The New Approach to Managing Prepaid Programs

A white paper by i2c, Inc.
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Executive Summary

When prepaid cards burst onto the payments scene in the late 1990s and early 2000s, they brought with them considerable excitement and the promise of a new gold rush. When the realities of the prepaid business model became evident, companies had to readjust their projections and approach to managing this payment product. While huge strides have been made in launching and sustaining prepaid programs, many programs are only scratching the surface of their full potential and others fail to take-off all together.

Program management plays an important role in the success or failure of a card program and is one of the primary reasons why prepaid portfolios have struggled to gain critical mass. Considerable time, attention and expertise is required to collect and analyze program data, devise smart strategies and continually execute and optimize operations. Ineffective program management in prepaid is not due to a lack of general management skills on the part of program managers, but instead the lack of suitable processing technology and a framework for analyzing programs.

A new approach to prepaid program management, supported by a next generation of processing capabilities, is emerging that will position program managers to take full advantage of the opportunities in prepaid. It uses a mixture of experience-based strategic insight, data analysis and new processing technology to help companies address the common profitability challenges that have been holding their programs back.

This white paper will explore the following topics on this subject:

- Scope & interconnectedness of program management components
- Common program management challenges
- The new approach to managing prepaid programs
  - Core Assumptions
  - Methodology
  - Executional pitfalls
Program Management, Defined

There are many components to managing card programs, many of which overlap and impact one another:

**Strategy Development**
Strategy plays a key role throughout the lifecycle of the program, informing items such as development of the value proposition, go-to-market plans, distribution channels and card pricing.

**Brand Management**
This component gives consideration to all forces and actions that impact the card’s branding strategy. New card brands, for example, may be concerned with gauging consumer preferences and creating a strong brand identity, while established brands might consider measuring their brand’s elasticity in the card market and devising ways to leverage the brand’s equity.

**Aquisition**
Obtaining new cardholders in a cost effective way has a big impact on overall program profitability. Product packaging, messaging, channel management and campaign execution are key areas of consideration.

**Data Analysis & Benchmarking**
In order to devise program strategies and prioritize campaigns, it is vital to have accurate, timely data that provides a view of where the program stands. The right information provides insight into cardholder behavior and needs as well as useful metrics for gauging the performance of the program.

**Engagement & Retention**
Figuring out how to engage with cardholders to expand their usage of the card is another big piece of the profitability puzzle. To be successful in this area, the right tools – specifically analytic tools to understand cardholder preferences and configuration options to craft creative, targeted campaigns – will need to be at the program manager’s fingertips.

**Operations**
Operational considerations, such as card fulfillment, customer service and campaign development can be significant cost drivers and must be managed closely by the program manager. The challenge in this area is in identifying ways to reduce costs by creating operational efficiencies, and having the
power to leverage these efficiencies quickly, all without degrading the cardholder experience. The processing platform’s cardholder communication tools and ease of use play a big role in overcoming this challenge.

**Compliance**
The card industry is subject to a number of evolving regulatory requirements, which may, if not properly managed, impact product launches and overall program profitability.

**Fraud & Risk Management**
Smart management of this area can contribute to profitability of the overall card portfolio. Resources to detect and mitigate fraud, manage chargebacks and comply with industry reporting requirements are necessary.

**Sourcing & Vendor Relations**
Partnering with vendors to source components of the program – whether its an issuing bank relationship, plastic for cards, incentives or other value-added services – plays an important role in differentiating a card program. The ability to leverage existing relationships across a wide variety of providers and manage those relationships to achieve the best prices and services can give programs an edge.

**Project Management**
With any program, there will be a series of projects that must be completed in order to execute on the program strategy. Some of these projects can become complex and require input from multiple functional areas and outside providers. As such, it is essential that projects are managed using established project management techniques and are delivered on time.

While each component listed above has its own set of unique considerations, it is important to maintain a holistic view of the entire program management function. Many components are interconnected, meaning that a change to one component impacts another. For example, a change in card fees (Program Strategy) may trigger regulatory scrutiny (Compliance). Moreover, one or more of these components may combine to impact another component or the overall program. For example, failure to identify cardholder preferences (Data Analysis & Benchmarking), providing cardholders with irrelevant card-linked services (Sourcing & Vendor Relations) and poor customer service (Operations) will result in cardholders abandoning the card (Engagement & Retention). To make smart program management decisions, the program manager must understand these connections.
What is Holding Back Prepaid Portfolio Success?

The fact that prepaid card programs have failed to scale in the same manner as credit and debit card programs suggests that companies have not yet figured out how to crack the prepaid nut. While there are a number of factors that play into this – everything from consumer familiarity with prepaid products to the use of ineffective, legacy processing platforms – there are four areas specific to program management that have proven to be huge challenges.

**Business Model**
Prepaid card portfolios have very different P&L dynamics than credit or debit card portfolios. Specifically, prepaid cards have:

- Lower average monthly spend
- Lower transaction approval rates
- A shorter lifespan
- Costs associated with loading funds
- A lesser ability to earn interchange
- No implications for cardholders who leave negative balances on file
As such, managing a prepaid program using the same tools and methodology as credit or debit card programs is not effective. Program managers must appreciate the unique characteristics of prepaid and adjust their program management approach accordingly. For example, it is imperative that prepaid programs closely manage their Customer Acquisition Cost (CAC). If the CAC balloons, it will be impossible for the program to recoup these costs given the shorter life span and lower transaction volumes that characterize prepaid cards.

**Cardholder Retention**
Retention is a major pain point for program managers. Since most prepaid cards carry fees and all are funded with consumers’ money as opposed to a line of credit, there is strong incentive for consumers to use just one prepaid card. To become top of wallet and foster lasting cardholder relationships, companies must build in features and services that differentiate their cards and provide meaningful value to its cardholders. There are still many programs that have not done so, or have not linked the right features and services for their target market. Cardholders are unique individuals with their own wants and needs, and figuring out what will resonate with them is a challenge many program managers do not know how to deal with. This lack of insight into consumer preferences and failure to add cardholder value on a consistent basis results in dismal retention rates.

**Definition of the Value Proposition**
Offering a prepaid card that enables the cardholder to load money and make ordinary purchases simply does not offer enough value to compel continued usage of the card. Offering a differentiated, unequivocal value proposition may seem simple, but many programs today struggle with this. Some consumers considering a prepaid card may also consider a traditional bank account to satisfy their financial needs. Prepaid programs must think about how their product stacks up – in terms of fees, usability and extra services – to checking accounts and take steps to widen the appeal of their card.

**Resource Allocation**
Given the unique characteristics of the prepaid business model, a laser-sharp focus on profitability is crucial. While all program managers surely understand the importance of profitability, many do not know the best way to allocate their resources to achieve optimal results. Misdirection of resources – both in terms of quantity and timing – can have a devastating impact on the bottom line. For example, when a program is first launched, the focus is on signing up as many new cardholders as possible. But at a certain point, effort and resources must begin shifting to controlling operational costs, such as customer service. If the program manager continues to make acquisition their primary focus or lacks the tools to create operational efficiencies, costs will spiral out of control and the program will fail to be profitable even if strong acquisition rates are present.
Managing Prepaid Programs: The New Approach

A new approach to prepaid processing and program management is emerging that addresses the common challenges discussed above. It leverages analytic data to gain insight into program operations, prepaid-specific conceptual models to inform strategy formation and resource allocation and processing technology for execution.

Core Assumptions
This new method of program management is informed by the following assumptions:

1. It’s all about the consumer.
   The idea of consumer-centricity underpins this approach to program management. It assumes that maintaining an intense consumer focus is key to the long term success of any prepaid business. As such, this approach does not characterize consumers based on their usage of a particular prepaid card product, such as payroll cards or gift cards. Instead, it seeks to understand the consumer as an individual and focuses on delivering features and services that will fit into their lifestyle.

2. Data is power.
   Data analysis is a central discipline in this approach and it is relied on heavily to devise program strategies. By utilizing reporting and analytic functions in the processing platform and regularly analyzing this information in conjunction with other data, for example customer service feedback, the program manager is provided with a window into consumer preferences and behavior, the effectiveness of their campaigns and the overall financial health of the program.

3. Fees are unsustainable.
   In a marked difference to traditional approaches to program management, this approach assumes it is neither scalable nor sustainable to assess fees to every service available through the card. To achieve portfolio profitability, this approach advocates a consumer-friendly fee structure and focuses on increasing non-fee-related revenue, such as merchant-funded incentives, to drive profitability.

Methodology
There are three key methods utilized in this approach:
1. Tracking and analyzing a set of *Key Performance Indicators (KPIs)* tightens focus on profitability and provides a picture of overall program performance.

2. The program manager must focus on different tactics as programs go through a typical *Card Program Life-Cycle*.

3. The program must identify and understand the four distinct groups, or *Cardholder Clusters*, that comprise its cardholder base.

These methods, when used in conjunction with each other, give program managers significant insight into which strategies, campaigns and tactics will have the greatest positive effect on program profitability.

**Key Performance Indicators (KPIs)**

Given that a central assumption of this new approach to program management is that data is power, it is not surprising that its methodology involves tracking a set of KPIs. The following KPIs sharpen and quantify focus on profitability and help program managers gain insight into the impact of their campaigns:

1. **Customer Acquisition Cost (CAC)**

   The CAC is the hole you dig yourself into to acquire a customer. The deeper the hole, the longer it takes to emerge. The following chart illustrates the relationship between CAC and Average Revenue per Card (ARPC):

   ![Months to Recover $50 Acquisition Cost](chart)

   - **Current ARPC $5**
   - **ARPC +25%**
   - **ARPC +50%**
   - **ARPC +100%**

   **Months**
If, on average, the customer leaves the program before you have fully recovered the cost of acquiring that customer, it is only a matter of time before the business becomes unsustainable. To keep CAC as low as possible, the program manager must:

- Fully audit and track the true cost of acquisition
- Perform break-even analysis
- Gain efficiencies by leveraging existing channels
- Employ marketing/advertising strategies that deliver the most bang for the buck

2. **Churn**
All program managers are familiar with the concept of the Churn rate, the proportion of cardholders that leave the card program or become inactive. Effectively controlling Churn helps ensure a sustainable and profitable program. See the discussion of Card Portfolio Growth Rate (CPGR) below for ways to manage Churn.

3. **Cash Cost of Service per Card (CCSC)**
The CCSC is the ongoing cost of servicing a card excluding non-cash costs such as amortization. The difference between Average Revenue per Card (ARPC) and CCSC determines the profitability of the portfolio. The program manager should manage CCSC by:

- Fully understanding all program costs
- Achieving operating efficiencies by leveraging automation and higher levels of integration
- Minimizing customer service costs by leveraging technology and ensuring the program is simple and easily understood
- Implementing threshold policies. Does it make sense to spend $15 to recover a $5 charge-back?
- Using a processing platform with tools that will aid in controlling operating costs. For example, a platform with a robust and tightly integrated IVR will reduce live agent costs significantly. Similarly, the capability to send “real-time” email or SMS mobile alerts about account activity can help control customer service costs, reduce fraud and drive usage.

4. **Card Portfolio Growth Rate (CPGR)**
To compute the CPGR for a period, take net new cards (i.e., new cards activated minus cards closed) for a period and divide the number by the total active cards in the portfolio. As this metric is based on net new cards, it accounts for churn, which also must be managed proactively.
The program manager can manage CPGR and churn by:

- Developing an unequivocal value proposition for the target market
- Keeping the message consistent and delivering on the program’s promises
- Entering into strategic partnerships to reach targeted markets
- Thinking of ways to make the card part of the cardholder’s lifestyle
- Making the card easy to use and manage by offering a multilingual IVR, user-friendly cardholder Web interface, recurring transactions, etc.
- Adding services that create stickiness such as voice-mail, bill payment rewards, etc.
- Continuously taking steps to improve the program

5. **Net Promoter Index (NPI)**
This measure of customer loyalty and satisfaction is an important metric to know and understand. It is calculated by asking cardholders how likely they are to recommend your product and then taking the percentage of promoters and subtracting the percentage of detractors. The following tactics will positively impact this index:

- Implement a referral program that rewards both the referred and referring parties.
- Conduct customer surveys using a variety of channels. Some processing platforms on the market today have the ability to conduct such surveys in a cost-effective manner.
- Utilizing data analytics to understand cardholder needs
- Customizing the processing platform to provide a level of personalization to the cardholder experience
- Incorporating features, services and experiences that make the product more relevant to the cardholder

6. **Average Revenue per Card (ARPC)**
ARPC is calculated by taking the gross revenue of the card portfolio, including interchange, cardholder fees and any other contributions from value-added services, and dividing the total by the average number of active cards in the portfolio. The goal is to drive this number as high as possible. To increase ARPC:

- Know the customer and monetize that knowledge
- Focus on growing transaction volume before gross margin per transaction
- Increase revenue from non-fee-based services
• Add diverse, value-added services that incentivize consumers to engage with and use the card

7. Average Margin per Card (AMPC)
This KPI is derived from four previously discussed KPIs and, in a way, represents the bottom line. If you manage CAC, CCSC, CPGR and ARPC well, AMPC takes care of itself. This metric is useful in communicating the overall state of affairs to internal and external stakeholders.

The use of these KPIs establish a common language with which to discuss program health and play a big role in the formulation of ongoing program strategy. When considered individually, they help inform decision-making related to a specific area of the program. For example, if CAC is steadily increasing month-over-month, this may compel the program manager to re-evaluate its choice of channel partners. When reviewed in conjunction with each other, KPIs shed light on higher-level issues. As an example, consider the impact that ARPC and Churn have on overall program health:

To glean additional information about the program’s performance, these KPIs should be compared against prepaid industry benchmark data. A good processing platform will provide such benchmarking tools.
**Card Program Life-Cycle**

There are three distinct stages in a program, each requiring a different strategy:

- Start Up
- Ramp Up
- Momentum

Depending on the stage of the life-cycle, different considerations are top of mind. If one fails to manage specific KPIs at each stage, the program will not progress through the life-cycle. The following chart illustrates the key considerations at each stage:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Start Up</th>
<th>Ramp Up</th>
<th>Momentum</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Cards</td>
<td>&lt;20,000</td>
<td>20,001-200,000</td>
<td>&gt;200,000</td>
</tr>
<tr>
<td>Focus</td>
<td>Acquisition</td>
<td>Profitability</td>
<td>Retention</td>
</tr>
<tr>
<td>Relevant Key Performance Indicators (KPIs)</td>
<td>Card Portfolio Growth Rate (CPGR)</td>
<td>Average Margin per Card (AMPC)</td>
<td>Churn Card Portfolio Growth Rate (CPGR)</td>
</tr>
<tr>
<td></td>
<td>Net Promoter Index (NPI)</td>
<td>Cash Cost of Service per Card (CCSC)</td>
<td>Customer Acquisition Cost (CAC)</td>
</tr>
<tr>
<td>Comments</td>
<td>The goal is to acquire the initial set of cardholders quickly, do everything to make them happy and learn from them.</td>
<td>Once you have a reasonable number of cardholders, focus should shift to profitability. The goal is to achieve profitability at this level by fine-tuning the business model and making the operations more efficient before hitting the Momentum stage.</td>
<td>If you have successfully addressed the profitability issue in the Ramp Up stage, the goal during Momentum needs to be retaining existing cardholders and acquiring new ones at a reasonable CAC.</td>
</tr>
</tbody>
</table>

The card program life-cycle concept is used to focus resources on high-impact activities and guide companies’ strategies, campaigns and tactics. The following examples illustrate this:

**1. Start Up Stage – Focus on Cardholder Acquisition**

According to the Cardholder Life-Cycle model, the key KPI to consider during this stage is the CPGR. One financial services company with a General Purpose Reloadable (GPR) card product was able to grow CPGR by focusing on increasing activation rates. To do this, they configured their processing platform to send reminders to cardholders to activate and load their cards. The result was an Activation/First Load rate growing from the mid-teens to 24%.
2. **Ramp Up Stage – Focus on Profitability**
During this phase, the focus of the program manager must shift to profitability. Achieving operational efficiencies and increasing engagement are two areas that have a large impact on profitability. To simultaneously reduce CCSC and increase ARPC, a large program recently deployed SMS account alerts to inform cardholders of balances, transaction activity and load activity. This had a dual impact, helping to decrease customer service costs and driving engagement which resulted in a 9% increase in purchases:

![Graph showing % count Balance Inquiry of Total Transactions per month and % count POS Purchase per month]

3. **Momentum Stage – Focus on Engagement & Retention**
Controlling Churn is an important activity in the Momentum Phase. Continuously adding value to the cardholder experience is crucial to keeping cardholders engaged and active. One financial services company, in an effort to add cardholder value and increase engagement, used their processing platform’s digital couponing technology to deliver targeted incentives to a segment of their cardholders. The first digital coupon delivered through the card was redeemed by 67% of recipients within the first 30 days.

**Cardholder Clusters**
This approach to program management sees, in any prepaid card program, cardholders clustering into four distinct groups:

- **Under Performers**: The cardholder is infrequently active and costs more to service than the revenue they generate.
• **Average Performers:** The cardholder periodically uses the card. The profit margin from these cardholders is low and erratic month-over-month. The card life is typically less than 12 months.

• **Strong Performers:** The cardholder finds some benefit in regular usage of the card. The profit margin is healthy and has less variance month-over-month. The card life is typically over 12 months.

• **Role Models:** The card has become top-of-wallet and used often. These cardholders are the “stars”. They discover new ways to use the card, require less service and are promoters of the product.

Identifying the cardholder clusters within a particular card portfolio provides an additional layer of focus that drives program profitability. A common practice is for companies to spend considerable money trying to get the Under Performers to perform. In contrast, this new approach focuses on making Average Performers convert to Strong Performers, while giving less consideration, or no consideration

By thinking of a cardholder base in these clusters, it becomes apparent that there can be no single approach to customer retention. As such, the new approach to program management is to devise different strategies for each cluster. When determining which tactics and campaigns to employ for each cluster, program managers must keep in mind two of the approach’s core assumptions – it’s all about the consumer and data is power. Since cardholders are unique individuals, campaigns that are personalized, relevant and timely will have the biggest impact.

To understand what is relevant to them and to create that personalized touch, it is necessary for program managers to leverage the capabilities of their processing platform. The more analytic horsepower, varied communication tools, personalization options and unique features the platform provides, the more effective the program manager will be in their campaign efforts. By analyzing information surrounding cardholder spend, such as frequented merchants, location of transactions
and timing of transactions, among other data points, program managers will be well-positioned to craft the right campaigns. It is important that these features are as tightly integrated and real-time as possible. Many processors integrate with third party providers for additional services such as mobile alerts, campaign management or digital coupons, but this hinders timeliness and immediacy of delivery which is of tremendous value to program managers. Reliance on external systems can also limit innovation, flexibility and, in many cases, efficiency.

Executive Pitfalls

Reliance on Fees
While a central assumption in the new approach to program management is that a model dependent on charging extensive fees is unsustainable, it can be easy to fall into the “fee trap”. A program manager watching ARPC steadily decline may, in desperation, be tempted to introduce a new fee or raise an existing fee. While this may help ARPC in the short-term, it will eventually lead to higher Churn as cardholders abandon the card. The higher costs associated with replacing lost customers defeat the purpose of increasing fees. Even if the fees are subsequently eliminated or rolled back, the damage has been done. Therefore, program managers must fully weigh the long-term benefits and costs of any fee-related decision.

Choosing the Wrong Processing Partner
Any program manager – even those that have defined a clear value proposition, utilized data to understand cardholder needs and devised smart strategies based on the methods described above – may still fail in their efforts. Why? Because they are constrained by their processing technology. The greatest, most creative campaign will cease to be effective if the processing platform either does not have the necessary configuration options or is too inflexible and clumsy to execute on it quickly. Time is money and program managers must be able to act quickly to put their programs on a positive trajectory. Therefore, it is critical to the success of a program to have the right processing technology in place.

Keeping Ego in Check
Allowing one’s ego to drive program management decisions is a pitfall for some programs, especially those offered by well-known brands. Given the P&L dynamics of managing a prepaid card program, one must be pragmatic in their approach and make decisions that will positively impact profitability. Spending millions in TV advertising or relying too heavily on a brand name to drive acquisition are ego-driven strategies that will not produce positive results.
Conclusion

By continuing with ineffective prepaid program management and processing infrastructure, companies will struggle to bring their prepaid programs up to the same level of success enjoyed by credit and debit card portfolios. A new approach is called for, one which equips companies to:

- Efficiently gather and report on useful data, such as cardholder transaction behavior and program KPIs
- Analyze situations using program models, including the Card Program Life-Cycle and Cardholder Cluster concepts
- Leverage technology to craft and quickly execute creative program strategies

By getting strategic with program management efforts, making practical decisions supported by analysis and critical thinking and implementing the right processing tools, companies can take their prepaid card portfolios to new levels.
i2c, Inc. provides the cloud-based infrastructure that financial institutions, corporations, brands and governments need to launch and profitably manage payment and next-generation commerce products. Our platform - built from day one as a single global platform - encompasses mobile, traditional and emerging payment processing, customer loyalty, marketing, settlement and ATM solutions.

With an agile cloud platform architecture that frees you from the constraints common in legacy systems, i2c provides a rich feature set that you can control to accommodate virtually any type of payment transaction. i2c is headquartered in Silicon Valley, California and supports clients globally from six sales and support offices worldwide.