

Payment Cards and the **UNBANKED:**

Prospects & Challenges

July 13-14, 2005



PAYMENT CARDS
Center

FEDERAL RESERVE BANK OF PHILADELPHIA

Payment Cards and the Unbanked: Prospects and Challenges

A Conference Sponsored by the Payment Cards Center Federal Reserve Bank of Philadelphia July 13-14, 2005

There are over 10 million American households that do not have account relationships with traditional financial institutions. “Unbanked” or “underbanked” consumers, herein collectively described as the “underserved” segment, have historically relied heavily on money transfer agents, check cashing services, money orders, and cash to fulfill their payment needs. In his research brief titled *Banking the Poor: Policies to Bring Low-Income Americans into the Financial Mainstream*, conference keynote speaker Michael S. Barr noted that “better access to financial services is critical for low-income persons seeking to enter the economic mainstream.”

Recently, a variety of innovating firms, including many nonbanks, have introduced electronic payment mechanisms to these underserved consumers. These products, which include payroll cards, money transfer cards, general purpose prepaid cards, and specially designed demand deposit accounts with debit card access, are seen to have the potential to (i) draw the underserved away from so called “fringe institutions,” (ii) lower payment transaction costs to the consumer, and (iii) help integrate underserved consumers into the mainstream financial system. At the same time, adoption of mainstream financial services by underserved consumers has traditionally been hindered by obstacles related to financial literacy, provider access, culture-based issues, and the costs of service. The fundamental question arises as to whether the features and efficiencies in these new and emerging electronic alternatives will provide sufficient value to alter the equation and better serve these consumer populations.

In an effort to address this and other issues, the Payment Cards Center will bring together a range of experts to discuss what the future may hold for this consumer segment and the financial products and services made available to them by a broad set of providers. The collaborative setting

will foster interactive dialogue among industry experts, researchers, and policymakers and a search for insights into ways in which financial services may be provided in more efficient and effective ways to these underserved consumers.

Questions the conference intends to address include:

- What particular issues do underserved consumers face in accessing and using financial services?
- How might prepaid card products, such as payroll cards, remittance cards, and other re-loadable general purpose cards, provide more efficient and effective financial services to the underserved consumer segment? Are there potential innovations on the way that will improve their value propositions?
- Can these, or other products, serve to move underserved users of financial services into traditional banking relationships? Or does it matter; can these products serve as effective stand-alone alternatives to a typical banking relationship?
- Will traditional banks play a lead role in bringing electronic banking services to the underserved segments? What role will nonbanks play in the development and support of prepaid products and other financial services aimed at the underserved segments?
- What risks might arise out of these emerging product and market structures? For consumers, issuers, service providers, and policymakers?

Wednesday, July 13 *Boehne Auditorium & Eastburn Court*

5:30 pm **Registration**

6:00 pm **Keynote Address: Michael S. Barr, University of Michigan Law School**
“Towards Efficient and Inclusive Payment Systems”

6:45 pm **Reception**

Thursday, July 14 *Pennsylvania Room (3rd floor)*

8:00 am **Registration and Continental Breakfast**

8:30 am **Welcome & Introductions**

Anthony M. Santomero
President, Federal Reserve Bank of Philadelphia
Peter P. Burns
Vice President and Director, Payment Cards Center

9:00 am **Payroll Cards: A Method of Payment and Account Management for Underserved Consumers**

Moderator: Jennifer Tescher, Center for Financial Services Innovation

Panelists: Doris M. Damm, ACCU Staffing Services

Peter Davidson, Genpass Card Solutions

Armen Khachadourian, JPMorganChase

The conversion of a paper check to cash can be expensive for those consumers who do not have a primary banking relationship and instead turn to alternative service providers. As an example, check cashing facilities generally charge between 1.5 and 3 percent of the face value when converting a payroll check to cash. A recent innovation in electronic payments has been the introduction of the prepaid payroll card. Payroll cards offer consumers who may not have a traditional banking relationship the ability to have their paycheck dollars directly credited to a payroll card at a relatively lower cost. In addition, payroll cards act much like signature debit cards and provide card holders with the ability to pay bills, to make purchases, and to withdraw funds at automated teller machines in participating card networks. Panel discussants will explore some of the complexities faced by payroll card programs in reaching and serving underserved consumer segments, including:

- In the underserved consumer segment, who uses payroll cards and why?
- What are the types of partnerships required to develop and provide payroll card programs to end users?
- What are the economic, operational, and regulatory risks and challenges associated with supporting payroll card programs? Are these different for underserved segments as opposed to mainstream segments?
- How might payroll cards evolve to better serve the needs of this market segment?
- Are payroll cards a bridge product to traditional banking relationships?

10:30 am **Break**

11:00 am **Remittance Cards, General Purpose Prepaid Cards, and Modified Financial Accounts:**
A Range of Financial Tools Adapted for Underserved Consumers

Moderator: Jeanne M. Hogarth, Federal Reserve Board of Governors

Panelists: Miguel Cintron, Bank of America

Emery Kobor, United States Department of Treasury

Gary Palmer, WildCard Systems

Remittance cards, general purpose prepaid cards, and specially designed demand deposit account/debit card programs are providing functionality to meet specific needs of underserved constituencies. These functions might include sending cash to relatives in home countries or converting cash into a means to conduct a multitude of financial affairs, such as bill paying and other debit-card-enabled transactions. For the underserved, these needs traditionally have been met by

nonbank providers such as money transfer agents and check cashing services. As banks and others begin to develop prepaid and debit card applications designed to substitute for services offered by these “fringe” providers, the panelists will consider the likelihood of success in moving these relationships under the auspices of mainstream financial service providers and the benefits associated with doing so. This topic and others are addressed in this session to better understand:

- What are the market hurdles in supporting these programs and in gaining consumer adoption?
- Does a gap exist between the services needed by underserved consumer segments and the functionality offered by payment cards?
- Is there an opportunity for coordination between nonbank providers and mainstream financial institutions in serving these communities?
- What are the potential risks associated with these instruments, including the role of the Patriot Act and other related regulation?
- Again, can these financial tools be used as transitional products to move users to more traditional banking relationships? What have been the experiences to date and what obstacles must be overcome?

12:30 pm **Lunch** (Delaware Room)

1:30 pm **Innovation and Emerging Market Structures: A Changing Landscape for Financial Services Providers**

Moderator: T. Jack Williams, Paymentcard Marketing, LLC
Panelists: David Brillembourg, Emida Technologies
 Jim Callahan, H.E. Butt Grocery Company
 Steve Streit, NextEstate
 Scott Walker, BillMatrix

Recent innovations in electronic consumer payments have contributed to the development of payment card products – such as prepaid payroll and remittance cards – and other financial services that are suited to the needs of underserved consumers. At the same time, support of these programs has integrated both mainstream financial services providers and nontraditional players, including nonbanks, in the distribution and processing of such programs. This panel includes representatives from the latter group of market participants, who are playing an increasingly important role not just in supporting these payments categories but also in efforts to reach underserved consumers. The panel is led by T. Jack Williams, who will focus a discussion on payments innovation and the role nontraditional providers are playing in the delivery and support of related payment card products and other financial services aimed at these consumer segments:

- What new and innovative solutions are emerging from the nonbank service providers that might offer special value to the underserved consumer segment?
- What role is the retail channel playing in the delivery of financial services to underserved consumers?
- What are the unique set of challenges faced when processing value loads to cards at merchant locations and, subsequently, when moving funds between the merchant and the card issuer?
- In terms of bill paying, are there process and payee issues for providers when allowing card-based payments or cash-based payments to be initiated at merchant locations?
- Are there special considerations when enabling domestic and international movement of funds from a card-based solution where value (i.e., the merchant is accepting cash from the payer) is loaded to the card at a merchant’s location?
- What risk might arise as nonbank innovations continue to affect traditional banking market structures?

3:00 pm **Break**

3:15 pm **Conclusions and Insights: What Have We Learned?**

Moderator: Peter P. Burns, Federal Reserve Bank of Philadelphia
Panelists: Jeanne M. Hogarth, Federal Reserve Board of Governors
 Jennifer Tescher, Center for Financial Services Innovation
 T. Jack Williams, Paymentcard Marketing, LLC

The final panel will lead a discussion with all conference participants on “lessons learned” and insights developed through the day’s conference.

4:30 pm **Conference Adjourns**