



# Open Payments and Pre-Paid Products in Transit

Wendy Humphrey  
Vice President, Business Development



March 2010



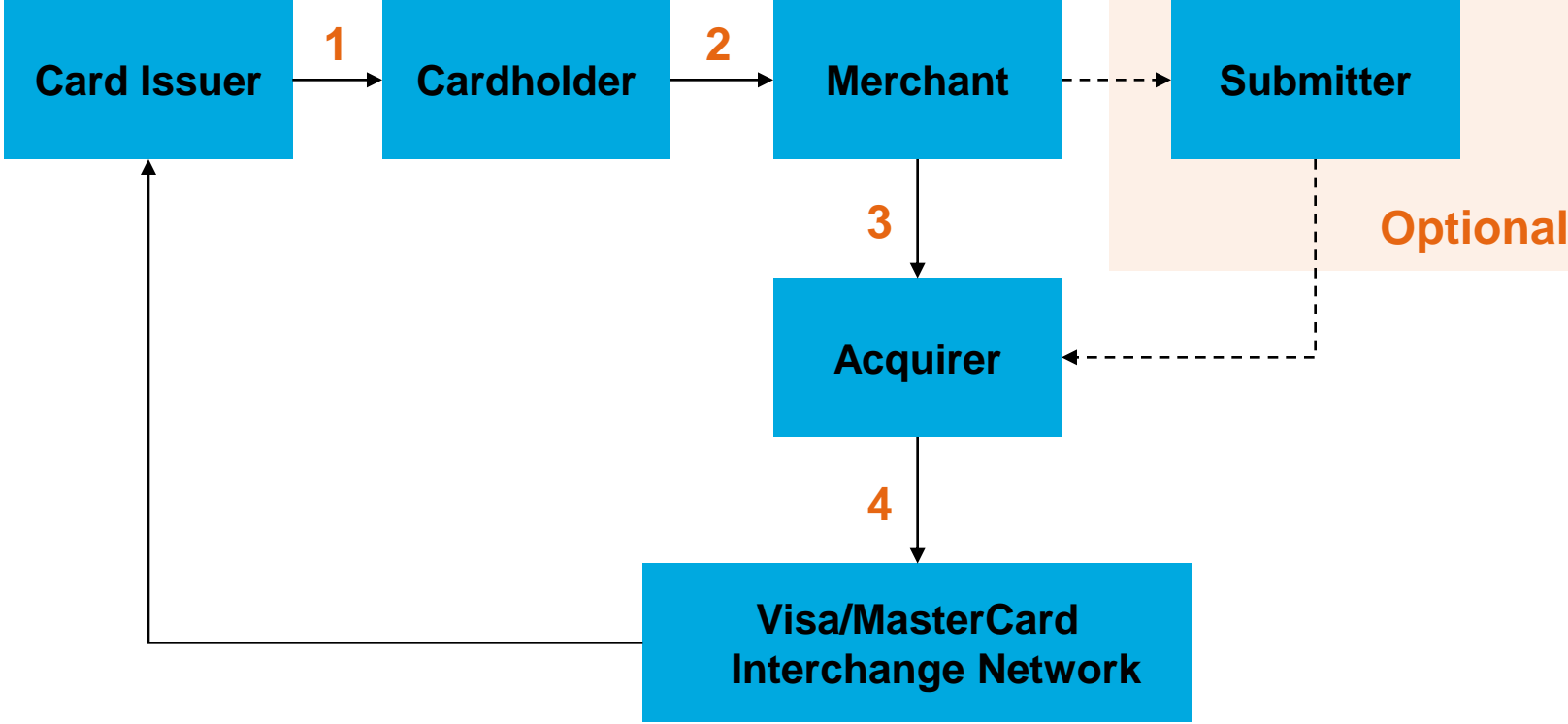
# Types of Bank Cards

**Credit card-** A bankcard where there is an arrangement or agreement in which any domestic lender or credit card bank, whether directly or indirectly through any domestic lender acting as its agent, gives a debtor the privilege of using a credit card out of which debt arises.

**Debit card-** A bankcard used to make an electronic withdrawal from funds on deposit in a bank, as in purchasing goods or obtaining cash advances.

**Pre-Paid-** A payment card that provides access to a prepaid value, rather than a line of credit. The card is used until the value is gone and the card is discarded or **reloaded**.

# Putting the Pieces Together



# Credit Card Acceptance Costs

Interchange fees are charged by the merchant's acquirer to a card-accepting merchant.

The majority of the interchange fee, goes to the issuing bank, but parts of it go to the processing network, the card association and the merchant's acquirer.

Interchange fees are based on

- Merchant type and average ticket dollar amount
- Whether the cards are physically present
- If the card's magnetic stripe is read or if the transaction is hand-keyed
- Type of card (reward, corporate, etc.)
- Time and amount of settlement
- Other factors

# General Purpose Reloadable Cards<sup>1</sup>

General purpose reloadable (GPR) cards are prepaid cards that are purchased by a consumer to be used as the consumer chooses and that can have funds added to the card. The cards can be used anywhere the designated payment brand is accepted or used for specific purposes.

<sup>1</sup>A Guide to Prepaid Cards for Transit Agencies ,Whitepaper, SmartCard Alliance

# Unique Credit Card Acceptance considerations

- Merchant Acquiring
  - Authorization
  - Negative file
  - Service code validation
  - Aggregation
  - Type of terminal
  - Credentials
- Pre-Paid

# Types of Prepaid Products

## Consumer Need

Directed  
Gift Giving

Flexible  
Gift Giving

Spending &  
Convenience

Rewards

Direct Deposit

Bank Account  
Alternatives



Multi-Purse  
Gift Cards



Closed Loop  
Gift Cards



Open Loop  
Gift Cards



Spending  
Cards



Loyalty  
Cards



Employer  
Pay Cards

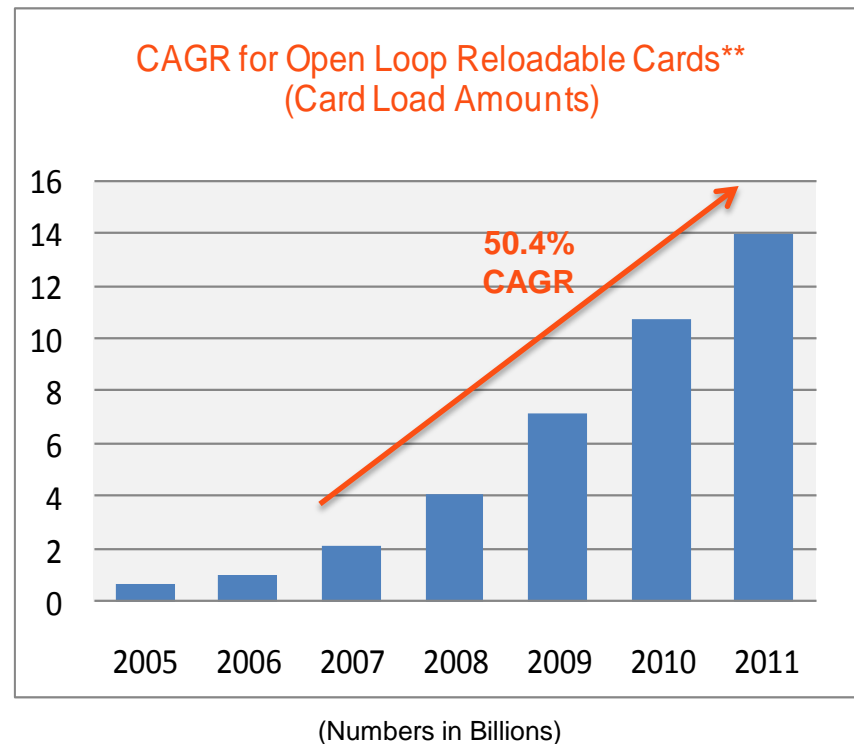
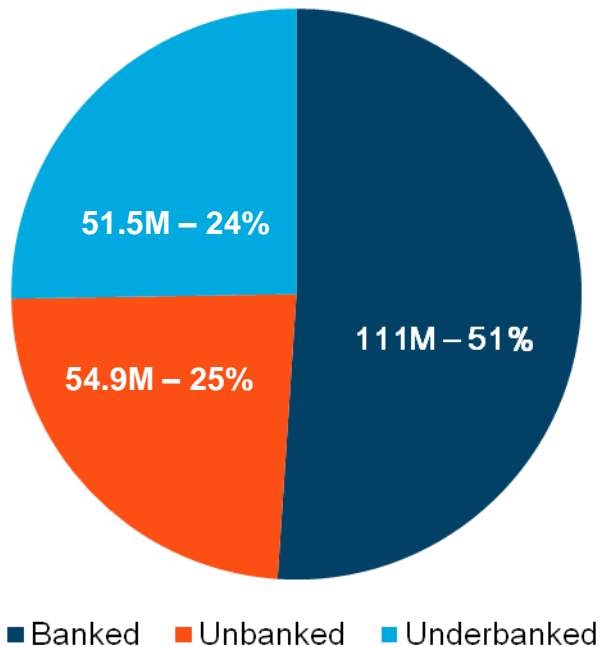


General Purpose  
Reloadable Cards

- High growth opportunity for you
- Fills needs of large “Underbanked” market
- Drives foot traffic to reload funds

# Large “Underbanked” Market Driving Growth in GPR Cards

Underbanked Percentage of U.S. Adult Population\*



Over 100 million Underbanked consumers are looking for alternative financial services at a fair price delivered by people they trust = large revenue opportunity

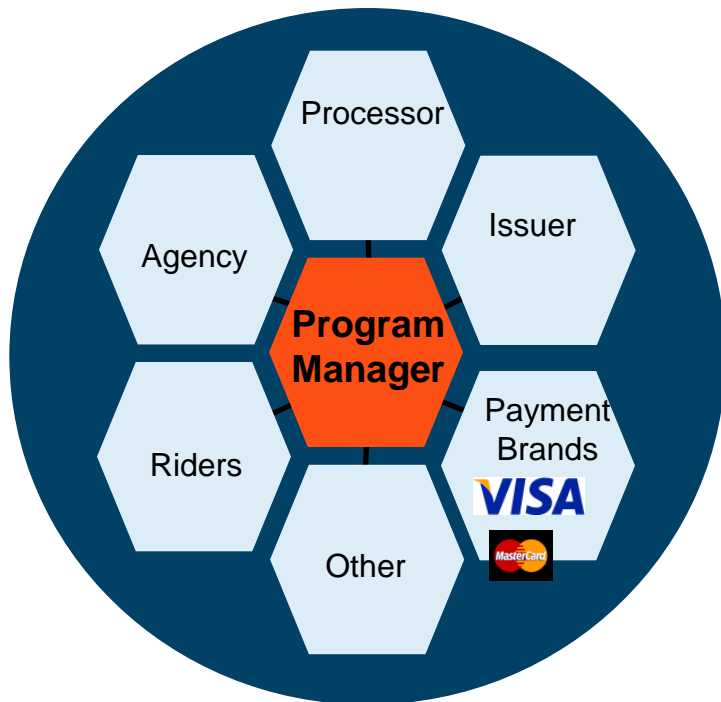
Reloads on GPR cards are expected to reach approximately \$14 B by 2011.

\* Mercator Advisory Group, Inc. *Prepaid Market Forecasts 2007 to 2011*. 2008  
 \*\*CFSI – Underbanked Consumer Study 2008



# Prepaid Program Roles

## Traditional Prepaid Program



### Program Manager

- Develops alliances with strategic partnerships
- Collects and distributes funds
- Creates and manages brand image
- Develops business plan and marketing strategy
- Sets pricing and fees

### Processor

- Transaction processing (authorization/settlement)
- PCI compliance
- Customer service (IVR, Web, agent, etc.)
- Relationship with payment brands

### Issuer

- Owns card program
- Complies with federal and state regulations
- Relationship with payment brands

### Payment Brands

- Regulatory oversight
- Reviews and approves card program
- Clearing system (settle transactions/interchange)

### Others

- Government (federal and local) entities, card vendors, telecoms, etc.

# Open vs. Closed Prepaid

*Open System provides greater flexibility, but adds program management responsibilities*

“Closed Loop” Proprietary System	“Open Loop” Prepaid Accounts
No bank involved	Bank-issued - Visa, MasterCard branded; legal terms with card
Fare Transactions only supported in programmed terminals & in proprietary system	Fare transactions route through standard credit/debit systems
No legal terms and conditions required to be disseminated with card	Signature debit BINs; legal terms disseminated with card
No association compliance required	Cards comply w/FDIC banking, Treasury Dept. and association regulations
Funds loaded on cards remain with transit authority	Funds loaded on cards reside at issuing bank
Funds settlement required only for third-party resellers and reloaders of fare cards	Funds settlement for card loads performed between seller (agency), processor and issuing bank
Transit authority creates rules specific to their program; no third-party approvals	Program attributes and structure must be approved by bank and by association
Cards are anonymous, and transactional data belongs to transit authority	Cardholder transactional data is property of bank – falls under Graham Leach Bliley rules

# Open Loop Contactless Card - Restricted

**Permanent, association-aligned (branded/not branded) open loop contactless card used for transit transactions; limited acceptance & limited reloads**

- **Purchase Method:** Agency selected retail outlets & vending machines; online through agency or program website
- **Reload Methods:** Reloaded online; at agency selected retail outlets & vending machines
- **Registration:** Registration required only to support lost/stolen replacements; no mandatory SSN or DOB information required
- **Card Usage & Transactions supported:** Transactions limited to Transit SIC and can be restricted down to specific Transit providers identified.
- **Funds Settlement:** Load transactions settled by program manager between agency and issuing bank; transit transactions settled through standard acquiring & network processes (like credit & debit)
- **Additional Features:** Limited feature set, as this card application is designated for Transit only
- **Considerations:** Doesn't provide "lifestyle product" that unrestricted does; easy customer experience that mimics existing agency product

# Open Loop Contactless Card - Unrestricted

**Permanent, association-branded open loop contactless card initially used for transit transactions and then upgraded to fully-functional Visa/MC Debit product**

- **Purchase Method:** Agency selected retail outlets & vending machines; online through agency or program;
- **Reload Methods:** Requires registration before card can be reloaded multiple times. Once registered, reloadable at agency outlets & vending machines and online; any reload location supported by program network
- **Registration:** Personal information must be validated, adherence to Know Your Customer, Anti Money Laundering, etc. regulations.
- **Card Usage & Transactions supported:** Card can be used at any Visa/MC merchant
- **Funds Settlement:** Load transactions settled by program between agency and issuing bank; transit transactions settled through standard acquiring & network processes (like credit & debit)
- **Additional Features:** Payroll direct deposit, online bill payment, 'use anywhere' like a debit card
- **Considerations:** Some riders may not pass required identity validation; once upgraded ,terms limit agency visibility into overall card usage; association branding on card could be confusing if card not upgraded; communicating broad range of features & supporting information about enrollment requires marketing support

# Open Payments

## Open Payments Concept

- Open Payments requires acceptance of all contactless bank cards
- Ensure hardware and AFC system is compliant to bankcard standards
- Identify local bank partners for debit and credit solutions
- Procure a prepaid program to address needs of the unbanked

## AFC providers and system integrators are necessary

- Banking institutions typically do not provide point-of-sale (POS) systems for merchants; analogous to AFC systems in the transit industry
- AFC providers have experience and skills managing fare tables, products

# AFC System Transition

- AFC system expands functionality to accommodate support for Open Payments
  - Centralized calculation of distance-based fares
    - No ability to store transit entry points or transfers on Open Payments media
  - Code to industry standard payment messaging specs
  - Proprietary direct messaging with program for Loads, Reloads, and Balance Inquiries
  - Modification of bus fare-boxes for reload
  - Vending machine modification or replacement to handle card disbursement and reload of Open Payments media
    - The Associations require issuing a magstripe card along with the “companion” contactless media
  - Coordination of customer service between agency and pre-paid provider



# AFC System Transition

**Entry Point & Balance**



Negative File Check

**AFC**

**Exit Point & Balance Adjustment**



Fare Calc from SmartCard Info

Post Transaction Reporting



**Entry Point**



Negative File Check

**AFC**

**Exit Point**



Exit Point

**Fare Calc**

Open Payment Messaging



# Agency Distribution

## Ticket vending

- Necessary for convenience and cost reduction
- Form factors
  - Contactless sticker
  - Contactless card

## Agency website

## Agency distribution network

Sell and reload cards at customer service centers

- Integrated into existing solutions with an API
- POS terminals





# Third-Party Distribution

## Third-Party Distribution

- *Companies that provide cards and connectivity to merchants for selling others' cards.*
- *Program distribution partners:*
  - Examples: Blackhawk, Incomm (7-Eleven), CoinStar



# Pre-Paid Card Sales & Reloads outside of agency

- **Third Party Distributors (TPDs):** Aggregator sales at retail (InComm, etc.); additionally FDC has relationships today with more than a dozen bulk B2B resellers offering card products into corporate environments and to other resellers (ex. Great Lakes Scrips)
- **Connectivity:** Leveraging connectivity to access prepaid processing platforms
- **Standalone terminals:** placing dedicated terminals at retail locations enabling loads, reloads, and balance inquiries
- **Kiosk Reloads:** partnering with financial services kiosk providers (ex. Coinstar) to offer card reloads at participating kiosk locations
- **Money Transmitters:** Offers prepaid card reloads through Western Union and MoneyGram locations
- **Payroll Direct Deposit:** ACH information provided to cardholder for direct deposit option
- **Future state:** mobile reloading through e-wallet on mobile handset

# Open Payment Advantages

- 1** No custom development required at faregates/farebox; will transact identically to any other credit or debit card through merchant acquirer
- 2** All Open Payments fares will settle through same merchant acquiring settlement process as other bankcard payments
- 3** Consolidated reporting provided by merchant acquirer will contain all bankcard transactions (credit/ debit/ prepaid)
- 4** Open Payments and Open Loop Prepaid provide agency with payment processing flexibility and portability

# Summary

- Bankcard acceptance benefits patrons, agencies and industry.
- Solutions require team work
  - Merchant acquirer
  - Integrator/AFC Provider
  - Pre-Paid Program Manager issuer
  - Agency

# Thank You

## Contacts

Wendy Humphrey

Vice President

[Wendy.humphrey@firstdata.com](mailto:Wendy.humphrey@firstdata.com)