

Prepaid Cards: A Substitute for the Checking Accounts?

Moderator's Overview

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What Are Prepaid Cards?

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

Checking Account and Branded Prepaid Card Comparison

Activity/Function	Checking Account	Prepaid Card Account
Direct fund transfer	yes	yes
Onsite, funds into acct	yes	no..., yes..., maybe ...
Automatic bill pay	yes	yes
Electronic bill pay	yes	yes..., no..., maybe...
Overdraft protection	yes	maybe, infrequent
Funds covered by FDIC	yes	seldom, possible future increase in coverage
Springboard to other financial products or services	yes	no..., yes..., maybe ...
Credit worthiness indicator	yes	no, but movement toward change

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