



Frequently Asked Questions About Network Branded Prepaid Cards

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Why would a consumer want a network branded prepaid card?

Network branded prepaid cards are trusted, flexible financial tools that give consumers new options to manage their money and take control of their finances.

Here's how:

- **Convenience.** Network branded prepaid cards may be used almost anywhere for any type of purchase and, if the cards provide ATM access, at millions of ATM locations. For example, if a network branded prepaid card is given as a gift, the recipient may purchase the item of his/her choice from *any* merchant that accepts that card brand.¹ And, if an employer pays an employee using a network branded prepaid card, the employee has immediate access to his/her funds, avoiding the hassles and possible expense of visiting a financial institution or check cashing organization. In addition, network branded prepaid cards issued as part of healthcare plans can be used to pay co-pays at medical offices and pharmacies for approved purchases, giving cardholders immediate access to their healthcare funds and avoiding significant paperwork and reimbursement delays.
- **Safety and security.** The network brand mark on prepaid cards provides consumers with significant protections typically not available with closed-loop prepaid cards and definitely not available with cash. For example, if a network branded prepaid card is lost, it may be reissued, enabling the consumer to spend the remaining value on the card. And, even if the card is stolen and used without authorization, consumers can get their funds returned (provided that the card is registered so that the issuer can identify the cardholder).
- **Choice.** Network branded prepaid cards are extremely flexible and take many different forms to provide financial solutions and new options for consumers in all walks of life. These cards give consumers more *choice* in deciding how to budget their money, manage their spending, give gifts, pay bills, and conduct many other day-to-day activities. Consumers are never forced to use a network branded prepaid card over other options, but many choose to do so because of the convenience and safety and security they offer compared to paper-based options including cash and checks.

How are consumers protected when they use network branded prepaid cards?

Network branded prepaid cards offer all of the consumer protections of the brand they carry. This includes "zero liability" for lost or stolen cards used for unauthorized transactions, card replacement, and purchase dispute rights. Effective July 2007, payroll cards (as defined by the Federal Reserve) are covered by Regulation E, the regulation that extends consumer protection to electronic transactions.

¹ Some limitations apply. For example, MasterCard- and Visa-branded prepaid cards are accepted by merchants that have chosen to accept those brands' debit products. In addition, some network branded prepaid cards may be used only for specific types of purchases, e.g., healthcare cards may only be used to purchase eligible products and services.

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What are some of the ways that network branded prepaid cards are used?

One of the most important features of network branded prepaid cards is their flexibility. There are many types of network branded prepaid cards, each designed to meet the needs of cardholders in ways that cash and checks can't match. Examples of network branded prepaid card applications include:

■ Consumer-Oriented Network Branded Prepaid Cards

Consumers purchase a card for their own use or to provide to a friend or relative:

- Gift
- Travel
- Youth/Teen
- General Purpose
- Remittance

■ Business-Oriented Network Branded Prepaid Cards

Businesses can use network branded prepaid cards to create new solutions that enhance their customers' lives. Some of these solutions include:

- Payroll
- Incentive and Rebate
- Insurance Claims and Disaster Relief
- Employee Benefits (e.g., Health Care, Wellness, Transit)

■ Government-Oriented Network Branded Prepaid Cards

Federal and state governments are recognizing that cards can reduce distribution costs and systemic fraud and provide better service to benefits recipients. For example, more than 35 states participate in programs that deliver child support payments via a prepaid card:

- Government Benefits (e.g., Unemployment, Child Support, TANIF)
- FTC distribution of redress funds in the SkyBiz case



Who decides if a network branded prepaid card can be used for purchases and/or to get cash at ATMs?

Strictly speaking, the card "issuer" (always a financial institution or other highly regulated organization) determines the features and functionality of its network branded prepaid cards. That determination, however, is related to the purpose for which the card is issued. For example, gift cards typically do not offer ATM access, because their purpose is to give recipients the opportunity to purchase gifts of their choice at the merchant(s) of their choice. On the other hand, payroll cards almost always combine purchase and ATM capabilities, so that employees can use the card for activities such as buying groceries, paying bills, and getting cash for day-to-day expenses.

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Is a stored value card the same as a prepaid card?

The terms are often used interchangeably and government, in particular, seems to favor the term “stored value.” To the industry, however, there is a distinction between the terms. “Stored value” generally refers to a specific type of prepaid card that actually “stores” the value of the funds on the card, i.e., on a computer microchip embedded in the card. The term “prepaid card” typically refers to a magnetic stripe card (like most credit and debit cards in circulation today). The magnetic stripe never stores the monetary value of the card; that information is stored in a “host” or central computer system. When a network branded prepaid card is used for a purchase, an electronic message is routed from the merchant terminal to the host computer, which checks the available card balance and sends an authorization or a decline to the merchant.

How big is the network branded prepaid card marketplace?

The actual size (or dollar value) of the network branded prepaid card marketplace is a matter of ongoing discussion among industry experts. And, the truth is that the difficulty of measuring the size of this emerging and diverse marketplace makes quantification difficult; even highly skilled payment systems researchers produce estimates with significant variations.

Mercator Advisory of Waltham, Massachusetts, one of the leading research firms that follows prepaid products, estimates that in 2005, the last year for which data were available, network branded prepaid loads (the monetary value added to cards) in the United States were approximately \$14.13 billion. Mercator also estimates that network branded prepaid load growth increased by 56.3 percent between 2004 and 2005, and that overall growth between 2005 and 2006 will likely once again exceed 50 percent—with some network branded prepaid card applications continuing to experience triple-digit growth.