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Prepaid cards fill gaps in Canada's banking market

By Robin Arnfield | August 03, 2021

Open-loop prepaid cards are undergoing rapid adoption in niche Canadian markets, despite nearly all Canadians having an existing banking relationship.

The two most notable areas of growth are the gig economy, where contractors can receive wages on a prepaid card; and neobanks, where younger consumers are signing up for app-based prepaid accounts. Remote aboriginal communities are also adopting prepaid cards to make up for a lack of access to traditional banking services.

This growth is happening despite very high banking penetration in Canada. About 99% of Canadians have a bank account, according to the Canadian Bankers Association, but “that doesn’t mean they all have access to affordable accounts offering low-cost or free transactions such as bill payments and early wage access,” said Jennifer Tramontana, executive director of the Canadian Prepaid Providers Organization (CPPO).

Tramontana estimates that around 10% of Canadians are underbanked. “These consumers have limited access to everyday banking services, or they have insufficient balances to qualify for free banking, so they are a perfect audience for prepaid cards,” she said.

Ten percent of Canadian adults work in the gig economy, and one in three Canadian businesses employ gig workers, according to a survey by Payments Canada, which operates Canada’s core payment systems. Three percent of Canadian SMEs and 10% of commercial businesses in Canada use prepaid cards to pay gig economy workers, the survey found. “Since gig economy workers may well be underbanked, it is cheaper and faster for them to get paid on a prepaid card,” said Tramontana.

Prepaid cards from companies such as Ceridian, Instant Financial and Payfare (which works with Uber and DoorDash) enable freelancers to gain early access to their paychecks. Ceridian’s Dayforce card offers anytime access during the pay cycle, while Payfare and Instant Financial provide access right after every shift. In addition, reloadable prepaid cards from Canadian neobanks Koho and PC Money offer three-day and two-day early access to paychecks, respectively.



Even though nearly all Canadians have a bank account, “that doesn’t mean they all have access to affordable accounts offering low-cost or free transactions such as bill payments and early wage access,” said Jennifer Tramontana, executive director of the Canadian Prepaid Providers Organization.

Small and midsize enterprises that had been holding back from adopting digital payments before the pandemic, were forced to start paying their suppliers digitally during the lockdown, in some cases involving prepaid card accounts, according to Tramontana.

“We’re now seeing Canadian SMEs making vendor and expense management payments using prepaid cards,” she said. “This will be a catalyst for a lot more SME-based prepaid card accounts going forward.”

Between 2015 and 2019, the latest year for which data is available, the amount loaded onto Canadian general-purpose reloadable (GPR) prepaid cards rose by 12.5%, to C\$4.8 billion, according to the CPPO. A key driver for growth in Canadian prepaid card issuance is Canada’s burgeoning challenger bank sector.

Of the 38 challenger banks currently active in Canada, 13 issue general-purpose reloadable prepaid cards, according to the CPPO. While some challenger banks such as EQ Bank and Oaken are subsidiaries of a licensed bank, most neo-

banks issuing prepaid cards don't have banking licenses, and thus partner with a chartered bank to offer financial services.

With a digital-first approach to mobile apps, challenger banks appeal to millennials and Gen Z consumers.

"These challengers offer their customers a digital account with a prepaid card plus PFM [personal financial management] apps and reward programs such as immediate cash back or personalized discounts at the retailers where they do most of their shopping," said Surinderjit Kaur Bhatti, managing director of Canada-based FinTech Growth Syndicate and author of the CPPO report "Canadian Prepaid Ecosystem Insights."

For example, Mogo offers 1% immediate cash back in bitcoin on its prepaid cards.

How Canadians use prepaid

Stored-value cards appeal to neobank and postal banking customers as well as employers of freelancers

10% of large businesses, 3% of small and midsize ones pay gig workers on prepaid cards

13 of 38 challenger banks issue prepaid cards

6,000 post offices provide support services to holders of Canada Post prepaid card

90,000 consumers use the Canada Post card, mostly for e-commerce

Sources: Canadian Prepaid Providers Organization, Payment Source

"Low-cost challenger bank accounts are attractive not just to younger consumers but also to other segments such as seniors, because traditional bank accounts are expensive," said Bhatti. "Challenger bank accounts are designed for low-cost everyday spending, with most users still keeping their savings and mortgages with a traditional bank. So the challengers aren't taking customers from the big banks, but they are winning assets from them for purposes such as day-to-day spending and payroll deposit."

Apart from Koho and Mogo, other neobanks offering prepaid cards include Stack, which was bought by the U.S.-based Credit Sesame in 2020; the wealth management app Wealthsimple with its Wealthsimple Cash card and P2P app; and PC Money, which is provided by President's Choice Financial, a subsidiary of Canadian retailer Loblaw Companies.

Investors have identified a growth opportunity in the Canadian neobank sector. Koho closed a C\$70 million Series C funding round in March, taking the total amount it had raised

since 2016 to C\$145 million. The neobank, which had 350,000 customers as of March 2021, offers reloadable Visa cards plus a mobile money management app providing real-time insights, instant cash back, and automated savings goals.

According to CEO Dan Eberhard, Koho saw growth during the pandemic as it enabled its customers to directly deposit their Canada Emergency Response Benefit government payments to their Koho accounts. In March 2021, Koho launched Koho Save, which pays 1.2% interest, turning Koho accounts into combined checking and savings accounts.

There has also been growth in issuing open-loop prepaid cards for SMEs from nonbanks such as technology companies, e-commerce platforms and accounting software providers. Major tech brands such as Shopify, Square and QuickBooks are issuing prepaid cards (Square opened a U.S.-chartered banking subsidiary in March).

"Shopify has huge potential to disrupt the prepaid industry with its Shopify Balance card, which enables Shopify merchants to spend the money they receive from sales on their Shopify sites," said Bhatti. "Square with its huge database will also be a significant prepaid card issuer."

Prepaid cards also facilitate financial inclusion in remote parts of Canada where there is a lack of banking infrastructure.

"Our main open-loop prepaid card product is the Canada Post Reloadable Visa card, which is distributed and reloaded at Canada Post's 6,000 post offices," said Robert Hyde, CEO of the Canadian prepaid program manager Payment Source. "As an everyday spending card, it focuses on meeting financial inclusion needs, for example in remote communities. It also meets the need to shop online of younger consumers who don't have credit cards and of people who are worried about e-commerce fraud, and feel safer using prepaid cards with a limited balance rather than their own credit card."

The Canada Post Reloadable Visa card has about 90,000 users, with the main use category being e-commerce purchases, followed by groceries and gas purchases, Hyde said.

In Sachigo Lake, a mainly aboriginal community of 1,000 people in northern Ontario, around 80% of residents have Canada Post Reloadable Visa cards.

"Many of them receive government checks, but, as there is no local bank branch, it's not easy for them to cash their checks or convert them into digital money for everyday spending," said Hyde. "So they use the Sachigo Lake post office to load their government payment onto their prepaid card."