Prepaid Cards: A Substitute for the Checking Accounts?

Moderator’s Overview
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The views expressed are those of the presenter and may not necessarily represent the Office of the Comptroller of the Currency or the U.S. Department of the Treasury.
Credit-card-size pieces of plastic that contain or represent an amount of preloaded value

- Credit cards – “pay later” model
- Debit cards – “pay now” model
- Prepaid cards – “pay early” model
Potential for Confusion

■ Dynamic Market Growth
  ■ Confusion may result from the quickly developing prepaid card market; category includes products that are relatively familiar as well as many that are still emerging.

■ Variety of Prepaid Card Programs
  ■ Confusion may result from the different types of prepaid card programs; program structures may vary, for example, along the lines of functionality, price, and regulation, making product comparisons difficult.

■ Roles Played by Nonbanks
  ■ Confusion may result from the participation of nontraditional third parties in the distribution of prepaid cards; it may be unclear whether the nonbank or the issuing bank is the primary point of contact for the cardholder relationship.
Branded Payroll & General Spend
Prepaid Cards

Payroll

- Distributed to cardholder by employer
- Employer transfers payroll funds directly into to prepaid card acct

General Spend

- Distributed to cardholder by marketer/distributor
- Consumer can transfer payroll funds and/or load funds at specific locations
<table>
<thead>
<tr>
<th>Activity/Function</th>
<th>Checking Account</th>
<th>Prepaid Card Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct fund transfer</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Onsite, funds into acct</td>
<td>yes</td>
<td>no..., yes..., maybe ...</td>
</tr>
<tr>
<td>Automatic bill pay</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Electronic bill pay</td>
<td>yes</td>
<td>yes..., no..., maybe...</td>
</tr>
<tr>
<td>Overdraft protection</td>
<td>yes</td>
<td>maybe, infrequent</td>
</tr>
<tr>
<td>Funds covered by FDIC</td>
<td>yes</td>
<td>seldom, possible future increase in coverage</td>
</tr>
<tr>
<td>Springboard to other financial products or services</td>
<td>yes</td>
<td>no..., yes..., maybe ...</td>
</tr>
<tr>
<td>Credit worthiness indicator</td>
<td>yes</td>
<td>no, but movement toward change</td>
</tr>
</tbody>
</table>
Policy Considerations

- How to address consumer protection while continuing to encourage product innovation
  - Regulation E
  - FDIC insurance
  - State laws

- How to limit the potential to use prepaid cards for terrorist or money-laundering activities
  - Anonymity
  - Global ATM networks