

An alternative for the Unbanked community;

Stored value cards are one of the most dynamic and fastest growing products in the financial industry. Anyone who makes purchases with a merchant gift card, places phone calls with a prepaid telephone card, or buys goods or services with a prepaid debit card is using a stored value card. Certain types of these cards are being heavily marketed to lower-income consumers, especially the unbanked or underbanked. Although these cards may provide consumers with a more effective means of accessing funds and making financial transactions than cash, consumers need to be aware that these cards come with a vast array of features, fee structures and levels of consumer protections. This article highlights many of the principal features of these financial innovations and identifies important aspects of these cards that consumers must be aware of in order to make informed decisions about the products that best meet their financial needs.

Stored value cards provide a way to make financial transactions. Stored value cards use magnetic stripe technology to store information about funds that have been prepaid to the card. Payroll cards, government benefit cards, prepaid debit cards, gift cards, and telephone cards are examples of stored value cards. There are two main categories of stored value cards in the marketplace. The first prepaid cards made available to the marketplace were single-purpose or 'closed-loop' cards. Gift cards, which can only be used to purchase goods at particular retailers, and prepaid telephone cards, which can only be used to make telephone calls, are examples of single-purpose cards. The second type of card to emerge was a multipurpose or 'open-loop' card, which can be used to make debit transactions at a wide variety of retail locations, as well as for other purposes, such as receiving direct deposits and withdrawing cash from ATMs. Some multipurpose cards are branded by Visa or MasterCard and can be used wherever those brands are accepted.

Consumers obtain stored value cards in a variety of ways. They may obtain a payroll card from an employer, an electronic benefit card from a government agency, or a gift card from a retail store. Typically, a consumer would apply for a general spending multipurpose card by telephone or online, although these cards may be increasingly offered at check-cashing outlets, money transfer company locations, and retail stores.

The stored value card market is growing and evolving rapidly. According to industry estimates, more than 2,000 stored value programs are available, with roughly 7 million Visa- or MasterCard-branded stored value cards in the marketplace. There are approximately 20 million users and that figure is expected to more than double to 49 million users by 2008. In 2003, stored value cards were used to make \$42 billion in transactions. By 2006 over \$72 billion in stored value transactions are expected. Experts put this industry in the introductory or early growth stage of the product life cycle, suggesting that there is substantial growth potential in the years ahead. These industry figures include all stored value cards, such as multipurpose general spending cards, payroll cards, government benefit cards, child support payment cards, merchant gift cards, and telephone cards.

Reloadable multipurpose cards are often viewed as alternatives to checking accounts. Among stored value cards, reloadable multipurpose cards most closely resemble traditional deposit account debit cards in functionality and are thus most likely to meet the needs of the unbanked or underbanked. Consumers not only can use these cards to make payments to a wide variety of merchants and service providers but also can reload them with additional funds. The ways in which cards can be reloaded vary but may include direct deposit, money wire transfer, money order, or cash presentment at designated retail locations such as convenience stores.

Some cards are both issued and distributed by banks, while others are issued by banks but distributed to customers by nonbank firms. Nonbank firms may also play roles in processing card transactions. Some cards are Visa- or MasterCard-branded, allowing them to be used wherever these bank association cards are accepted.

Cards may offer any or all of the following functions: direct deposits of payroll checks, withdrawals of cash at ATMs, payments for retail purchases, bill payments, and money transfers. Some cards require the cardholder to enter a PIN (personal identification number) at the point of sale, whereas others require the cardholder's signature. Credit-building features, in which accounts in good standing are reported to one of the credit bureaus, are offered by a few card issuers, although the degree to which such features actually influence a customer's credit score is still unclear. There is some preliminary discussion among industry representatives about the feasibility of adding overdraft protection or payday advance features; for example, cardholders would pay a fee to receive a loan advance from their next payroll deposit. Here, again, the net benefit to cardholders is unclear.