PIF Business Models Working Group

Re-engineering the PIF business model matrix
It is proposed to redevelop the PIF Prepaid Business Model

- The existing model allows us to identify specific product categories and consider the implications of different drivers and business levers
  - Revenue drivers
  - Cost drivers
  - Business model levers (product usage, product proposition and product management)

- Through this we are able to identify where the key product drivers will be, as well as narrowing down any specific problem areas – such as product categories which are more heavily regulated and face greater compliance costs

- A revisit of the model may help to expand its current functionality and give a more interactive and dynamic approach
## The existing business model matrix

<table>
<thead>
<tr>
<th>Category</th>
<th>Sub category</th>
<th>Examples</th>
<th>Revenue Drivers</th>
<th>Cost Drivers</th>
<th>Business Model Levers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail - B2C</td>
<td>Disposable / Semi-disposable</td>
<td>Gift, Travel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>General purpose</td>
<td>Open money &amp; financial services, Money remittance and P2P, Gaming</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consumer distribution</td>
<td>Insurance replacement, Consumer incentives, Emergency / disaster</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate distribution - B2B or B2G</td>
<td>Funds disbursement</td>
<td>Payroll, Government benefits, Employee and partner incentives, Business travel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Relocation card, Events and meetings, Purchasing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Closed community</td>
<td>Campus card</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Revenue Drivers
- Purchase fees
- Usage fees
- Special fees
- Merchant fees
- Float
- Breakage
- Foreign Exchange
- Third party charges
- Compliance/Regulation
- Distribution/commission
- Implementation
- Network fees
- Customer service - self serve
- Customer service - agent
- Processing
- Card production / fulfilment
- Promotions and marketing
- Card volume
- Marketing
- Retention
- Load value
- Activation levels
- Customer segment access
- Product type understanding
- Potential for fraud
- Functional capabilities available
- Competitive position
- User benefits and value
- Value chain development
- In-sourcing - vs - outsourcing
- Partners roles
- Internal governance / ownership
- Corporate distribution - B2B or B2G
- Retail - B2C
- Disposable / Semi-disposable
- General purpose
- Consumer distribution
- Funds disbursement
- Closed community

### Cost Drivers
- Card volume
- Marketing
- Retention
- Load value
- Entrance level
- Customer segment access
- Product type understanding
- Potential for fraud
- Functional capabilities available
- Competitive position
- User benefits and value
- Value chain development
- In-sourcing - vs - outsourcing
- Partners roles
- Internal governance / ownership
- Corporate distribution - B2B or B2G
- Retail - B2C
- Disposable / Semi-disposable
- General purpose
- Consumer distribution
- Funds disbursement
- Closed community

### Business Model Levers
- Product Usage
- Product Proposition
- Product Mgmt.

### Legend
- H: High impact on sub-category
- L: Low impact on sub-category
- ?: Variable impact on different card types
- #: Common level of impact
The existing business model matrix is static and complex

**Limitations of the existing model**

- The existing model is static and complex
  - The high / low / variable impact scale is limited and does not relay potential implications to the greatest effect
  - Current product categories are rigid and not all encompassing

- Whilst the model does consider product types e.g. consumer gift cards, it does not allow us to take into account specific product features, and how these may be impacted by the design of the product

- The models static nature does not enable us to consider product types at a more granular level which would allow us to consider potential implications as they arise during the course of designing the product

**Revisiting the model**

- Revisiting the model could allow us to create a model based on a decision tree process – making it more interactive and dynamic
  - This type of model would allow us to consider any potential product type

- Using this process would enable us to look at a product from its inception and depending on the outcome of various decisions, and the regulatory and compliance issues which arise, the tree should drive the product features which can be selected for the product in question
PIF has recognised the need to develop a new business model approach aligned with product functionality

The current thinking on the business model is to develop a functional decision tree that guides the user towards a set of options that have to be considered for the proposed product proposition.

- Regulatory implications (recognising this will require recognition of local regulatory requirements)
  - KYC and AML regulations
  - Load and usage monitoring requirements
  - Etc.

- Revenue options. Depending on the product features selected a list of potential pricing parameters can be suggested to the user (no end user pricing will be suggested)

- Cost implications. Cost considerations can be suggested to the user based on the product features selected.
The proposed business model can be based on a decision tree process, making it interactive and dynamic.

Example of the decision tree process beginning with regulatory considerations:

- Open, closed or restricted loop product?
- Reloadable or disposable?
- Loading entity? (e.g. cardholder, corporate, government, other)

Each of these functions can have multiple strands but would highlight the regulatory requirements for the prepaid issuers.

For example, an open loop reloadable product, loaded by a cardholder would require KYC on the individual.

This process would also highlight load limits for AML purposes.
Product features can also be included in the decision making process

Example of prepaid business model decision making process:

Depending on the outcome of the various decisions, regulations will drive the product features that can be selected for a prepaid product.
The business model can be further developed to include other drivers

Other drivers that can be included:

Revenue:
- Load fees (initial loading / reloading fees)
- Transactional fees (POS / ATM / P2P)
- Special fees
- FX fees
- Card replacement fee
- Interchange / merchant fees
- Third Party Charges

Cost implications that can be considered:
- Cardholder recruitment cost
- Fulfilment costs (incl. cost of plastic)
- Authorisation
- Clearing & settlement (incl. ATM reimbursement fees)
- Statementing
- Customer service
- Scheme / Network fees
- Compliance / regulation
- Fraud
- Processing fees

Drivers continued:

Cost implications continued:
- Distribution / commission
- Interest payment
- Negative balance risk
- Promotions and marketing

Business model levers:

Product usage:
- Card volume
- Transaction volume
- Marketing?
- Retention
- Incentives
- Load value
- Activation levels

Product Proposition
- Investment needed
- Customer segment access
- Product type understanding
The business model can be further developed to include other drivers (continued)

Business model levers continued

- Product proposition continued:
  - Potential for fraud
  - Servicing options available
  - Functionality
  - Competitive position
  - Enhancements
  - User benefits and value

- Product management:
  - Value chain development
  - In-sourcing vs. outsourcing
  - Partners roles
  - Internal governance / ownership

- Operational setup
  - PI licence
  - Bin sponsor

- Cost implications
  - Scheme fees
  - Closed loop

- Loading entity
  - Cardholder
  - 3rd party individual (parent, guardian, relative, etc.)
  - Corporate/government (Business expenses, welfare distribution, insurance payments, etc.)
The business model can be further developed to include other drivers (continued)

Business model levers continued

- Who has beneficial ownership of funds on the card?
  - Cardholder
  - 3rd party individual (parent, guardian, relative, etc.)
  - Corporate/government

- Statementing
  - Are statements issued? If yes:
    - Paper based?
    - Internet only?
  - If so, who receives statements?

- Who provides KYC and AML information:
  - Cardholder
  - Corporate
  - Government
  - Etc.