

Waiting And Seeing On Prepaid Regulations

by [Steve Brown](#)

Several years ago the U.S. Fish and Wildlife Service reported that 51.3mm Americans say they watch birds. In North America alone there are more than 800 species of birds to observe, according to birdwatching.com. You don't really need much gear to get started, just a good pair of binoculars, a bird book, a hat and possibly a notebook, if you're inclined to write or sketch what you see. Patience, however, is absolutely essential for bird watching. You need to be willing to wait quietly at times in order to best observe various types of winged creatures in their natural habitat.

In many ways the banking industry is similar to bird watching. Consider that as bankers, we certainly understand both the need to observe what's going on around us and the need for patience as new developments unfold. Take for instance the changes going on in the burgeoning prepaid card industry.

Prepaid cards have been gaining traction in the U.S. for several years. Consumers here loaded more than \$64B onto general purpose reloadable prepaid cards (GPR) in 2012, according to the Mercator Advisory Group, up from \$56.8B in 2011. Consumers like these cards because by and large they tend to be less expensive than basic checking accounts or credit cards.

At present, however, regulations are in flux related to the best way to protect consumers from hidden fees or liability from unauthorized transactions. That's got consumer advocates waving red flags, calling for increased scrutiny and protections. The CFPB has said it plans to issue proposed regulation concerning prepaid cards this spring. Legislative efforts are also in the works to require new disclosures for prepaid cards. Meanwhile, with nearly 60% of banks now offering GPR cards, according to a 2013 study by Bretton Woods Inc., it's clearly an area on which we need to keep a watchful eye.

Banks need to be mindful of what's waiting in the wings not only for compliance purposes, but also to understand the possible effect on profitability. Right now prepaid cards can make money for banks but you must monitor developments closely to see how this might change.

At this point we only have a bird's eye view as to what regulations will be coming. Disclosure is one area where we expect some action. At this point there's virtually no uniformity so some cards disclose all information in one long account agreement while others include a separate fee schedule. More troubling perhaps to regulators and consumer advocates is that fees aren't always readily apparent to cardholders. A recent report from Pew Research shows that for almost every fee, service or consumer protection, there is at least one prepaid card that fails to disclose it. Clearly with this much uproar around these cards, bankers can expect even more regulation to follow.

Aside from disclosure, regulators could also choose to address overdraft fees, consumer liability, binding arbitration clauses and even FDIC insurance around these cards, so keep watching.

Given the uncertainty, it probably makes sense for banks to think like bird watchers and hold steady until prepaid regulations come into closer view. You will undoubtedly need to act quickly when directives do come or things may get ugly. Keep in mind that those who just flutter around and don't do anything may find themselves caught in a thorny nest of customer complaints and unwanted regulatory attention.

ECONOMY & RATES

Yesterday

Yields saw a 1bp drop as the 2Y auction saw strong demand, though dealer fears about rising rates was made apparent, as dealer participation was the lowest it has been since Dec. '08.

Today

Yields are unchanged ahead of the release of this morning's [durable goods](#) data release.

Rates As Of: 03/26/2014 08:45AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.04	0.00	0.00
6M	0.07	0.00	0.00
1Y	0.11	0.00	0.00
2Y	0.45	0.00	0.00
5Y	1.70	0.00	0.00
10Y	2.72	0.00	0.00
30Y	3.57	0.00	0.00
FF Market	FF Target	Fed Disc	
0.00	0.25	0.00	
Prime	Unemployment	Oil	
3.25	0.00	\$0	

[More Market Rates](#)

BANK NEWS

Priorities

An ICBA survey of the top 5 ways community banks are seeking to improve efficiency in the following 3Ys were: staff training (63%), cutting or consolidating staff (39%), increasing in-house technology (34%), outsourcing technology (32%) and either merging with or acquiring another bank (32%).

Fraud Screening

The Fed reports a survey of community banks finds the primary transaction screening and risk management methods used are: providing staff education on payment fraud risk mitigation (94%), fraud detection pen for currency (86%), human review of payment transactions (81%), participating in fraudster databases and receiving alerts (80%), providing customer education on payment fraud risk mitigation (75%), fraud detection software with pattern matching (63%), centralized risk management department (46%), centralized fraud information database with one payment type (44%) and centralized fraud database with multiple payment types (36%).

Mobile

It is interesting to note that mobile transactions now account for about 10% of all U.S. commerce.

Difficult Change

A McKinsey & Company study found 58% of organizational change projects at companies were unsuccessful.

Controls

A Fed survey of community banks finds the following internal controls and procedures being used: periodic internal/external audits (99%), addressing exception items timely (98%), dual controls/separate duties within payment processes (95%), verifying controls applied via audit or management review (95%), reconciling bank accounts daily (95%), authentication/authorization controls around payment processes (94%), logical access controls to network/payment applications (94%), reviewing card related reports daily (92%), transaction limits

for payment disbursements (92%), physical access controls to payment processing functions (88%), restricting/limiting staff use of internet on bank networks (81%), transaction limits for corporate card purchases (80%), separate banking accounts by purpose or payment type (68%), dedicated computer for transactions with financial service provider (53%) and an employee hotline to report potential fraud (43%).

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