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Prepaid Exchange
France

Prepaid Market Assessment » France

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Jon Sederqvist Østmoe
Philippe Bertinchamps

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EXECUTIVE SUMMARY

Prepaid is an emerging market with many application areas, roles and companies whose operational areas and borders between them are not always clean cut. It is not unusual for a company to offer a range of products and services spanning multiple areas of the value configuration. Compared to credit and debit cards, prepaid is a niche industry – which is fragmented into a number of sub-niches.

France represents an estimated current prepaid market opportunity of EUR 23.8 billion, one of the largest potential prepaid markets in Europe. The major prepaid opportunities are Corporate Incentives and Benefits, Government Disbursements, Transportation, and Consumer Gifting – for each of which the current market potential exceeds EUR 2.5 billion annually. The French Corporate Incentives and Benefits category is one of the largest prepaid opportunities in Europe and constitutes 44.2% of the French opportunity. It is also one of the defining characteristics of the French prepaid market, with EUR 4.5 billion meal voucher sales in 2010.

Four players dominate this market: Sodexo, Edenred, Chèque Déjeuner and NatixisIntertitres. The competition is fierce – and it is difficult for new players to gain a foothold and claim a significant share of the market. In the transportation sector, the Navigo scheme in the Paris metropolitan area operated by RATP surpassed EUR 1 billion annual load value in 2008, making the transportation company a significant prepaid player. Consumer gift vouchers and plastic cards are sold by many leading retailers. Consumer gift vouchers and plastic cards are sold by many leading retailers and A3C reports of sales to the B2C market in 2009 was EUR 604 million and for B2B the figure was EUR 1,521 million; out of this total of EUR 2,125 million, closed loop constituted EUR 750 million and filtered/open loop EUR 1,375 million.

A handful of banks have attempted to launch open loop gift cards, but the sales volumes have been marginal. Lately, there has also been a spur of growth in the number of General Purpose Reloadable (GPR) card brands on the market, although the product category is still in an early phase of the life cycle. Payroll card potential is limited by the fact that banks are required by law to open a bank account to any employed person, and bank transfers are the dominant method for paying out salaries. There is a niche market, however, for payroll cards for temporary workers, provided by companies such as Adecco.

Reimbursement and FX & Travel cards have yet to be introduced in France. Prepaid is often an alternative to existing legacy solutions and existing business relationships. It can require new infrastructure, the changing of legacy systems, and the education of buyers and recipients. Some applications face not only competition from other prepaid companies, but also from strong substitutes and existing value configurations. Certain prepaid applications face competition from other payment instruments as well, including debit cards, credit cards and cash. In addition to consumers, corporations and government institutions must also be educated and convinced of the prepaid value proposition.

Up until the turn of the millennium, paper was the dominant prepaid format in Europe; then plastic cards began to claim market share. Since 2005, there has been a major shift in formats used with increased speed in the move from paper vouchers to plastic cards. In 2010, it is estimated that approximately 55% of prepaid in Europe takes place on plastic cards. Along with the increased adoption of plastic cards, since 2005 the concept of virtual prepaid solutions has slowly started to gain traction. Virtual prepaid encompasses a range of technologies used to identify and redeem value, including NFC and barcodes/2D barcodes, which can be distributed through SMS, e-mail or other channels. While all these technologies are available in France, paper remains the dominant format for prepaid as of 2011. This is mainly due to the fact that corporate incentives and benefits exist primarily on paper. There have been few incentives to convert paper vouchers to plastic cards. Fraud on meal vouchers is manageable, vouchers do not require small restaurants to invest in payment terminals to accept them, and recipients are familiar with the paper format. Further, the revised e-money directive's potential implication on breakage could nullify any arguments in favor of moving these products to plastic cards.

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INTRODUCTIONS : PHILIPPE BERTINCHAMPS

Finally a prospective study on the French prepaid market has been carried out by prepaid professionals who benefit from having had a long international experience in this area and are used to forecasting on the subject. Does this guarantee the infallibility of the process and success at the end of the tunnel? Certainly not! But by uniting the analysis and forecasting method already experienced in different markets (India, UK, Germany...) with the knowledge that local operators have of the existing situations and market practices, the element of incertitude in forecasting tends to be reduced. And, beyond the acquisition, it is definitely the anticipation capacities that interest the entrepreneurs in search of creative innovations of value and growth.

To succeed, it is necessary to take risks, to be willing to change habits, to rely on your own intuitions and to have access to some trustworthy micro and macroeconomic data. There it is. It's not a recipe that's given to you on a plate because if it were only necessary to have the right ingredients to make a recipe, all cooks would be chefs!

It's the same for entrepreneurs; they search carefully for the ingredients before choosing to mix them, and they create recipes rather than copy recipes. After trials, adjustments, and the final touch, the race for the stars can finally begin. Have patience! We hope that this analysis, full of ingredients, will be a source of inspiration for you.

Philippe Bertinchamps
Président
Prepaid Exchange France

OVERVIEW : JON SEDERQVIST ØSTMØE

Our report aims to provide readers with a greater understanding of prepaid and the opportunities in France. The first part of this report provides an overview of the prepaid value configuration, before describing a) the benefits provided, b) the drivers and inhibitors of growth, c) the competitive situation for ten different prepaid applications – Gifting, Government Disbursements, Corporate Incentives and Benefits, Payroll, Travel and FX, Transportation, Fuel, Remittance, Reimbursement, and General purpose reloadable, and d) the key success factors. Having set these premises, this report provides estimates for the size of the market opportunity for each of the prepaid applications and the share of card value that is assessed to be on closed and filtered loop vs. open loop products.

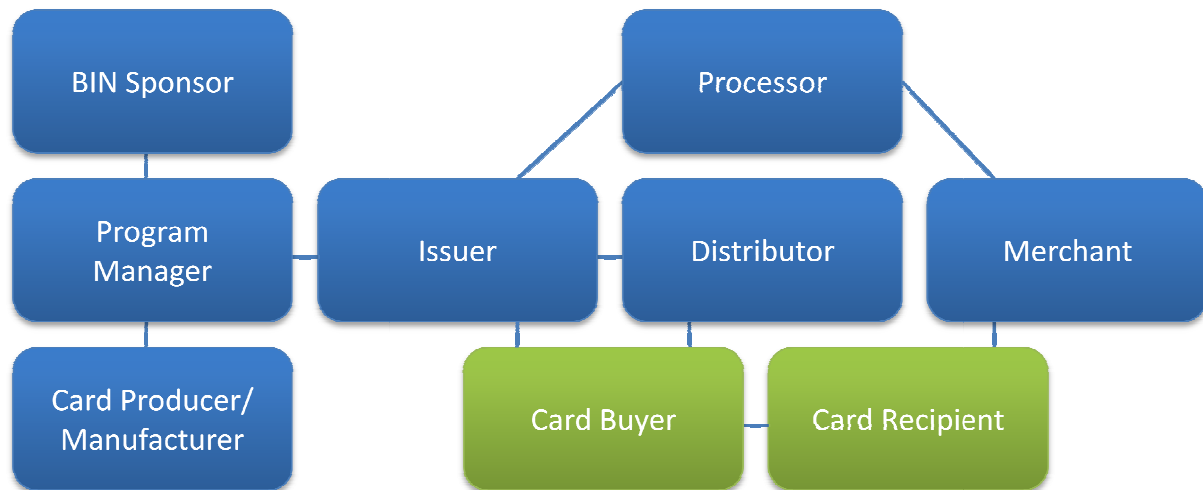
The second part of this report provides a series of views on topics of relevance to the prepaid sector in France, provided by respected prepaid managers and acknowledged local experts. This includes perspectives on the migration to plastic cards and electronic vouchers, the second e-money directive, as well as other topics. We also provide a case study of Smartbox and its distribution.

The third part of the report describes each of the ten prepaid applications with a fact sheet summarizing key figures and information, and provides a description of a sample program in each application category, the majority from France, but also from other European country markets. Finally, the report provides examples of global best practice programs, and a prepaid glossary to explain the industry terms used in this document.

Jon Sederqvist Østmoe
Research Consultancy Manager
Global Prepaid Exchange

THE PREPAID VALUE CONFIGURATION

The Prepaid Value Configuration is a complex construction. The term value chain is too narrow and production-oriented to be applicable to the structure of the prepaid industry, which more resembles a network structure connecting different parties together to create value. Prepaid is an emerging market with many application areas, roles and companies without strictly defined operational areas. It is not unusual for a company to offer a range of products and services spanning multiple areas of the value configuration. Compared to credit and debit cards, prepaid is a niche industry – which is fragmented into a number of sub-niches.



Roles in the prepaid value configuration

Our model illustrates the key roles in the Prepaid Value Configuration and their relationships to one another. The blue boxes represent commercial roles for a prepaid card product, whereas the green boxes represent the demand side. A key point in interpreting this model is the realization that the same party can occupy numerous roles. For example, a bank that issues and manages its own open-loop program would fill the role of BIN Sponsor, Program Manager and Issuer.

Also, note that different terminologies and assumptions regarding role responsibilities and product/service sectors exist in prepaid, partly due to the lack of institutional standardization of terms and partly due to the industry's youth. Our terminology is explained in the section *Prepaid Terminology*, and the model is explained below.

It is useful to start by centering on the Issuer in the Prepaid Value Configuration. The Issuer bears the economic and legal responsibility for the prepaid product. The Issuer can opt to manage the prepaid program itself or to outsource this role to a Program Manager. Program Managers are more commonly used for open loop programs than closed loop. A Card Producer/Manufacturer supplies and personalizes the cards. For open loop programs, a BIN sponsor with the necessary network licenses is required, typically a financial institution.

Note that while the practice of outsourcing a product and marketing management to a Program Manager is common in the UK, where several dedicated Program Manager companies operate in the market, it is less common in continental Europe.

On the demand side of prepaid, it makes sense to distinguish between Card Buyers and Card Recipients, who usually have different motivations and needs. Card Buyers can be consumers, businesses or governments who order and usually load value on the prepaid product. For example, a business that purchases thousands of cards to use as promotions or employee incentives. The Card Recipient (who may also be the Card Buyer) is the

final user, e.g. a gift card recipient or benefit recipient in the case of a government benefits program. Card Recipients typically redeem the value on the card in exchange for goods and services at a Merchant. The term Merchant stems from debit and credit financial cards terminology and refers to any location where the prepaid card can be used, which includes either an online or physical environment. A retailer with a gift card program typically occupies the roles of both Issuer and Merchant.

The Issuer can sell/deliver cards to Card Buyers who will provide the cards to Card Recipients, or the issuer can provide them directly to Card Recipients. A third option also exists, in the form of a dedicated Distributor role. For example, a gift card mall operation where cards are sold through destination retailers. Behind the scenes, when a Card Recipient uses his or her prepaid card to pay at a Merchant, a Processor typically validates the card, checks the balance, authorizes the transaction request, and performs clearing and settlement. Processing can be handled in-house or through an external party.

If you want to learn more about any of the Global Prepaid Exchange Prepaid Market Assessments or obtain access to the full report, please contact Callum Waddell – Callum.Waddell@globalprepaidexchange.com