I Want to Launch a Prepaid Card. Now what?
This document represents Mercator Advisory Group’s written analysis. Our discussion of these topics is considered an essential part of our deliverable, and our full analysis is incomplete without the related discussion.

This document contains Mercator Advisory Group’s analysis of several regulatory topics. Our discussion of these topics is not to be taken as a substitution for competent legal advice. We look at these topics from a business perspective. All legal/compliance questions should be addressed to competent counsel.
Introduction to the Panelists
The Big Secret to Prepaid Profitability:

Prepaid is a volume business.
Questions To Ask:

• Do You Have a Market for Prepaid Financial Services Products?
  – A significant Unbanked / Underserved market?
  – Significant turndowns that could evolve into a good customers?
  – Deposits leaving the institution for other prepaid products?
    • Check your Bill Pay and ACH systems to measure current impact

• Is There a Market for Payroll or Other Commercial Cards?
  – A significant number of corporate accounts?
    • Are they in NAICS codes aligned with Payroll Cards?
    • Do you already support payroll operations?
    • Are there Incentive Card opportunities?

• Should I Buy, Should I Build, Should I Rent to Own?
  – What is your likely volume?
    • Will volume support hiring the required sales & deployment staff?
  – Will partnering reduce risk and deliver needed resources?
  – There are many models to choose from!
    • Reseller
    • Private Label/other bank
    • Private Label/your bank
    • ABA Model
    • Custom Build
Questions to Ask:

• Why Do I Want to Offer Prepaid Cards?
  – To meet customer requests?
  – To meet customer needs?
  – To keep up with the competition?

• Do I Have Any products Today the Can Meet These Needs?
  – Checkless checking accounts for LMI?
  – Secured or Low-Balance Credit Cards?
  – Payroll Programs or Partnerships?
Additional Questions to Ask:

• How Big Am I Asset-Wise?
  – Would my cards be exempt from the Durbin Amendment?
  – Do I have resources to commit to the program?

• What Is My Banking Focus?
  – Commercial – focus on payroll, incentives, cash management?
  – Consumer – focus on gift, travel, GPR?

• Do I Need the Program to Make Profit?
  – Is it being used for competitive positioning?
  – Is it being used for customer convenience?
  – Will breakeven be good enough?
An Overview of the Prepaid Market
What are Prepaid Cards?

A prepaid card is a payment instrument where funds are connected directly to a card as opposed to tied to a credit or debit account.
What are Prepaid Cards?

A More Precise Prepaid Definition

(i) A card, password, or other device or authorization process, that provides access to an account holding funds.

(ii) The device/password/authorization process is the only means of routine access to the account holding said funds.

(iii) The account balance is decremented based on the value of a payment or based on metered usage of a finite resource.
Open-Loop Versus Closed-Loop Prepaid

✓ Open-Loop Prepaid
  ✓ Implemented using the American Express, Discover, MasterCard, Visa (or debit EFT) cards and networks

✓ Closed-Loop Prepaid
  ✓ The issuer creates a private card that can be used only on their private network.
11 Prepaid Categories, 27 Prepaid Market Segments

- **Cash Access**
  - Travel
  - Money / Financial Services
  - Open Gift
  - Remittance / P2P

- **Business Time & Expense**
  - Events & Meetings
  - Employee/Partner Incentives
  - Consumer Incentives

- **Campus**

- **Digital Content**
  - Digital Media
  - Games & Ring Tones

- **In Store Gift Cards**
  - In Store Gift Cards
  - Store Credits/Returns

- **Government**
  - Social Security
  - Nutritional Assistance
  - TANF
  - Court Ordered Payment
  - Prisons
  - Transit (Tolls & Light Rail)
  - State Unemployment

- **Insurance Casualty Claims**

- **Payroll & Benefits**
  - Payroll
  - Benefits
  - FSA / HSA

- **Petroleum**

- **Utilities**

- **Telecom**
  - Prepaid Mobile
  - Prepaid Long Distance

Source: Mercator Advisor Group
Forecast of Total Dollar Load On Open & Closed Prepaid Through 2015

Amount Loaded onto Cards ($Billions)

- Open-Loop
- Closed-Loop

<table>
<thead>
<tr>
<th>Year</th>
<th>Open-Loop</th>
<th>Closed-Loop</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$119</td>
<td>$5</td>
</tr>
<tr>
<td>2005</td>
<td>$141</td>
<td>$10</td>
</tr>
<tr>
<td>2007</td>
<td>$159</td>
<td>$17</td>
</tr>
<tr>
<td>2009</td>
<td>$179</td>
<td>$33</td>
</tr>
<tr>
<td>2011</td>
<td>$188</td>
<td>$52</td>
</tr>
<tr>
<td>2013(f)</td>
<td>$198</td>
<td>$78</td>
</tr>
<tr>
<td>2015(f)</td>
<td>$231</td>
<td>$262</td>
</tr>
<tr>
<td></td>
<td>$282</td>
<td>$282</td>
</tr>
<tr>
<td></td>
<td>$315</td>
<td>$315</td>
</tr>
<tr>
<td></td>
<td>$325</td>
<td>$325</td>
</tr>
<tr>
<td></td>
<td>$352</td>
<td>$352</td>
</tr>
</tbody>
</table>

Source: Mercator Advisory Group

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Open-Loop Segment Market Share 2011

- Open Money & Financial Svcs: 31%
- Payroll: 14%
- State Unemployment: 13%
- Court Ord Payment: 11%
- Open Gift Cards: 8%
- Social Security: 5%
- In-Store: 1%
- Campus: 1%
- TANF: 1%
- Transit (Tolls & Light Rail): 0%
- State Unemployment: 13%
- TANF: 1%
- Social Security: 5%
- In-Store: 1%
- Campus: 1%
- TANF: 1%
- Social Security: 5%
- In-Store: 1%
- Campus: 1%
Open-Loop Segment Market Share 2015

- Open Money & Financial Svcs: 43.32%
- Payroll: 11.91%
- Campus: 0.94%
- Payroll: 11.91%
- Social Security: 5.61%
- Unemployment: 9.99%
- Insurance: 0.23%
- TANF: 1.27%
- State: 0.13%
- Court Ord Payment: 9.08%
- Employee & Partner Incentives: 1.46%
- Events & Meetings: 0.15%
- FSA/HSA Tax: 3.87%
- Deferred Programs: 0.05%
- Money Remittance / P2P: 0.52%
- Open Gift Cards: 6.21%
- Transit (Tolls & Light Rail): 0.03%
- Consumer Incentives: 4.93%
- Travel: 0.28%

Source: Mercator Advisory Group
Copyright Mercator Advisory Group 2011
Are Prepaid Cards the Next Big Thing in Banking?
Competitive landscape for commercial cards

Bank of America and other large banks
- Offer payroll and commercial prepaid
- Believe BofA issues in Canada as well as U.S.

Community Banks
- Banks like State Bank of Illinois offer payroll, campus, etc.
- TransCard and ABA working together to help them

New Entrants
- Banks like PNC, Chase, BB&T, Regions
- Launching consumer and commercial cards

Non-bank players
- Companies like ADP, Global Cash Card, Money Network
- Need bank issuers, but offer programs of their own
Do Prepaid Cards Equal Banking?

NetSpend

“Our entire focus is on providing a solution for unbanked consumers and that solution is holistic with respect to its ability to emulate a financial account.”

- NetSpend Q1 Earnings Conference Call May 5, 2011

Green Dot

Grocery List

- Eggs
- Milk
- Aspirin
- Mouthwash
- Bank Account

Green Dot Investor Presentation, May 2011
Comparing Prepaid Financial Services Distribution With Financial Institutions Distribution

- Additional PFS Penetration:
  - Blackhawk
  - Western Union
  - InComm
  - Target / Amex
  - MoneyGram

SOURCE: Mercator, Green Dot, and Scarborough research survey conducted between February 2009 and March 2010
NOTE: Bank retail outlets and ATMs are as of July 2010
Retailers and Others Have Begun Offering Their Own GPR Cards

Walmart

Target and Amex

Kroger

Philadelphia Port Authority Transit Corp.

By offering free cash reloads at ticketing kiosks in transit stations, this card could lead to great changes in the industry.
Retailers Operate in a Fragmented Market

Check Cashing  $  

PFS  $  

Remittance  $  

Bill Pay  $  

Telecom  $  

YOU
Consumer Generated Revenue Goes To Service Provider That Owns the Customer

Merchant

Telecom

$ $ $ $
How the General Purpose Prepaid Card Business Works Today
## Examples of GPR Fee Structures

<table>
<thead>
<tr>
<th></th>
<th>Green Dot</th>
<th>NetSpend</th>
<th>RushCard</th>
<th>Western Union</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purchase Fee</strong></td>
<td>$4.95 ($6.95 for NASCAR CARD) Free online</td>
<td>$0</td>
<td>$3.95-$14.95 depending on card</td>
<td>$4.95</td>
</tr>
<tr>
<td><strong>Monthly Fee</strong></td>
<td>$5.95 (waived if load &gt;$1,000)</td>
<td>$9.95 for fee advantage. Pay as you go option available.</td>
<td>$9.95 or $1.95 on pay-as-you-go cards with no transactions</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Retail Reload Fee</strong></td>
<td>$4.95</td>
<td>$3.95</td>
<td>Varies by Third Party Partners</td>
<td>$4.95</td>
</tr>
<tr>
<td><strong>ATM Withdrawal Fee</strong></td>
<td>Free in network $2.50 otherwise</td>
<td>Up to $2.50 plus ATM owner fees</td>
<td>2 Free per month with monthly fee, $1.95 on pay as you go</td>
<td>$1.95 plus operator fees</td>
</tr>
<tr>
<td><strong>Bill Payment</strong></td>
<td>Free</td>
<td>Can use like credit card</td>
<td>$2 Enrollment $1 payment</td>
<td>Can use like credit card</td>
</tr>
<tr>
<td><strong>Transaction Fee</strong></td>
<td>$0</td>
<td>Pay-as-you-go: $1 sig., $2 PIN</td>
<td>Sig. Free PIN $1</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Person to Person Transfer</strong></td>
<td>N/A</td>
<td>Free Internet $4.95 live agent</td>
<td>$2.95 cardholder to cardholder</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Note: Customers can use direct deposit free with these cards. Source: Company Web sites. This information is subject to change.
# Looking at Green Dot

## Green Dot Corp.

<table>
<thead>
<tr>
<th>FY Year</th>
<th>Active Cards</th>
<th>Total Operating Revenue</th>
<th>Total Expenses</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>n/a</td>
<td>$39.54 million</td>
<td>$44.42 million</td>
<td>($4.88 million)</td>
</tr>
<tr>
<td>2006</td>
<td>n/a</td>
<td>$66.95 million</td>
<td>$66.78 million</td>
<td>$168,000</td>
</tr>
<tr>
<td>2007</td>
<td>625,000</td>
<td>$83.62 million</td>
<td>$84.13 million</td>
<td>($510,000)</td>
</tr>
<tr>
<td>2008</td>
<td>1.3 million</td>
<td>$168.13 million</td>
<td>$164.44 million</td>
<td>$3.69 million</td>
</tr>
<tr>
<td>2009</td>
<td>2.1 million</td>
<td>$234.82 million</td>
<td>$226.66 million</td>
<td>$8.16 million</td>
</tr>
<tr>
<td>2010</td>
<td>3.4 million</td>
<td>$363.89 million</td>
<td>$336.32 million</td>
<td>$27.57 million</td>
</tr>
</tbody>
</table>

Source: Green Dot SEC filings, Mercator Analysis.
### Green Dot: Activations Vs. Active Cards

<table>
<thead>
<tr>
<th>Year</th>
<th>Activations</th>
<th>Active Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>2.19 million</td>
<td>1.3 million</td>
</tr>
<tr>
<td>2009</td>
<td>3.14 million</td>
<td>2.1 million</td>
</tr>
<tr>
<td>2010</td>
<td>6.26 million</td>
<td>3.4 million</td>
</tr>
</tbody>
</table>

Active cards are defined as GPR cards in the portfolio that had a purchase, reload, or ATM transaction during the previous 90 day period.

Source: Green Dot SEC filings.
Looking at NetSpend

NetSpend Holdings Inc.

<table>
<thead>
<tr>
<th>FY Year</th>
<th>Active Cards</th>
<th>Total Operating Revenue</th>
<th>Total Expenses</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>n/a</td>
<td>$45.70 million</td>
<td>$44.98 million</td>
<td>$719,000</td>
</tr>
<tr>
<td>2006</td>
<td>861,115</td>
<td>$76.53 million</td>
<td>$77.41 million</td>
<td>($88,000)</td>
</tr>
<tr>
<td>2007</td>
<td>1.2 million</td>
<td>$128.60 million</td>
<td>$113.87 million</td>
<td>$14.73 million</td>
</tr>
<tr>
<td>2008</td>
<td>1.6 million</td>
<td>$183.17 million</td>
<td>$194.82 million</td>
<td>($11.65 million)</td>
</tr>
<tr>
<td>2009</td>
<td>1.9 million</td>
<td>$225 million</td>
<td>$206.83 million</td>
<td>$18.17 million</td>
</tr>
<tr>
<td>2010</td>
<td>2.1 million</td>
<td>$275.39 million</td>
<td>$251.64 million</td>
<td>$23.75 million</td>
</tr>
</tbody>
</table>

Who Are the Customers For Prepaid Cards?
Consumers Have Many Uses For Prepaid Cards

Uses of Gift/Prepaid Cards Over The Last Year
(base = purchased gift/prepaid cards in last year)

<table>
<thead>
<tr>
<th>Use</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift for family, friend, social gifting</td>
<td>87%</td>
</tr>
<tr>
<td>Household expense budgeting</td>
<td>14%</td>
</tr>
<tr>
<td>Convenient way to pay without checking/debit card</td>
<td>11%</td>
</tr>
<tr>
<td>Convenient way to send money to friend, relative</td>
<td>11%</td>
</tr>
<tr>
<td>Safe private way to buy online</td>
<td>10%</td>
</tr>
<tr>
<td>Gift for business associates/ clients</td>
<td>10%</td>
</tr>
<tr>
<td>Way to help family member/ friend with budgeting</td>
<td>7%</td>
</tr>
<tr>
<td>Safe, private, convenient way to pay bills</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>None of the above</td>
<td>4%</td>
</tr>
</tbody>
</table>

Gift and GPR are used as financial tools. FIs are not meeting these needs today.
The Unbanked and Underserved by the Numbers

Unbanked

✓ 7.7% of U.S. households.
✓ 9 million households.
✓ 17 million adults.
✓ 21.7% of black households.
✓ 19.3% of Hispanic households.
✓ 15.6% of Native American households.
✓ 12% of unbanked households have a GPR card.

Underbanked

✓ 17.9% of U.S. households.
✓ 21 million households.
✓ 43 million adults.
✓ 31.6% of black households.
✓ 28.9% Native American households.
✓ 24% of Hispanic households.
✓ 16% of unranked households have a GPR card.

Source: FDIC Survey of Unbanked and Underbanked Households, Dec. 2009

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93.6% of all consumers have a bank account, according to the Federal Reserve 2009 Survey of Consumer Payment Choice. This shows that the unbanked market may not be as big as it seems.

32.3% of all consumers have used a prepaid card.

The average value of a GPR prepaid transaction was $33, according the 2010 Federal Reserve Payments Study.

67% of GPR transactions were less than $25.

About 1.3 billion transactions were made using GPR cards in 2009.

These numbers show that interest in and use of prepaid go beyond the unbanked.
Services LMI Consumers Require:

• Check Cashing
  – Checks are the primary income source for LMI
  – Instant access to funds is a primary need
  – Consumer should have options.
    • No Fee for 4 day deposit, fee for instant access to funds

• Bill Pay
  – LMI often need to pay small business (landlord) that are not on Bill Pay Systems
    • Hence large Money Order business
  – 3 day check clearing on low balance account is insufficient. NSF fees a disaster.

• Remittance
  – Many LMI regularly remit money to family in other locations
    • Family has same liquidity needs: Instant Access to Funds
REMEMBER THE BASIC VALUE PROPOSITION: Convenience & Value Wins the Consumer

FIGURE 6

PRIMARY REASON FOR USING PARTICULAR FINANCIAL INSTITUTION

<table>
<thead>
<tr>
<th>Banked</th>
<th>TOTAL</th>
<th>Unbanked (ASF)</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Located close to where I live/work</td>
<td>60%</td>
<td>Located close to where I live/work</td>
<td>84%</td>
</tr>
<tr>
<td>Has a lot of branches</td>
<td>27%</td>
<td>Open at convenient hours</td>
<td>16%</td>
</tr>
<tr>
<td>Has environment I feel comfortable in</td>
<td>19%</td>
<td>Environment</td>
<td>15%</td>
</tr>
<tr>
<td>Has employees who speak my native language</td>
<td>17%</td>
<td>Close to where I shop</td>
<td>13%</td>
</tr>
<tr>
<td>Recommended by family/friends</td>
<td>13%</td>
<td>Has employees who speak my native language</td>
<td>10%</td>
</tr>
<tr>
<td>Bank offered me free checking</td>
<td>13%</td>
<td>Better customer service</td>
<td>9%</td>
</tr>
</tbody>
</table>

**SURVEY QUESTION:** Thinking of the [financial institution] you are currently using, what were your reasons for selecting this [financial institution]? Select all that apply.

**SURVEY BASE:** Total banked respondents, N=1,000, Total unbanked AFS respondents, N=386
Prepaid Convenience
Retail Outlets in Stockton, CA:
Bank of America vs. Green Dot
What is the Role of Banks in the Prepaid Business?
Margins in prepaid are thin, and there can be seven participants in the prepaid value chain that directly drive both revenue and cost. The more roles a single entity can take on, the more profitable the card program.
Financial Institutions Are Weighing Opportunities in Prepaid

- Corporate Prepaid Products for Commercial Accounts
  - Payroll
  - Purchasing
  - Incentive Cards
- Better Service Needs of Existing Customers
  - Online Ordering / Branch Distribution of Prepaid Products
    - Open Loop GP Prepaid Gift Cards – especially Online
  - Prepaid Budgeting Tools / Transaction Accounts
    - Consumer Purchased General Purpose Reloadable Card
    - Cards dedicated to specific MCCs
- New Retail Account Type
  - Solution for Current Low Profit Retail Accounts
  - Outreach to Low & Moderate Income Individuals
    - Prepaid / Checkless Checking Account
    - Transaction Accounts with Grading System

Source: Mercator Advisory Group
### Why Financial Institutions Are Considering Prepaid As a New Revenue Stream

<table>
<thead>
<tr>
<th>Loss of Overdraft</th>
<th>Overdraft programs helped pay for the “free” checking accounts, but these fees have largely gone away. This is forcing banks to look for new sources of revenue.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of Debit Interchange</td>
<td>The Durbin Amendment to the Dodd Frank Act removed this source of DDA Income. This means prepaid cards may become more attractive as a debit alternative.</td>
</tr>
<tr>
<td>The End of Free Checking</td>
<td>Low-margin accounts may not be worth keeping if they do not product any steady source of fee income. This means banks might use prepaid as an account substitute.</td>
</tr>
</tbody>
</table>
What Is the Prepaid Business Model for Banks?

Traditional GPR suppliers are at this end of the spectrum.

Banks, with goals of cross-selling and lifelong customers, have been at this end.

Additional features and market entrants will lead to competition for consumers in the middle. (Mango leads here.)
If A Bank Plans to Serve as a Program Manager, Its Work Will Change Significantly

Even with this umbrella, banks must maintain oversight over all the relevant players, and so need to be compensated for this cost and work.

- Regulatory Interface
- Specialty Services (bill pay, credit, etc)
- Fraud / Crime Controls
- ATM Networks
- Payment Networks
- ACH
- BIN SPONSOR
- Program Manager
- Reload Networks
- Sponsor Back End Programs
- Telecom Interface
- Processor Connectivity
- Card Production
- EFT / ACH Networks
- Customer Service (IVR/Web)

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Product Design Impacts
Cost & Time to Market

• How Deeply Will Prepaid Product Be Integrated into Operations:
  – CIP Process
  – Vault Operations (stocking)
  – ATM integration
  – Teller Operations
    • Balance
    • Load
      - From Account
      - From Card on your account
      - From any card
    • Over Counter Unload
    • Modify Account Balance (disputes)

• New Capabilities May be Required:
  – Participation in Reload Network at Retail Locations
  – Surcharge Free ATM Networks
  – Mobile Alerts for Balance Status
Below Are Examples of Risk Review Items

✓ Card Funding
  ✓ Are reports from processor on funding consistent with balances in the program manager’s funds pool?

✓ Volume Checks
  ✓ Are funding and settlement volumes typical for a client?
  ✓ Can anomalies be explained?

✓ Geographical Review
  ✓ Are transactions occurring in unexpected locations that have higher risks of charge backs or fraud?

✓ Card Limits
  ✓ Are load, transaction, and other limits put in place by the networks or sponsor being followed?

✓ Unusual Activities
  ✓ Unusual number of cards issued to an individual?
  ✓ Unusual Charge backs?

✓ OFAC Checks

✓ Other AML/BSA Checks as Appropriate
The Income Equation for Banks in the Typical Prepaid Business Model Used Today

Most of the revenue is passed on to the program manager, and the BIN Sponsor earns its money on fees for services.

Money Collected From All Sources

- Card Holder Fees
- Interchange
- Float on Balances
- Network Fees from Program Manager/Processor
- Transaction Fee from Program Manager
- Implementation Fee from Program Manager
- New Program Fee from Program Manager
- Monthly Program Fee from Program Manager

Income for the BIN Sponsor

- Transaction Fees from Program Manager
- Implementation Fee from Program Manager
- New Program Fee from Program Manager
- Monthly Program Fee from Program Manager

Funds Paid Out to Partners

- Card Holder Fees to the Program Manager
- Interchange to the Program Manager
- Float often shared with the Program Manager
- Network Fees to the Networks/Processor

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### Potential Cardholder Fees

<table>
<thead>
<tr>
<th>Transaction Fees:</th>
<th>Account Fees</th>
<th>3&lt;sup&gt;rd&lt;/sup&gt; Party Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Per card fee</td>
<td>✓ Inactivity fees</td>
<td>✓ Money transfers</td>
</tr>
<tr>
<td>✓ Load fee</td>
<td>✓ Activity fees (over 3 ATM/Mo)</td>
<td>✓ SMS Messages</td>
</tr>
<tr>
<td>✓ Reload fee</td>
<td>✓ Monthly administrative/service fees</td>
<td>✓ Bill pay fees</td>
</tr>
<tr>
<td>✓ Check Fee</td>
<td>✓ Live Agent Fee</td>
<td>✓ Savings Account Float</td>
</tr>
<tr>
<td>✓ POS usage fees</td>
<td>✓ IVR fees</td>
<td>✓ Convenience Checks Fee</td>
</tr>
<tr>
<td>✓ ATM withdrawal fees</td>
<td>✓ Website access (usually free)</td>
<td>✓ Cash Advance</td>
</tr>
<tr>
<td>✓ International fees</td>
<td>✓ Paper statement fees</td>
<td>✓ Health Insurance</td>
</tr>
<tr>
<td>✓ ATM balance inquiry fees</td>
<td>✓ Overdraft/negative balance fees</td>
<td>✓ Merchant Discounts</td>
</tr>
<tr>
<td>✓ Declined transaction fee</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Negative Balance Risk Exists with Prepaid Cards, Despite the Marketing Messages to the Contrary.

- Negative balances occur on Open Loop prepaid cards
  - Pre-auths for an amount less than actual purchase price
  - Cards used with domestic floor limits
  - Cards used with international floor limits
  - Cards used for recurring payments
  - Merchant coercion

- Ultimate liability lies with the issuer
- The issuer passes this liability along to the program manager
- Risk and fraud is reality for all prepaid cards
  - For GPR cards, this loss is between 10 and 15 bps
  - For payroll cards, the loss is between 9 and 11 bps
Other Risk Management Concerns Include

- PCI
- PIN Encryption / Card Creation / Secure Facility
- Transaction Fraud Detection Systems
- Account Fraud Detection
- Physical Security
- Account Control / Authorization / Access Limits
- Run Rate Detectors
Regulatory Issues That Affect Prepaid Cards
Prepaid Cards Regulatory Landscape

- **Dodd-Frank Act & FRB Implementation**
  - Reduced interchange on debit (if not exempt)
  - Limits fees charged on prepaid cards (to remain exempt)
  - Requires Dual Routing (All, Except Three Party Networks)

- **OCC Guidance on Managing Prepaid Risk**
  - Defines process banks must follow to manage prepaid risk
  - Requires bank to document and control all processes
  - Will likely require capital reserves sufficient to cover risks
  - Program Managers will likely find costs become related to risk, causing partner re-assessment

- **FinCEN Prepaid Instrument**
  - Restrictions on load values and international & P2P access
  - Contractual changes to define “Provider of Prepaid Access”
  - Proposal to require Prepaid Instruments be declared as Monetary Instruments at border crossings

- **Consumer Protection Actions**
  - Consumer Financial Protection Board
  - State Attorney Generals (Florida Investigation)
  - Outcome of the investigation could lead to states targeting prepaid
  - Could cause public to respond negatively to prepaid

Prepaid faces other potential challenges, which is why it is necessary for the industry to cultivate transparency and open dialogue.
**How Does A Large Bank Avoid Durbin Interchange Restrictions on Prepaid Card?**

<table>
<thead>
<tr>
<th>Account Structure</th>
<th>Pooled Account</th>
<th>✓</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Access</td>
<td>Card Only</td>
<td>✓</td>
</tr>
<tr>
<td>Card Type</td>
<td>Open-Loop</td>
<td>✓</td>
</tr>
<tr>
<td>ATM Access</td>
<td>First Withdrawal Free Each Month</td>
<td>✓</td>
</tr>
<tr>
<td>Overdraft Fees</td>
<td>None</td>
<td>✓</td>
</tr>
<tr>
<td>Card Funding</td>
<td>Reloadable</td>
<td>✓</td>
</tr>
<tr>
<td>Marketing/Labeling</td>
<td>Never As “Gift”</td>
<td>✓</td>
</tr>
<tr>
<td>Network Access</td>
<td>Two Unaffiliated Networks</td>
<td>✓</td>
</tr>
</tbody>
</table>

An Additional Note on Regulation

- The Consumer Financial Protection Board has begun looking at general purpose reloadable cards and has been asked to look into campus cards.
- Two key drivers behind criticisms and complaints about prepaid cards are disclosure and fees.
- Program design should be sure to include ample, clear disclosure and options around how cardholders can elect to access and receive information.
- Consider pushing information out to cardholders – deposit alerts, balance notices, etc. to help reduce calls to call centers and to help with clear disclosure.
How Can Banks Evaluate Their Prepaid Opportunities?
Important Factors in Evaluating Prepaid Programs

• Prepaid is a volume business.
• Distribution is a key element to success, channel conflict ahead.
• High volume portfolios are aligning Value Chains.
• OCC Guidance will drive consolidation as partner risk must be accounted for in reserves.
• Technology, including Mobile and Social Media as a distribution and customer acquisition play, will drive continued rapid evolution of this industry.
• Regulatory action is largest risk to the industry.
Possible Approaches to Offering Prepaid Products

- Build Complete Program
  - Issuing Bank
  - Program Manager
  - Processor

- Partial Outsourcing
  - Issuer
  - Program Manager?

- White-Label Product
  - Sales Agent
Additional Information to consider

✓ BIN Management
  ✓ Create a specific process around how to manage the multiple variations in BINS

✓ Association Documentation
  ✓ Resources may be available to you on processor side to complete documentation for new BINS.

✓ Identify internal resources
  ✓ Marketing and Branding
  ✓ Financial Controller/Accountant
  ✓ Technology
  ✓ Project Manager
  ✓ Account Manager and or Operations Analyst
  ✓ Senior Stakeholder
  ✓ Educational Trainer

✓ Understand Time lines
  ✓ New BIN
  ✓ Existing BIN
Overall Project Management for Sponsorship and Program Management

- Project Kick-off
- Association/Network Approval
- Settlement / Funds Flow
- Card Fulfillment
- Technical Configuration
- Training
- Quality Testing/Sign-Off
- GO-Live/Transition
Questions/Concerns

Thank You Very Much