

2.3 billion prepaid card transactions in Europe by 2010

Europeans are expected to spend €75 billion using prepaid cards by 2010, representing 2.3 billion transactions per annum – an increase of 110% per annum over the next five years.

The European prepaid card market is set to explode in the next five years:

- A total of 2.3 billion prepaid card transactions per annum anticipated by 2010, representing 5% of total card transaction volumes and 3% of total card spending.
- €75 billion spend expected across 360 million prepaid cards. This represents substantial growth on the 40 million cards and 150 million prepaid transactions anticipated in 2006.
- Forecasts are that annual growth rates of the prepaid card market will exceed 110% for the next five years, and prepaid gifting products (card replacement for gift vouchers) will fuel a significant proportion (almost 30%) of total spend. Other segments that will drive growth include:
 - Travel products (designed to offer an alternative to travellers cheques and foreign cash) which will account for 15% of spending.
 - Internet payment cards (which provide a secure alternative to credit cards) are expected to generate 13% of spending.
 - Company rewards and incentives programmes are set to account for 12% of spending.

Despite the anticipated rate of growth, Peter Jones, Managing Director of PSE, commented that “banks must act quickly if they are to secure their share of the prepaid opportunity and compete with non-banks. We have forecast that 58% of spend will occur on Visa or MasterCard branded cards but, to date, banks and financial institutions have been adopting a ‘wait and see’ strategy. The 1.9 million prepaid cards issued by Poste Italiane in Italy illustrates how non-banks are already exploiting this opportunity”.

One product does not fit all – forecast of uneven uptake of prepaid products across Europe

Significant differences are expected between European national markets as the prepaid opportunity expands. Although some 20% of the total annual European spend on prepaid cards will be generated in Germany, Austria & Switzerland, spend per prepaid card in this region is forecast at €240, compared to €340 in the UK, €398 in France and €410 in Scandinavia. Similarly the take-up of cards varies – from 655 cards per 1000 people in Germany, Austria & Switzerland, to 691 in the UK, 693 in France, and 650 in Scandinavia. These differences reflect the wide range of cheque and card usage that characterises European payments in general – the Danish for example use their cards 12 times a month, compared to Germans who use theirs 1.5 times.

Mystery Shopper Survey shows that current prepaid products require significant redesign

PSE carried out a Mystery Shopper Survey using several different prepaid travel products and those targeted at the financially excluded. This survey highlighted the complexity of registration of some products may deter all but the most determined users. In addition, several took extended periods to load value onto the card's account. "We believe that some of the prepaid products currently offered in the market require significant further development if they are going to meet consumers' needs" stated Chris Jones, Senior Consultant at PSE. "The sector must focus on developing and delivering simpler, cheaper products and services if the forecast levels of growth are to be achieved. The issues associated with directly charging consumers for prepaid services mean corporate prepaid solutions are likely to offer more attractive revenue models in the short term".

Successful prepaid products must offer corporates clear efficiency benefits

Three segments are set to become the focus for prepaid market development, each requiring a specific set of offers tailored to meet different sets of needs. "We also hope this analysis helps dispel the myth that it is difficult for banks to make money from prepaid" commented Chris Jones.

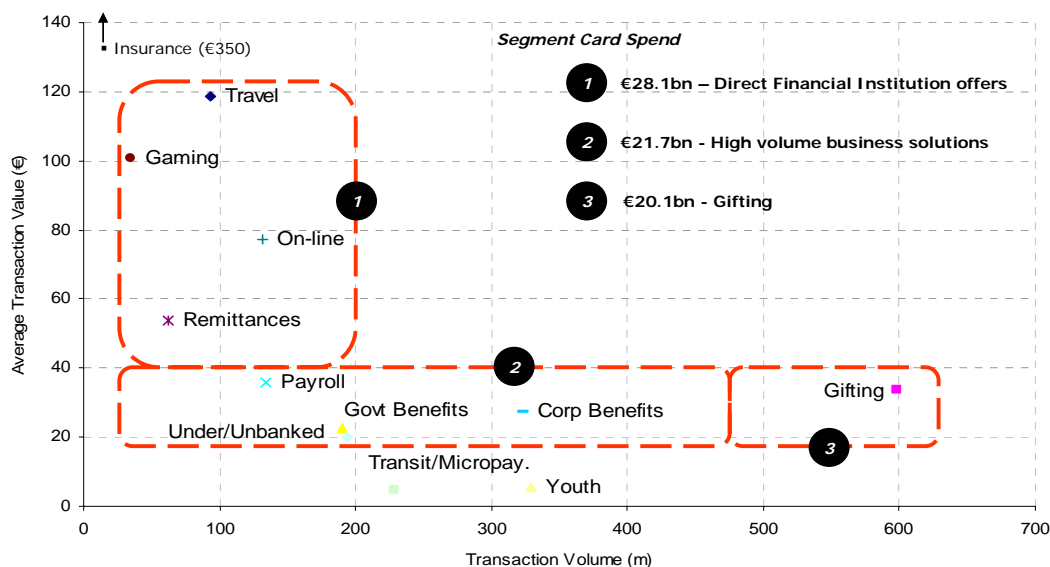


Figure 1: Anticipated Sources of European Prepaid Opportunity by 2010 (€m)

1. **Direct Financial Institution offers: – increased utility offer, most attractive to banks.** This includes products such as on-line internet based payments, on-line gaming, travel cards or remittance products (enabling foreign workers to send money home to their families). These products are similar to existing credit and debit products and therefore are most suited to banks and other financial institutions with existing large customer bases, strong brands, and extensive sales distribution networks. For example American Express's travel product uses its existing sales channels and customer relationships as well as offering improved utility for consumers over travellers cheques.
2. **High volume business solutions: - increased efficiency offer, most attractive to processors.** This includes solutions such as employee benefits (to allow for the payment of incentives or rewards); payroll solutions which allow workers to spend their wages via a card; and government benefits, where financial support can be delivered more efficiently. In these

cases, although the spend is smaller, consumers tend to use their cards more frequently. Citibank in Poland has a number of offers in this sector, working with corporates to develop a range of different solutions.

3. **Gifting: - increased efficiency offer, most attractive to processors.** Here prepaid is already highly successful and delivering significant efficiency benefits to retailers. Esprit has had a pan-EU programme run by First Data since September 2003, and HMV in the UK has had a prepaid gifting programme running from some time, supported by TSYS.

Winning in the European prepaid market will require different business models to the US

Those prepaid experts interviewed by PSE for this report agreed that European products will differ from those which are successful in the US, particularly those targeted at consumers under-served by banks. US prepaid products rely on displacing cheque wage payments, and often the less well off are obliged to spend c.\$50 - \$60 per month on 'check cashing', paying their utility bills or sending money home to their families. In Europe the greater prevalence of electronic salary payments and government benefits plus free 'basic banking' products means the unbanked population is significantly smaller than the US and consumers are unused to paying such high charges.

Major report into the European prepaid market, sponsored by MasterCard, LINK and First Data

The PSE Prepaid report has been sponsored by MasterCard Worldwide, LINK Interchange Network Limited (UK) and First Data International, and is believed to be the first of its kind to define, from both a qualitative and quantitative perspective, the European prepaid market by country and product type.

Karl Shields, Planning and Business Development Director, LINK Interchange Network Limited commented: "This has been a valuable exercise, allowing us confidently to scope and size emerging opportunities in the pre-pay cards market. The prepaid card market is one which we have always believed has significant growth potential which is borne out in the results."

The report provides a detailed analysis across ten prepaid products and ten European countries/regions, encompassing Turkey and Central and Eastern Europe, and includes an extensive financial forecasts model as well as the results of a survey of 44 European prepaid experts.

Chris Reddish, Group Head of Prepaid, MasterCard Europe, said: "The European prepaid business segment is evolving rapidly, and PSE's depth and quality of analysis has resulted in a body of research which provides a compelling snapshot of the phenomenal growth at this point in time. The report's findings provide essential guidance for banks, processors and other public and private sector players who are now developing a robust business case for the introduction of prepaid cards in Europe."

About PSE Consulting

Payment Systems Europe (PSE) is a long established European payment business and technology consulting organisation. The company was founded in 1991 by Peter Jones and operates from offices in London. The firm provides research, new product innovation, and advisory services to many of Europe's leading banks, card schemes and processors. PSE is a founder member of the European Payments Consulting Association (EPCA), an association of consultancies operating in seven European nations. For more information on PSE please visit our website www.pseconsulting.com.

Notes for Editors

- **Report:** The full 240 page prepaid report can be purchased from PSE, but for more information please contact Chris Jones on +44 (0)208 891 6244 or chris.jones@pseconsulting.com. The report is an independent survey of the current prepaid market in Europe carried out by PSE in the first half of 2006. The report was sponsored by MasterCard Worldwide, Link Interchange Network Limited (UK) and First Data International.

- **Definition:** Prepaid cards are beginning to emerge in Europe as a new payments product, allowing consumers to use a pre-loaded account, usually associated with a physical card, which can be used for purchases at high street shops and on-line. They complement the convenience of existing payments products such as the credit cards (where you pay after purchase) and the debit cards (where you pay at the time of purchase).

- **Methodology:** This report draws in four sources of original research:
 - A telephone and face-to-face survey of 44 European prepaid experts using a structure questionnaire. Those interviewed are currently involved in the issuing or processing of prepaid products from marketing, operations and senior management. Interviews were carried out in UK/Ireland, France, Germanic (Germany, Switzerland and Austria), Spain, Portugal, Scandinavia (Finland, Sweden, Norway and Denmark), Central and Eastern Europe (Hungary, Poland, the Baltic States, the Czech Republic and Slovakia), Benelux (Netherlands, Belgium and Luxemburg), Turkey, and Italy. At least two interviews were carried out per market
 - A financial model developed by PSE which projects the card base, transaction volume, and spend by market and product for the next five years (2006-2010)
 - A Mystery Shopper Survey carried out by PSE of a number of the prepaid products
 - Desk based research by PSE analysts into areas such as market structure, and regulation

- **Bank Concerns:** Prepaid card products emerged in the US some five years ago, and now have significant penetration of cards business sectors – particularly gifting. In Europe banks have been cautious as a result of the failure of the stored value concept (such as Mondex). They also have concerns over their ability to charge consumers for prepaid cards. Non-banks have already been very successful in marketing prepaid products to large retailers as an alternative to gift vouchers in Europe.