



Positioning Prepaid as a vital tool amid the Covid-19 crisis

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As countries around the world unveil Coronavirus stimulus measures, the need to get emergency relief funds to those in need has been brought sharply into focus.

In the UK, prepaid solutions are already used extensively by many local authorities to disburse welfare and other benefits. Prepaid has also been widely adopted by several UK charities and non-governmental organisations to help support those most in need. With the use-case well established, businesses have swiftly responded to the crisis and demonstrated the security and speed of deployment that prepaid offers.

For example, allpay has established a prepaid card programme that is specifically designed to support local authorities get funds to those experiencing hardship as a result of the Coronavirus outbreak as quickly as possible. With a set of pre-defined limits and configuration and the ability to fast-track a programme approval, allpay can make a new programme live and operational within two weeks of receiving instruction.

Prepaid is also enabling UK charities who have previously relied on hand-to-hand payments of cash to continue to protect and support at-risk individuals. For example, Migrant Help, a charity assisting victims of modern slavery and human trafficking, has partnered with B4B Payments to reduce risk and streamline the support it offers with B4B's prepaid Mastercard®.

The use of vouchers has reached the political agenda

The use-case for prepaid is less well established in Germany, but there is now an opportunity for the industry to position prepaid as a vital solution. For example, the German Ministry of Finance has introduced a new rule that allows companies to provide employees with up to €1,500 tax-free as a benefit to support them through the crisis, and as gesture of gratitude, for example to frontline health workers or supermarket cashiers. The rule explicitly states that remuneration in kind shall be allowed. Some businesses are actively positioning prepaid as a solution for these types of payment.

The use of gift cards in Germany has also now come into focus. The German parliament is set to debate the use of gift cards to reimburse customers for cancelled concerts and other events in the hope that they will be held later in the year or in 2021. This is being driven by a desire to prevent musicians and others from going out of business.

The use of vouchers is also being discussed as an alternative for refunding customers in case their holiday trip has been cancelled. While the German government is supportive of the idea, the EU Commission has raised concerns regarding EU-law compatibility.

However, the use of electronic vouchers has also been taken up by the EU's institutions, amid the need to consider contactless forms for payment for vulnerable and at-risk citizens. In its recently published Q&A on the "Coronavirus Response Investment Initiative Plus: New actions to mobilise essential investment and resources", the European Commission explicitly refers to e-vouchers as a means to "delivering food and basic material assistance."

Tens of millions of Americans need prepaid to help them through the crisis

From a benefits disbursement perspective, the use case for prepaid in the US is well-established. Federal agencies have widely embraced prepaid as a secure and low-cost alternative to checks.

The Department of the Treasury has tasked the Internal Revenue Service (IRS) with disbursing the US government's \$2 trillion "Phase 3" coronavirus relief package. However, this enormous task is compounded by the fact that many millions of Americans do not have direct deposit payment information recorded with the IRS which could mean a wait of many weeks for a check to arrive in the mail. For the IRS to enable e-payments, it will need to achieve a capability that would typically take 6 to 9 months in just a few weeks. The IPA is spearheading industry efforts to position prepaid as a means to getting urgently needed funds to those who need them.

For Canadians who are not paid by direct deposit, prepaid can plug the gap

In Canada, 80-90% of benefits recipients receive payments by direct deposit with the remaining 10-20% paid by check. Canadian challengers responded quickly to the Canadian government's initial Covid-19 stimulus package, with many Canadian citizens receiving payments on prepaid cards.

Generally however, the use case for prepaid is not well established for government benefits, either at a provincial or federal level. The programmes that do exist are typically issued in larger provinces and managed by Canada's largest banks.

Prepaid has been used for disaster relief, as it has in other markets, but much less so for the delivery of government payments.

The crisis has also led to heightened concerns about Canada's indigenous population, which is largely underbanked. The challenge to address is getting emergency payments to financially excluded individuals living in remote communities. Through the CPPO, the prepaid sector is focused on educating the authorities on how prepaid can quickly plug the gaps. There has been some push-back from merchants in connection with interchange fees, but there is a large industry-wide and cross-association effort to promote the benefits of prepaid, particularly for at-risk groups.

How are markets responding to the constraints imposed by social distancing measures?

At the beginning of April, the UK contactless upper limit was raised from £30 to £45. The increase was anticipated but hastened by the crisis alongside the World Health Organisation's endorsement of contactless payments as a means to helping reduce rates of infection. The last UK increase took almost two years to implement.

Just weeks before the UK entered lockdown, UK Finance reported that contactless payments were set to rise by a third, with two out of every five card payments made with contactless technology. Now, amid concerns about handling cash, the volume of contactless payments is likely to increase significantly. Pioneers of payment rings could see volumes increase as they add an extra degree of distance.

Contactless upper limits have also been raised across Europe with Germany reporting that more than half of card payments are now contactless, up from 35% before the crisis. In Canada, where contactless payments have been widely adopted, the contactless upper limit has increased from C\$100 to C\$250.

US citizens have been socialised to use their cards but contactless remains a relatively niche way to pay. That said, the use of contactless mobile payments such as Apple Pay is set to increase as people come to see their phones as a safer way to pay during the crisis. Online purchases have skyrocketed, with mobile apps tied to payments such as Amazon Prime.

The fact that social distancing constraints are likely to be in place for some time to come could hasten the reduction in the use of checks in the US. Throughout its engagement with government agencies, the IPA has fervently argued that using checks is not an efficient way to pay someone when everyone has been told to stay at home.

Cash is king in Germany, yet the crisis has driven up the volume of contactless payments, driven in part by stores discouraging the use of cash.

Across all markets, payment methods are driven by different behaviours. Before the crisis, contactless payments were driven in part by a need for speed and security whereas now, contactless is also being driven by fear.

Recognising the critical role of prepaid amid the crisis

In recent years, prepaid has been largely relegated to the back office amid the rapid emergence of Fintechs. Even so, prepaid is a vital platform for Fintech innovation and is widely acknowledged as a key enabler of secure and flexible payment solutions. Today, prepaid is ideally placed to support the distribution of emergency funds and help accelerate the digitisation of payments.

In the US, the crisis has made it easier for the IPA to have conversations about prepaid with regulators. The Consumer Financial Protection Bureau, which regulates the US prepaid market, has recently acknowledged recommendations made by the IPA that prepaid is an effective way to disburse benefits. This was further acknowledged by a [loosening of the Prepaid Rule consent requirements](#) to help states issue prepaid payments quickly to those in need.

Prepaid is demonstrating its value at a time when millions of people, regardless of their socio-economic background, need fast and secure access to emergency funds and authorities, charities and others need an efficient means to disburse these payments.