



Under the Hood: Prepaid Pistons and Spark Plugs

Presented by:

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Retail Payments Risk Forum

Federal Reserve Bank of Atlanta



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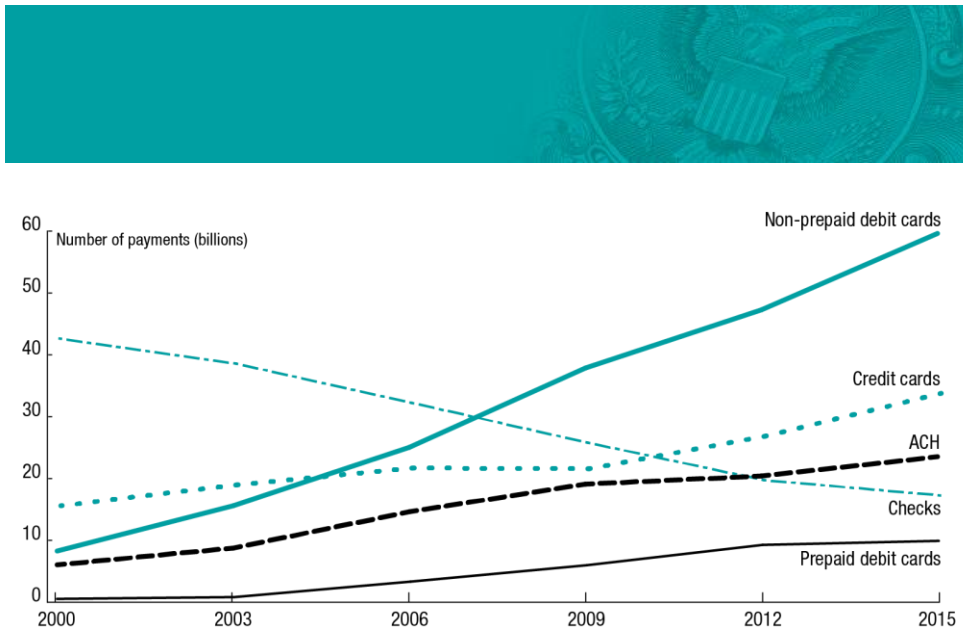
Agenda



- Getting to know the ecosystem
- Current program managers and issuers compliance issues
- Oversight overview
- Scope of CFPB's rule on prepaid accounts)
- Trends & Fraud

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Noncash Payment Growth Continued

Total noncash payments				
	2012	2015	Change	CAGR (%)
Number (bil.)	123.5	144.1	20.6	5.3
Value (\$ tril.)	160.88	177.85	16.98	3.4
Average (\$)	1,302	1,234		

- **Various factors contributed**
 - Changes in wealth & income, shopping behavior, replacement of cash payments
- **Average value declining**
 - Most growth is in smaller-value payments

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Debit Card Payments

Debit cards				
	2012	2015	Change	CAGR (%)
Number (bil.)	56.5	69.5	13.0	7.1
Value (\$ tril.)	2.10	2.56	0.46	6.8
Average (\$)	37	37		
Non-prepaid debit cards				
	2012	2015	Change	CAGR (%)
Number (bil.)	47.3	59.6	12.4	8.0
Value (\$ tril.)	1.87	2.29	0.42	7.0
Average (\$)	40	38		
Prepaid debit cards - Sum of GP, PL, and EBT				
	2012	2015	Change	CAGR (%)
Number (bil.)	9.3	9.9	0.6	2.3
Value (\$ tril.)	0.23	0.27	0.04	5.5
Average (\$)	25	27		

- Included both non-prepaid and prepaid types
- Non-prepaid debit is the champion by number
 - Reached nearly sixty percent of 2015 card payments
 - Reached nearly forty percent of total noncash payments
- Prepaid debit growth was relatively slow by comparison

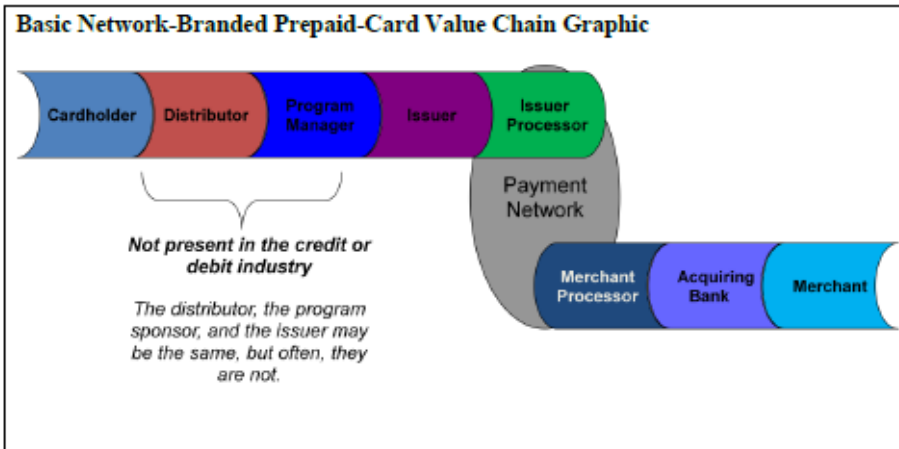
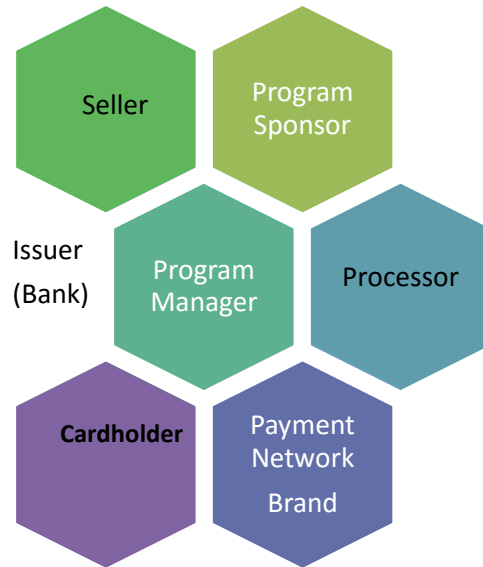
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Components of Prepaid Debit Card Payments

- Most of the growth in prepaid debit card payments comes from GP prepaid
- GP prepaid growth tapered off considerably since 2009-12
- PL prepaid declined by number but rose by value
 - Not including prepaid transportation card payments
- EBT grew only slightly

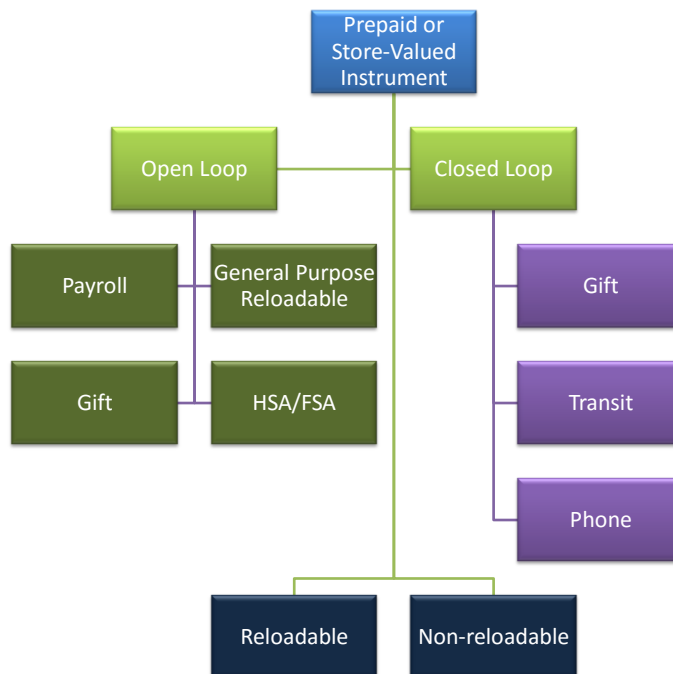
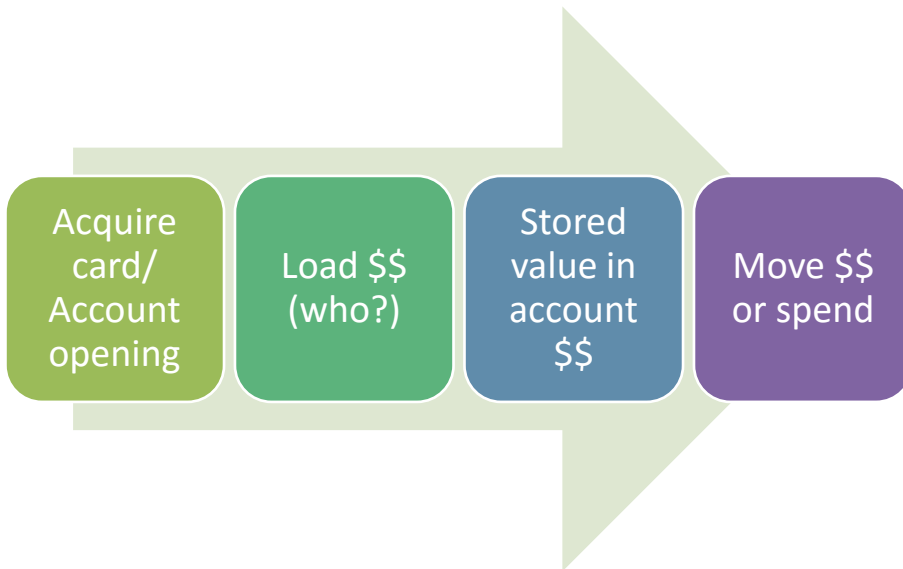
Prepaid debit cards - General purpose				
	2012	2015	Change	CAGR (%)
Number (bil.)	3.1	3.7	0.6	5.6
Value (\$ tril.)	0.11	0.12	0.02	4.4
Average (\$)	35	34		
Prepaid debit cards - Private label				
	2012	2015	Change	CAGR (%)
Number (bil.)	3.7	3.6	0.0	-0.3
Value (\$ tril.)	0.05	0.07	0.02	15.0
Average (\$)	13	20		
Prepaid debit - EBT				
	2012	2015	Change	CAGR (%)
Number (bil.)	2.5	2.6	0.1	1.7
Value (\$ tril.)	0.07	0.08	0.00	0.2
Average (\$)	30	29		

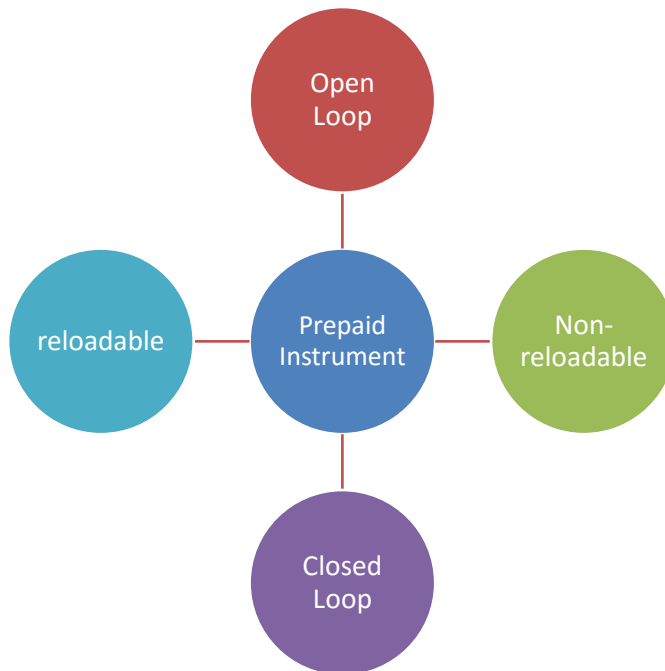
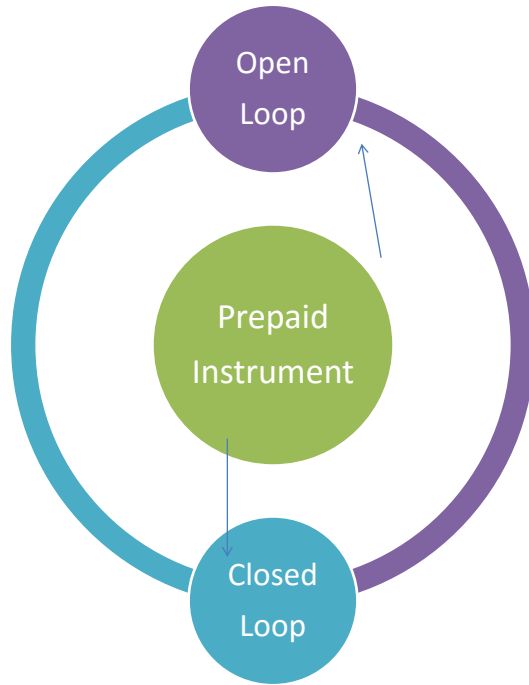
Players



FRB Philadelphia: *Insolvency Risk in the Network-Branded Prepaid-Card Value Chain*

The basic function





Types of Open Loop



Consumers	Corporate	Public Sector
<ul style="list-style-type: none"> • General purpose reloadable • Travel • Online • Campus • Remittances • Open loop gift card 	<ul style="list-style-type: none"> • Payroll • Incentives & rebates • Healthcare savings • Meal vouchers • Travel • Purchasing 	<ul style="list-style-type: none"> • Pubic benefit & welfare • Emergency & disaster recovery • Pension & Social Security • Travel • Payroll

Other Features

- Card Network (Sig & PIN)
- ACH Network (Direct Deposit)
- ACH Network (Account Debit)
- ATM Network
- Surcharge Free ATM Network
- Mobile Alerts / Mobile Inquiries
- Reload Network(s)
- Saving Account
- Bill Pay
- Remittance Partners
- Convenience Checks
- Cash Advance
- Statements

- ✓ Paystubs / W-2
- ✓ Credit Reporting / Credit Lines
- ✓ Merchant Discount Offers
- ✓ Reward Programs
- ✓ Multi-Card / Multi-Purse
- ✓ Sweepstakes Execution
- ✓ Contactless / EMV
- ✓ Incentive Distribution
- ✓ Remote Check Deposit
- ✓ P2P / C2C Funds Transfer
- ✓ Loyalty Rewards
- ✓ ATM Deposits
- ✓ Mobile Payments

Government usage



- EBT Cards
- Mandate for all electronic benefits
- Direct Express Card or other
- IRS- Tax Refunds
- Payroll

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Program Manager Responsibilities



- ✓ Contract with Sponsoring FI
- ✓ Develop program policies; seeks approvals from FI and desired card brand
- ✓ Manages program launch
- ✓ Coordinates all 3rd parties required to deliver services
- ✓ Card distribution and fulfillment
- ✓ Provides and reports to FI on cardholder support:
 - ✓ Website /IVR
 - ✓ Live agent
 - ✓ Fulfill Replacement cards
 - ✓ Dispute processing
- ✓ Establishes cardholder agreement's Terms & Conditions
- ✓ Develops program for card marketing
- ✓ Manages funding and settlement accounts
- ✓ Sets cardholder fee schedule (w/FI)
- ✓ Ensures compliance with KYC rules
 - ✓ OFAC
 - ✓ Background checks

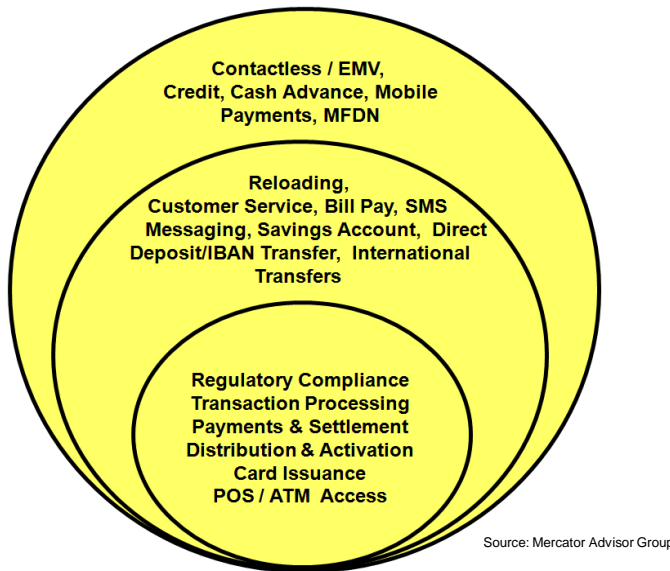
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Source: Mercator Advisory Group

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Processor Functions: core to add-ons



REGULATIONS



- EFTA Treasury Rule (Government Payments Rule)
- FRB Regulation II –debit interchange
- FinCen (Prepaid Access Rule)
- Dept. Education – Student aid
- CFPB Proposed Rule on Prepaid Accounts

GUIDANCE ENFORCEMENT



- OCC- guidance on managing risk
 - <http://www.occ.gov/news-issuances/bulletins/2011/bulletin-2011-27.html>
- FTC (UDAAP)
- FFIEC - CIP
- OFAC
- IRS (health care payments product)
- FFIEC (Information Systems, BSA/AML)
- CARD Act

CFPB RULE



- Scope or Definition of “Prepaid Account”-
 - Payroll
 - Government benefits
 - Marketed as prepaid and for unaffiliated merchants
 - Can be used at ATMs
 - accounts capable of being loaded with funds and can make transactions with unaffiliated merchants or at ATMs,
 - Accounts to conduct person-to- person (P2P) transfers, and that are not checking accounts, share draft accounts, or negotiable order of withdrawal (NOW) accounts
 - EXCLUDES gift, transit, health care, military

CFPB RULE



Disclosures with specific formatting

- Pre-acquisition
 - Long
 - Comprehensive list of fees
 - How assessed
 - Other program information
 - Short
 - Most important fees
 - Key terms
 - FDIC or NCUA insurance
 - Overdraft?
 - Payroll or government benefit – alternative statement

CFPB RULE



- Access to account information
- Limited liability and error resolution, including provisional credit
- Submission and posting of prepaid account agreements
- Remittance transfers
- Overdraft credit features

CFPB RULE



- Definition of “Prepaid Account”
- Pre-Acquisition Disclosures
- Regulation Z on overdraft products
- Implementation timeframes

FDIC NCUA Pass-through Insurance



FinCEN & Money Laundering



- Illegally-gained proceeds appear legal
 - Placement
 - Layering
 - Integration
- BSA Compliance for
 - Financial Institutions and
 - Money Service Business (MSB)
 - Certain Sellers

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FinCen Prepaid Access Rule



- Procedures to collect, verify, and retain customer information including name, address, date of birth and identification number
- Submission of SARs for suspicious transactions of \$2,000 or more
- Maintaining transactional information for a period of five years
- Know your customer

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Dept. of Education Rule



- Cash Management Regulation-
 - October 2015
 - Applies to colleges cash management
 - Prohibits federal financial aid from being disbursed to accounts chosen by college
 - Provide list of options
 - Accounts must be ATM fee-free and have deposit insurance

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GIFT CARD RESOURCES



- National Conference of State Legislatures
 - <http://www.ncsl.org/research/financial-services-and-commerce/gift-cards-and-certificates-statutes-and-legis.aspx>
- *The Laws, Regulations, Guidelines and Industry Practices that Protect Consumers Who Use Gift Cards*, Philip Keitel, July 2008
- CARD Act 2009
- OCC Bulletin No. 96-28,9, 98-31, 2006-34

STATE LAWS



- **Money Transmitter**
 - http://www.pewtrusts.org/~media/legacy/uploadedfiles/pcs_assets/2013/pewprepaidmoneytransmitterpdf.pdf
- **State Banking Authorities**
 - State chartered banks
 - State licensed money transmitters
- **State Attorney Generals**
 - Unfair/deceptive trade practice laws
 - Unclaimed property laws
 - Wage payment/ payroll card laws

OCC BULLETIN 2016-10



- clarifies that a bank's CIP should apply to the holders of certain prepaid cards issued by a bank.
- provides an overview of the CIP rule requirements in 31 CFR 1020.220 with regard to the establishment of an account, identification of the customer, and verification of the customer's identity.
- states that a general purpose prepaid card that can be reloaded by the cardholder or by another party on behalf of a cardholder, or that permits access to credit or overdraft features, creates an account for purposes of the CIP rule.
- clarifies that when an account is created, a customer relationship is established between the issuing bank and the cardholder.
- discusses the application of these principles to other types of prepaid cards, such as payroll and government benefit cards.
- discusses minimum contractual requirements for business relationships between issuing banks and third-party program managers.

Risks



- The Bureau has handled approximately 5,600 prepaid card complaints as of August
 - Concerns have included issues related to
 - accessing funds loaded on the prepaid cards
 - unauthorized transactions,
 - fees,
 - and error resolution
- Identity theft

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