

IDT in prime position

IDT Finance is well known for its Prime Prepaid MasterCard, although the company's origins are in the telecoms sector. Jamie King, IDT's director of European payment products, spoke to *PCI* about the company's progress and its plans going forward

IDT Finance is not perhaps that well known in the traditional banking sector, despite being a fully regulated bank and with a global parent group operation covering 30 countries.

Having launched Europe's first physical instant disposable open-loop prepaid card, *PCI* talked to Jamie King, director of European payment products, about the company's plans for the next few years and the success, to date, of the Prime Card.

PCI: How does IDT Finance fit within the overall IDT group?

JK: IDT Corporation is a global operation, headquartered in New Jersey, US. It is listed on the NASDAQ and operates in over 30 markets worldwide and 18 European countries. The head office for Europe is here in London and IDT Finance is part of the global IDT operation. IDT Finance is a fully regulated European bank.

PCI: Some people may have heard about IDT as a phone company, but probably a lot fewer realise IDT Finance is actually a bank. Can you explain a little about the background to the company and how and why IDT ended up getting a full banking licence?

JK: As you say, IDT's core business has, in the past, been in telecoms and therefore a core competence has been the international distribution of prepaid telecom cards. However, IDT has diverse interests, for example in media, entertainment and energy. Having analysed our core skills, assets and prepaid calling card experience, a number of factors suggested we could move into the prepaid debit card sector with a real market advantage:

- **Existing calling card customer base:** Largely an immigrant target audience – we understand how they behave and how to market to them. Whilst they do not represent the only target audience for prepaid debit cards, they are certainly a key one for many programmes.
- **Distribution network:** IDT are one of the largest distributors of prepaid cards worldwide with over 300,000 distribution points. But we are talking about more than

just access – we also have technical integration with many of the payment networks such as Alphyra, PayPoint, Euronet, e-pay and others across Europe. The opportunity was to re-utilise this network of partners for the distribution and loading of prepaid debit cards.

- **Prepaid platform:** IDT have a very robust in-house prepaid/stored value platform that handles millions of transactions every day. This allows us to layer our in-house capabilities over our processing partner, Metavante.

We initially launched in the US with four own-label cards by partnering with a local bank. However, when we looked at the European market, for a number of reasons, we decided to obtain our own full Deposit Taking Banking licence with a full electronic money licence. The four key reasons for doing this were:

- In the early days, in the UK/European market, there were not that many BIN sponsors available to partner with. They could, in some cases, offer valuable experience around, for example, compliance. However, when it came to understanding the prepaid market, particularly marketing and distribution, IDT had equal, if not more, experience than many of them.
- Additionally, once you are a bank, you can also offer the market a BIN sponsoring solution. Having always been our intention to do this, we are now starting to offer such services.
- From an economic point of view, we also realised that in Europe it was worth cutting out another third party cost in what is generally recognised by most programmes as a low margin business. These savings can be ploughed back into the programme, either as savings for our clients or for end users.
- By becoming a bank, we are also in a direct relationship with MasterCard and the regulator. This often allows us to develop products with greater speed and flexibility.

PCI: When did IDT first launch prepaid cards in the US and have you been able to bring this experience to the UK?



Jamie King

JK: The first of several US programmes launched in 2004 and the range includes a Hispanic-focused card. This has given IDT invaluable experience, particularly in targeting a niche ethnic group. Combining this with IDT's expertise in identifying and reaching immigrant and sub-prime/unbanked groups worldwide, meant that we had considerable experience to draw upon for our initial UK activities.

PCI: IDT's initial product Prime Card is very unique in the market – can you explain a little more about it?

JK: We used our US experience as a starting point for our entry into the UK. But our UK research made it clear that consumer and retailer understanding of prepaid was very low – the only awareness of prepaid was in the context of mobile top-ups.

The key to launching a card in the UK market was to keep it as simple and convenient as possible. We believed that asking customers to pay £10 to £15 for a card up front, that is then sent out to them up to 10 days later, often by a brand/company they had never heard of, simply creates too many barriers.

Furthermore, drawing upon our experience of working with retailers on the telecoms side, we knew that it was unrealistic to expect retailers to be involved in the know-your-customer documentation process. We ▶

needed a solution that was commitment-free for both retailer and consumer.

In September 2006, we launched what we believe was the logical solution and one which all parties could understand easily and quickly. This was Europe's first instant issue reloadable prepaid MasterCard. Consumers simply walk into a local high-street store, without any documentation, purchase a card and use it immediately. Obviously, an instant issuance card comes with some regulatory limitations.

Therefore, in August 2007, we launched the second stage of our product development – allowing customers, for a very low fee of only £1.95, to undergo a KYC check and upgrade their card to a reloadable version – thus removing many of the initial regulatory and risk restrictions placed on the card.

This two-stage process allows a customer to obtain the card, use it, understand it and become comfortable with it, prior to going through the process of KYC. It's a much better (more convenient and customer friendly) offering than a card that requires upfront documents and higher fees.

PCI: Have you found this two stage process of sale and then KYC to be very successful?

JK: Yes. The lifecycle of a prepaid card is often quoted (across the industry) as anywhere between six and nine months, whereas the fully reloadable KYCed Prime Card has a longer lifecycle. This is because the customer has already spent some time with the disposable card and is making an active decision to upgrade – they find the product useful and relevant to their lifestyle.

For some of our competitors' products, the customer has perhaps bought a card they do not fully understand. Maybe they will activate it and maybe not... maybe use it once or twice and then ultimately feel it is not right for them. With our product, by the time the customer upgrades, they are confirming a commitment to the card and we therefore see regular usage over a longer lifetime. In effect, the reloadable card markets itself through the disposable card.

PCI: In terms of the Prime Card, what has been the plan of activity to date and strategy behind this?

JK: So far it has been very much about market development. Although the card launched in 2006, we did not start advertising it across London until April 2007 when we had some 3,500 retail outlets in place.

In October 2007, we then rolled the card programme out across the rest of the UK to 16,000 retail outlets. So 2007 for us was about bedding down the Prime product, making sure that consumer awareness and

retailer acceptance were as high as possible. We also have a number of operational functions that we run in-house and we have wanted to ensure all of these were running at optimum levels.

I feel that, when we launched the Prime Card, we in effect empowered retailers, many of them corner stores, to start offering financial services to consumers. This provided them with a new revenue stream and opportunities, but also meant that they had to learn how to sell and communicate these products to their customers.

“We hire and train all the call centre staff and they are totally integrated into our operations department”

Jamie King

PCI: What would you say in response to people like Detective Inspector Paul Newham of the UK's National Terrorist Financial Investigation Unit, who says that terrorists are now using prepaid gift cards to transfer funds? He is quoted as saying: “Prepaid cards are the type of financial instrument that you can purchase anonymously.”

JK: All of our programmes are, of course, fully compliant with all local regulations – both MasterCard and the EU. These bodies have tremendous experience in the management and monitoring of fraud and any illegal activity. To adhere to the regulations, the instant issue Prime Card is initially non-reloadable, can only be loaded with up to £150 and it has no ATM access.

PCI: Now that you have successfully launched your own ‘branded’ card, will you be looking to expand your offering to the market and encompass programme management and BIN sponsorship for other brands?

JK: Very much so. The year 2008 for us is about drawing on the experience and capabilities we have gained from launching our own card. We can offer this expertise out to the UK and European market as both a BIN sponsor and a programme manager.

With offices in 18 European markets, our existing distribution agreements and also integration into payments networks, we have a very strong solution to offer partners. Particularly relevant for many consumer prepaid card programmes is our detailed knowledge of retail distribution, both independent and network. We also already have a good level of technical integration with many retail channels.

PCI: Which European countries do you see launching card programmes in first?

JK: We are currently evaluating this while also working closely with a number of local partners. With offices on the ground, so to speak, we have the ability to identify the right opportunities and then quickly take things forward when the opportunities arise.

PCI: What do you see as your key differentiators in terms of BIN sponsorship and programme management?

JK: The most important differentiator is that we are so much more than just a BIN sponsor – we are a bank that has its own programmes live. This means we understand and can add value across the entire complex end-to-end process; from BIN sponsorship, compliance and fraud management, programme management, systems integration and processing, right through to distribution, marketing and even call centre support.

While we are able to offer the full range of card services to an external partner, that's not to say it is a ‘one size fits all’ approach. We will happily provide a customised service to each partner.

PCI: You mentioned an in-house call centre, is this fairly unusual in this business?

JK: Yes. As a company, the IDT group has huge experience running call centres – it is a core skill of our global business. So, rather than just managing call centres on behalf of our partners, we run and oversee an in-house team.

We hire and train all the call centre staff and they are totally integrated into our operations department. This is offered as part of our complete end-to-end solution. We believe by controlling the call centre closely we can offer our partners, and also our own Prime Card customers, a far higher level of service.

PCI: How many programmes do you expect to launch over the next six months and will these just be in the UK? Where will the focus be; on your own Prime Card, BIN sponsorship or programme management?

JK: Focus number one is to maintain Prime Card's position. Based on actual transactions and business being done on the card, Prime is currently one of the leading (if not the leading) prepaid cards in the UK.

Of equal focus, though, is building our BIN sponsorship and programme management services across Europe.

We have recently hired additional key personnel to support this drive and the industry will see a number of announcements in the near future on UK and European programmes that we will be working with partners to bring to market.

PCI: Going forward, which country do you see the potential for greatest growth coming from for IDT?

JK: Our decision will be based on a number of criteria, including:

- The opportunities around our existing distribution deals across Europe
- The results of the market research we are currently undertaking around different products in those markets
- The regulatory environment and consumer perception, as some countries (such as Italy) have a far greater consumer understanding of prepaid cards
- Network understanding and use. For example, is MasterCard well known and used or are more local payments schemes stronger?

In summary, we are still evaluating many options and, to some extent, it will be our partners who will determine which markets we launch first in. However, I feel that with our existing offices, distribution and network integration, we are uniquely placed to support partners 'in-country'.

PCI: Many people have said that the quickest opportunity for prepaid will be in the corporate area with cards such as payroll and insurance cards. Would you agree?

JK: We certainly share the enthusiasm for corporate-loaded cards and one of their key advantages is automatic distribution. You obviously do not have to invest the expense and time needed to build consumer awareness of the product.

However, the corporate market is a very different market to the consumer sector and those seeking to enter it should tread carefully. IDT has previous experience in providing corporate calling card products, many of which are also prepaid. This has given us a significant understanding of the corporate sector and a deep knowledge of how to work in this space.

PCI: Given the recent announcement by MasterCard to allow MasterCard-branded gaming prepaid cards, is this a sector you will be looking to carry out BIN sponsorship in?

JK: We are comfortable working in this area as long as the brands/partners comply with all the relevant MasterCard and local market regulations. We are happy to be involved either as a BIN sponsor or programme manager on the new MasterCard gaming payout cards.

PCI: If you look to the US, BIN sponsorship has become very competitive, almost commoditised. Do you see this happening in the UK and Europe as more companies enter the market?

JK: To some extent, yes. I think what is also happening is that organisations who have in the past just provided a single service will be adding extra functionality to their offering. In the US, for example, many of the processors are also the programme managers.

I believe that 'pure' BIN sponsors may face a challenging time going forward; success will come from offering a range of value-added services and providing a strong differentiated service offering.

PCI: With the launch of own-brand gift cards from the likes of Barclays and RBS, do you see that the major high street banks will start moving into launching prepaid card programmes, and what effect might this have on you or awareness among consumers?

JK: On one hand, it will hopefully drive consumer awareness and understanding of what prepaid cards are. This knowledge gap is, in reality, the biggest challenge to the industry. No matter how much money we, and others, invest in education, it takes time to build up awareness.

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On the other hand, it is unlikely traditional banks will move into all segments of prepaid. Some may move into gift products, as they already have done, and I believe they are also likely to move into corporate-related products such as payroll. They are though unlikely, in my view, to move into products that require, by their very nature, the targeting of the unbanked and immigrant markets or distribution through retail.

Ultimately, whereas prepaid is the sole business of IDT Finance, that simply will not be the case for a high street banks. They will always be weighing prepaid up against other potential core projects and deciding how much regulatory, operational, technology and marketing resource to invest in prepaid.

PCI: Many of us have seen the advertising last year by Visa and MasterCard relating to contactless – do you believe there is more the networks should be doing to promote prepaid cards and consumer understanding of them? If so, whose responsibility is it, programme managers or the brands?

JK: The whole industry should share this responsibility, and certainly MasterCard and Visa too. I believe they will do this. As they promote "the war on cash" there is a requirement to explain what prepaid is as well as contactless.

PCI: What do you see as the greatest challenges for the prepaid card industry in the UK and Europe over the next 12 to 24 months?

JK: The most important thing is to build consumer awareness. This is not just about marketing, though, it is also about distribution.

I believe a key element here will be the gift card mall. In the US, prepaid cards started as closed-loop gift cards and it was some years later before open-loop cards were launched. So, you had a situation where gift cards paved the way and educated the consumer about prepaid before the open-loop cards launched.

In the UK, we are, in effect, launching closed-loop and open-loop products at the same time and there is not currently the latent consumer understanding of prepaid cards.

PCI: With consumer prepaid cards where do you see the majority of revenue coming from going forward: loading fees, point-of-sale fees or others?

JK: Each card programme is different. It really depends on how the card is positioned and what added value benefit is offered to the consumer. Successful card programmes will only be able to justify fees where and when the consumer feels they are getting some benefit from using the card.

Those that seek to charge fees where consumers feel they are not receiving 'good value for money' will quickly cease to be around.

PCI: Going forward, what do you believe the greatest challenge for IDT will be and where do you hope to take the company in the next 12 months?

JK: With our strong differentiators in the market, we will continue to drive forward and play a leading role in the UK and European prepaid industry.

We will solidify our position as a BIN sponsor and card programme manager. In terms of the Prime Card, our aim is to further strengthen our retail distribution and maintain our position as the leading general purpose prepaid product. Finally, as a telcoms company, we are very well placed, if not uniquely, to be able to take advantage of developments in the convergence of mobile phones and payments. ■