

PRE-PAID CARDS: THE BENEFITS

Using prepaid cards to reduce costs and improve public services

IN MANY COUNTRIES, the public sector is one of the largest purchasers, employers and payments distributors and therefore is uniquely positioned to champion new efficiency opportunities. Furthermore, government agencies and local authorities have an obligation to taxpayers and voters to manage their activities efficiently, to avoid waste and ensure that cash is channelled into public services. Payment processes are an important area in which efficiency enhancements can bring major advantages in terms of reduced risk, increased security and better services to customers. Consequently, we are witnessing considerably higher adoption of electronic payment methods, such as credit transfers, credit cards, debit cards and increasingly, prepaid cards.

While public sector entities have become familiar with making payments using electronic credit transfers, and increasingly accept credit and debit card payments, prepaid cards bring significant additional opportunities, both in terms of the benefit that they offer to the payer and payee, and because they can help public sector entities to meet a broad range of policy goals. For example, by using prepaid cards to make payroll or benefits payments, they can reduce administrative burden and payment processing costs, while meeting financial inclusion targets by helping payees without bank accounts (whether staff or beneficiaries) to gain experience with modern banking products and reduce their reliance on cash.

BENEFITS OF PREPAID CARDS

Prepaid cards bring significant advantages for both external benefit payments and employee payments – such as staff payroll, pensions, petty cash and expenses – to meet a broad array of government needs. These could include:

- Reduction in back-office and transaction costs
- The ability to pool budgets
- Audit trails for individual transactions
- Better support for budget planning with increased access to data
- Improved administrative efficiency e.g. eliminating the need for weekly mailings of cheques or vouchers
- Guarantee payment, better payments information and communication, improving predictability and visibility over cash flow
- Reputational advantage through adoption of efficient technology and improved service delivery.

Once a card has been issued to a payee, regular payments can be made onto the card electronically. To do this, the paying organisation sends a regular payment file to its bank, in the same way as initiating a cheque run, and the issuing bank then recharges the card automatically, enabling the recipient to access funds up to the amount specified by the paying organisation. As

PREPAID CARDS: KEY FEATURES

A prepaid card is a payment card issued by a bank. The paying organisation, such as a local authority, central government department or a private sector company, advises the issuing bank of the value to be loaded onto the card and provides it to a payee. Without funds being loaded onto the card by the issuing bank on behalf of the paying organisation, it has no value. Prepaid cards may be re-loadable and therefore topped up for continuous use, such as for benefit payments or payroll. Alternatively, they may be for one-time use, such as a tax refund. There is no ability for cardholders to exceed the loaded balance or draw on credit. Like a debit card, prepaid cards are typically Visa or Maestro-branded and the payee can typically withdraw cash at an ATM, make purchases or utility payments with the card as they would a credit or debit card, or transfer funds to a bank account.

Areas in which public sector entities can benefit from using prepaid cards include:

Benefit payments – many benefit payments, such as housing benefit or winter fuel payments, are still made by cheque, which typically cost £3-£8 to process. By distributing regular benefits using prepaid cards, costs are reduced and convenience and security for beneficiaries enhanced, particularly for

infirm or disabled beneficiaries who find it difficult to pay cheques into the bank, and therefore may not be able to take advantage of the funds for some time.

Payroll payments – many public sector employee salaries and/or expenses are paid by cash or cheque. Prepaid cards reduce the risk of theft, loss or fraud, and improves efficiency and auditability for the paying organisation. Employees gain immediate benefit of funds, as opposed to waiting for cheques to clear, and benefit from convenient payments.

Local tax refunds – tax refunds are frequently paid by cheque, even in countries with high adoption of electronic payments such as the UK. Many taxpayers are uncomfortable with sending bank details and tax authorities holding such information could suffer significant reputational damage in the event of a security breach. Using prepaid cards enables refunds to be made efficiently, and payments in subsequent years can be made by topping up the card.

In addition, students, small businesses, voluntary sector organisations and others who qualify for financial assistance from the local or central government can be paid efficiently. Compensation payments to local residents or businesses are also more convenient for both payer and payee.

CASE STUDY – LONDON BOROUGH OF LEWISHAM

The London Borough of Lewisham is an inner-city district of South East London. It has a population of 258,000 and the Council is striving to improve its efficiency and service delivery.

The Council pays a weekly allowance to 18-year-olds leaving its care to help them continue in education or to look for employment. Until recently, recipients had to visit council offices once a week to collect their allowance in cash. This exposed both staff and recipients to the risk of theft and loss, required complex administrative and cash management procedures, and discouraged responsible budgeting by recipients.

Citi worked with Lewisham Council to implement a prepaid card solution to enable recipients, most of whom do not have bank accounts, to receive their money via a secure and convenient prepaid Visa card, which can be used to make payments in-store, or using the internet or telephone. They can also use the cards to withdraw cash from ATMs.

Recipients no longer have to travel to council offices as cards are remotely re-loaded. "This is much safer for them,"

says Peter King, team manager, Leaving Care Service, Lewisham Council. "In addition, being able to withdraw only small amounts at a time, as well as making purchases in shops, enables young people to practice budgeting skills." Unlike the previous cash payments, cards can be cancelled and reissued in the event that it is lost or stolen.

For Lewisham Council, prepaid cards are simple to set up, administer and re-load. The council has better control over payments, and has better insights into how recipients are managing their cash, enabling them to provide specific support where appropriate. The scheme is expected to reduce Lewisham's payment processing costs in this area by 62 per cent.

Prepaid cards will also contribute to the way that Lewisham achieves a number of key national targets, including reducing risk by having less cash on-site and less movement of money between sites. "Citi's prepaid card is both secure and flexible for council clients," says Kevin Alcock, head of cashiering services at Lewisham.

well as being cheaper than cheque production and distribution, prepaid cards reduce other paper-intensive administrative processes, such as cheque reconciliation and addressing queries from beneficiaries, therefore helping public sector entities to comply with e-government initiatives to eliminate paper and improve process efficiency. For example, cheques and vouchers can easily be lost or stolen, whereas once a card has been delivered, future payments automatically get routed to the card account and card usage is restricted to the cardholder through use of a PIN in the same way as credit or debit cards. Similarly, in the event that a card is lost or stolen, the card can be cancelled, the funds remain secure, and a replacement card is simply mailed to the beneficiary.

BENEFITS FOR PAYEES

Prepaid cards are highly convenient for beneficiaries, whether or not they hold a bank account. Unbanked individuals can make payments and withdraw funds in the same flexible, convenient and secure way as debit card holders with bank accounts. Furthermore, they avoid charges on cashing cheques. By introducing the use of card facilities and online banking services such as statement reporting, transaction data and domestic funds transfer, prepaid cards provide unbanked users with a stepping stone to opening a normal bank account. Beneficiaries can manage their budgets more easily by using funds for specific purposes as opposed to having to cash the full value of cheques or vouchers at once. For those who already have bank accounts, prepaid cards avoid the inconvenience of paying in cheques and waiting for funds to clear, and share the benefits of increased security and control over cash flow.

Prepaid cards provide a unique opportunity for public sector entities challenged with the daunting task of reducing costs and increasing efficiency whilst improving service delivery. With huge volumes of payments each year to a wide spectrum of beneficiaries, prepaid cards offer convenience and security without the security hazards of requesting and storing bank account details for electronic credit transfers, which may be inappropriate in the case of one-off payments and impossible for unbanked individuals. While cheques will continue to play a role in many organisations for the foreseeable future, the advantages of prepaid cards to payers and payees alike are compelling, and we would expect to see them play a greater role in the future.

FOR MORE INFORMATION

To learn about how prepaid cards can help your organisation please contact:

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