



PAYROLL CARDS: AN OVERVIEW OF BENEFITS TO FINANCIAL INSTITUTIONS

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Overview

Payroll cards provide the opportunity for treasury banks to generate additional revenue, strengthen the relationship with their corporate account base and establish and cultivate relationships with new depositors. As such, they represent a strong market for financial institutions looking to expand their services and increase revenue.

Most companies encourage their employees to opt for direct deposit of payroll funds—and with good reason. Whereas the process of issuing paper checks costs employers between \$1 and \$2 per pay period, electronic transfer of payroll funds costs employers only about 20 cents per employee.¹

The resulting savings is substantial. Given the industry-standard employee adoption rate of about 70 percent and assuming a bi-weekly pay period, a business with 300 employees could save almost \$10,000 per year.

However, direct deposit is not an option for unbanked workers who have no relationship with a financial institution. As an alternative to issuing paper checks, and to leverage the financial advantages of electronic funds transfer, many businesses are using payroll cards, also referred to as “paycards,” as a means to disburse payroll compensation to their employees and/or independent associates. Because of the savings available to the employer and the advantages to the employees themselves, payroll cards have become a rapidly growing market.

While the market is experiencing phenomenal growth, it is far from mature. Financial institutions that enter this market now by offering payroll cards to their corporate banking clients have the opportunity to gain a significant foothold in this industry.

Payroll Cards Overview

Payroll cards are prepaid debit cards offered by an employer to employees for the disbursement compensation. Payroll cards are like a full service bank account on a card, enabling purchases, ATM withdrawals, direct deposit, bill pay and transfers worldwide. Payroll cards can also be fully integrated with mobile services, including account management, bill pay, person to person payments and commerce. Because payroll cards have the highest transaction average per card and the longest average life span of any prepaid debit cards, they are consistently the most profitable for the banks, program managers and processors involved.

The payroll card market is rapidly growing. The Pelorus Group indicates that in the U.S. loading on payroll cards will grow from \$15 billion in 2007 to over \$58 billion in 2011, with the number of cards issued tripling to over nine million. While the European payroll card market is less established, PSE Consulting estimates that it will reach €400m-€500m by 2010 and continue an aggressive growth pattern over the next decade.

The Opportunities for Financial Institutions as it Relates to Payroll Cards

The payroll card market is ripe with opportunities for financial institutions and provides a variety of revenue streams.

Customer Acquisition. Payroll card programs are an effective manner of adding new customers to the banking and electronic payments system. Consumers who were previously transacting primarily in cash, have a straight-forward and easy path to joining the banking system by using a payroll card. Considering a good portion of payroll cardholders are unbanked or underbanked, financial institutions may be able to transition payroll card customers into traditional bank account holders and users of other bank services. And because the unbanked and underbanked represent a younger demographic—a recent study found 56% were younger than 45⁴— financial institutions have the opportunity to develop long-term relationships as a result of this type of employee’s payroll card. Further, financial institutions have the ability to generate revenue from these cardholders even if they never enter into a traditional banking relationship.

Account Retention and Maximization. Offering payroll cards to an existing corporate customer base increase loyalty by providing a value added, cost saving service. In addition, it improves retention by adding a formidable barrier to change. In order to switch banks, the employer would need to completely reissue all cards.

Revenue Generation. Payroll cards offer financial institutions the ability to make significant incremental revenue from a new client base. Typically issuers can expect revenue streams which include: monthly service fees, loading charges, POS/ATM fees, peer-to-peer transfer fees, and interchange fees, as well as account set up revenues.

Payroll card fees are paid by both the employer and the employees. Typically, an employer will pay the setup and activation fee, as well as any required monthly fees, where as the employee will pay the transaction fees. However, certain employers, either by choice or because required by local regulations, will cover the costs of one ATM transaction per month. The exact fees charged can be determined by the financial institution and are often scaled based on the size of the employee base. According to a 2007 Center for Financial Services Innovation report, average fee ranges for payroll cards are as follows:

Activity	Typical Fee Range
Purchase and activate card	\$9.95 - \$14.95, when applicable
Reload funds	Free for electronic transfer, otherwise \$2.95 to \$5.00
Monthly fee	\$4.95 - \$7.95, when applicable
ATM cash withdrawal	\$1.00 - \$2.00 (within network)
ATM balance inquiry	Free to \$1.00
POS transaction	Free to \$1.00
Customer Service Live person IVR	\$1.00 to \$3.00 Free to \$1.00

In addition to the above fees, financial institutions can earn a portion of the interchange fee. In the U.S., payroll cards average four transactions a month at the POS, each averaging \$40. Depending on the size of the cardholder base, this can be a significant source of revenue.

Additionally, as a treasury bank, institutions can increase their earnings from float. Since the funds will be redeemed from the card over time, as opposed to instantly transferred to another bank via direct deposit or cashed out, the length of time the funds are within the bank and the float that can be earned increases dramatically.

Outlook for the Future of Payroll Cards

Growth in the use of payroll cards. The use of payroll cards has increased steadily and is expected to continue to grow over the next several years. Over \$6 billion was placed on payroll cards in 2005 in the U.S. and this figure is expected to rise to \$17 billion by 2009.³ One of the advantages of the payroll market and the reason for its continued success and growth, is that it offers distinct advances to all parties involved as detailed below

Benefits to Employers. Payroll card programs easily integrate with the employer's existing payroll process and require no additional hardware or software. Besides immediately reducing a business's expenses associated with paper checks, payroll cards can:

- Simplify the payroll and commission payout process
- Eliminate mailing costs and efficiently move money to a globally dispersed workforce
- Ensure uninterrupted distribution and access to funds in times of state or natural emergencies
- Eliminate lost or stolen check costs, which are upwards of ten dollars per occurrence
- Provide access to aggregate employee data to gain a better understanding of employees' behaviors and priorities
- Improve employee recruitment and retention

Benefits to Cardholders. Payroll cards are a particularly valuable financial tool for unbanked or underbanked consumers who have little or no access to financial services. This population is sizable; more than 28 million people in the U.S. are unbanked and another 44.7 million are classified as underbanked.² The U.S. market, however, is less than four percent of the total global market. Industries such as retail, hospitality and food services, delivery services, arts and entertainment, temporary staffing, landscaping, construction, and some parts of the manufacturing sector typically have larger numbers of this demographic.

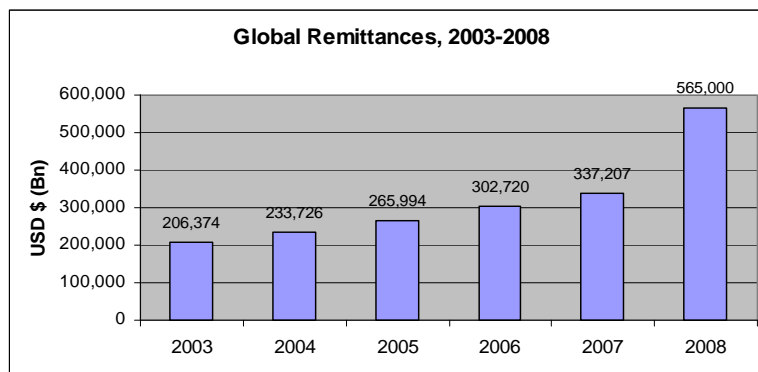
Payroll cards appeal to unbanked and underbanked employees because they:

- Provide immediate, global access to funds
- Eliminate fees incurred for check cashing services—which typically charge 1% to 6% of the value of the check—as well as money orders and bill payment services
- Emulate DDA features and provide a safe, secure means to conduct financial transactions
- Offer real-time account management online and by phone
- Simplify funds transfers
- Enable cardholders to make Internet transactions
- Are safer than carrying large sums of cash
- Provide access to tailored discount and insurance programs

Although unbanked employees are the primary users of payroll cards, more than 10 percent of payroll card users have bank accounts, and a growing number of employees using direct deposit are also receiving a portion of their pay on a payroll card. These banked employees primarily use payroll cards to better manage their discretionary spending or as a vehicle to distribute money to their children or relatives in another country, which is why the growing remittance market ties so closely with payroll card growth.

Rapidly expanding global remittance market. The United Nations estimates that 191 million workers send funds back to their families, with more than a third of these funds coming from the U.S., the Russian Federation, Saudi Arabia, and Switzerland. According to the World Bank (July 2008) the global remittance market has grown 63% over the last five years (unrecorded remittances can be up to 50 percent more), with over \$550 billion remitted in 2008. This figure is expected to continue to grow and prepaid cards—even if they capture just a sliver of the global remittance market—could eventually mean big business for financial institutions. The integration of mobile remittance solutions with prepaid cards should greatly increase the share of the remittance market served by prepaid debit cards, especially since this year mobile penetration in developing countries is expected to cross the 50 percent mark.

Figure 1: Global Remittances, 2003 - 2008



Source: World Bank (July 2008)

Portability of cards. The previously mentioned industries that are heavily laden with unbanked and underbanked workers are also industries that experience a high degree of turnover. The addition of portability to the payroll card market has enabled cardholders to take their payroll cards with them and continue to use it with a new employer. Portability not only helps to increase adoption in a payroll card program, but also lengthens the average lifespan of the card, a benefit of importance to financial institutions.

All in all, with an already strong growth curve and the addition of powerful new features such as mobile integration, card portability and global remittance solutions, payroll cards should be a strong market for financial institutions for years to come.

Conclusion

The payroll card market represents a strong market and revenue opportunity for financial institutions. Because the market is in a high growth stage, institutions need to enter the market quickly and with a highly competitive solution in order to stake a claim in this market. The most efficient way for them to do this is to partner with a processor experienced in prepaid payroll cards that can help navigate the industry and bring a successful program to market.

About eCommLink

eCommLink is a value added prepaid processor that supports the full array of prepaid debit card programs, including payroll, general spend, travel, teen and gift card programs. The company's flexible prepaid processing platform, innovative features, and industry experience allow clients to create customized prepaid programs for their specific markets while ensuring quality, security, and time to market.

The eCommLink Profitable Paycard™ is a network-branded payroll card that is being offered in the U.S and abroad by such companies as Disney, Amalgamated Bank, and Tyson Foods, and as a payroll and global remittance solution for hundreds of thousands of overseas Filipino workers. eCommLink's Profitable Paycard offers the most robust feature set in the industry, including:

- Global POS and ATM acceptance
- Comprehensive, flexible, and innovative mobile technologies including SMS, IVR, WAP, USSD, Brew, JAVA and Blackberry
- Companion cards with either designated or pooled funds
- A variety of funds transfer options to anywhere in the world
- Interest-bearing savings purses
- Electronic bill pay capabilities
- Integrated third-party benefits such as entertainment discounts, roadside assistance, and financial education tools—specifically targeted to the employee demographic
- Internet, mobile phone and IVR account management

Through its experience, eCommLink has created an extensive network of clients and partners within the financial markets, including Discover®, Sodexo®, PULSE, Transfirst, First Bank of Delaware and Palm Desert National Bank. The Company is also currently working to expand its international partnerships with such key players as Bank of Valletta and Central Bank of UAE.

eCommLink is certified with Visa, MasterCard and Discover as a third-party processor, as well as the following ATM networks: PULSE, NYCE, Interlink, Plus, MoneyPass, AllPoint, Maestro, Cirrus and STAR. It is a licensed partner of American Express Incentive Services and certified to issue MasterCard's PayPass technology. eCommLink is PCI DSS 1.2 and TG-3 compliant, as well as SAS 70 II certified.

Footnotes

¹ Sherrie L. W. Rhine and Sabrina Su, "Stored Value Cards as a Method of Electronic Payment for Unbanked Consumers," Office of Regional and Community Affairs, Federal Reserve Bank of New York, 2005, pp. 10-11.

² Maria Bruno-Britz, "Targeting the Banked and Underbanked with the Right Solutions," *Bank Systems & Technology*, July 28, 2006.

³ W. Gregory Kerwick, "Payroll Card Best Practices Cut Costs and Time," *Benefits & Compensation Solutions*, January/February 2007, pp. 42-43

⁴ Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," United States Federal Reserve Board, 2006, p. A15.