Government Use of Prepaid Cards

Federal Reserve Bank of Philadelphia Payment Card Center Conference
U.S. Prepaid to Grow Across All Segments: Driven by Public Sector

2009 - 2017 Estimated Open Loop Volume (US$ Billions)

- Many federal and state government programs are pursuing conversion to electronic payments and are expected to phase out paper altogether
- High unbanked and underbanked population expected to drive general purpose prepaid growth

The Role of MasterCard Worldwide

- Manages a full range of global payments brands and related products
- Sets and enforces policies and rules
- Establishes standards and procedures for merchant acceptance and settlement
- Four decades of experience in payment processing
- Provides secure, reliable, flexible global payments processing network for over 23 Billion transactions annually
- Tracks and combats fraud
Prepaid Cards in the Public Sector – Why?

• U.S. Federal & State governments issue prepaid benefits cards in order to provide both cost and revenue efficiencies in delivering benefits, as well as to become “greener”, to improve service levels and provide other advantages to recipients relative to the older paper-based systems.

• Other public sector prepaid programs encompass:
  – Grant programs
  – Unemployment benefits
  – Emergency disaster relief
  – Child support

Prepaid Cards in the Public Sector – Why?

• State/Federal government (sponsor) advantages
  – Lower program costs vs. old paper-based systems
  – Lower fraud/tighter control
  – Interchange income on cobranded cards used for non-SNAP and WIC\(^1\) purchases
• Benefit recipients
  – Improves safety and adds lost/stolen protection
  – Reduces stigma of using paper-based scrip/vouchers
  – Not relegated to special checkout lanes with dedicated terminals
  – Convenience of multiple benefits on a single card
  – Avoid check cashing and bank overdraft fees

\(^1\) SNAP and WIC are both USDA assistance programs; SNAP was formerly known as “food stamps”; WIC is a supplemental program focused on the healthcare and nutrition of low-income pregnant women, breastfeeding women, and infants and children under the age of five
Prepaid Cards – How Do They Work?

• Benefits/purchases can be restricted to certain SKUs (e.g., food programs), restricted to certain uses by MCC (e.g., job retraining program) or can be totally unrestricted “cash” benefits (e.g., unemployment)

• Programs may allow for cash access via ATMs

• Several states are beginning to issue both unbranded and cobranded cards with multiple “purses”/benefit accounts
  - Accounts/balances are managed in the network
  - Older cards have not been completely phased out; some states still using for WIC
Key Prepaid Drivers for the Public Sector Marketplace

• U.S. Treasury FMS Direct Express program:
  – FMS will require all new recipients to go electronic May 2011
  – FMS will eliminate check completely March 2013
• Surge in U.S. unemployment rate 2008-2010 has led to significant dollar volume increase in UI programs
• Most Child Support programs require collections and disbursements
• Emergence of ‘revenue’ share concept in recent RFPs
• Financial inclusion, literacy, and education has become a high level priority and common theme in RFPs
• Several market initiatives attempting to move closed-loop Campus Cards, Transit and EBT programs to branded solutions
• Other emerging uses: payroll, income tax, juror, assistance, child care,