

Discover Prepaid Jeff Lewis Interview

WEBSTER Hi, it's Karen Webster for PYMNTS.com, and I'm here today with **Jeff Lewis, who is Director, Alternative Payments and Prepaid for Discover. Hi Jeff, thanks for joining me today.**

LEWIS Listen, thanks, Karen, thanks for having me.

WEBSTER **So, we're here to talk about prepaid products, and many people associate prepaid with products that are utilized by the unbanked, and the under banked. Aside from that market, is Discover looking to other market segments to ensure its success in prepaid?**

LEWIS Yes, Karen, and actually what I would say from Discover's standpoint, and prepaid, we really look at the entire market, and don't just talk about underserved and underbanked. What we look at now is who are our potential consumers. One of our strength areas has been the young adult market. We've expanded quite nicely from prepaid campus programs into other spaces, in the young adult market. And young adults, those demographics, let's say 20 to 30, really is a different market from a prepaid, because traditionally -- if you go back over time,

you know we've evolved from stored value with a prepaid account, and what's going on, and -- and now at Discover, what we're thinking is, it's not really a prepaid account, it's an account. And it's not about the card, the card is just a method, or an access device. So with the emergence of things like wallets from Google, and Isis, and all the different phone manufacturers and players getting into the space, about the access method changing there, it fits very nicely for the young adult crowd. Right, when you think about that demographic, and where they're going, it's the growth of prepaid. They account for about 10% of the US population. One of the unique areas that -- which fits with the demographic is the Hispanic area. And so we're looking at that particular space. We're looking at the products differently - how they approach it. They're not traditional, the young adults. They are a little bit more edgy. So as we look at our program, we're assisting our partners in the marketing efforts, and saying don't treat this like a traditional bank account -- a hard mailer out to them, your traditional banking, hard delivery mechanisms. Think about consistent messages over a period of time, keep them engaged with short little messages, rather than read this piece of paper, and there you go.

WEBSTER **Right. I like your characterization of young adults as edgy. I think they're also very social. And they tend to really interact online with a variety of media, and technology outlets. And they spend, according to some recent studies that I've looked at, about 16 hours a week online, which is kind of interesting, since the average adult spends about 20 hours a month online. So, given edgy plus social, how is this landscape creating changes for how these prepaid accounts, or these different accounts actually need to be marketed and delivered?**

LEWIS Yeah, great question. You're right about this socialization. I'd like to say that I have three young adults that are related to me, a male and two females, and I still can't get over the fact that they would rather spend more time texting me messages on a phone rather than calling me. And I think that, as we look at it, that really drives how you market to them.

WEBSTER **That's right.**

LEWIS We talk about mobile in the sense of it being a phone. With iPads and tablets, and notepads out there today, all the things that are connected to the web, it's really not necessarily phone, it's about mobility, purely. And it is, as you gear messages in the marketing, it's about constantly keeping them engaged, and utilizing particular consumers to spread the message. And that's

a good and a bad thing. Right, because the bad delivery of a product, to whatever reason. It doesn't matter whether Discover is a partner. A bad experience travels very rapidly. And if you understand that, you also understand that a good experience travels just as fast, if not faster through every means of social media out there, whether that is the internet, whether that's YouTube, whether that is texting, whether that is Twitter, it's using all those different channels, right, to reach and touch them. And deliver a consistent message across all of them. So you have to be conscious of all of them, and get out of a two-page email. It is a very short message that you have to grab on a title bar.

WEBSTER **A hundred and 40 characters, right?**

LEWIS Yeah, you change how you think about that message, and sometimes, right, for us in this world, and what we're used to, you have to think that wow, they have to really pay attention to stuff. Sometimes, a message can be delivered where we don't have to be so concerned about the grammar, because maybe grammar is not what's important, and couch it in a different way.

WEBSTER **Right, right. So how is Discover utilizing some of the things that you just talked about in creating these new products that are**

really designed to target this new category of consumer.

Anything that you can share with us?

LEWIS

Sure, I'll share a couple. As you know, and I think as we've talked in the past, we've done really well in the campus space. We've revamped a traditional prepaid account that delivers financial aid into a campaign called Travel Lightly. And I call it our marquis, because it took a lot of words, and converted it down into two, Travel Lightly. And really, the whole center around that is short messages, to the parents, to the students, to everyone, and everything we did with our partners, and it has resonated with the students. Because we went out and talked to students, and in that case. We've now started applying that methodology as we go out further, in areas for example like the National Restaurant Association, and the Employee Edge Card. And so we've consulted with them on the look of the card, what it feels like. How they communicate it, communicate to employees of restaurants. So the National Restaurant Association then went one step further and added our Discover Offers platform. Which is offers and messages, real time, when a young adult, or a person using the card, is conducting transactions. So we're constantly touching them with that. We have a program launching here in the fall, with the Georgia

lottery, and what we're finding with that is the people who play the lottery are tending to be more young adults, they're getting more into carrying that gaming mentality. And so we're crafting those messages and helping the Georgia lottery, and our partner GTECH get that message out in a different way. So, we've literally flipped over what I would call traditional card products, into the new world social media that exists, and in our world, they're discover-- what I would tell you is we don't think paper exists. We think the real messaging occurs beyond paper, and paper is what you have to deliver because of regulations and disclosures, and other things.

WEBSTER

Right. And so that's a -- and that's another topic for another day, for sure, on the regulatory front. But one of the things that I wanted to explore with you, let's see, you've described a number of really interesting product functions, and features that really create the prepaid product, and give it the functionality of any other card product. But one of the things that prepaid hasn't really delivered previously is any sort of credit history, or input into credit history, which is obviously particularly important to the young adult segment that you're targeting. What are your thoughts with respect to how these products can address that need, and what are you guys doing to help close that gap?

LEWIS

Sure. So, I'll start with my thoughts. Yours is a great point, and it's a gap right now that exists in the market. And I think it's a gap that not only exists for the young adults. We're seeing a lot of growth that I think exists in the market, just because of the economic conditions right now. What's hard is, and anything that you do with new products, new financial products, a prepaid account is really that, it's a financial product. It's how do you bridge from everything we know, traditional credit scores, into a new means that can predict whether or not someone will repay a particular loan? And that can be things like short-term loans, small incremental loans. But at the end of the day, how do you make that decision in the first place? We're beginning to see companies come into the market that are focusing on that, and looking at what we've always believed, which is you start looking at a card holder's history, and what they're paying. Beyond purchases, are they paying bills with their card? Those are indicators that they're responsible young adults, right? They're making their payments, the utilities, anything else that they might pay for. The card can be that mechanism to start seeing what I'll refer to as their propensity to pay. What's interesting, as we look outside of the US, the rest of the world is beginning to -- again, like everything else, move a

little faster. And I believe it's -- I'll just say in Asia, they're looking at what people buy, so for example, in one country, if you have two TVs, you're a good credit risk, because the second television is a sign you've moved up, in terms of your income.

WEBSTER **That's interesting.**

LEWIS And I think that's what we in the US have to do. We have to start moving away from traditional credit scores, and in this market, be looking at a person's propensity to pay, and use the information we have like bill payment, things like that, that are going on in the market, and start pulling those in. But that's hard, right? That's going to take a little bit, that's going to take strategy. To give you a good foundation and get people to feel comfortable with it.

WEBSTER **Well it sounds like it also requires a lot of good data, and a lot of sophisticated data analytics as well, and that's a tricky area, but that's certainly one where data can be used to really further the development of a really valuable product for the consumers of these new financial institutes. One of the things, Jeff, that I'd like to explore a little bit as we wrap up is, you touched on what you're doing on campus, and you touched on what you're doing in the lottery gaming area. Without disclosing anything that you're not ready to disclose yet, are there other areas that you're**

pursuing where you see the opportunity to target these new financial instruments that you'd like to share with us?

LEWIS

Sure. I'll start with a couple. So, I'll go back to the Georgia lottery, right? The Georgia lottery touches approximately -- well, we're projecting about 1.4 million cardholders by 2016. In addition to that, there's 300,000 consumers that they call Players Clubs, which are dedicated individuals. That right now are utilizing the lottery, and are members online, they're going after that segment of the market that is already in the social space. And they have the accounts already, and they're -- they're looking at these cards and accounts as a means for safety of putting the cash on it. Another one as an example is a card that's going to launch really shortly called Loyalty Card Plus. And Loyalty Card Plus is designed as, again, the gaming industry, in particular, it's a prepaid card attached to loyalty for casino play. And as we've looked at it at Discover, what we think about is, how to bring ideas to life, we look at solutioning problems. And the problems that casinos have is it was a single card, loyalty card, that they could continue to use at the casino, and then on property. And the casino said this isn't making sense to us, because as we talked about consumers, they're concerned if they win, about walking out of the casino with a lot

of cash. They also talked about that when I go home, I'm really not benefiting from the winnings that I had when I was playing, wherever home is. And so, the -- through, with our help, and with a company called Sightline, you know, our agreements with them, we've created a Loyalty Plus, which basically says go do what you do at the casinos, you have all the loyalty there. Now continue to use that card, and the casino will continue to extend loyalty to you, much like with debit cards, right, and the rewards on debit cards. So we're -- the loyalty of merchants and cards like that are driving value to the consumers, value to the merchants, being the casinos, etc. And when you look at that market, that market in size is roughly 37 million. And as we look at our partner, a small share of that, let's say you know, five to 6%, is 2 million consumers and cards in market. And that is now a cash, today it's a cash market business, moving into an electronic age, as we think about it. So those are a couple of examples, of the markets that we're seeing, and the expanding marketplace, driven around these young adults. You know, in that 20 to 30 range.

WEBSTER

Well I love -- I love the solutioning problems moniker that you've given your approach to crafting solutions to these alternative financial products. And we'd love to check back as some of

these things come to market, and things that you aren't able to talk about, you are able to talk about, so that we can get some additional insight from you on how you're reinventing what I think is a product that has a lot of great potential for consumer segments that can derive a lot of value from them. So Jeff, thank you very much for spending time with us today. Appreciate all your great insights, and best of luck with these programs on both.

LEWIS

Thanks Karen, I've enjoyed the time.