



Prepaid cards set to fly in the Middle East

In the Middle East, where 85 per cent of transactions are cash based, prepaid cards are rising as a preferred alternative that ensures limited spending and reduces the inconvenience of carrying cash. **Ritwika Chaudhuri** finds out more about this emerging trend.

Current market trends indicate that there is a strong opportunity for the usage of prepaid cards to grow substantially in the Middle East, especially in the areas of travel, gifts, remittance, social security and salary transfer. Regional awareness for prepaid card schemes is pegged at 88 per cent and both financial institutions and governments are eager to

introduce these schemes because of the number of advantages associated with them.

According to a study by MasterCard in conjunction with payment consultancy Edgar Dunn & Co, prepaid gross dollar volume in the UAE will rise to US\$18.4 billion in 2015, up from US\$4.4 billion in 2010 and US\$0.7 billion in 2007. In Saudi Arabia, it is expected to touch US\$17.1 billion by 2015, up

from US\$7.2 billion in 2010 and US\$3 billion in 2007.

“Over the next five years, transactions by prepaid mechanisms will account for almost 60 per cent of purchases globally,” says Gerald Tilley, CEO of UK-based card and payment industry organiser VRL.

As per a 2008 study by the Boston Consultancy, global spend was concentrated in three



categories: the public sector with 43 per cent, the corporate sector with 17 per cent and consumers with 11 per cent.

Tilley believes that the Middle East is the ideal location for expansion in the prepayment sphere. "The MENA region has been fast to recognise the benefits of prepaid. This is due to a multitude of market factors including the particularly high volume of cash transactions compared to credit and debit card payment," he notes.

Tilley adds: "In addition, the recent mandate for immigrant workers to have access to bank accounts also adds impetus. I am encouraged that the market for new payment systems is wide open, with prepaid cards set to be a major force by 2015."

According to Scott Salmon, head of prepaid global market expansion

at Visa, the drivers of growth are factors such as shift to e-payments, increasing spending power of the youth and remittances.

"The Middle East region will see government regulations of salary transfers as the main growth segment. Prepaid has over 55,000 programs in more than 60 countries. The Central Europe, Middle East and Africa market has seen growth of 300 percent annually in the last six years," he says.

Encouraged by the potential in this market, the MasterCard survey found a number of interesting findings regarding the potential of the prepaid card market in the Middle East and its recent trend.

The four forces that are driving prepaid opportunities in the Middle East are regulatory landscape, demographics, culture and high awareness. While regulations are mandating electronic pay roll disbursement, people in general are fully aware of the existence and usage of prepaid cards. Moreover, a vast number of expatriate workers in the region are unbanked, and as per the regional culture, people generally travel a lot, use cash extensively and are averse to debt.

Since cash is the main mode of payment in this region and around 85 per cent of transactions in the Middle East rely on cash, prepaid cards easily have the potential to replace cash. As these cards



Gerald Tilley

Prepaid travel						
Payment comparison: UAE, Kuwait, Saudi Arabia, Lebanon						
	Credit	Debit	Cash	Others	Average cash budget	Country total
UAE	47%	17%	34%	2%	AED6431	AED11.0 billion
Kuwait	46%	9%	45%	9%	KWD543	KWD605 million
Saudi Arabia	43%	17%	40%	NA	SAR5967	SAR60 billion
Lebanon	48%	11%	40%	NA	LBP2,387,215	LBP3.45 trillion

Source: MasterCard travel research 2009

are already loaded with a certain amount, the user is limited to spending only that much, ensuring not only controlled spending but also avoiding the hassle of carrying cash.

Regional consumers are substantially aware of the usefulness of prepaid cards. According to Will Cain, group editor of VRL's supporting publications *Cards International* and *Electronic Payments International*, prepaid is the fastest-growing payment mechanism, with double-digit growth over the last few years.

"It is interesting to see such high awareness in the region of how prepaid works. More than 90 per cent of UAE and Saudi Arabian consumers are fully aware of the concept," notes Cain.

Robert Walls, senior business leader of debit and prepaid product management for Asia Pacific, the Middle East and Africa at MasterCard Worldwide, says: "The latest MasterCard research sheds light on consumer attitudes towards prepaid in the Middle East. This data gives a clear indication of consumers' present level of awareness and attitudes in the region."

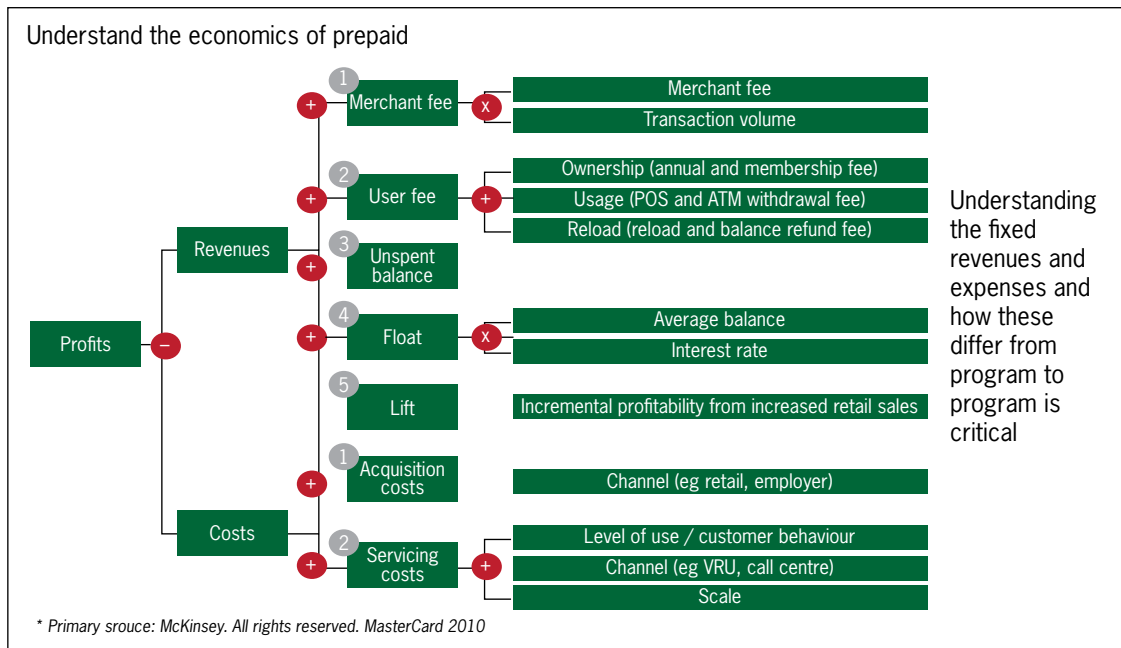
Consumers have already shown sufficient awareness of prepaid cards for telecommunications and transit, remittances and travel. Indications also show sufficient interest in salaries being paid through

the prepaid route. Supporting feedback suggests that more than 70 per cent of consumers believe they would find the prepaid mechanism useful.

As per the MasterCard survey findings, over 60 per cent of respondents on average said they would find prepaid products useful for remittances, salary and travel cards. This is especially true in Saudi Arabia, where 87 per cent of respondents said they would find a prepaid remittance card useful and 85 per cent said they would find a prepaid travel card useful. About 55 per cent of respondents in the UAE and Egypt



Robert Walls



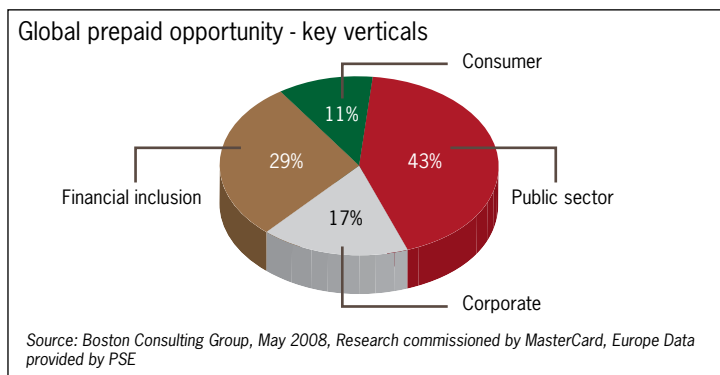
said they would find a prepaid remittance card useful. More than 70 per cent of respondents in Egypt said they would find a prepaid salary card useful.

In Egypt, the prepaid card is a desirable banking product and is widely used in the social security sector. In Lebanon, it is a coveted product for the youth, as parents can have control over their children's spending.

In Bahrain and Qatar, a legislation has passed for using prepaid cards in the payroll sector for wage protection. In Saudi Arabia, authorities are considering passing a legislation for insurance payment and for salaries and wages.

Apart from consumers and the public sector, many banks in this region have started issuing prepaid cards, as they are expected to add value. As Walls puts it, prepaid is not only an alternative source of revenue for banks (transaction costs and changes for the issuance of the cards), but it also helps banks manage cash better, which is otherwise a costly proposition for them.

In the UAE, Emirates NBD has launched a number of prepaid cards aimed at a diverse range of markets, from business executives to labourers and travellers. Recently, Emirates NBD partnered with the Dubai Financial Market (DFM) for the launch of the iVESTOR card. The card can be used by DFM companies to issue their dividends for the financial year 2009 and beyond. Previously,



the 30,000 investors of DFM companies were issued cheques in the past when dividends were announced. With the new iVESTOR card, the dividend is loaded immediately onto the card and investors can access the funds in the same way that they would use a credit card, debit card or ATM card.

This product comes on the back of the Emirates NBD MasterCard prepaid card that was launched earlier. The prepaid card, which is operated by MasterCard and issued by Emirates NBD, can be used for a number of purposes. For example, it can be used as a gift card in retail outlets or for construction labourers who can have their salaries transferred onto the cards. It can also be used as an alternative to cash or cheques when travelling abroad, for online purchases or for executives for company expenses.



Will Cain

Or it can be used as an alternative to opening a traditional bank account, as salary earners can have their monthly wages transferred onto the card and then use it as an ATM or debit card.

National Bank of Abu Dhabi (NBAD) has launched a Visa prepaid card of its own, as well as a Dubai e-government co-branded prepaid card. The Dubai e-government prepaid card is a pre-funded Visa electron card that can be purchased at any NBAD branch and can be used as any other credit or debit card. Because it is prepaid, spending is limited to the amount of money loaded onto

the card.

Dubai-based Commercial Bank of Dubai is also believed to be in the process of launching prepaid cards soon. UAE Exchange, a leading exchange house in the region, has already launched prepaid payroll cards.

Qatar Islamic Bank (QIB) launched a prepaid Visa card in April 2010. QIB is the first Islamic financial institution to offer the prepaid card, which is Shari'ah-compliant.

With the many advantages that prepaid cards promise to offer, they are definitely a lucrative transaction option in a cash-driven society. These cards could replace cash in a number of payment areas in the near future.

Prepaid payroll		
Payroll and Remittance: UAE+KSA		
MasterCard remittance research revealed:		
Remittance profile - how much	UAE	KSA
Average % of salary remitted overseas	59%	71%
Average amount remitted (local currency)	AED1851	SAR1675
Average amount remitted (US dollars)	US\$504	US\$447
Average time per year	12	12
Source: MasterCard Remittance research UAE and KSA		