Payment Cards Center Conference, Philadelphia Federal Reserve Bank - Use of Cards To Distribute Public Funds

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Public Sector Cards Product Executive, July 12th 2011
**JPMorgan Public Sector Cards**

**Innovator Within Industry**
- Issuing cards for over 20 years

**Largest Public Sector Card Issuer**
- 27 EBT and 31 prepaid programs

**Varied Program Types:**
- EBT (SNAP, TANF, WIC)
- State (Unemployment, Child Support)
- Federal (Social Security, Transit, Navy)
- Municipal (Housing Authority, Gun Buyback)

**Monthly Metrics**
- 12MM cardholders
- 42MM Customer Service Calls
- $4BN of payments

![Map of JPMorgan Public Sector Cards coverage](image)
• **What does EBT stand for?**
  
  Electronic Benefits Transfer

• **What does EBT do?** Electronic infrastructure that allows clients (typically states) to provide “means tested” benefits to recipients via electronic deposit accounts.

• **How do recipients access benefits?**
  
  Use of access devices (mag-stripe cards) through “closed-loop” network.

• **What is included in the EBT infrastructure?**
  
EBT Program Types

- **SNAP (Supplemental Nutrition Assistance Program)** – Previously known as the Food Stamp Program. Federal assistance program for no/low income families. Administered by U.S. Dept. of Agriculture and distributed by individual states.

- **TANF (Temporary Assistance for Needy Families)** - Provides cash assistance to indigent U.S. families with dependant children. Administered by the U.S. Dept. of Health and Human Services and distributed by individual states.

- **WIC (Special SNAP for Women, Infant & Children)** – Federal assistance program for the healthcare and nutrition of low-income pregnant women and children under the age of 5. Administered by U.S. Dept. of Agriculture and distributed by individual states.

- **Other** (e.g. Child Care, Disaster Relief)
EBT Product Overview – Stakeholders

• **Cardholder (Benefit Recipient)** - The qualified individuals who receive the benefit.

• **State** – The states that are responsible for delivering the assistance.

• **Federal Agencies** – The agencies that are responsible for governing the individual programs (U.S. Dept. of Agriculture/FNS & U.S. Dept. Health and Human Services)

• **Merchants** – The sellers/retailers (stores) of the qualified goods within the states.

• **Providers** – The vendor to the state who owns/manages the electronic infrastructure and card/card materials delivery e.g. JPMorgan, Xerox, Fidelity National


Prepaid Product Overview

What functionality does Prepaid offer to Payees & Government?

- **Retail Card Use**
  - Use at Virtually Every Merchant

- **Online Banking**
  - Balance, History, Bill Pay

- **Customer Service**
  - 24x7 IVR & CSR

- **Automated Alerts**
  - Deposits, Balance, Etc

- **Administrative Tools**
  - Reporting, Demographics, Etc.

- **Batch Enrollment**
  - Automated, High Volume

- **Direct Deposit**
  - Reliable Funds Posting

- **ACH Transfer**
  - Move Funds to Private Account

- **Security & Protection**
  - Regulatory Compliance

- **Additional Cardholders**
  - Cards for Family Members
Prepaid programs allow payors to electronify nearly 100% of payments, by providing a prepaid card to those who cannot accept direct deposit. Primary public sector programs include:

- **Unemployment Insurance** — Subsidy payments to those involuntarily separated from their employer. Payments made weekly for up to 99 weeks. Managed by states and funded via payroll taxes.

- **Child Support** — Payments from non-custodial parents (NCPs) to custodial parents (CPs). Funds originate from NCP and are tracked/delivered through State Disbursement Units (SDUs) to CPs.

- **Housing Authority Subsidies** — Provides rent and utility subsidies for those receiving public housing assistance. State managed/funded.

- **Personal Income Tax** — Return of personal income tax payments government.

- **Workers’ Compensation** — Benefits to the those disabled on the job. Many states outsource this to private insurers.
## Program Costs & Revenues

### Revenue Highlights
- EBT revenue paid by agency
- Prepaid free to agency; revenue mainly cardholder fees & interchange

### Expense Highlights
- Prepaid program delivery costs significantly higher than EBT
- Commercial interchange & regulatory primary differences

### Revenue Sources

<table>
<thead>
<tr>
<th>Revenue Type*</th>
<th>EBT</th>
<th>Prepaid</th>
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<tbody>
<tr>
<td>Fees to Agency/Government</td>
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<tr>
<td>Merchant Interchange</td>
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<td>![Symbol]</td>
</tr>
<tr>
<td>Cardholder Fees**</td>
<td>![Symbol]</td>
<td>![Symbol]</td>
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<tr>
<td>Float***</td>
<td>![Symbol]</td>
<td>![Symbol]</td>
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</tbody>
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* Illustrative of how revenue is earned by EBT & prepaid programs
** A small percentage of EBT revenue is from cardholder fees
*** Prepaid is eligible for float but rates are at/near zero

### Expense Sources

<table>
<thead>
<tr>
<th>Expense Type*</th>
<th>EBT</th>
<th>Prepaid</th>
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</thead>
<tbody>
<tr>
<td>Technology/Custom Coding</td>
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<tr>
<td>Customer Service</td>
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<td>Fraud/Losses</td>
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<tr>
<td>Regulatory Compliance</td>
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<td>Network Processing</td>
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<tr>
<td>Merchant Support</td>
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* Illustrative of the relative expense incurred by EBT & prepaid programs
Future Opportunities & Challenges

Little is black and white, most future changes will present opportunity and challenge depending how thoughtfully they arise and what kind of stakeholder you are...

Continued migration from paper to electronic
• Least ambiguous (unless you are a check cashing business..), 2013 federal mandate, 2020 WIC mandate and other market trends all point in the same positive direction of continued and accelerating conversion of paper to electronic

Increased desire for controls over where/how benefit are used, public policy and $ drivers
• Possible shifts from less/no restricted (e.g. cash equivalent benefits such as unemployment compensation) to more restricted (e.g. WIC, SNAP or product/merchant blocking)
• Increased focus on reducing ‘improper’ payments
• Possible trade-offs in areas of consumer choice, financial inclusion, ease of use, cost/complexity, open/closed loop, portability

Increased levels of state and federal regulation
• Current trends are for more not less, mix of federal and state.
• Possible trade-offs in areas of cost, consumer choice, innovation