

The Many Uses of Stored-Value Cards

Stored-value cards are not a new concept. For example, the prepaid phone card has been around for at least a decade. However, in the last several years, stored-value cards have taken on new forms and uses. Today, there are electronic benefits transfer (EBT) cards, gift cards, payroll cards and even “teen” cards (usually purchased by a parent on behalf of a teenager). With more than 6 million stored-value cards issued in 2002, they have become a viable alternative payment option.

Stored-value cards are access devices used to deduct money from a nonbank, nonchecking account. However, the cards are funded through traditional means such as checking accounts, ACH funds transfers, credit cards, debit cards or cash.

Although nonbank entities such as Stored Value Systems, Metavante, WildCard Systems and others are prominent issuers of stored-value products, financial institutions (FIs) have begun to offer them as well. National examples of FIs offering stored-value cards include Bank of America, National City and U.S. Bank. A few examples exist in the Tenth District, one of which is TriCentury Bank in Simpson, Kan., a \$2.5 million bank.

Benefits to FIs

From an FI’s perspective, offering stored-value cards helps attract new customers and provide an alternative acquisition tool for those that do not qualify for traditional credit or debit card products. In addition, it enables FIs to create a new stream of incremental and recurring revenue from usage and interchange fees generated from transactions.

Stored-value cards can either be single purpose (closed loop) or multipurpose (open loop). Single-purpose cards, such as store and EBT cards, are good only at a specific retailer or group of retailers — hence the phrase “closed loop.” In a closed-loop transaction, a nonbank service provider issues cards on behalf of its customer. When consumers use these cards to purchase goods, the service provider authorizes the transaction against a proprietary database and debits the “prefunded” account for the amount of the transaction. In essence, the transaction stays on the store’s books.

FIs typically offer the multipurpose variety of stored-value cards, including gift cards, teen cards and payroll cards. These types of cards are issued with card association branding, such as Visa®, MasterCard® and Discover®. Therefore, they are accepted anywhere the association brand is accepted, making them “open loop.”

FI offerings

Bank of America and National City are among FIs that offer association-branded, stored-value cards that can be purchased in various increments and given as gifts or rewards. Two types exist: non-personalized cards, which can be purchased and given instantly, and personalized cards, which can be embossed with the name of the recipient and even a message. The cards can be used virtually anywhere, but once the funds have been exhausted, value cannot be reloaded. FIs charge a fee for the cards that may vary based on the card’s denomination. Additionally, each time the card is used the FI earns transaction revenues.



Our Payments System Research staff is committed to researching emerging payments issues and providing you with regular updates. The staff is composed of (from left) Richard Sullivan, economist; Stuart Weiner, vice president and economist; Terri Bradford, consulting analyst; and Fumiko Hayashi, economist.



Among FIs offering the teen cards is U.S. Bank, which provides the Visa Buxx card. Parents often like these cards because they provide a means to teach their teens about managing their finances in a controlled way. The card purchaser determines the value to be loaded and can monitor spending behaviors and even receive e-mail alerts when purchases are made at some types of retail locations. In addition, a PIN can be requested when the card is ordered, making the card ATM-accessible. When a purchase is made, the amount is deducted from the card balance. And when the balance is low, the card can be reloaded. As with other stored-value cards, FIs earn fees when funds are loaded to the card from external accounts, transactions occur at ATMs and the point of sale, paper statements are generated and cards need to be replaced.

Tenth District product

In the Tenth District, TriCentury Bank has developed a payroll card product called the *Power eCard*. Its product is a PIN- and signature-based MasterCard branded card targeted at employers with blue collar and immigrant workers who currently receive paper checks. Unlike many other payroll card programs, TriCentury's product results in the bank opening an individual "electronic only" demand deposit account (checks cannot be written against it) for each participating employee. As a result, the individual is provided with an insured bank account that has debit and signature point of sale capabilities, and ATM features.

The *Power eCard* has other unique features. For example, if an employee who uses the card leaves his or her employer, he or she can set up direct deposit at the new employer. In addition, the card allows the employee to add an authorized user to the account. In terms of advantages TriCentury's product offers, the employer receives the benefit of being able to direct deposit payroll and therefore save on costs associated with paper checks. The employee receives the benefits of convenience, safety and lower transaction fees as compared to check cashing, purchasing money orders and wiring funds. Plus, TriCentury benefits from the additional fee and interchange revenues the use of the card generates.

The last decade has witnessed the evolution of the stored-value card. And more change is on the horizon. BankOne, for example, is working with Starbucks Coffee Company to launch the first of its kind, dual-purpose credit card for a retailer, one that functions both as a stored-value card at Starbucks outlets and as a standard credit card. When used as a credit card, card carriers will earn Starbucks points that can then be used to make future Starbucks purchases. It will be interesting to see whether this type of card will be as well received by consumers as existing ones. ■

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