Prepaid and its role in domestic payment schemes

Denzil Lawson
Network International UAE
23 October, 2013
Supported by local banks and regulators, many domestic payment schemes are thriving across the world.

Examples of top domestic payment schemes:

- Interac
- Discover
- Pulse
- Diners Club International
- Bancomat
- RuPay
- Interswitch
- ELO
- Redbanc
- BC CARD
- NETS
- BCA
- eftpos
Capturing more economic value from the Payments Value Chain...

The greater the number of roles, the greater the share of the revenue pool

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Distribution Channel</th>
<th>Issuer</th>
<th>Processor</th>
<th>Program Manager</th>
</tr>
</thead>
</table>
| • Provide payment infrastructure to route card transactions  
  • Facilitate data transmission  
  • Create brand awareness | • Distribute cards  
  • Load and card activation  
  • Capture KYC documentation | • Provide Bin  
  • Holds funds in accounts  
  • Receives and disburses settlement funds  
  • Oversees regulatory compliance and bears AML/KYC risk | • Processes and authorizes card transactions  
  • Provide transaction and reconciliation/settlement reporting | • Conceive the program-develop value proposition  
  • Coordinate value chain participants  
  • Card design and production  
  • Marketing activities |

<table>
<thead>
<tr>
<th>Key Function</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Examples</strong></td>
</tr>
<tr>
<td><strong>Revenue Share</strong></td>
</tr>
<tr>
<td><strong>Profit * Share</strong></td>
</tr>
</tbody>
</table>

* Profit share differs to revenue share due to different cost structures of the value chain participants
Rationale for a domestic scheme

<table>
<thead>
<tr>
<th></th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reflect local market needs</td>
</tr>
<tr>
<td>2</td>
<td>Protect national interests</td>
</tr>
<tr>
<td>3</td>
<td>Risk management</td>
</tr>
<tr>
<td>4</td>
<td>Competition foster innovation</td>
</tr>
<tr>
<td>5</td>
<td>Economics</td>
</tr>
</tbody>
</table>

There is a strong case for participation in domestic payment schemes. They provide a more relevant solution for the vast majority of transactions which are domestic.
## Business Model Economics

<table>
<thead>
<tr>
<th></th>
<th>Merchant</th>
<th>Acquirer</th>
<th>Scheme</th>
<th>Issuer</th>
<th>Cardholder</th>
</tr>
</thead>
</table>
| **Visa**       | ![Arrow] | ![Arrow] | ![Arrow] | ![Arrow] | • Global acceptance  
• Product specific value-adds |
| **MasterCard** | ![Arrow] | ![Arrow] | ![Arrow] | ![Arrow] | • Global acceptance  
• Product specific value-adds |
| **Domestic Scheme** | ![Arrow] | ![Up Arrow] | ![Up Arrow] | ![Arrow] | • Domestic acceptance  
• Value-added services relevant to local market  
Interchange offset by VAS revenues |
It’s not easy!

Member Setup
- Agreements
- Forms
- Documents

Helpdesk
- Acquirer issues
- Issuer issues
- Network issues
- Scheme queries

Fraud Monitoring
- Systems
- Rules

Issuance Management
- Products setup
- Authorization
- BIN assignment
- Parameters

Settlement
- Net positions
- Payment instructions
- Troubleshooting
- Settlement reports

Billing
- Invoicing
- Assessment
- Transaction
- Other charges

Acceptance Management
- Setup
- EDC Mgt.

Dispute Management
- Validation
- Liaison
- Reporting
- Analysis
- Rules

Report Generation
- MIS
- Issuer statistics
- Monitoring
- Chargeback
- Acquirer statistics
- Scheme statistics

Strictly Private & Confidential
Mercury Product Suite

**Pay before**
Prepaid Cards draw funds from a pre-funded account which can be sourced from various sources.

**Pay now**
Debit Cards draw funds from a current or savings account.

**Pay later**
Credit Cards draw funds from a credit line extended by an issuer.

Individual income

Travel frequency
Prepaid growth drivers

Prepaid is the largest opportunity immediately available to Mercury and is growing rapidly across MEA

- Consumer convenience
- Need for controlling expenses
- Digital products & distribution
- Workforce globalisation
- Financial inclusion
- Increasing buying power of youth
- Shift from paper to electronic payments
- Basic banking regulations
Prepaid provides the best tool to serve the segment needs of consumers under-served by credit and debit. It also provides flexibility of offering tailor-made offerings.
The Potential PrePaid GDV in 2017 (open loop) for the top 7 key MEA markets is estimated to be $41 bn and $500m in the Value Chain.

### Country Drivers Top Vertical by potential 2017 Total Prepaid revenue potential ($ Mn.)

<table>
<thead>
<tr>
<th>Country</th>
<th>Drivers</th>
<th>Top Vertical by potential</th>
<th>2017 Total Prepaid revenue potential ($ Mn.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>• Government push to e-payments • Card required for all government payments • Large youth and unbanked populations</td>
<td>Leisure travel; Payroll; Pilgrimage; Remittance; Study abroad</td>
<td>60</td>
</tr>
<tr>
<td>Nigeria</td>
<td>• Government push to e-payments • Card required for all National citizens • Large unbanked population</td>
<td>Bank-lite; Payroll; Social benefits; Leisure travel</td>
<td>100</td>
</tr>
<tr>
<td>South Africa</td>
<td>• Government push to e-payments • Large youth and unbanked populations • High level of mobile penetration</td>
<td>Leisure travel; Gift; Payroll; Bank-lite</td>
<td>100</td>
</tr>
<tr>
<td>Egypt</td>
<td>• Government push to e-payments - key government departments such as MSAD and MOF promoting • Large youth and unbanked populations • Large Egyptian workforce overseas</td>
<td>Payroll; Bank-lite; Social benefits; Remittances (inbound)</td>
<td>100</td>
</tr>
<tr>
<td>UAE</td>
<td>• Government push to e-payments • WPS • Large youth population</td>
<td>Leisure travel; Campus; Payroll; Remittance</td>
<td>120</td>
</tr>
<tr>
<td>Kenya</td>
<td>• Government push to e-payments • Large youth and unbanked populations • Growth in online usage</td>
<td>Payroll; Bank-lite; Leisure travel; Social benefits</td>
<td>15</td>
</tr>
<tr>
<td>Tanzania</td>
<td>• Increase in middle class • Large youth and unbanked populations</td>
<td>Bank-lite; Payroll; Leisure travel</td>
<td>5</td>
</tr>
</tbody>
</table>

### Application Totals

<table>
<thead>
<tr>
<th>Application</th>
<th>Total Volume Potential ($m)</th>
<th>Total revenue potential ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>32,500</td>
<td>280</td>
</tr>
<tr>
<td>Leisure Travel</td>
<td>2,200</td>
<td>110</td>
</tr>
<tr>
<td>Bank-lite</td>
<td>3,000</td>
<td>30</td>
</tr>
<tr>
<td>Gift</td>
<td>1,500</td>
<td>22</td>
</tr>
<tr>
<td>Campus</td>
<td>1,000</td>
<td>15</td>
</tr>
<tr>
<td>Social benefits</td>
<td>2,900</td>
<td>15</td>
</tr>
<tr>
<td>Study Abroad</td>
<td>230</td>
<td>12</td>
</tr>
<tr>
<td>Internet</td>
<td>110</td>
<td>6</td>
</tr>
<tr>
<td>Pilgrimage</td>
<td>100</td>
<td>5</td>
</tr>
<tr>
<td>Transit</td>
<td>460</td>
<td>5</td>
</tr>
</tbody>
</table>

*Source: Industry sources*
Value Proposition

**Superior Economics**
- Competitive interchange pricing
- Better value – Low variable cost and no hidden charges
- Membership fee covers both issuing and Acquiring

**Simplicity, Robustness**
- Streamlined operating rules and regulations
- Transparent and concise pricing
- Less paperwork, faster processing

**Access**
- Domestic and International POS / ATM acceptance
- e-Commerce
- Secure Processing - Chip and Online Pin

**Innovation**
- Remittances and other VAS from Times of Money
- Discover features such as My USA.com and Spend Analyzer
- Loyalty built on NI merchant coalition