

business model and serve an entirely different customer segment.

Imagine two hypothetical payment card customers: Oscar (credit card customer) and Eunice (prepaid card customer). Oscar opened a new credit card on the first day of the year. Over the course of the year, he charged an average of \$700 each month. In February, he missed his payment in full. In April, he had an emergency and took out a \$300 cash advance. In October, he paid off the balance in full, and then he began spending again at the old average rate in November and December. Eunice, a parent in a family of four, opened a prepaid card account on the first day of the year. She and her family charge \$800 per month on their collection of prepaid cards. Due to unexpected financial shortfalls, they withdraw funds using out-of-network ATMs 17 times over the course of the year. Both Oscar and Eunice present very different returns and costs for a payments company. The customer lifetime value of each customer to a payments company would vary based on behavior and business model. See Exhibit 9 for the relevant revenues and fees for a prepaid customer and a credit card customer.

History of Prepaid Products at American Express

AXP was founded in 1850 as a freight delivery service.²⁹ Since its most profitable deliveries were to banks, it soon developed financial products and services, including money orders and traveler's checks.³⁰ Eventually, product lines expanded to include currency exchange, international travel services, military banking ("provid[ing] banking services to U.S. military personnel and their families stationed abroad"), charge cards, and credit cards.³¹ As AXP contemplated the Bank 2.0 concept, it reflected on its history of prepaid products. The first prepaid product was the traveler's check, which debuted in 1891; its more recent prepaid products included the American Express Gift Card, launched in 2002, which grew in 2009 by expanding into Canada.³² The process of launching gift cards in the Canadian market provided experience that managers could draw on during the Bank 2.0 discussions.

Unlike traveler's checks, which could be purchased at financial institutions, prepaid cards demanded a distribution model far more similar to consumer packaged goods than to credit or debit cards (and more similar to what Bank 2.0 would also require). The matter of distribution channels entailed basic retail questions: In what store(s) would the products sell, and how would AXP introduce these products?

Exhibit 9 Value of Prepaid versus Credit Card Customer*

Sources of Revenue		Sources of Costs	
Prepaid Customers			
Discount revenue	2.4%	Operating expense	6.0%
Float revenue	4.8%	Acquisition costs	\$7.00
Fee revenue		Other services	
Initial activation/purchase fee	\$3.95	Fraud expense	1.0%
Monthly usage fees	\$1.00		
Direct deposit/cash reload	\$0.00		
ATM fees (in network)	\$0.00		
ATM fees (out of network)	\$2.00		
Foreign transaction fees	2.7%		
Credit Card Customers			
Discount revenue	2.4%	Operating expense	11.00%
Annual fee	\$1.00	Acquisition costs	\$80.00
Rate revenue		Loan loss provision	2.7%
Regular rate on purchases	13.0%	Benefits	
Cash advances	21.0%	Travel insurance	1.25%
Balance transfer rate	15.5%	Credit insurance	1.00%
Fee revenue		Fraud insurance	0.76%
Late payment fees	\$35	Rebates	1.00%
Overlimit fees	\$25	Miles	1.00%
Cash advance fees	\$5.00	Cash back	1.00%
Minimum finance charges	\$4.00		
Foreign transaction fees	2.7%		

*These estimated revenues and costs are hypothetical and are not intended to represent actual fees for any credit card or prepaid product, including those of American Express.

Source: Case writer adaptation of company documents.

The business model evolved further when product managers removed the cards' monthly inactivity fees, the result of which seemed to be a positive effect on sales. In 2010, AXP introduced another prepaid product, the PASS card.³³ The company saw that the prepaid industry as a whole was moving beyond gift cards and into reloadable products. PASS was designed for parents and