-later solution that allows customers retroactively to split or postpone transactions via its banking app. Lunar's near real-time capabilities allow cardholders to move their purchase to an instalment plan moments after the purchase is complete without the lift of merchant integration. . Because the bank has a clear picture of customers' transaction history and behaviour, the pay-later option can be used to finance their "entire financial life," rather than only online purchases with select merchants.

Banks are partnering with Interchanges – Mastercard announced a new partnership with TSYS, a Global Payments company, that will enable consumers to use their Mastercard to split transactions into instalments before, during or after checkout. Through this partnership, TSYS is the first processor to deliver instalment capabilities to issuers to provide seamless payments experiences to their cardholders, enhancing Mastercard's buy-now-pay-later ecosystem.

Many BNPL service providers are merchant funded. This means that a large proportion of their profit is made by charging retailers a percentage of the value of every order that is placed using these payment options. Despite this cost, merchants, have adopted this new technology into their retail strategies. In return, companies have seen an increase in both the volume of sales and shopping frequency.

TREND – 3

Use Cases for Banks

Prepaid is discovering new niches and combinations that enhance people's experiences of locations and events.

Connecting Workers to Wages

Payroll cards are amongst the most popular segment of prepaid cards. The rapid growth of the gig economy combined with the need for employees to better manage cashflows is fuelling demand to connect workers to their wages in real-time. By accessing their pay before the customary payroll cycle, Earned Wage Access enables employees to tide over short-term liquidity constrains whilst participating employers benefit from improved employee engagement. To address the needs of employers, issuers are offering open loop cards in partnership with EWA firms that allow real-time wages to be pushed to the cardholder's account in real-time. Further issuers will complement core offering with innovative features that improve financial standing of customers including financial advice, overdraft warnings, and discounts at local stores.

PayActiv has partnered with Visa Direct to give users real-time access to PayActiv's on-demand payroll program, and allows employers to quickly implement the solution, with little to no set-up costs/.The PayActiv Visa Prepaid Card has worldwide acceptance at merchants that accept Visa debit cards. Keeping in line with its mission to be a social impact organization, PayActiv does not charge any monthly fees to cardholders and can act as a solution for those who do not have access to a traditional checking account.

Direct to Card Payments

The payments space is changing as the commerce it supports adjusts to a digital world. Consumers are in control, and payments capabilities must be able to meet consumers' requirements. Recognizing that alternative payments aren't alternative anymore, providing the ability to seamlessly connect into the payments ecosystem, and thinking about payments as data have become essential attributes to navigate the new normal in payments.

The growth in real-time payments is propelling adoption of direct to card payments as it provides convenience and immediacy to customers. Gig economy pioneers like Uber and Lyft use the technology to instantly pay out contractors who want their commissions paid out faster than traditional direct deposit methods. Direct to Card payments allows payers to route transactions to cardholders using their 16-digit card number, which are processed in real-time. Direct to card transfers can support a range of payment scenarios. This includes:

- **Person to Person Money Transfer –** Direct transfers between cardholders, including both domestic and cross-border remittances
- **Merchant Settlement –** Push transactions are used by payment facilitators and merchant acquirers to speed up settlement by sending sales proceeds directly to a merchant's card account
- **Gig Worker Pay-outs –** One of the most promising use cases is using push transactions to quickly pay funds owed to gig workers or to a business's affiliates or contractors
- **Funds Disbursement –** Push services can be used by businesses and government authorities to send funds to individuals for insurance claims, expense reimbursements, benefits payments, and other non-sales payments
- **Bill Payments –** Push transactions can be used by businesses to pay suppliers for contractual amounts owed (as distinct from individual sales transactions)

Tap into Contactless and New Form Factors

Contactless experiences aren't new—they've simply been accelerated due to COVID-19.

The need for safety, higher payment limits and fee waivers are expanding adoption of contactless payments via cards, digital wallets and super-apps on their phones and even wearable devices. Data emerging from the past few months is telling. According to Mastercard, 79% of people around the world are currently using contactless payments, and 74% will continue to use mobile payments after the pandemic subsides. Contactless payments are expected to record a CAGR of 32% CAGR between 2020 and 2024, reaching USD 6 trillion in value adoption. New use cases are emerging with the adoption of Software POS on the acceptance side, enabling merchants to turn Android smartphones into secure payment acceptance devices for contactless cards, mobile wallets and smartwatches– with no additional equipment or setup-related costs.

This strong adoption also paves the way for payments via wearables. IDC forecasts an increase in global wearable shipments at 14.5% by the year's end compared with 2019. Global shipments of wearable devices will reach a total of 396m units in 2020 with an increase to 637.1M in 2024, with the proportion of those offering support for contactless payments set to rise to nearly 50% by the end of the year, International Data Corp predicts. Many banks are partnering with wearable manufacturers. ABN Amro as well as Barclay Pingit operate branded stores to allow customers to purchase a wide range of partner products fashion and lifestyle accessories embedded with payment capabilities, from Timex, Guess, Hugo Boss and Tovi Sorga. In India watch brand Titan has partnered with State Bank of India for the launch of a range of watches that makes use of Canada-based Tappy Tech's wearable payments technology to let consumers make contactless transactions at POS terminals across India.

Prepaid Cards and Overdraft

General purpose prepaid cards traditionally have been issued to low income and moderate customer groups. With perception changing, overdraft protection is gaining traction. Issuers benefit from a higher ratio of active cards and overdraft fee income. Customers who have available balance to at least zero within 24 hours of the first transaction that caused you to overdraw being charged the overdraft fee. The bank limits each account to five waived overdraft fees each month.

The PayPal Prepaid Mastercard® offers a purchase cushion program that allows consumers an overdraft transaction of up to $10 at the bank's discretion. To qualify, customers must receive direct deposits totaling at least $200 to their account within 35 days of enrolment in the service. Customers must continue to receive at least $100 in direct deposit to your account every 30 days thereafter to remain enrolled in the purchase cushion program

All Netspend accounts qualify for a no-charge purchase cushion of up to $10, as long as they receive direct deposits to their account that equal $200 or more every 30 days. This cushion approves transactions of up to $10 past your current available balance. Any transaction that takes your account more than $10 over your available balance will incur a $15 overdraft fee. There is a maximum of three such fees allowed each month. This card works similarly to the Visa debit card offerings at traditional banks and credit unions.

TREND – 4

Security Moves Forward

With e-commerce becoming mainstay, **fraud is 81 percent more likely to occur today in "card-not-present" transactions** that take place over the phone or internet rather than it is at the point of sale, according to the 2018 Identity Fraud Study by Javelin Research. Dynamic CVV minimises risk and prevents fraudulent transactions by replacing the static CVV with a digital CVV code. This invalidates cloning or data theft in online transactions and in stores. The system does not require any additional effort on the part of the cardholder: no change of payment behaviour is completely transparent to the merchant. Several implementation models have come into play. Cards can be embedded with a mini screen that displays the CVV, which automatically refreshes at a predefined frequency. However, the cost of card production USD 15 -USD 18 as compared to USD 3 EMV chip card is a deterrent.

Alternately customers can access a mobile app and check the card number, CVV and expiration date when making purchases. The functionality is based on cloud technology and advanced cryptographic algorithms to ensure the inviolability of the code generated for the end user. According to forecasts, 70% of new cards created this year will be of this type. Several countries including France, China and Mexico have begun adopting the technology.

The Apple Card, issued by Goldman Sachs Group, boasts dynamic CVV as a key security feature. If users need it, they can access their number through Apple's Wallet app using Face ID or Touch ID. However, the tech company envisions most payments being made directly through the iPhone via Apple Pay.

BBVA has rolled out a new line of numberless credit cards dubbed "Aqua", according to a recent announcement on the bank's blog. These cards do not have card numbers (PAN), expiry dates and card verification value (CVV) printed on them. Customers must access BBVA's mobile app and check the card number, CVV and expiration date when making purchases. The new Aqua cards feature a dynamic CVV code in order to provide security for online payments. Alternatively, they can also use the app to make in-store payments.

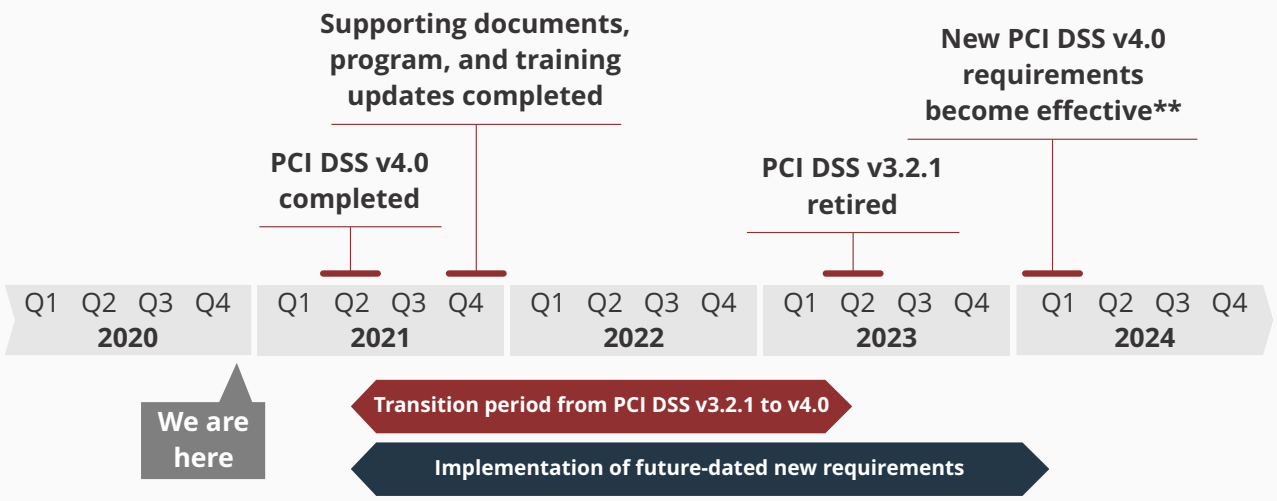
Compliance with PCI 4.0

The goal of PCIDSS is ensuring all entities are compliant to the standard in context to securing cardholder data that is stored, processed, and transmitted Most current PCI controls in version 3.2.1 are 10-years or older and the standard itself has changed very minimally in the last 5 years.

PCI 4.0 standards to be published in 2021 addresses range of issues and are expected to come into force in Q2 2023 . While several new requirements would be introduced in the latest version PCI DSS 4.0,. Areas likely to be updated in PCI DSS 4.0 include:

- **Authentication –** There may be changes to reflect the latest National Institute of Standards and Technology (NIST) password and multi-factor authentication guidance. The latest PCI DSS 4.0 version may also focus on the use of a 3DS Core Security Standard for secure transaction authorization. As per the 3DS standard, it enables an organization to build pluggable authentication options for enhanced security and customer authentication. This step will not just ensure that controls meet the regulatory requirements but shall also enable scalability to the company's evolving transaction objectives.
- **Encryption –** There are likely to be broader requirements for encrypting cardholder data on trusted networks.
- **Monitoring –** The requirement to monitor the cardholder data environment may be updated to reflect advancements in technology, such as the availability of next-gen network and endpoint detection tools.
- **Testing –** Critical controls may need to be assessed more frequently, with additional requirements from the Designated Entities Supplemental Validation likely to be mandated a regular PCI DSS requirement

PCI DSS v4.0 Transition Timeline*



*** All dates based on current projections and subject to change.**

** Refers to new PCI DSS requirements that are future-dated.

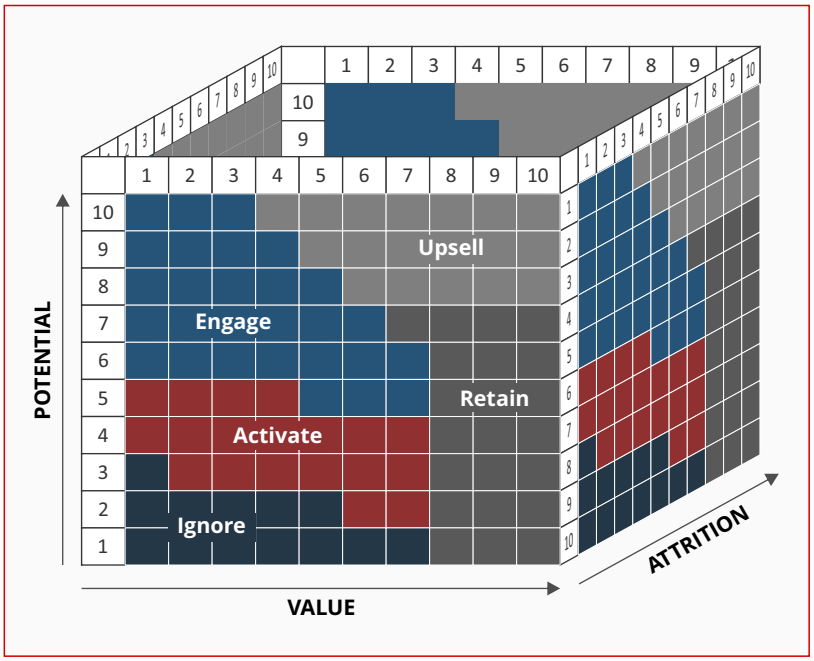
Effective date to be determined upon confirmation of all new requirements.

TREND – 5

Data-driven engagement matures

Leading issuers have always made data core to their business value. On their data maturity journey issuers need to look at new ways to increase the utility of data, automating reporting and intelligence whilst ensuring data security. New applications of data are evolving to include

- **Customer Journey Analytics –** Most issuers can design and execute a customer-centric loyalty program that balances traditional purchase-based rewards with experiential and engagement-focused benefits. Customer journeys today are however increasingly complex as consumers interact across an ever-expanding array of device, form-factors touchpoints, and channels. Issuers need to make sense of these interactions. Accordingly, issuers are reframing loyalty as an outcome of all the experiences a customer has with a brand.
- **Adopting a data sharing culture –** With open APIs the establishment of digital trust and adoption of a data-sharing culture with ecosystem partners – would be critical. This also enables new engagement models with digital ecosystems, which could lead to whole new LOBs such as becoming data asset custodians and managing secure credentials. Issuers would need to expose relevant APIs to partner to strengthen customer engagement and deliver new data-driven products. For example, Pay Later or Merchant APIs.



TREND – 6

Composable Business

Issuers systems must be ready to continually layer on more and more innovation, driven by a continually changing world. These new products and services can be based on issuer's own capabilities or by combining external capabilities from the ecosystem.

The composable business will become the prevailing architecture model for software innovation. The goal is to create an interoperable set of services that can be brought together to create applications, apps and workflows. This creates a symbiotic collection of technology capabilities and components that form a platform. Think of LEGO blocks (services) that can be easily rearranged to meet any need. The openness and composite nature of a platform is ideally suited to the external-facing capabilities required by new digital business processes, moments and models. This design principle enables banks to deliver more unique and customized products by defining new structure and associated behaviours.

FSS is working on several of these areas to aid issuers stay ahead and improve margins. We have clearly identified secure data-driven, API-led architecture as the mainstay of our platform and are enabling incumbents as well as greenfield banks to adapt to the new reality

About FSS

FSS (Financial Software and Systems) is a leader in payments technology and transaction processing. FSS offers an integrated portfolio of software products, hosted payment services and software solutions built over 28+ 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 India, FSS services leading global banks, financial institutions, processors, central regulators and governments across North America, UK/Europe, Middle East, Africa and APAC.

For more information visit **www.fsstech.com**

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