

Online Banking

REPORT

Strategies for the Internet

SINCE 1994, THE EXCLUSIVE MONTHLY REPORT ON INTERNET BANKING PRODUCTS & MARKETS

Number 219

Opportunities in Prepaid and Gift Cards

How can banks best tap this lucrative market?

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Abstract: The traditional debit card, linked to a checking account, has become far less profitable due to government price controls and changing consumer behavior. Stepping into that void is the prepaid card or gift card. It's a payment mechanism used by more than 80% of the country, yet it's currently dominated by non-banks. The report details how to change that.

Companies mentioned: American Express, BlackHawk Network, Chase Bank, Chemical Bank, GoBank (Green Dot), MasterCard, Navy Federal, Credit Union, netSpend (TSYS), State Credit Union, U.S. Bank, Visa, WalMart

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New Opportunities with Prepaid Cards
Can banks tap a larger share of this massive market?

The market for gift cards has grown dramatically over the past decade. The majority are purchased in retail locations either directly from the location it will be redeemed, or from racks at drug and grocery stores.

General purpose Visa/MasterCard/AmEx cards account for \$40 billion, or one-third of U.S. sales. Merchants (\$36 bil) and restaurants (\$19 bil) account for most of the remainder. Online sales accounted for less than 3% of the 2012 total (\$2 bil). See more metrics inside (pp. 8 to 12).

Banks, not wanting to disrupt their profitable debit card programs, have for the most part sat out the first decade of the prepaid movement. That reticence helped new players, such as Green Dot and netSpend, grab the lion's share of the Visa/MasterCard general purpose card market.

But now that price controls on debit card overdrafts, and to a lesser extent interchange, have reduced profits in the checking/debit account business, financial institutions are becoming more interested in prepaid.

Both Chase and American Express (see p. 28) made big prepaid-card bets in 2011/2012. And we believe there will be much more of that in coming years. Prepaid cards, despite some negative press, are relatively popular with consumers and can be profitable for issuers.

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