The Push for Payments Modernization

How Prepaid Solutions Can Create Secure, Equitable Government Payments for All Canadians

CPPO CANADIAN PREPAID PROVIDERS ORGANIZATION

Driving Toward a More Equitable Future, Together

An estimated 10 to 20% of Canadians are either unbanked or underbanked. Even those who are banked don't always have access to affordable accounts offering low-cost or free transactions.

For the Canadian government to live up to its commitment to deliver equitable, efficient, inexpensive, safe and secure payments that embrace the move to digital-first interactions, prepaid must be embraced in the government's toolkit of payment options — as demonstrated by other countries like the U.S. and U.K.

During 2019 alone, from disbursements issued by the Canadian government, there were more than 800,000 unclaimed cheque payments for an outstanding value of $370 million. Greater steps must be taken to close financial access gaps.

Government payouts have some of the largest gaps in the Canadian payments ecosystem. Prepaid solutions can address those gaps by driving efficiencies and allowing greater financial system access to those who are currently underserved by traditional products.

The Rise of Prepaid: The Market Evolution

Prepaid has grown 76% in Canada versus 54% in the U.S. — and is the 2nd fastest growing payment method over the past two years.

Prepaid platforms are being used as a foundation for digital financial services and are a valuable part of Canada's financial services ecosystem.

The prepaid industry is an $8.5 billion market comprising an extensive value chain. This includes networks, regulated banks and financial institutions, challenger banks and program managers.

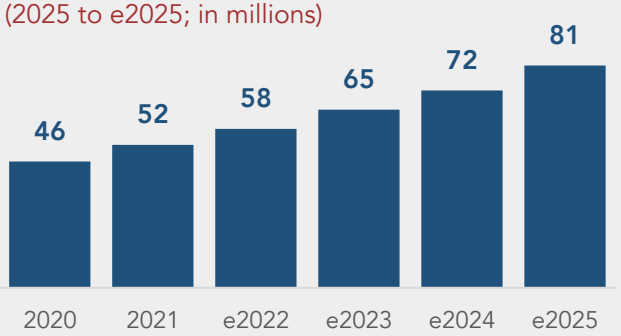
There has been a high degree of collaboration between financial institutions and fintech players to bring exciting banking and payment solutions to market. These solutions help people spend, save, invest and move money – all using the existing payment rails.

Prepaid is ensuring access to the digital economy, bringing down the cost of banking and payments and promoting financial health and equitable access for all Canadians.

By the end of 2021, there were approximately 52 million open-loop prepaid card accounts in Canada — a number expected to grow by 58.8% over the next four years.

Number of Canadian Open-Loop Prepaid Card Accounts
(2025 to e2025; in millions)

5-Year CAGR ('20 to '25): 12%



Why Open-Loop Prepaid?

Open-loop prepaid products are tied to a payment network and provide consumers, businesses and government with an efficient, secure and flexible online payment option that does not have to be tied to a bank account. Prepaid products are also less expensive to administer and more secure than cheques.

Open-loop prepaid has been instrumental in displacing cheques, and creating economic benefits for governments and businesses.

Many think of prepaid solutions as substantially similar to gift cards, but this is not accurate. Gift cards are closed-loop payment cards that are not reloadable and can only be redeemed for products or services at a single retailer.

Open loop solutions are functionally like traditional credit cards and can be used at any merchant that accepts the network (Visa/MC/Amex, etc.) — offering incentives such as points programs, credit monitoring, or even cash back systems.

OPEN-LOOP CHARACTERISTICS

Large Acceptance Footprint

Can be accepted online and in-store – anywhere the card network is accepted

Flexible Uses

Can be single load or reloadable

Regulated

Adheres to all applicable consumer protection, AML and privacy requirements

Protected

Maintains same fraud and loss protections offered by credit card networks; CDIC insured

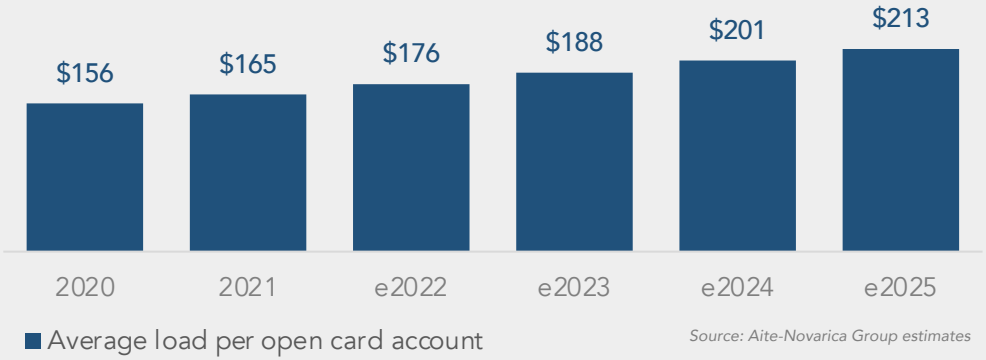
"The prepaid payments industry is steadily growing in Canada as payments innovations continue to uncover more prepaid card uses. Prepaid cards have historically been perceived as a tool to reach Canada's under- and unbanked market segments, but this is expanding. The rise in buy-now-pay-later providers, challenger banks and gig payment platforms are largely due to the availability of Canadian prepaid card rails."

– Francisco Javier Alvarez-Evangelista
Advisor, Aite-Novarica Group

Prepaid Card Usage is Growing Each Year

More money than ever is being kept on prepaid.

Average Money Loaded per Canadian Open-Loop Prepaid Card Account (2020 to e2025; in CA$)

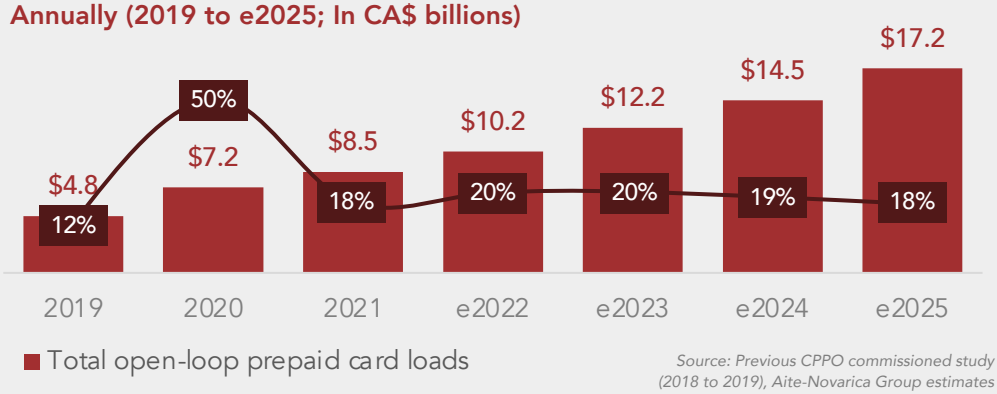


Source: Aite-Novarica Group estimates

Aite-Novarica projects the Canadian open-loop prepaid card market to grow to CA$17.2 billion by 2025.

Total Money Loaded and Expected to Be Loaded on All Canadian Open-Loop Prepaid Card Accounts Annually (2019 to e2025; In CA$ billions)

5-Year CAGR ('20 to '25): 19%



Source: Previous CPPO commissioned study (2018 to 2019), Aite-Novarica Group estimates

Why Prepaid is Growing:

THE GATEWAY TO THE DIGITAL ECONOMY

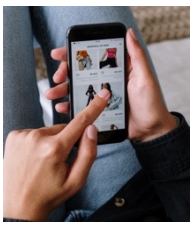
The pandemic underscored the need for Canadians to have greater access to the digital economy. Prepaid boosts financial access and wellness for businesses and consumers.

Prepaid expands inclusive digital payment opportunities across a number of segments.

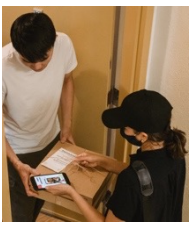
Because prepaid funds can easily be added or transferred to an open-loop prepaid card, prepaid is also increasingly being used as a platform to boost financial health. For instance, fast access to funds helps consumers get away from payday lenders and can ease the financial burdens associated with a high credit debt load.

Prepaid bridges the gap for non-financial businesses looking to support their employees and customers through new, innovative digital payment and payout methods — including real-time access to pay via digital apps.

Prepaid's capacity to boost financial inclusion among gig workers – and its ability to embed payments that disappear into the background of a solution being offered to a consumer – has attracted everyone from tech giants and big retailers to first-time e-commerce players.

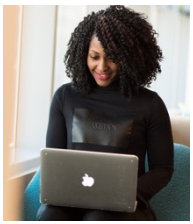


BNPL



Earned Wage Access

On-Demand Delivery



Business Neo Banks

B2B – Expense/ Supplier Payments

Niche Community Neo Banks

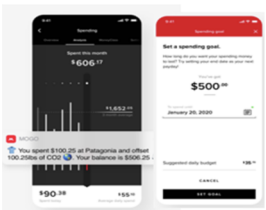
"As consumers move toward a more convenient, cashless, contactless payment method, prepaid is really providing both those incumbent banking organizations, as well as those new fintech entrants, a way to introduce new products and services — while still adhering to our stringent regulatory requirements here in Canada."

– Jennifer Tramontana
Executive Director, CPPO

Prepaid is Helping Canadians Manage Their Money — Driving Financial Access

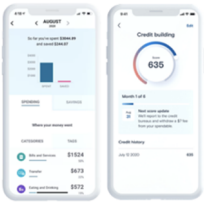
Prepaid players enable users to better budget, avoid overspending and build savings with money management solutions

MOGO



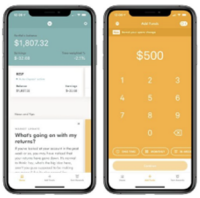
- Credit score monitoring
- Round up investing
- Budgeting
- Spending limits
- Money management

KOHO



- Credit building
- Round up savings
- Automated transfer to saving goals
- Spending insights
- Early wage access

Wealthsimple



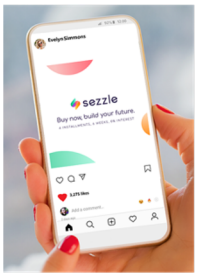
- Financial management
- Automated investing
- Market insights
- Fund management

MYDOH

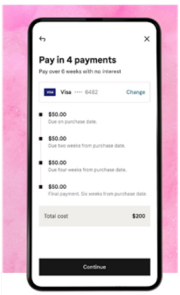
- Money management
- Tasks and allowance
- Smart cash
- Card parent oversight

Prepaid is driving new payment innovations such as buy now, pay later (BNPL) initiatives through a growing number of fintech companies.

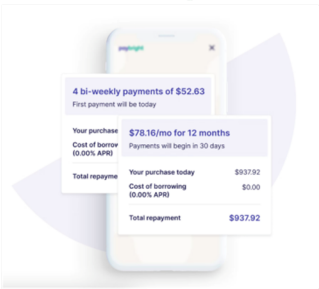
sezzle



Klarna.

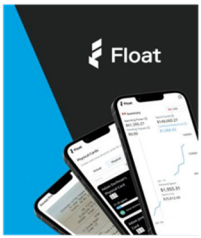


paybright

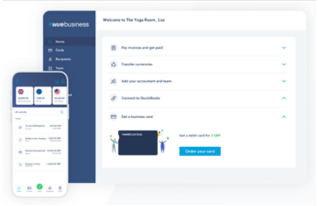


Prepaid is Driving B2B Payments Innovation — and Serving Niche Communities

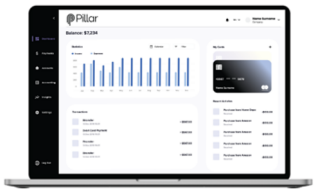
Prepaid supports B2B payments innovation, including the delivery of instant corporate payment for expense management, supplier payments and business banking.



Expense management with SMS Tracking



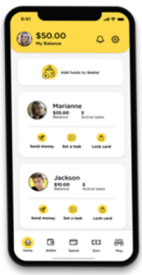
Manage supplier payments and manage cash flow



Business neobank for small businesses and entrepreneurs

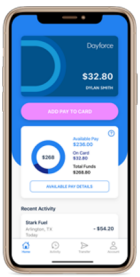
Prepaid supports payments solutions that tailor to niche communities, including kids banking, gig worker banking and community-specific financing and investing options.

mydoh
RBC Ventures



- Money management
- Tasks and allowance
- Smart Cash Card
- Parent oversight

CERIDIAN



Provides employees access to their earned wages on-demand, with a mobile app and prepaid card

MANZIL

- Halal financing and investing
- Prepaid with cash back rewards
- Investments that align with beliefs
- Wealth management

Prepaid is an Efficient Payment Method in Emergency Situations

The Canadian Government can also support the growth of prepaid payments by including prepaid among the methods used to disburse federal benefits and support payments.

Prepaid has been a cheque replacement in Emergency Situations

The Canadian Red Cross Instant Issued 20,000+ disaster relief cards in 2018.

Alberta Government

In 2019 2,500 cards were delivered within 48 hours to support Alberta's wildfire relief program.

Prepaid has created partnerships between government and financial companies to serve more Canadians.

Since 2015, Royal Bank of Canada has supported the replacement of paper cheque disbursements within the public sector in Canada through the Right Pay government prepaid platform.

Digital-only banking solutions – KOHO, STACK and We Financial, issued by Peoples Trust – leveraged prepaid card capabilities to disburse CERB.

Prepaid has Gained Traction Across International Markets

As demonstrated abroad, wider use of prepaid solutions for government disbursements can improve efficiency in government operations, while also delivering better service to citizens..

Canada lags behind global efforts when it comes to adopting prepaid technology for the delivery of government payments.

AllPay has launched a prepaid program that is specifically designed for benefits disbursement across Britain.

Milan chose Soldo's smart Mastercard® prepaid card to enable governments, local authorities and NGOs to distribute its portion of the Italian government's €400m.

The use of electronic vouchers has been taken up by the EU's institutions amid the need to consider contactless forms of payment for vulnerable and at-risk citizens.

Nearly 4 million Economic Impact Payments (EIPs) were delivered by the U.S. Treasury via prepaid cards issued by MetaBank.

How Prepaid Fits Into Canada's Push for Payments Modernization

The government must leverage prepaid solutions to safeguard disbursement access, as this method accounts for fraud, authentication and tracking controls.

Prepaid Solutions:

Can be physical plastic cards, contactless or used digitally on mobile devices. These physical and virtual cards are issued by federally-regulated entities under the Bank Act or Trust and Loan Companies Act (as applicable).

Are governed by the Payment Card Network Rules and subject to regulation by OSFI, FinTrac and the FCAC.

Are issued by the major card networks (Visa, Mastercard, Amex) and run on existing payment rails — maintaining fraud and loss protections in accordance with the payments networks Zero Liability protections.

Adhere to all applicable consumer protections, AML and privacy requirements. Solutions can be tailored to government programs, such as social assistance, tax refunds, employment insurance, pension and other program disbursements.

Prepaid Adheres to Consumer Protection Rules — and Diminishes the Chances of Fraud

Financial Institutions treat reloadable prepaid cards the same as opening a bank account. These controls diminish the chance of fraud.

- Compliance measures are accounted for through KYC and AML requirements.
- Transactions must also be monitored for suspicious activity and fraud; since card balances are held by the financial institution, the balance burden falls on the issuer.
- This is starkly different from stale-dated cheques issued by the government, for which the government remains responsible.

Prepaid cards can be tracked, and the funds can be managed to increase the utility of each relief dollar (e.g. restricted to specific geographies, merchants or POS terminals), so government agencies can control how and where funds are spent.

- Unlike cheques, prepaid can be limited for use at selected merchant categories, such as grocery, childcare and transit.
- Prepaid cards can even be programmed to give recipients a set timeframe for usage.
- Prepaid funds can be delivered in real-time and deposited to citizens' accounts in seconds — with a government confirmation that payment has been received and deposited.

What Can Governments Do?

Governments around the world have recognized the advantages of prepaid products. Given the numerous public policy benefits of prepaid, governments in Canada can support the sector's growth in several ways.

Harmonizing Consumer Protection Frameworks

- Regulatory frameworks governing prepaid products are inconsistent across Canada and have not kept pace with product innovations.
- Harmonizing federal and provincial consumer protection frameworks for prepaid would reduce barriers to entry and ensure equitable access to the latest product innovations for all Canadians, irrespective of where they live. It would also ensure Canada's prepaid sector is better positioned to innovate in the future.

Adoption by Governments

- Governments can support the growth of the sector by including prepaid among the methods used to disburse tax returns, benefits, and other support payments.
- Prepaid adoption helps digitize government operations. Citizens would also be provided with a trusted payment source that would improve their experience with government and allow them to access the digital economy more easily.

We should all be working toward the goal of a truly inclusive financial system in Canada. We think prepaid is a key component of that."

- Jennifer Tramontana
Executive Director, CPPO

About the CPPO

The Canadian Prepaid Providers Organization (CPPO) is a not-for-profit organization that serves as the collective voice of the open-loop prepaid payments industry in Canada. The association is supported by major Financial Institutions, card networks, program managers and Fintech innovators. The CPPO is focused on awareness and education to help consumers, governments and businesses understand the value of prepaid platforms and to enhance the experience associated with these solutions.

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