

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

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The logo for J.P. Morgan, featuring the name in a classic, elegant cursive script. The 'J' and 'P' are large and prominent, with the 'Morgan' part following in a similar style. The signature ends with a long, sweeping underline.

JPMorgan Public Sector Cards

JPMorgan Public Sector Cards

Innovator Within Industry

- Issuing cards for over **20 years**

Largest Public Sector Card Issuer

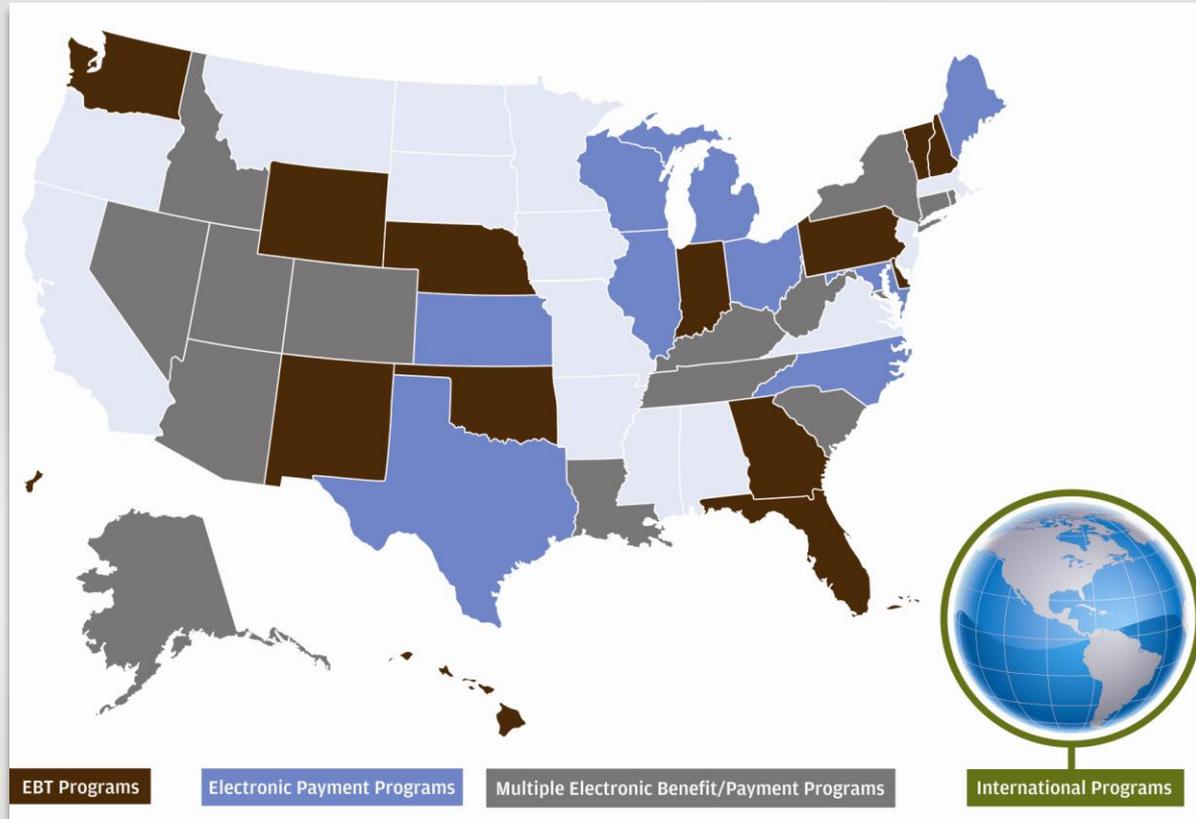
- **27** EBT and **31** prepaid programs

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



EBT Product Overview

- **What does EBT stand for?**
Electronic **B**enefits **T**ransfer
- **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?** Transaction Processing, Customer Service, Card Delivery, Retailer Management, Cash Access, Client Web Portal, Reporting, Cash Settlement



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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



Security & Protection

Regulatory Compliance



Administrative Tools

Reporting, Demographics, Etc.



Batch Enrollment

Automated, High Volume



Direct Deposit

Reliable Funds Posting



ACH Transfer

Move Funds to Private Account



Additional Cardholders

Cards for Family Members

Prepaid Primary Program Types

Prepaid programs allow payors to electronicly 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

Revenue Type*	EBT	Prepaid
Fees to Agency/Government		
Merchant Interchange		
Cardholder Fees**		
Float***		

* 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

Expense Type*	EBT	Prepaid
Technology/Custom Coding		
Customer Service		
Back Office/Settlement		
Fraud/Losses		
Regulatory Compliance		
Network Processing		
Merchant Support		

* 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