

## 'Prewards' - A Twist On The Multipurpose Card

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There are "wins" and "win-wins," but edō Interactive Inc.'s new "Prewards" system is aiming at a cards-industry trifecta: merchants, consumers and issuing banks.

With Prewards, edō (pronounced "e-dough") puts the rewards that merchants give customers into a separate prepaid "purse" on an issuer's card, bringing in extra revenue for issuers both from the retailer that pays to fund the purse, as well as a portion of the resulting sale.

The idea of multipurpose cards isn't brand new; they have been widely proposed for health care, where they would serve the utilitarian need of managing which expenses can be spent from a health savings account. But "the idea of having a reward purse? That is new," said Aaron McPherson, a research manager for payments at the research firm IDC Financial Insights in Framingham, Mass.

The system is currently in use with edō's own prepaid card, Facecard, through which retailers like Dunkin' Brands Inc.'s Baskin-Robbins load reward cash to encourage people to choose their stores for ice cream. Nashville-based edō is pitching its system as an add-on to other issuers' rewards programs.

The trade-off for the two-year-old edō is that it would give up the fee income it gets from its own Facecard, but it would make more money by tapping into the wider audience of more established card programs.

"We've talked to a number of card issuers who are very interested in having Prewards as part of their card loyalty product, and over the next couple of years I can see 'Prewarding' becoming a dominant part of our revenue," Ed Braswell, edō's founder, president and chief executive, said in an interview last week. Before founding edō, Braswell was the president and CEO of Metavante Technologies Inc.'s Link2Gov Corp.

Facecard launched in September as a teen-focused card, but its features held wider appeal, and today 40% of Facecard users are over 35 years old, Braswell said. Eight percent are over 60 years old. Grown-ups appreciate the flexibility Facecard provides in funding the accounts, he said.

To be sure, edō will face challenges with Prewards, including issuers' long sales cycles and their resistance to change, McPherson said. "There's a lot of entrenched competition out there" from other rewards programs, he said. Another issue for edō is its lack of point of sale integration, though this is well addressed by edō's use of mobile alerts to quickly assure the end user that the reward was redeemed.

Prewards serves as effective advertising for merchants, Braswell said, and "while we're very successful in implementing a very unique card program... we think the advertising side of this business is the big, big play."

Any issuer that uses this technology would not have to share its existing card revenue with edō. Retailers pay edō for any Prewards that are redeemed, plus a percentage of the sale over the Preward amount. Edō would then share that revenue with the issuer.

Consumers would see the Preward amount in their online banking, and could check after a purchase to see that the amount was debited from the Preward purse. The process is invisible at the point of sale; the cashier would perceive it as a regular card payment.

Retailers do not need to link their rewards to spending, as is done with most existing card reward programs. If a retailer wanted to drive traffic during a slow time, it could put out a conditional Preward that could only be used during certain hours or on a specific day. The consumer would be notified by e-mail or text message, Braswell said.

McPherson said edō's Prewards system would likely be a good fit with smaller banks.

"This is something that would probably appeal to community banks if they took a community approach to it with local merchants" providing the rewards, he said. "You always think of big banks as being the leaders, but it's not true, actually. With stuff like this that's a little bit on the fringe, I more often see community banks rolling it out."

Banks may already be looking at reward programs as a new source of revenue, in light of the changing legislative landscape, McPherson said. "Rewards are a very important part of where cards need to go, especially since some of the other income sources are being restricted."

American Express Co. and Discover Financial Services, in one of the first concrete examples of how a new law will affect issuers' profits, said late last week they are eliminating their over-limit fees.