



GLOBALPREPAIDEXCHANGE

# Prepaid Market Assessment

## »» South Africa





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September 2011



## EXECUTIVE SUMMARY

Prepaid is an emerging market with many application areas, roles and companies whose operational areas and borders between them are not always clean cut. It is not unusual for a company to offer a range of products and services spanning multiple areas of the value configuration. Compared to credit and debit cards, prepaid is a niche industry – which is fragmented into a number of sub-niches.

South Africa represents a current prepaid market opportunity of ZAR 29.4 billion. The major prepaid opportunities are Government Disbursements, Consumer Gifting, Corporate Incentives & Benefits, and Payroll - each of which has a current market potential in excess of ZAR 2.0 billion annually. The estimated top five opportunities in South Africa (measured as share of potential card load value) are Government Disbursements (29.9%), Consumer Gifting (18.1%), Corporate Incentives & Benefits (13.4%), Payroll (12.2%) and Fuel (6.7%).

Like advanced prepaid markets such as the US and UK, South Africa has a growing prepaid gifting industry. Consumers and businesses can choose (primarily magnetic stripe) gift cards from a wide variety of brands. As retailers learn more sophisticated approaches to gift card management, further growth is expected. Several banks have also launched open loop gift cards and incentive products, although traditionally they struggle with sales unless they collaborate more closely with retailers to gain access to a distribution network.

Third party distribution is currently in its infancy, but when gift card malls are rolled out in major retail destinations, prepaid sales are expected to grow. This applies not only for gifting, but also for other prepaid categories such as general purpose cards. As a comparison, in the US approximately 1 in 5 gift cards are sold via gift card malls, and open loop cards are among the most popular brands due to their versatility.

A number of prepaid payroll products have been put on the market. These offer an alternative to the use of cash and checks for employers and employees in the unbanked population, which accounts for 40% of the population age 16+ years. There are also a growing number of general purpose prepaid products on the market, often marketed as “prepaid debit” or “prepaid credit” cards to serve the otherwise unbanked segment.

Money transfer services fill an important function in South Africa and there are many alternatives available both for cross-border remittances, and for intra-country money transfers: bank transfer, mobile P2P payments, more traditional money transfer networks (such as Western Union and MoneyGram), retailer networks, and less formal channels (such as taxi drivers and hawala networks). Remittances using account-based prepaid money transfer services where funds can be accessed for multiple transactions via card or other format face strong competition from single payout services.

The Gautrain uses a state-of-the-art contactless transportation card. With pilots for more transportation cards underway, electronic prepaid transportation solutions may gain more traction and attract more players. There is also a relatively young market for Travel/FX cards. Currently there are few known initiatives for government disbursement and fuel prepaid solutions, but that may change in the years to come if fuel companies and governments are educated in the benefits associated with such programs, learning from experiences in other markets.

Countries with a significant number of impoverished and unbanked residents tend to offer more services prepaid. Prepaid can switch the risk from the supply side (sellers) to the demand side (buyers), thus opening up a greater market – extending services to otherwise perceived high-risk segments not eligible for pay-later alternatives. In South Africa, power suppliers in both the public and private sector offer *prepaid electricity services* with top-up options, and a *prepaid health service* currently is being rolled out with medical vouchers storable on a phone. Only imagination and buyer willingness to adopt prepay restrict what can become a prepaid service within a framework of cultural, technological and regulatory conditions that apply to a given market.

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## INTRODUCTION

The prepaid market is experiencing rapid growth worldwide. Unlike credit or debit cards, prepaid spans a myriad of different application areas, each with unique characteristics and success criteria. From open-loop Payroll cards and Travel/FX cards to retailer-issued closed-loop gift cards, and solutions for government disbursements of social benefits, these products are increasing in prominence because users find real benefits in adopting them and issuers see profit potential in their expansive growth.

While prepaid is a global phenomenon, national and regional prepaid adoption shows significant differences across countries. For example, the US has seen rapid growth in gift card adoption over the last 10 years; prepaid has then diversified into other areas such as government disbursements and corporate incentives. In the UK, a similar pattern of development has been observed. In the Italian prepaid market, general purpose prepaid cards and government benefit payments are the major drivers, whereas prepaid in France is evolving from B2B towards B2C with its roots in the meal voucher industry. In India, Payroll cards which often double as FX cards for expatriate workers are currently experiencing strong growth. Each country is unique with different economic, cultural, regulatory and technological aspects that combine to shape the structure of the prepaid market.

The report first provides an introduction to prepaid through an overview of the prepaid value configuration. It then describes 10 prepaid applications and a) the benefits provided, b) the drivers and inhibitors of prepaid growth, and c) the competitive situation for each application in South Africa: Gifting, Government Disbursements, Corporate Incentives and Benefits, Payroll, Travel and FX, Transportation, Fuel, Remittance, Reimbursement, and General Purpose Reloadable. Having set these premises, the report provides estimates for the size of the market opportunity for each of the prepaid applications, and the share of card value that is assessed to be on closed and filtered loop vs. open loop products.

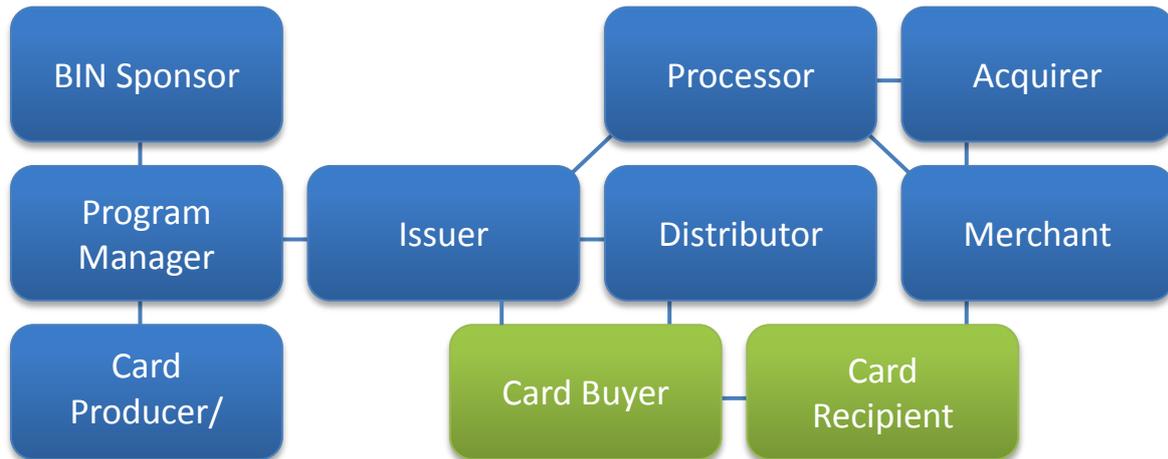
An article targeted at retailers and non-retailers explains why and how gift cards should be implemented as part of an overall marketing strategy, rather than viewed as a mere payment instrument and source of breakage.

The report also provides a Company Directory, a guide to players in prepaid in South Africa, before proceeding with a section aimed at foreign companies seeking to establish themselves in South Africa, including a review of KYC (FICA) requirements. Finally, the report provides descriptions of a collection of sample prepaid programs in South Africa, and presents a collection of Global Best Practice Programs.

Two appendices are included: A Prepaid Glossary to explain the industry terms used in this document, and South Africa in Figures – a country fact sheet with background data for enhanced understanding of the country's size and macro conditions.

## THE PREPAID VALUE CONFIGURATION

The Prepaid Value Configuration is a complex construction. The term value chain is too narrow and production-oriented to be applicable to the structure of the prepaid industry, which more resembles a network structure connecting different parties together to create value. Prepaid is an emerging market with many application areas, roles and companies without strictly defined operational areas. It is not unusual for a company to offer a range of products and services spanning multiple areas of the value configuration. Compared to credit and debit cards, prepaid is a niche industry – which is fragmented into a number of sub-niches.



***Roles in the prepaid value configuration***

Our model illustrates the key roles in the Prepaid Value Configuration and their relationships to one another. The blue boxes represent commercial roles for a prepaid card product, whereas the green boxes represent the demand side. A key point in interpreting this model is the realization that the same party can occupy numerous roles. For example, a bank that issues and manages its own open-loop program would fill the role of BIN Sponsor, Program Manager and Issuer.

Also, note that different terminologies and assumptions regarding role responsibilities and product/service sectors exist in prepaid, partly due to the lack of institutional standardization of terms and partly due to the industry's youth. Our terminology is explained in the section *Prepaid Terminology*, and the model is explained below.

It is useful to start by centering on the Issuer in the Prepaid Value Configuration. The Issuer bears the economic and legal responsibility for the prepaid product. The Issuer can opt to manage the prepaid program itself or to outsource this role to a Program Manager. Program Managers are more commonly used for open loop programs than closed loop. A Card Producer/Manufacturer supplies and personalizes the cards. For open loop programs, a BIN sponsor with the necessary network licenses is required, typically a financial institution.

On the demand side of prepaid, it makes sense to distinguish between Card Buyers and Card Recipients, who usually have different motivations and needs. Card Buyers can be consumers, businesses or governments who order and usually load value on the prepaid product. For example, a business that purchases thousands of cards to use as promotions or employee incentives. The Card Recipient (who may also be the Card Buyer) is the final user, e.g. a gift card recipient or benefit recipient in the case of a government benefits program. Card Recipients typically redeem the value on the card in exchange for goods and services at a Merchant. The term Merchant stems from debit and credit financial cards terminology and refers to any location where the prepaid

card can be used, which includes either an online or physical environment. A retailer with a gift card program typically occupies the roles of both Issuer and Merchant.

The Issuer can sell/deliver cards to Card Buyers who will provide the cards to Card Recipients, or the issuer can provide them directly to Card Recipients. A third option also exists, in the form of a dedicated Distributor role. For example, a gift card mall operation where cards are sold through destination retailers.

Behind the scenes, when a Card Recipient uses his or her prepaid card to pay at a Merchant, a Processor typically validates the card, checks the balance, authorizes the transaction request, and performs clearing and settlement. Processing can be handled in-house or through an external party. In the case of open loop products, an Acquirer settles the card transactions and exchanges funds with Card Issuers on behalf of the Merchant.



## PREPAID APPLICATIONS

Prepaid is a collective term for products that can be broken down into a number of different application areas. This report's scope is the following 10 prepaid applications: Consumer Gifting, Government Disbursements, Corporate Incentives and Benefits, Payroll, FX & Travel, Fuel, Transportation, Remittance, Reimbursement, and General Purpose Reloadable. Brief descriptions of each application follow:

**1. Consumer Gifting:** Prepaid instruments issued by retailers or service providers, shopping centers or banks targeted at consumers. Gifting instruments are typically single load items and come in closed, filtered and open loop varieties. Consumers typically buy them for gifting purposes or self-use. Sales peak during seasonal times such as Christmas.

**2. Government Disbursements:** Government funded prepaid instruments that typically replace less cost efficient cash and checks. These instruments are used to pay out a wide variety of social benefits to groups that cannot easily get bank accounts, such as immigrants and low income families. However, they can also be used for other purposes including petty cash, purchasing, relocation assistance etc. Government disbursement instruments can usually be controlled to stop expenditure on specific merchant or product categories, or to ensure that certain products are purchased from set locations.

**3. Corporate Incentives and Benefits:** Companies can load value onto a prepaid instrument distributed to selected employees, partners and customers in order to provide motivation and engagement. Employee benefits such as lunch, healthcare, childcare etc. can also be paid out on prepaid. While many markets still utilize vouchers, prepaid cards instantly bring a range of benefits to the companies using them. They eliminate any cash or checks, and subsequent paperwork associated with them. Cards also provide clearer audit trails and, thus, can substantially reduce fraud, as there are clear records of the transaction.

**4. Payroll:** Payroll instruments are typically plastic cards used as an alternative to cash or checks for employees with or without a bank account. Value is loaded on the card by the employer. Employees use the card as they would a debit card linked to a personal account. The card is usually reloadable. Each pay period the employee's pay is automatically deposited into their individual card account. These cards are becoming increasingly popular in emerging markets where there is a lack of traditional banking relationships.

**5. FX & Travel:** FX & Travel prepaid enable both personal and business travelers to access funds from a card-based product that incorporates the same benefits and protection provided by traditional traveler's checks. Value is loaded onto the card in a select foreign currency. As cards are open loop (Visa, MasterCard etc.), they can be used to make purchases and to withdraw money from ATMs anywhere in the world the payment network's cards are accepted.

**6. Fuel:** Prepaid instruments for petrol station expenditures that can be consumer or business loaded. Fuel prepaid instruments can be single load products or re-loadable prepaid cards, e.g. pre-approved expense cards to employees at companies that do not qualify for credit or charge fleet cards or other fuel cards. These instruments are typically limited for use at the issuing petrol chain.

**7. Transportation:** Prepaid transportation instruments are used to replace regular tickets and passes for public transport, e.g. buses, underground and trains. The instruments are loaded with funds that can be redeemed without the need to obtain a paper ticket. In some systems, balances are deducted by "checking in" at a journey starting point and "checking out" at the destination, ensuring correct fare fees and reducing cash handling costs. The scope of this report is limited to intra-city transportation, as opposed to between cities.

**8. Remittance:** Prepaid instruments used to transfer money internationally. The primary group is foreign workers who have come from abroad and have relatives back home to whom they want to send money. The

users of these solutions are often underbanked and desire an alternative to informal channels such as sending cash with couriers or hawala agents, or money transfer services such as Western Union.

**9. Reimbursement:** Reimbursement prepaid instruments are used to pay out funds to customers when they are eligible for them, including insurance claim fulfillment and airline cancellations. Reimbursement prepaid instruments can be closed, filtered or open loop systems enabling purchase of replacement goods and services.

**10. General Purpose Reloadable:** General Purpose Reloadable (GPR) is a broad category of general purpose spending instruments targeted primarily at consumers. For this purpose, we limit GPR cards to prepaid cards used as substitutes for other financial cards, by the parts of the population that do not qualify for, or who choose not to use a debit or credit card. These can be low-income groups, teens, the indebted, people suspicious of banks, etc.

#### **Is prepaid limited to these application areas?**

Most certainly not. The concept of prepaying could theoretically be applied to almost any transaction. Apart from gift vouchers and cards, the prepaid application most commonly known to consumers around the world is likely to be prepaid phone services; or at least that is what consumers tend to associate with the word 'prepaid'. In a broader context, a service such as parking is often prepaid. Parking is not only prepaid because it is typically bought prior to being spent; it has breakage in terms of unspent parking time (and hefty fees for a negative balance!).

Countries with a significant number of impoverished and unbanked residents tend to offer more services on prepaid. Prepaid can switch the risk from the supply side (sellers) to the demand side (buyers), thus opening up a greater market – extending services to otherwise perceived high-risk segments not eligible for pay-later alternatives. For example, the company Prepaid24 offers consumers online top-up of air time and electricity from multiple service providers. Also, a *prepaid health service* currently is being rolled out in cooperation with Yarona Care through the purchase of medical vouchers that are stored on a phone. Only imagination and buyer willingness to adopt prepay restrict what can become a prepaid service within a framework of cultural, technological and regulatory conditions that apply to a given market.

## BENEFITS DELIVERED BY PREPAID APPLICATIONS

Prepaid encompasses a myriad of applications, each catering to different needs of prepaid buyers and recipients. Prepaid buyers load the value onto a card or other stored value format, and distribute them to prepaid recipients, who then monetize on the stored value. The following table outlines the benefits delivered by the respective applications covered in this report.

Prepaid application	Benefits delivered
<b>Consumer gifting</b>	<ul style="list-style-type: none"> <li>▪ Affords the recipient choice</li> <li>▪ Relieves giver uncertainty</li> <li>▪ Reduces time for gift selection</li> <li>▪ Produces incremental sales for retailers</li> <li>▪ Increases margins for retailers</li> <li>▪ Float and breakage</li> <li>▪ Improves inventory management</li> <li>▪ New customer acquisition and marketing tool</li> </ul>
<b>Government disbursements</b>	<ul style="list-style-type: none"> <li>▪ Cost reduction</li> <li>▪ Reduced cash handling</li> <li>▪ Tracking and reporting</li> <li>▪ Control of disbursed funds</li> <li>▪ Less stigma for recipients</li> <li>▪ Allows recipient to partake in non-cash payments</li> </ul>
<b>Corporate incentives &amp; benefits</b>	<ul style="list-style-type: none"> <li>▪ Affords the recipient choice</li> <li>▪ Effectively incentivize/reward employees and partners</li> <li>▪ Drives new business to redemption partners</li> <li>▪ Employee benefits with possible tax benefit</li> <li>▪ Float and breakage</li> </ul>
<b>Payroll</b>	<ul style="list-style-type: none"> <li>▪ Cost reduction</li> <li>▪ Reduced cash handling</li> <li>▪ Tracking and reporting</li> <li>▪ Allows recipient to partake in non-cash payments</li> <li>▪ Reduces size of underground economy</li> </ul>
<b>FX &amp; Travel</b>	<ul style="list-style-type: none"> <li>▪ Reduces risks of carrying cash</li> <li>▪ Greater acceptance than traveler's checks</li> <li>▪ Avoids currency fees on credit and debit cards</li> <li>▪ Better control of FX rates and spending</li> </ul>
<b>Fuel</b>	<ul style="list-style-type: none"> <li>▪ Employees need not finance expenses from own funds</li> <li>▪ Better inventory management/expense tracking for SMEs</li> <li>▪ Float and breakage, especially on single load solutions</li> <li>▪ Reduced cash handling</li> </ul>
<b>Transportation</b>	<ul style="list-style-type: none"> <li>▪ Cost reduction</li> <li>▪ Reduced cash handling</li> <li>▪ Improved tracking and reporting allows for better route planning</li> <li>▪ Increased efficiency for ticket handling</li> </ul>
<b>Remittances</b>	<ul style="list-style-type: none"> <li>▪ Fast and secure way to send money - domestic and international</li> <li>▪ Lower cost than banking remittance</li> <li>▪ More transparent than non-formal money transfer services</li> <li>▪ Allows recipient to partake in non-cash payments</li> </ul>
<b>Reimbursement</b>	<ul style="list-style-type: none"> <li>▪ Cost reductions in administering reimbursements</li> <li>▪ Opportunities for cooperation with redemption partners</li> <li>▪ Improved reporting and reduced fraud</li> <li>▪ Breakage</li> </ul>
<b>General purpose reloadable</b>	<ul style="list-style-type: none"> <li>▪ Allows recipient to partake in non-cash payments</li> <li>▪ Alternative to debit and credit cards</li> </ul>

Prepaid should not be viewed merely as a payment instrument equivalent to cash, checks, or debit and credit cards. It can be useful to view prepaid as a tool – as an enabler or a problem solver. Take a gift voucher or card for example. To a consumer, the gift voucher reduces giver uncertainty and saves time spent looking for a gift. To the recipient, the gift represents choice. Research from Global Prepaid Exchange indicates that as many as 1 in 3 gifts are unwanted – they are either returned, stowed away not to be used, passed on to others - or thrown away. Prepaid gifting products thus confer greater choice to the recipient, increasing the chance of a desirable gift, and also allow the recipient to partake in the shopping experience. For retailers, these products represent incremental sales, more high margin sales, more store traffic, float and, in some cases, breakage (unspent funds). It is in this context that prepaid should be viewed - a set of benefits to card issuers, buyers and recipients.

**Insight:** In South Africa domestic money transfer services are not only used to transfer funds to friends and family, but are also used to reduce the risks of carrying cash, by sending money to oneself. One option is for customers to go to retailers such as Pick’N Pay or Shoprite which offer money transfer services utilizing their store networks. The customer loads cash at the store, receives a code and uses it to reclaim the money at another store in a different location of the country. The fee for this service at the time of writing this report is R8.50 at Pick’n Pay and R9.99 at Shoprite.

## DRIVERS AND INHIBITORS TO PREPAID GROWTH

Each prepaid application has different forces that drive or inhibit its growth in South Africa. The following table outlines the factors driving and inhibiting growth in this study.

Application	Growth driving factors	Growth inhibiting factors
<b>Consumer gifting</b>	<ul style="list-style-type: none"> <li>Customer education</li> <li>Third party distribution under development</li> <li>Plastic is considered more prestigious than paper</li> </ul>	<ul style="list-style-type: none"> <li>Non-expiry and fees regulation</li> <li>Poor merchandising and packaging</li> <li>Some perception of gift cards as impersonal</li> </ul>
<b>Government disbursements</b>	<ul style="list-style-type: none"> <li>Large underbanked population</li> <li>Budgeting and spending control</li> <li>Opportunities for large scale national level programs</li> </ul>	<ul style="list-style-type: none"> <li>Complicated sales process</li> <li>Lack of government education</li> <li>Legacy systems</li> </ul>
<b>Corporate incentives &amp; benefits</b>	<ul style="list-style-type: none"> <li>Tax benefits to employers and employees</li> <li>Consumer gifting driving awareness of prepaid in general</li> </ul>	<ul style="list-style-type: none"> <li>No meal voucher tradition</li> <li>Non-expiry and fees regulation</li> <li>Uneducated market</li> </ul>
<b>Payroll</b>	<ul style="list-style-type: none"> <li>Large underbanked population</li> <li>Measures against black economy</li> <li>Allows recipient to partake in electronic payment</li> </ul>	<ul style="list-style-type: none"> <li>Competition from cash, checks, debit cards and bank transfer as substitutes</li> <li>Legacy systems and entrenched payroll providers</li> </ul>
<b>FX &amp; Travel</b>	<ul style="list-style-type: none"> <li>Pre-purchase currency opportunities</li> <li>Could be attractive to travelers without credit cards</li> </ul>	<ul style="list-style-type: none"> <li>Competition from cash, credit cards and traveler's checks as substitutes</li> <li>Low consumer and business awareness</li> </ul>
<b>Fuel</b>	<ul style="list-style-type: none"> <li>Substitute to credit or charge cards for those who do not qualify for traditional fleet cards</li> </ul>	<ul style="list-style-type: none"> <li>Low awareness among fuel companies</li> <li>Usually better for users to post-pay or pay now than prepay</li> </ul>
<b>Transportation</b>	<ul style="list-style-type: none"> <li>Contactless technology</li> <li>Improved use/traffic data</li> <li>One card useable across multiple transport modes and companies</li> <li>Experiences from Gautrain project</li> </ul>	<ul style="list-style-type: none"> <li>Cost of infrastructure</li> <li>Complicated sales process</li> <li>Limited number of potential systems</li> </ul>
<b>Remittances</b>	<ul style="list-style-type: none"> <li>High focus on mobile payments</li> <li>Lower costs for consumer compared to substitutes</li> <li>In case of cards, twin cards considered prestigious by users</li> </ul>	<ul style="list-style-type: none"> <li>Strong competition from substitutes</li> <li>Limited payment infrastructure in rural areas and in some recipient countries</li> <li>Challenges for mobile money transfer cross-border transactions</li> </ul>
<b>Reimbursement</b>	<ul style="list-style-type: none"> <li>More efficient than cash payout</li> <li>Opportunity for partnerships between reimbursing company and retail/service providers.</li> </ul>	<ul style="list-style-type: none"> <li>Uneducated market</li> <li>Legacy systems</li> </ul>
<b>General purpose reloadable</b>	<ul style="list-style-type: none"> <li>Flexible platform – can be customized to program needs</li> <li>Large unbanked market</li> <li>Increasing merchant acceptance</li> <li>Growth in online shopping</li> </ul>	<ul style="list-style-type: none"> <li>Competition from credit and debit cards</li> <li>Fee-based business model</li> </ul>

## COMPETITIVE LANDSCAPE

The competitive situation and stage in the product life cycle in South Africa varies for each prepaid application.

Prepaid application	Competition level	Product life cycle	Substitutes
Consumer gifting	Medium	Growth	Goods/services, cash, check
Government disbursements	None	Not introduced	Bank transfer, check, goods
Corporate incentives & benefits	Low	Introduction	Goods/services, check, cash
Payroll	Medium	Growth	Bank transfer, check, cash
FX & travel	Low	Introduction	Cash in foreign currency, traveler's checks, debit/credit cards
Fuel	None	Not introduced	Fuel charge/credit cards, cash
Transportation	Low	Introduction	Cash, debit/credit cards
Remittances	Medium	Growth	Cash, international money transfer agents, hawala, bank transfers, mobile payments, retail transfers
Reimbursement	Low	Introduction	Cash, check, credit transfer
General purpose reloadable	Low	Growth	Cash, debit cards, credit cards

Like advanced prepaid markets such as the US and UK, South Africa has a growing prepaid gifting industry. Consumers and businesses can choose from a wide variety of brands, and primarily magnetic stripe gift cards. As retailers learn more sophisticated approaches to gift card management, further growth is expected. Several banks have also launched open loop gift cards and incentive products, although traditionally they struggle with sales unless they collaborate more closely with retailers to gain access to a distribution network.

Third party distribution is currently in its infancy, but when gift card malls are rolled out in major retail destinations, prepaid sales are expected to grow. This applies not only for gifting, but also for other prepaid categories such as general purpose cards. As a comparison, in the US approximately 1 in 5 gift cards are sold via gift card malls, and open loop cards are among the most popular brands due to their versatility.

A number of prepaid payroll products have been put on the market, offering an alternative to cash and checks for employers and employees in the unbanked population, which accounts for 40% of the population age 16+ years, according to the 2009 Finscope South Africa Survey. There are also a growing number of general purpose prepaid products on the market, often marketed as "prepaid debit" or "prepaid credit" cards to serve the otherwise unbanked segment.

Money transfer services fill an important function in South Africa and there are many alternatives available – both for cross-border remittances, and for intra-country money transfers: bank transfer, mobile P2P payments, more traditional money transfer networks (such as Western Union and MoneyGram), retailer networks, and less formal channels (such as taxi drivers and hawala networks). Remittances using account-based prepaid money transfer services where funds can be accessed for multiple transactions via card or other format face strong competition from single payout services.

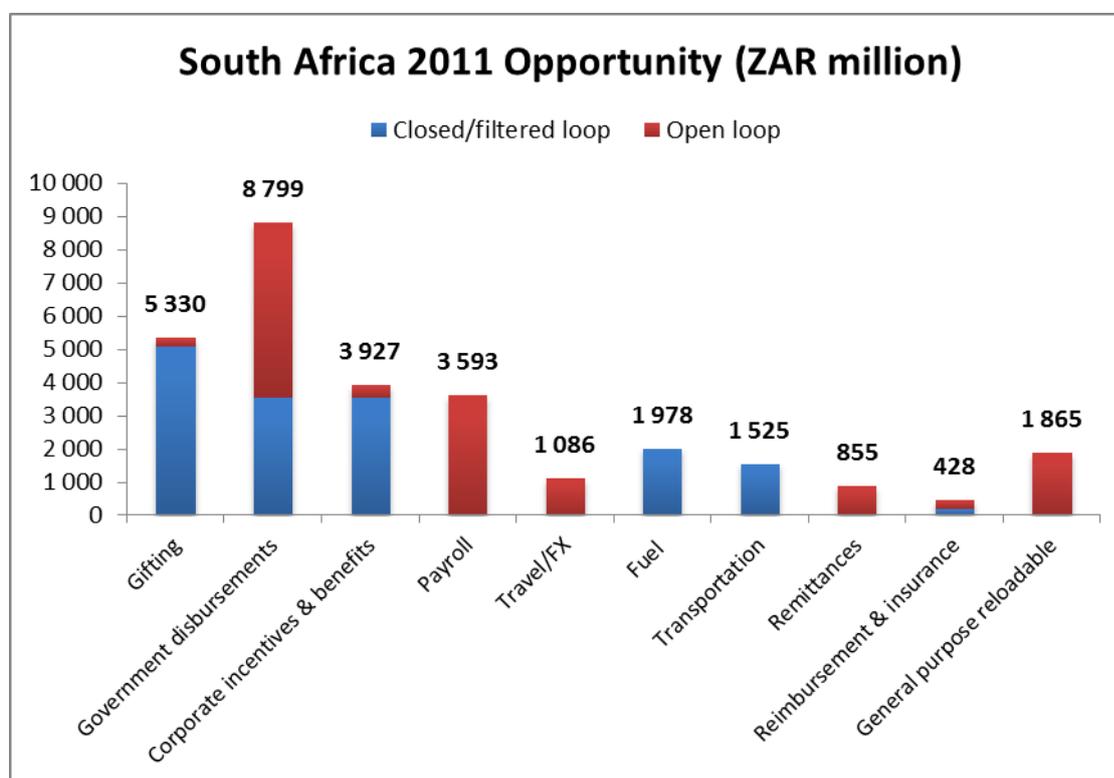
The Gautrain uses a state of the art contactless transportation card. With pilots for more transportation cards underway, electronic prepaid transportation solutions may gain more traction. However, given the limited number of places where these systems are viable, competition from established players is likely to be fierce. There is also a relatively young market for Travel/FX cards. Currently there are few known initiatives for government disbursement and fuel prepaid solutions, but that may change in the years to come if fuel companies and governments are educated in the benefits associated with such programs, learning from experiences in other markets.

## PREPAID MARKET SIZE FORECASTS

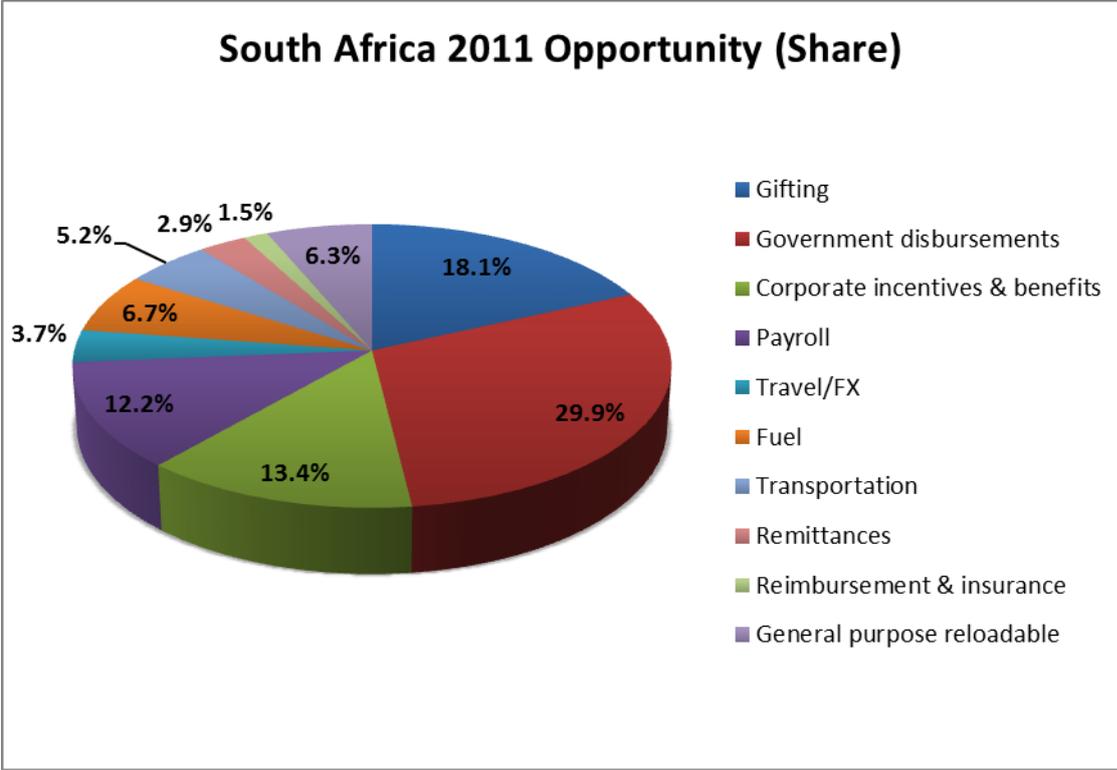
The following market opportunity estimates include all types of prepaid products including closed loop, filtered loop and open loop prepaid. The term market opportunity is used to describe the estimated maximum potential annual load value that could be achieved in the market on prepaid products given current market conditions; note that the share of this potential that is currently realized is significantly lower, and also varies between the prepaid applications (e.g. the potential for Fuel is less exploited than that for Consumer gifting).

Prepaid application	2011 Market opportunity (ZAR million)	2011 Market opportunity (USD million)	Closed/filtered loop share of opportunity
Consumer gifting	5 329.7	722.2	95%
Government disbursements	8 799.0	1 192.3	40%
Corporate incentives & benefits	3 927.1	532.1	90%
Payroll	3 593.3	486.9	0%
FX & Travel	1 086.2	147.2	0%
Fuel	1 978.2	268.1	100%
Transportation	1 524.8	206.6	100%
Remittance	854.6	115.8	0%
Reimbursement	427.9	58.0	40%
General purpose reloadable	1 865.0	252.7	0%
<b>Total market opportunity</b>	<b>29 385.9</b>	<b>3 981.8</b>	

South Africa represents a current prepaid market opportunity of ZAR 29.4 billion. The major prepaid opportunities are Government Disbursements, Consumer Gifting, Corporate Incentives & Benefits, and Payroll - each of which has a current market potential in excess of ZAR 2.0 billion annually. Four applications are expected to be open loop exclusively: General purpose reloadable, FX & Travel, Remittance, and Payroll. Two are expected to be closed/filtered loop only – Fuel, and Transportation.



**South Africa market opportunity (ZAR million)**



**South Africa market opportunity (share)**

The estimated top five opportunities in South Africa (measured as share of potential card load value) are Government Disbursements (29.9%), Consumer Gifting (18.1%), Corporate Incentives & Benefits (13.4%), Payroll (12.2%) and Fuel (6.7%). Combined they constitute 80.3% of the 2011 market opportunity.

**RETAILER CASE: PREPAID CATEGORY MANAGEMENT**

Retailers worldwide are embracing prepaid gifting solutions, although their degree of sophistication and understanding of prepaid as an element of marketing strategy and execution vary greatly. This section aims to educate retailers as to the potential impact of prepaid solutions on their business and how they should approach prepaid as a category rather than merely as a payment instrument.

In their simplest form, prepaid gifting products come as paper vouchers, which are still in use by many smaller retailers and non-retailers, and even some major ones. Legacy paper vouchers are low cost to issue, but their tracking capabilities are limited, they require manual processing, and they are also quite vulnerable to fraud. For these reasons, many retailers have migrated to electronic gift cards in the shape of plastic cards, typically utilizing magnetic stripe and/or barcode technology. Integrated with POS systems and payment terminals, plastic cards represent a superior solution to vouchers in terms of speed, security and reporting capability. A small, but growing group of retailers, especially e-retailers, have progressed to issuing virtual prepaid solutions, e.g. via SMS, MMS, NFC or e-mail. While they lack the physical aspect of a plastic card, virtual prepaid solutions have close to zero incremental cost of issuance and delivery, making them ideal for prepaid promotions.

The majority of retailers might view gift cards primarily as a payment instrument, potentially with a fee to cover the cost of issuance and a small margin, and possibly some breakage (unspent funds) that can be claimed



as revenue at a later point. However, this narrow view prevents retailers from realizing the true potential of prepaid. For example, according to DrawCard, South African merchants who switch from paper to plastic experience anywhere from a 30% to 200% increase in sales. What is more, 61% South Africans spend more than the face value of the card. Coupled with float, higher margin sales, and the potential for new customer acquisition, these products offer significantly more benefits than might be superficially apparent.

Many retailers and especially non-retailers are unaware of these additional benefits associated with gift card sales and thus do not promote their cards actively. In fact, many retailers and non-retailers keep their gift cards locked away and “behind the till”, possibly a legacy from when they used paper vouchers. A retailer or service provider that grasps the economics of the gift card will make efforts to promote their cards actively in their in-store environments. Till signs, posters, and racks with cards in the store landscape all enhance card sales. As long as plastic cards are not pre-loaded with funds, losses related to theft are negligible compared to the benefits associated with incremental card sales. Enabling gift card sales and redemption in online channels, e.g. through a web shop, is a natural extension of promoting gift cards in the physical channel.

The next step up from in-store promotion is incorporating gift cards into the overall marketing strategy of the company. There are also many opportunities for issuing a prepaid card during interaction with customers and potential customers. For example, instead of giving a customer a cash refund upon returning a product, one can issue a prepaid card to encourage repeat visits and incremental spending. Prepaid cards can also be used as part of promotions. One example is replacing point of sale cash discounts with giving out a gift card of a certain value. Incremental gift card value with increased spending encourages higher spending. Another example is distributing free low-value prepaid cards with a short expiration period to stimulate store visits and spending during low season. A third variant is including a promotional gift card as part of a product bundle to stimulate cross-sales, e.g. “buy jeans and a shirt this week – and we throw in a gift card.”

Loyalty programs and gift cards also go hand in hand. In mature markets such as the US and UK, major credit card programs and retailer loyalty programs offer gift cards as a redemption option for cash back rewards and virtual currencies (e.g. bonus points, air miles, etc.). Studies also show that gift cards are among the most popular redemption options among consumers, so this can be a very sensible reward option to offer.

When a retailer or non-retailer has exhausted its options for self-promotion of gift cards, it is time to look beyond the physical outlet network and online sales channels. Enter the concept of third party prepaid distribution. A retailer with sufficient margins on its products should consider distributing its gift cards through other retailers’ stores. E.g. if IKEA wants to sell more cards, what if it could do so through a grocery store’s network? In this example, IKEA would pay a commission to be shared by the grocer and the distributor that operates the third party network. IKEA expands its gift card footprint, whereas the grocer taps into a portion of consumer spending with IKEA (cannibalization of food sales due to IKEA furniture sales is minimal); a win-win situation. In the US, for example, 20% of card value is thought to be generated by third party sales such as those operated by Blackhawk Network.

Retailers and non-retailers that view gift cards as a category, rather than merely a payment instrument (or unspent funds to go into the bottom line at a later point), can significantly increase their sales revenue. Gift cards can be used to attract, retain, compensate and stimulate additional customer spending; but they cannot do so if they are in a drawer behind the till and not promoted.

## COMPANY DIRECTORY

The following section contains a brief introduction to a selection of prepaid payments players in South Africa. The list is not exhaustive, but covers a broad range of players from card manufacturers and terminal providers to processors, banks, and retailers.

**Absa Bank:** <http://www.absa.co.za/>

The Absa Group Limited (Absa) is one of South Africa's largest financial services groups offering a complete range of banking, assurance and wealth management products and services. Absa Bank offers a range of card services: Merchant Acquiring; Payment Terminals that accept all major debit and credit cards, and dispense virtual vouchers and check referrals; Mobile Pay Express – a service to process credit card payments within seconds using a mobile phone, landline or Web-enabled computer; E-Top Up - through Absa's partnership with Autopage Cellular, customers can purchase cellular airtime as virtual vouchers through point - of - sale terminals; Gift Card - replacing gift vouchers, retailers can design and issue cards to customers, at any time, at any location and for any value.

**ACET Processing:** <http://www.acetprocessing.com/>

Cape Town based ACET Processing's platform provides processing solutions across a wide range of consumer finance product offerings including: Credit cards (Visa and private label), Prepaid card services, Personal loans and Asset based finance.

**Bankserv:** <http://www.bankservafrika.com/en-us/home.aspx>

Located in Johannesburg, Bankserv Africa is an industry leader in electronic payment and information switching services and Africa's leading automated payment clearing house. Their services include outsourcing and hosting, research and development, project management and integration, and disaster recovery.

**Bidvest Bank:** <http://www.bidvestbank.co.za/>

Located in Johannesburg, Bidvest Bank combines two of South Africa's leading brands – The Bidvest Group and Rennie's Foreign Exchange. Bidvest Bank offers a range of innovative prepaid currency cards that meet travelers' unique travel needs, and supported by the international Visa network. In addition to providing travel foreign exchange products to both business and leisure travelers, Bidvest Bank offers a comprehensive range of foreign exchange solutions to corporates involved in foreign exchange activity.

**Capitec Bank:** <http://www.capitecbank.co.za>

Located in Stellenbosch, Capitec Bank is a South African retail bank that provides affordable banking services through the use of innovative technology. This has enabled them to implement a system of paperless banking. Using fingerprint biometrics, photo identification and card access in their branches, Capitec Bank ensures secure back office functions, and a streamlined platform that reduces costs.

**DrawCard:** <http://www.drawcard.co.za/>

Located in Johannesburg, DrawCard is South Africa's pioneer and leader in stored value card solutions and the systems that support them, including gift cards, loyalty cards, employee incentives and managed spending cards. DrawCard is a member of the Transaction Capital Group. Services offered by DrawCard include card program design, transaction processing and authorization, real time statistics, comprehensive reporting, card production, complete client training, and a customer support center.

**Edenred:** <http://www.edenred.co.za>

Located in Johannesburg, Edenred has been providing the South African market with reward and motivation solutions in the form of gift cards and incentive programs since 2005. In partnership with MasterCard and Standard Bank, the Compliments Gift Card, is a card solution designed to motivate and encourage employees to perform and reach targets, to reward clients for loyalty, and to encourage trial by new prospects.

**Face Technologies:** <http://www.face.co.za>

Based in Pretoria, South Africa, Face Technologies develops, supplies and implements business solutions for effective identification, focusing on biometrics and card technologies. Face Technologies has a Card Production Facility, and provides secure card personalization, database management, card printing scheduling, dispatch, and reporting.

**First Data:** [http://www.firstdata.com/en\\_za](http://www.firstdata.com/en_za)

First Data is a global company that securely processes transactions for millions of merchant locations and thousands of card issuers around the world every day. Since 2002, First Data has offered a variety of flexible payment solutions in Africa tailored to regional and local market requirements, including consumer finance processing, acquiring processing and switching, merchant acquiring, ATM and POS management and value-added services. Their clients include leading South African retailers and key financial institutions in South Africa and Mauritius. First Data has a regional office in Johannesburg.

**First National Bank (FNB):** <https://www.fnb.co.za>

FNB provides personal, commercial and corporate banking services to more than 6 million customers across South Africa. FNB is the oldest bank in South Africa, and can be traced back to the Eastern Province Bank formed in Grahamstown in 1838. Today, FNB trades as a division of FirstRand Bank Limited and is the single largest contributor to FirstRand's bottom-line.

**Intelligent Card Production Systems Limited:** <http://icpslimited.com>

Intelligent Card Production Systems Limited (ICPS) is a Ghanaian-Danish Joint venture established under the laws of Ghana, with support from the Danish government to manufacture and market plastic smart cards in Ghana and the rest of the world.

**Investec:** <http://www.investec.co.za>

Based in Johannesburg, Investec is a distinctive specialist bank and asset manager. They provide a diverse range of financial products and services to a niche client base in three principal markets -- the United Kingdom, South Africa and Australia -- as well as certain other geographies.

**Liquid Telecom:** <http://www.liquidtelecom.com>

Located in Bryanston, Liquid Telecom offers TPS. TPS provides integrated solutions for electronic payment processing systems ranging from Point of Sale (POS) solutions to Electronic Recharge solutions. These solutions are offered on a secure, reliable and scalable platform that is in use in several African countries. TPS' solutions drive electronic payments, including advanced transactions such as prepaid airtime recharge bill payments and third party payments.

**MFS Africa:** <http://mfsafrica.com/>

Mobile Financial Services (MFS Africa), based in Bryanston, South Africa, was established to distribute simple and relevant financial services to mobile users across Africa. Their products and services include international money transfer, insurance, consumer credit, and online payments.

**Nedbank:** <http://www.nedbank.co.za>

Nedbank Group is South Africa's fourth largest banking group measured by assets, with a strong deposit franchise and the second largest retail deposit base. The group provides a wide range of wholesale and retail banking services as well as insurance, asset management and wealth management. Nedbank Group is headquartered in Sandton, Johannesburg, and has large operational centers in Durban and Cape Town, as well as a regional branch network throughout South Africa, and facilities in other southern African countries.

**Net1 Technologies:** <http://www.net1.com>

Located in Johannesburg, Net1 is the leading provider of secure and affordable transaction channels between formal business and unbanked and underbanked individuals. Net1's Transaction Management service incorporates the entire EFT and non-EFT transactions suites, allowing merchants to accept a range of payment tokens and banks to acquire those payment tokens. This encompasses both conventional mag-stripe credit, debit and private label cards, as well as contact and contact-less smart cards with PIN and/or biometric cardholder verification.

**Opengate Technologies:** <http://opengate.co.za/>

Opengate is a supplier of several different products and services to the stored-value gift and prepaid card markets. StepUp is a service focused on growing a retailers' internal gift card program - through a combination of card themed techniques, gift card packaging, display units and merchandising. SplashOut is a marketing service that enables issuers of gift or prepaid cards (retail; online games; music; financial services and payment) to use third-party retailers as a distribution channel, through which to market and sell their product offering. SixPin is a standalone service - identical to SplashOut - but specifically tailored to issuers of online games and music. SixPin will be available through convenience stores (grocery and forecourt) and retailers in the cellular, video and entertainment, and toy markets. FlowHost is a technology system that processes, routes and reconciles transactions - in collaboration with participating processing vendors and retail partners - that originate from the SplashOut program. Spark is Opengate's prepaid load network that will be available across partner retail outlets. Spark is targeted at issuers of payment cards that are used for general spend, money transfer or disbursement purposes.

**PayU:** <http://www.PayU.co.za>

PayU is the leading mobile and online payment service provider in South Africa. They enable businesses and individuals to engage in e-commerce safely and easily. They are constantly expanding their service offerings to deliver great innovations and service. PayU Payment Solutions is headquartered in Cape Town, South Africa and is a subsidiary of the Naspers group of companies. They offer the functionality, security, and level of compliance (PCI DSS Level 1.2.1) required to enable websites for e-commerce, while reducing financial risk, and providing both product reliability and superior customer service.

**Pick'n Pay:** <http://www.picknpay.co.za>

The Pick'n Pay Group is one of Africa's largest retailers of food, general merchandise and clothing. Pick'n Pay offers loyal customers the smart shopper card, a rewards card providing cash back on purchases. Points can be applied towards a future purchase or donated to charity. The Pick'n Pay Splashout Gift Card Mall offers an array of gift cards from book stores, sports outlets and more.

**Standard Bank:** <http://www.standardbank.co.za>

Standard Bank Group is a global bank with African roots. It is South Africa's largest bank, and has extensive operations in 17 African countries. Their banking services encompass Personal and Business Banking, Corporate and Investment Banking, and Wealth Management. . Standard Bank offers a number of different

prepaid cards: MasterCard or Visa gift cards or Incentive cards, and PayCard – a corporate MasterCard or Visa card for businesses to pay temporary or seasonal employees who are unbanked,, or to handle petty cash payments in a more secure manner.

**Sybrin:** <http://www.sybrin.co.za/AboutUs.aspx>

Sybrin Systems (Pty) Ltd is a leading global technology company that provides information processing solutions with particular emphasis on image-based payment systems. They specialize in Voucher Processing, Clearing and EFT payments (Electronic Funds Transfer) for corporations, banks and clearing houses. Sybrin Systems is currently assisting institutions to make the successful transition from paper based processing to image processing and electronic payments.

**Transact24 Limited:** <http://www.transact24.com>

Transact24 Limited is expanding its footprint in Southern Africa with new projects in card issuing and new acquiring opportunities outside of the well-known South African banking arena. T24 Cards offers additional functionality such as MPS, enabling users to send funds to each other via mobile SMS. This facility can also be used to run customer reward or incentive programs through prepaid cards. They offer both closed loop targeted solutions and an open loop proposition, and are partnered with Visa and MasterCard to enable the widest international merchant and ATM acceptance.

**Triloq Payment Services:** <http://www.tripayserv.com/news.html>

Based in Johannesburg, Triloq Payment Services (Pty) Ltd (TPS) is a World of Avatar (WoA) company. The company develops solutions that provide users with simplified payments in the mobile and online worlds. The company is currently in relationships with Hyphen Technology (Pty) Limited (a subsidiary of the FirstRand Investments Limited Group) and MTN Mobile Money.

**Traderoot:** <http://www.traderoot.co.za/>

Traderoot is an e-commerce company that licenses advanced business solutions to provide companies with enhanced cash flow and greater productivity. Traderoot's Issuing Switch is a system that issues accounts, vouchers and tickets on behalf of retail centers, loyalty schemes, medical aid, insurance, financial administrators and events companies. Traderoot's Workflow and Procurement Controller effects and administers the transfer of non-financial transactions such as physical content and inventory between the demand and supply zones, and offers just-in-time supply to meet demand impact on cash flow such as through prepaid airtime, electricity and money transfers.

**Tutuka Software:** <http://www.tutuka.com>

Located in Rivonia, South Africa, Tutuka is the premier Voucher Software provider. Tutuka develops open standard software to issue, redeem and reconcile vouchers whether printed, card based, emailed or sent to mobile phones. Tutuka issues private label gift cards for a significant number of retailers in South Africa, and also offers co-branded open loop products issued by Standard Bank and MasterCard.

**Uwin Iwin Incentives:** <http://www.uwiniwin.co.za/default.aspx>

Located in Johannesburg and Cape Town, UWIN IWIN is a leading provider of inspirational recognition and reward solutions. They work with businesses to unlock the full potential of employees, channel partners and dealers to provide their partners with a competitive edge. UWIN IWIN has expertise in online rewards solutions, travel rewards, inspirational meetings and events, communication and events, communication campaigns, and training.

**Veneka Solutions:** <http://www.veneka.com/index.php>

Johannesburg based Veneka is a program manager and software provider of electronic banking and channel and payment technologies.

**Woolworths:** [www.woolworths.co.za](http://www.woolworths.co.za)

One of South Africa's top retailers, Woolworths is known for its wide range of clothing, food, homewares and beauty products. Woolworths also offers a wide range of financial services solutions, from store cards to credit cards, insurance to loans, in partnership with ABSA bank through Woolworths Financial Services. Woolworth's loyalty program provides discounts and other benefits to cardholders of Woolworths Store Card, Credit Card or Difference Card, or a MySchool MyVillage MyPlanet card.

**Xantium Integrated Solutions:** <http://www.xantiumis.co.za/>

Located in Johannesburg, Xantium Integrated Solutions was founded in 2004 and is regionally supplier of all types of plastic cards from Scratch, Prepaid, and GSM cards, to Commercial, Access, Identity, Contactless and Banking chip cards. With their international partners they are able to offer MasterCard and Visa magnetic stripe cards, EMV chip credit/debit cards and ATM cards. Customer-loyalty cards are a rapidly growing area for Xantium, which offers an end-to-end card services including design, supply, personalization, and fulfillment.

## DOING BUSINESS IN SOUTH AFRICA

This section of the report is intended for foreign companies wanting to set up and conduct business in South Africa. The World Bank Group conducts an annual assessment of the business climate in countries all over the world, currently spanning 183 countries. As of 2011, South Africa is ranked as the 34<sup>th</sup> most attractive country to do business in based on the overall indicator *Ease of doing business*. This indicator is an aggregate of the nine topic indicators outlined in the table below. For detailed descriptions of each indicator, please see [www.doingbusiness.org](http://www.doingbusiness.org).

Topic	2011 Rank	2010 Rank	Change in Rank
<b>Overall rank for Ease of doing business</b>	34	32	↓ -2
Starting a Business	75	66	↓ -9
Dealing with Construction Permits	52	52	No change
Registering Property	91	87	↓ -4
Getting Credit	2	2	No change
Protecting Investors	10	10	<b>No change</b>
Paying Taxes	24	23	↓ -1
Trading Across Borders	149	148	↓ -1
Enforcing Contracts	85	86	↑ +1
Closing a Business	74	77	↑ +3

Source: World Bank Doing Business Report

Companies intending to set up a business in South Africa should take note of relatively more complex, costly and/or long procedures compared to the average of the OECD-countries for a number of business processes. This applies especially to procedures related to cross-border trading for companies that plan to import or export supplies, but it also applied to enforcing contracts, setting up a business, and property registrations if needed, to name just some areas. US and UK based companies especially should prepare for longer procedures than they are used to encountering in their domestic markets. For example, enforcing a contract using the legal system takes twice as long on average in South Africa as compared to the US (600 vs. 300 days). However, it should also be noted that South Africa is ranked as the second most favorable country in the world with regard to credit information and credit policies.

**Insight:** The majority of banks in South Africa approach BIN sponsorships with caution. One of the key challenges of setting up a prepaid business with open loop cards can be to obtain a BIN. Prepaid processors such as DrawCard and Tutuka have established partnerships with select banks, and are able to offer open loop programs in addition to programs running on their closed loop platforms. Another option could be to passport into South Africa using BIN sponsors in other countries.

**Insight:** The Consumer Protection Act of 2011 was amended with a Bill that prohibits fees on gift cards, including cards issued by malls, except fees for replacing or customizing a card or if the card was free. A person who is charged a fee in violation of the Act is entitled to request a refund of the fee within three years. The Bill also prohibits expiry dates on gift cards except in limited circumstances and sets out the information to be given to consumers about using the card. Minimum expiration is 3 years.

## KYC - SUMMARY OF FICA IDENTIFICATION OBLIGATIONS

The Financial Intelligence Centre Act (FICA) requires a bank to identify and verify a customer's identity as a prerequisite to establishing the business relationship or entering into a single transaction with that customer. The bank is also obliged not to keep secret, anonymous and numbered accounts in fictitious names, or accounts without the owner's full name as indicated on his/her Identity document. There are three types of cards that can be issued, the functionality of which is restricted according to the level of KYC that has been completed prior to opening the account.

### FULL FICA KYC

Full FICA allows for a totally unrestricted card to be issued to the applicant. In order for a consumer to be able to apply for such a card, they need to provide details of their identity number/ passport number and details of their residential address. Thereafter, valid certified copies (preferable) of both proof of identity and proof of residential address have to be supplied in order to complete the verification element of the FICA. In the event that the bank is unable to obtain certified copies of FICA documentation (e.g. scanned copies sent via electronic mail or faxed copies) the FICA documentation needs to be supplemented by third party verification. For "valid" FICA documentation, the identification document must not be expired and should be valid at the account opening stage. With regard to Proof of Residence ("POR"), the FICA documentation must not be more than three (3) months old or should not be expired.

### FICA EXEMPTION 17 (MASS MARKET PRODUCT)

FICA 'Exemption 17' exempts the bank from KYC verification obligations in respect of residential addresses (only) for certain natural persons, who are South African citizens and/or South African residents who are considered to be mass market clients, in cases where there is no reasonable means to verify residential addresses. This means as long as a verified or certified copy of the applicant's photographic ID has been received, financial institutions are exempt **from verifying** proof of address. However, the residential address should be identified (that is noted and held on file).

Any customer completing the application process for purposes of the exemption must adhere to restricted account transactional activity, including maximum daily withdrawal limit of R5,000 (for all transactions, POS, ATM withdrawal, Internet and cellphone banking; excluding bank charges) and monthly deposits (credits) not exceeding R25,000 (excluding interest accrued on credit balances). It is also the responsibility of The Program Manager to insure that each individual operates no more than one account of this type at a time.

### CIRCULAR 6 (CELLPHONE BANKING PRODUCT)

The South African Reserve Bank ("SARB's") 'Circular 6- Cellphone Banking Product' allows for financial institutions to complete KYC obligations in the absence of face-to-face contact. In this instance, the only actual KYC due diligence that needs to be completed is identification and verification of the applicant's name(s) and surname **and** National ID Book/ passport number through a 3<sup>rd</sup> party database, such as XDS, with access to the Home Office database. Any customer taking advantage of this exemption must adhere to the restricted account transactional activity – namely a daily withdrawal of R1,000 and monthly deposits (credits) not exceeding R25,000. It is also the responsibility of the program manager to prevent an individual from operating more than one account of this type at a time.

## SOUTH AFRICA SAMPLE CARD PROGRAMS

### GAUTRAIN GOLD CARD

**Program category:** Transportation

**Website:** <http://www.gautrain.co.za/>

**Overview:** The Gautrain is a state-of-the-art rapid rail network in the province of Gauteng. The rail connection is comprised of two links, namely a link between Pretoria and Johannesburg, and a link between OR Tambo International Airport and Sandton. Besides the commuter service, air passengers have a dedicated service between OR Tambo International Airport and Sandton.

Gautrain's train, bus and parking services are all fully integrated and may be used separately or jointly by transferring from one to another. These services are all accessed by means of a contactless smart card: the Gautrain Gold Card. No cash is acceptable on Gautrain services. In the first month of operation, June 2010, the Gautrain carried more than 400,000 commuters. During the first week that the extension of the line from Johannesburg to Tshwane became operational, the number of passengers increased from 19,248 on the first day of operations to 41, 883 by August 9, 2011.



**Issued by:** Gautrain

**Target audience:** Commuters in the province of Gauteng. Tourists who wish to travel to and from the Airport.

**Features:**

- Allows seamless transfers between Gautrain's train, bus and parking services.
- Load a variety of different journey products, single 'Pay As You Go' trips, seven day passes and 35-day passes, onto the same card which can be reused over and over again.
- Opportunity to register the card which enables users to blacklist their card should it be lost or stolen.
- Any unused value in the pay-as-you-go section on the lost card can then be transferred to a new card.
- Gold Card remains valid for 5 years.

**Fee:** A once-off card license fee of R10 is payable when you purchase a card and cannot be refunded or transferred or used to pay for Gautrain services. You need at least R20 available in the pay-as-you-go section of your Gold Card to board any Gautrain bus and at least R20 to enter a station fare gate.

## PAYDNA

**Program category:** Payroll

**Website:** <http://www.paydna.co.za/>

### Overview:

The PayDNA card is a prepaid debit card that allows employees to manage their finances. The PayDNA card does not require either a bank account or a credit check, and allows employees to shop at all stores accepting MasterCard.

Employees can swipe at any point of sale at no charge to their account, withdraw cash at any ATM machine in South Africa, view their balance and transaction history online and receive account balances via SMS.



**Issued by:** PayDNA (utilising Tutuka Voucher Software technology.)

**Target Audience:** Employers and the Unbanked.

### Features:

- Shop at all stores accepting MasterCard.
- View balance and transaction history online.
- Receive account balance via SMS.
- Manage the card accounts with the ease of a mobile phone or SMS.
- Card may be loaded via a range of convenient options, including EFT, over the counter in a participating bank and batch payroll payments.
- Transaction history available online at <https://www.whatsonmycard.com/index.cfm>
- POS and Fuel purchases are no charge transactions
- Maximum balance acceptable on the card is R20,000

**Fees:** An initial one time activation fee of R25 plus a monthly service charge of R25. Other charges include R12 for EFT to the card, R12 for cash over the counter at a bank. Also there are charges for ATM usage – R4.70 per transaction for Standard Bank ATMs and R11.40 for using other ATMs.

**Other:** PayDNA cards can be used for loading pocket money for children and/or students.

## BIDVEST VISA RAND TRAVEL CARD

**Program category:** Travel & FX

**Website:** <http://www.bidvestbank.co.za/foreign-exchange/travel-foreign-exchange/rand-card/Rand-Card.aspx>

### Overview:

The pre-paid Visa Rand Travel card is the safe and easy way to manage travel spending whilst visiting South Africa. There is no risk of carrying cash. Drawing cash is also not restricted to banking hours. The Visa Rand Travel Card can be used to draw cash from Visa ATMs throughout South Africa and to pay for goods and services at all Visa merchants.

**Issued:** Bidvest Bank

**Target Audience:** Travelers to South Africa.

### Features:

- Easy access to cash
- Fixed exchange rate
- Debit card functionality
- Purchase fuel at selected petrol stations
- Accepted at more than 125 000 South African Visa merchants
- Withdraw cash from more than 16 000 Visa ATMs in South Africa
- FREE cash withdrawals at Bidvest Bank ATMs
- PIN and signature protected
- 24 hour support for lost / stolen cards
- Card can be reloaded by visiting Bidvest Bank branches
- On departure from South Africa, exchange your Rands into currency of choice at any of our branches

### Fees:

- First card issued free
- Additional card or replacement card R30.00
- Monthly fee R20.00
- POS purchase R2.00
- POS cash withdrawal R6.00
- ATM cash withdrawal: Bidvest Bank free; other ATM R7.00 + R1.10 per R100
- International POS purchase R45.00 + 3% of transaction value
- International cash withdrawal R45 + 3% of transaction value
- International currency conversion fee 3% of transaction value

## COMPLIMENTS GIFT CARDS

**Program category:** Corporate Incentives & Benefits

**Website:** <http://www.giftcards.co.za/compliments/>

### Overview:

Supported by Standard Bank and MasterCard, Compliments is marketed as South Africa's most convenient gift card solution, redeemable in over 120,000 MasterCard outlets countrywide. The payment solution has been designed by Edenred.

The card's versatility means that it can be used for many different programs including customer rewards, loyalty programs, staff rewards, corporate gifts, year-end gifts, product promotion, sales incentives, service quality improvement, and as a prepaid card.

The card can only be used in stores or restaurants. It cannot be used online or to withdraw money from an ATM.



**Issued:** Standard Bank. Technology developed by Edenred.

**Target:** Corporate sector for loyalty rewards and incentive schemes. Has multi-function application.

### Key Features:

- Swipe card technology
- Corporate personalization of cards available.
- End-user shops at any restaurant or shop in the gift card network or where MasterCard is accepted. Over 120,000 locations.
- Balance can be checked online at: <https://www.whatsonmycard.com/index.cfm?accor>
- Balance can also be checked via SMS at 34543 by texting the card number.

## ABSA PREPAID DEBIT CARD

**Program category:** General Purpose Reloadable

**Website:** <http://www.absa.co.za>

### **Overview:**

The Absa Prepaid Debit Card provides a simple and affordable way to bank without the need to carry around cash. It can be topped up at any time by the cardholder, a relative, a friend, or an employer.

The card can be used at any Absa ATM, to withdraw or deposit cash, get balances and mini-statements, and top-up airtime and prepaid Telkom or Eskom accounts. It can be used to pay for goods and services at many stores displaying the Visa logo.



**Issued:** Absa Bank & VISA

**Target:** Consumers, employers, travelers and the unbanked. Card flexibility makes it an attractive option for multiple target groups.

### **Key Features:**

- No transaction fees charged on debit transactions at any store displaying the VISA logo
- No fees at ATMs for withdrawals, balance enquiries, mini-statements, or CashSend transactions; also no fees for prepaid airtime top-ups, or Prepaid Telkom
- No monthly administration or service fees
- No minimum balance requirements. Cardholders can only spend the amount available on the card, and can top up the card at any Absa ATM.

**Fees:** R30,00 activation fee, re-issue card fee R30,00, card replacement fee of R50,00, top up fee of 2.5% of load amount.

## SANTAM INSURANCE CLAIMS CARD

**Prepaid category:** Reimbursement

**Website:** <http://www.drawcard.co.za/>

### **Overview:**

The Santam prepaid card allows Santam policyholders to spend their claim funds at any Visa merchant of their choice. Policyholders are encouraged to spend their claim funds at certain partner preferred retailers, earning the cardholder cash-back rewards in the process.

This program has further enabled Santam to create flexibility in their claims processes as well as rewarding its policyholders for risk management behavior which benefits the policyholder as well as Santam.

In order to verify that someone is an actual claimant, Santam requires that the customer's card be activated before Santam loads funds on to it. The customer's identity will be verified upon collection/delivery of their Santam Card. The payment will then be loaded overnight and the customer will be notified, via SMS, that their card has been activated and loaded.

A list of preferred suppliers can be found at <http://www.santam.co.za/claims-services/claims-card/preferred-suppliers>.

**Issued:** Santam Insurance and DrawCard

**Target:** Insurance policy holders.

### **Key Features:**

- The card will be credited with the final agreed claim amount (less excess) or with the customer's other Santam payment. The customer then takes the card to the preferred suppliers, as listed on the Santam website and indicated to the customer when the card is received, and the customer then purchases their replacement item(s).
- There is no PIN issued.
- If a customer chooses to purchase goods at one of Santam's preferred suppliers, the customer will qualify for a Cash-back, usually within the month after they have made their purchase. This is credited to their Santam Card and they are notified by SMS of this credit.
- The Card Administrator will send the customer an SMS each time a payment has been made to their card.
- The card expires after three years, and the customer will be provided with a replacement just before the old one expires.
- No transaction costs.

**Fees:** No fees, but card balances not spent two years after being loaded will be subject to a R10 monthly Dormancy Fee deduction.

## STANDARD BANK GIFT CARD

**Program category:** Consumer gifting

**Website:** <http://www.standardbank.co.za/>

**Overview:**

Standard Bank's MasterCard or Visa gift card is marketed as the "ideal gift for anyone, whether you are celebrating a friend's birthday, a wedding or any other special occasion." Cards can be loaded with value between R50 and R2,500.

**Target:** Consumers

**Key Features:**

- They are safer and more thoughtful than giving cash.
- Gift cards can be bought at most major shopping centres in South Africa and buyers can pay using cash, debit card or credit card.
- Buyer needs to present a valid South African Identification document.
- Buyer decides how much to load on the card between R50 and R2,500.
- The card can be used at Retailers where MasterCard / Visa cards are accepted.
- Cards are not reloadable.
- To get a balance enquiry SMS cardholder sends card number to 34246 or calls 0861114093. Statements are not provided on gift cards.

**Fees:** N/A

## GLOBAL BEST PRACTICE PROGRAMS

This section contains a selection of best practice programs from around the world. The following programs have all been finalists or won awards for prepaid products in the Prepaid Awards in 2009 and 2010. Hence they may serve as a source of inspiration or as a guiding light to the development of other prepaid programs.

### NORDEA – MUNICIPALITY CARD SUITE (NORWAY)

The Municipality Card Suite is a unique two-card solution that allows Norwegian municipalities to make disbursements to social claimants, asylum seekers and schools in an efficient and user-friendly manner. The benefits include cost reductions, more efficient procedures, less stigma for social claimants, and the replacement of cash storages in a wide range of locations, from schools to social security offices.

KontantKortet is a single use card for disbursing cash in a very efficient and non-stigmatizing way, requiring simply inserting the card into a Nordea ATM to get cash out – without PIN or any ATM instructions. KontoKortet is an open-loop, re-loadable card with a broader target audience and more advanced features, enabling greater control for municipalities and cardholders, who can participate in the payment system with all the benefits associated with cards. The cards can be offered independently or as a unique combination.

The program has been implemented in 28 municipalities, whereas Oslo alone has 15 social security centers. In two years of operation, 100,000 Kontantkortet cards have been issued, and another 100,000 have recently been commissioned. The newcomer Kontokortet has seen even faster take-up, with 10,000 cards issued in just two months, and another 10,000 currently in production.

Nordea is the largest bank in the Nordic region and invented the first Nordic government prepaid card program with KontantKortet in 2007, and the bank continues to develop new prepaid solutions. In the future, we could see the Municipality Card Suite expanding to cover areas such as small value remittances, and a corporate incentive program piloted internally in the bank. The Municipality Card Suite won the 2010 Prepaid Awards for Best Government Prepaid Programme.

### SAINSBURY'S MEAL TICKET (UK)

The Sainsbury's Meal Ticket was a brand new product in the UK. It launched in August 2008 and is the first of its kind in the prepaid industry. It is targeted at students and their parents, created to offer a solution for parents buying food for their student children during their time away from home at university.

It comes in two card parts – one for a student to use in store to buy groceries and non-food essentials and one for a parent to keep to reload the student's card. It's used in the following way: Parents take the Meal Ticket to a checkout, credit it with the initial desired amount, from £1 up to £750, keep the top part and give the bottom card to the student. Parents can reload the card at any time. The student receiving the Meal Ticket can spend all the money on the card or just a small amount.

The Meal Ticket can be found in all Sainsbury's supermarkets in the Gift Card Category on an End Plinth Unit in stores. The Meal Ticket is an example of how Sainsbury's is providing its customers with cutting edge shopping and gifting facilities.

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## STARBUCKS CARD (US)

Starbucks Card is the simple, easy way to pay for anything in a Starbucks coffee store. The Card is handier than cash, as there's no more searching for change when you pop in for your morning latte and muffin. It's accepted around the world including USA, Canada, Australia, Thailand, Hong Kong, Mexico and Republic of Ireland, so ideal for the frequent traveler.

In 2009, Starbucks launched a loyalty program that allows customers to enjoy rewards every day from Starbucks. Once a card is registered, customers can benefit from free extra shots of espresso, flavored syrups and soya milk along with free Wi-Fi. Customers also receive the latest news and product offers as part of the Starbucks Rewards program.

Starbucks Card is linked to cause related marketing through the partnership with (RED). With a (Starbucks) RED Card customers are able to choose to give their Rewards to The Global Fund with 5p/5c from every customer transaction going to the fund.

Most recently the Starbucks Card has expanded outside of the Starbucks environment into the B2B and gift card channels. The Starbucks Card is an excellent choice to motivate, reward and appreciate the people around you. It's a great way to build enthusiasm, encourage loyalty and show your customers and employees how important they are to you and your business. The Starbucks Card is also available to purchase on-line and customers are able to use the top-up facility to ensure their Starbucks Card is always ready to go.

Starbucks Card feature summary:

- fast and convenient
- handier than cash
- rewards loyalty
- accepted in stores around the world
- does not expire
- can be reloaded in store or on line
- supports cause related charities

## APPENDIX A: PREPAID GLOSSARY

**Acquirer:** A bank or any other financial institution which manage data from payment transactions carried out by merchants with the appropriate equipment to accept the card: the merchant is linked to a network enabling payment, routing and settlement of transactions, and reporting of activity from the merchant's account.

**BIN Sponsor:** Issuing an open loop program requires a company with a payment network license (Visa, MasterCard etc.) to provide a BIN (Bank Identification Number). BIN numbers are specific both for the bank and the type of card e.g. Prepaid, Credit, Debit. The BIN number also needs to be 'set up' by the scheme in conjunction with the processor for issuing of cards. Many BINs will be split down into sub BINs or BIN Ranges to enable multiple prepaid card programs to be run on a single BIN but for different partners.

**Breakage:** Unspent funds remaining on a gift card or other prepaid product after its expiry date.

**Card Producer/Manufacturer:** The company who manufactures and, if required, personalizes the card by encoding it with data embedded in the magnetic stripe or chip during that is unique to the card and is required to facilitate a transaction.

**Closed Loop:** Cards issued by a single corporate entity which can only be redeemed within that entity, such as retailer gift cards, or within a series of entities who have agreed to take the card (so-called filtered or restricted loop).

**Distributor:** A company that manages the commercial relationships, physical transactions and physical distribution of prepaid cards sold in a "Destination Retailer" through a "Gift Card Mall" on behalf of issuers.

**Interchange:** Commission paid by the acquiring bank to the issuing bank as compensation for the credit risk borne by the issuing bank. The level of interchange is fixed and calculated during a transaction by the international networks (MasterCard, Visa, etc...)

**Issuer:** An institution such as a retailer, bank or government department that issues a prepaid product to the buyer and who bears the economic and legal responsibility, liability and risk for a prepaid product.

**Merchant:** A business engaged in the trade of retail goods and/or services, physical or on-line (or both).

**Open Loop:** A prepaid product branded with a payment network scheme, e.g. American Express, Visa, MasterCard, Discover and Japan Credit Bureau (JCB). The card can be accepted as payment by any "Merchant" with a card acceptance agreement with the relevant network.

**Prepaid Processor:** Service provider that manages the processes and transactions between issuers, merchants and consumers of a prepaid product.

**Prepaid Product:** Any device that can be loaded with monetary value in advance of the time when it will be converted into goods and/or services.

**Prepaid Program:** The set of activities required to issue a "Prepaid Product". This might include strategy, proposition, technology management, marketing, legal compliance, distribution, reporting and development.

**Program Manager:** The entity responsible for managing the core attributes of a "Prepaid Program". They can either manage for other companies, or be in responsible for issuing their own prepaid product. For MasterCard they are required to have an ISO MSP license in order to be a program manager.

**Switch :** A standardized exchange network that e.g. banks (issuer and acquirer) can use to communicate and exchange transactions effectively, without having to create hundreds of connections between each participant.

## APPENDIX B: SOUTH AFRICA IN FIGURES

This appendix contains statistics and background information on South Africa.

### Area

Total:	1,219,090 sq. km (25 <sup>th</sup> largest in the world)*
Land boundaries:	4,862 km
Border countries:	Botswana 1,840 km, Lesotho 909 km, Mozambique 491 km, Namibia 967 km, Swaziland 430 km, Zimbabwe 225 km

\* Note: Includes Prince Edward Islands (Marion Island and Prince Edward Island). Source: CIA World Fact Book

### Population

Total:	49,004,031 (July 2011 est.)
Age structure:	
- 0-14 years:	28.5% (male 6,998,726/female 6,959,542)
- 15-64 years:	65.8% (male 16,287,314/female 15,972,046)
- 65 years and over:	5.7% (male 1,125,709/female 1,660,694)
Median age:	25 years
Urban population:	62% of total population (2010)

Source: CIA World Fact Book

### Major cities - population

Johannesburg 3.607 million; Cape Town 3.353 million; Ekurhuleni (East Rand) 3.144 million; Durban 2.837 million; Pretoria (capital) 1.404 million (2009)

Source: CIA World Fact Book

### Communications

Telephones - main lines in use:	4.32 million (2009)
Telephones - mobile cellular:	46.44 million (2009)

Source: CIA World Fact Book

### GDP

GDP (official exchange rate):	\$357.3 billion (2010 est.)
GDP - real growth rate:	2.8% (2010 est.)
	-1.7% (2009 est.)
	3.6% (2008 est.)
GDP - per capita (PPP):*	\$10,700 (2010 est.)
	\$10,400 (2009 est.)
	\$10,600 (2008 est.)
GDP - composition by sector:	(2010 est.)
agriculture:	2.5%
industry:	30.8%
services:	66.7%

\* Note: Data are in 2010 US dollars. Source: CIA World Fact Book

<b>Labor force</b>	
Total	17.39 million economically active (2010 est.)
Labor force - by occupation:	(2007 est.)
agriculture:	9%
industry:	26%
services:	65%
Unemployment rate:	24.9% (2010 est.)
	24% (2009 est.)
Population below poverty line:	50% (2000 est.)

Source: CIA World Fact Book

<b>Exchange rates</b>	
Rand (ZAR) per US dollar	
- 2010	7.38
- 2009	8.42
- 2008	7.96
- 2007	7.05

Source: CIA World Fact Book