

An Analysis on Prepaid Cards in Australia IT Industry

Mohammad Adib Khairuddin ¹, Mohd Afizi Mohd Shukran ², Kamaruzaman Maskat ³

^{1,2,3} Faculty of Science and Defense Technology,
National Defense University of Malaysia Sungai Besi Camp,
57000 Kuala Lumpur, Malaysia.

Abstract. A methodology from IT strategy inspired us to proceed the following analysis of how does prepaid card industry survive during the global economic crisis. Starting with the sound understanding of current state – ‘as is’, future - ‘to be’ can be better prepared and oriented. To begin with, we started to look at what is really happening and how do banks react, following a concise understanding towards roles of prepaid cards today and categories of prepaid card user groups will be formed. Within this paper, we will concentrate on the ‘as is’ stage with leaning more into financial perspective due to we believe fundamentally business is the driver of prepaid card industry. And as this paper tends more into business wise, it may weight more business rather than information security. Nonetheless, we believe it is sophisticated for us to look at prepaid card industry from a fresh angle.

Keywords: prepaid cards, IT industry, information security

1. Introduction

Admitting the history that Australia was suffered from 1991 global economic crisis, even though government had been reluctant to yield Australia’s involvement this time, based on all the available information, Prime Minister had to spell out the ‘R’ word in his speech. [1]

Effects brought by recession are multi-dimension, not only limited in financial fields, but also penetrate into every bit of life including customer behaviors, which is our orientation of this paper. Talking from the prepaid card industry point of view, reactions from both banks and consumers are significant to be explored. Therefore, in section 2, the background of the current recession in Australia will be described. Then, section 3 will describe the competitors involved in IT industry particularly in prepaid cards industry sector. Section 4 relates to customer perceptions on prepaid cards in IT industry. Section 5 will describe the categories of prepaid customers in IT industry. Finally, conclusion will be in section 6.

2. Recession landed Australia

Perhaps cut is the most common action every industry does. Major banks in Australia wide had start to work on outsourcing their projects and rate cut leading by the Reserve Bank of Australia reasoning economic situation was ‘weaker than expected earlier’ as it was quoted in Herald Sun [2].

Comparing to hard time industries is suffering, general masses turn out to be more helpless, especially people who are already under financial constrains. Among this group of people, speaking on the basis of households, they are mostly either single parent on work or both unemployed and majority of them are lack of professional qualifications according to one of the CFSI research survey [3]. Although they may hold a strong wish to get paid a few dollars from any job available to them, the massive unemployment caused by recession would no doubt strike them down again.

Furthermore, this group of people is very likely to be on various unpayable daily debts. According to a study conducted by AIFS towards recession effects on households in Australia in 1991 [4], within 54 chosen

families, cut off of landlines, got behind to pay utility bills, could not afford services and repairs of cars, sold things for cash, asked helps from relatives etc were what had happened during the financial crisis in 1991.

Happened almost 20 years ago, however, similar situations in 1991 would possibly reply during current economic state. And due to the development of financial system and increased dependence on cash-less society in last decade, keeping unpaid debts for a certain amount of time, such as credit card late payment, personal loan or even utility bills etc, would directly result in debt owners to be eliminated from financial system or involved in legal troubles, which further will unquestionably toughen their financial conditions.

Nevertheless, Australia was considered to be the 'lucky country' worldwide under the recession as it was reflected in a survey conducted among 7,500 people from over 24 countries [5]. Australia ranked the first with the title of 'best surviving' [5] for businesses under the recession, in which China sat the second and Singapore and India shared the bronze prize. Therefore with respect to strong confidences from the rest of the world, we believe the economy in Australia is recoverable within a relative shorter period comparing to the other affected countries.

3. Prepaid card and competitors

The reloadable payment cards, also known as open-loop prepaid cards, is claimed to have high popularity among financial un-served customers [6]. Also regarding current financial state, in which money may be considered more precious than before, loaning is not a wise idea as perhaps you will not be able to pay back, spending is demanded to be controllable and shabby credit background people also need a card to put their money in and so on, prepaid cards is likely to enjoy a growth in the market.

However, it is not negligible to notice that there exist types of payment cards holding high competitive power against prepaid cards. One of them is Visa Debit Card, which embeds credit card functionalities to a debit account [7]. This sort of card acts exactly same with common credit card at the point of sale, while additionally it provides various extra benefits than most of credit cards, such as no ATM fees, unlimited transaction fees etc. Paying for your expenditure right away through the debit account rather than paying later for the credit account distinguishes Visa Debit Card from Credit Card and it offers fresh interests to rip off some credit card market. A growth of 18 percents over 2005, in the end of 2006 Visa Debit Card saw a US\$2.5 trillion outwitting Visa's US\$2 trillion, according to Visa Asia [7].

Based on our research, Australian banks seem more engaged with marketing their Visa Debit Card products than the other payment card products. Almost every bank has its own Visa Debit Card, these cards come with different colors as well as attractive benefits comparing to credit cards. Considering the current situation of economy, where customers are in need of a trade-off between convenience and budgeting, the Visa Debit Card turns out to be a good choice to fix up the balance.

Nonetheless, the Visa Debit Card directly involves cardholders to financial institutes as it connects with one's debit account, and all financial activities may contribute to one's credit history. Thus a legitimate debit account is the prerequisite for a Visa Debit Card and the Visa Debit Card dose not save customers out from affecting credit histories.

Now, keeping Visa Debit Card in mind, let us remind what a Prepaid Visa Card can do, it behaves as same as Visa Debit Card does at the point of purchase, whilst at same time it does not bind you to any financial institute, incur no effects on the credit history, but in turn perhaps one has to pay more to sustain this anonymous account.

Moreover, using bank services without over-expenditure and involvement to banks is the unique feature offered by prepaid cards. Thereafter, prepaid cards can be an alternative mean apart from major payment cards. Although there are people, who have already been conventionally served by banks as they are mostly financially legitimate with their information recorded in banks, there are also an amount of bank customers, who have broken credit backgrounds, or a certain group of people, who is defined as unbanked [8] by all reasons, demands the access to bank services as well.

Perhaps in the circumstances listed before, prepaid cards seem a 'savior' to sort out all the problems and drag them out from the swamp. However, it is also interested to come up a question that, other than unbanked population, would eligible bank customers go for prepaid cards whilst they are already enjoying

normal services in financial networks? To give this question an unempirical answer, sound insights of customer perceptions towards prepaid cards, together with categories of all potential customers are highly required.

4. Prepaid cards to customers

A current report carried out by CFSI focusing on prepaid card customers in the USA depicted a series of detailed pictures about various prepaid card users. [3] Interviewing on randomly chosen customers from two major prepaid card products in the USA, analysing collected information and thereafter exploring findings make up the flow of the report.

Although ideas brought by this paper witted significantly to us, we still have doubts whether conclusions extracted in the report are empirical or not. First of all, candidates participated in interview sessions numbered less than 40, meanwhile both involving prepaid card issuers, namely AccountNow and NetSpend, were all collaborations of CFSI as it was stated in the paper. Also, according to the summaries in the paper, majority of the participants turned out to be either low income or semi-moderate income individuals with races mostly Caucasian or Africa-American. Moreover, considering the social-cultural and financial structural differences existing between the USA and Australia, we regard the CFSI paper as a reference rather than a proof.

Nevertheless, several general explorations drew from real customer experiences in the paper are valuable to some extents, such as reasons why customers appreciate prepaid cards, why they stop using conventional bank accounts and their confusions about current financial systems. We consider these findings can somehow reflect Australian prepaid card users as there is no similar survey conducted in Australia so far.

Attractions for a potential customer to make the purchase decision of prepaid cards are safety and security, convenience, accessibility, immediate liquidity, transparency, financial value and budget tool respectively as it is showing in the CFSI's paper. [3] In the followings, we will go through those reasons with our complementary analysis.

To begin with, we start to look at the safety issue. Rather than carrying large amount of cash in hand, putting money in a plastic card with means of access authentications, such as PINs and signatures, enhances the sense of security for people due to cash does not provide exclusive ownership or authentication. Especially, when it comes to the scenario that large monetary value involved at the point of paying bill or purchasing, cash-less becomes essential. [3]

But this 'security' here is not solely held by prepaid cards but all types of payment cards. Whilst we consider the unique security comes with prepaid cards should be resulted from the anonymity of prepaid cards, where for the case of identity theft, prepaid cards will not be capable to give away any owners' information. This is rather important for people, who are highly depended on the credential of their identities. For example, a businessman Bob, who has a number of cards carrying considerably large amount of money registered under his name, is on a trip overseas. He definitely will not be happy to take the risk that lose one of his cards and let the thief explore all his financial background, or even lead to the damage of his reputation because of malicious uses of his identity.

As most of contemporary prepaid cards (open-loop) are major financial network branded, they can be accessible almost universally. From the customer point of view, prepaid cards are available to them universally as well, because without the identity and credit checks, anyone who is capable to buy a plastic card can have a prepaid card. Also instead of waiting days until a cheque can be credited into an account, or queuing up for cashing a cheque in front of a counter, prepaid cards totally outwit cheques with instant accessibility. [3]

As what we have mentioned in our previous paper [9], the licensing of prepaid card issuers is remarkably significant to mitigate risks of frauds. We proposed that all the Australian prepaid card issuers should be only trustworthy financial institutes, which means people may not be able to find enormous prepaid card products from an Ebay or Google search than banks' websites. This, in turn, would reduce accessibility partially as within Australia, people would have less choice of prepaid cards comparing to people in other countries.

Having ‘fewer’ back-end charges’ and funding ‘immediately available’ are words in CFSI’s paper [3] to represent the transparency and momentary liquidity of prepaid cards. As per explanation in the paper, they refer to the comprehensive way prepaid cards charge customers and the high efficiency of funding for prepaid cards.

Meanwhile, the ‘transparency’ mentioned in the paper turns out to be an ironic statement under our research of prepaid card customer complaints, which majority of them are all about being charged by issuers without any explicit excuse. In the former report [9], we have proposed the thorough and noticeable disclosure of all fees spanning over the whole life time of prepaid cards. Apparently the transparency is a characteristic that every customer desires, but just not fully delivered by prepaid cards yet.

It is said in the paper [3] that comparing to cash a cheque from cheque casher and buy a money order, generally it is cheaper to use a prepaid card. Also due to the nature that prepaid cards cannot be overdrawn, it can be an appropriate tool to help users stay on budget. Therefore, low-cost transaction against cheques and limited expenditure reflect the financial value and discipline power of prepaid cards.

However, we have found that the CFSI paper [3] has an obvious bias. It is, the competitor for prepaid cards in the CFSI paper is only a cheque, which in turn we have the doubt that the CFSI paper may have deliberately bypassed other payment methods in order to highlight merits of prepaid cards. Thus advantages of prepaid cards concluded in the paper are only brought by the comparison between the cheque account and prepaid cards. As we have discussed earlier, the authentic competitors are other payment cards, such as Visa Debit Card. Hence it is ambiguous that how competitive prepaid cards are.

Nevertheless, it is an undeniable fact that prepaid card market has witnessed a huge growth in last a few years [9]. The number of customer increases and profits generated by prepaid cards attract more companies and financial institutes to participate in prepaid card industry. In the coming part, we will move on to the question of who are prepaid card users.

5. Categories of prepaid card customers

Potential users of prepaid cards can be classified into two groups, namely bank served and bank under-served. Briefly, the former one refers to people who already have legitimate bank accounts, whilst the latter group indicates people who either are ineligible to have bank accounts or uncommonly by any reason do not wish to enrol with conventional bank accounts. [3]

Generally, unbanked group consists of mainly low income individuals or families, temporary visitors, rural area inhabitants. And these people can characterise backgrounds and reasoning of being unbanked.

As income level directly determines powers of expenditure and saving, people with relative lower earnings will invalidly require less bank services than people with stable incomes which in turn make them unbanked. Furthermore, education may contribute to perception of the bank in term of financial needs, where education here implies both academic and parental. [3]

Moreover, poor families are more likely to become unbanked than wretched individuals as these families are mostly supported by either single employed parent or governmental welfare. Thus the monetary value allocates on per head in families is lower than poor singles with similar financial conditions.

In most countries, to register a person into local financial network is not considered as a troublesome task due to it may take just a few hours or business days to get a debit card and deposit certain amount of money in it. However, when the case comes to a temporary visitor, to enrol or not to enrol with local banks would be a question. Temporary visitors, such as travellers, overseas students, new immigrants and businessmen on trip abroad, normally do not stay long enough to feel comfortable becoming involved in local financial world. Differences of banks between their home countries and local can also intimidate this group of people and some of them may possess conventional bank accounts back in their countries which are still active. However, using these cards, cheques or money orders abroad will incur types of fees, such as inter-bank, foreign currency, commission etc. Therefore they may have to carry passports to local banks, queue up, taking an hour or half to get everything done and afterwards wait anxiously for an envelope with cards in them at motel. And during the waiting time, they still cannot use any bank services, even funds they put in cards at the registrations.

Similar to temporary visitors' inconvenience stated previously, residents living in rural areas also suffer from accessibility of bank services as banks are likely located at a few hours driving distance away. In spite of doing on-line banking, which nowadays has become mainstream as literally every offers on-line banking, face-to-face banking is still holding high acceptance among customers. Especially among conservatives, seniors and people who have difficulties accessing the Internet, face-to-face banking is remained. Regarding the above reasons, rural inhabitants would prefer to stay with cash-handling financial style, and in turn it leads them to be unbanked.

Rather than being subjected to have no bank accounts, some may deliberately choose to be unbanked. Majority of these people are current bank customers possessing regular debit cards or credit cards. Anonymity together with irrelevance to credit history can be primary attractions from prepaid cards for this group of people. Also personal issues may contribute to the reasoning of their choices of prepaid card. A typical example could be a person, who has multiple sources of incomes and does not wish to expose all information of gaining. It could also be a person, who wants to set up a private spending account.

Although intentions of these people vary, prepaid cards happen to meet all their needs and possibly a better candidate on the market than cash and other payment cards. We assume this group only makes up a little portion of prepaid card user population, though it has not been proved yet. Nevertheless, in the meantime, we believe this group will expand as sense of privacy increases among masses and the current financial crisis may contribute to a growth in this sector.

6. Conclusion

In conclusion, it is imperative that prepaid cards are the driving force for IT industry to grow rapidly within a nation especially in Australia. However, in recession time in IT industry, prepaid cards would not provide more profitable income in most prepaid cards company because it involves a rapid decrease in IT economy. Also, customer perception takes an important role in IT industry especially in prepaid cards. This is due to customer buying behaviour are easily predictable and IT companies would take this advantage to increase their profit margins rapidly.

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