

ABA PREPAID ROUNDTABLE: Prepaid's powerful potential

ABA program helps inner-city bank help unbanked prospects

By Steve Cocheo, executive editor and digital content mgr.

It's hard to know what makes more money for one of the local service stations near Bill Dana's bank: gas sales or check cashing.

Regarding the latter, "He has a line that's out the door," says Dana, president and CEO of the \$155.9 million-assets Central Bank of Kansas City, Mo.

Dana thinks that someday his bank can crack the client base of such check cashers and payday lenders. His tool? Prepaid debit cards.

More from ABA meeting

This article is based on an ABA forum on prepaid card services held in February 2012 in conjunction with the National Conference for Community Bankers. A companion article, concerning prepaid debit card compliance issues, can be viewed [here](#).

Central Bank and Dana have long experience serving inner-city customers. So long have they been at it, said Dana, "we affectionately call it, 'Banking in the hood'." Dana, a member of ABA's Board, currently also serves on the board of the Community Development Bankers Association. Central Bank is a community development financial institution.

Dana told bankers attending ABA's Prepaid Roundtable, a forum held as part of the association's National Conference for Community Bankers in February, that many of the unbanked shouldn't be using payday lenders. Many lack the means to reliably pay off loans like that, Dana explained.

"The way of folks with low income, frequently, is cash," Dana said.

Pick a card ... but the right card

Recognizing that, Central Bank set out a decade ago to provide people in its neighborhoods with a viable alternative to cash, the prepaid card. One market that Dana felt strongly would benefit was migrant workers who needed a product that would not only enable them to have a safe and reliable alternative to cash, but one that would also enable them to easily send funds back to their foreign homes.

The bank struggled to come up with approaches that would deliver such a prepaid program, but Dana said success proved elusive.

"It was very difficult, and very challenging," he said. "Our card didn't sell well because there wasn't a lot of trust in our system." As a result, he said, the card program "just lumped along." Periodically some new feature or factor was added, in an attempt to jump-start the effort, but nothing worked.

For example, at one point the bank added some payroll features to the card, "and that just 'lumped' along too," said Dana.

Then ABA formed a partnership to make its Community Bank Prepaid Program available to members. This is a three-way partnership between the association's ABA Business Solutions subsidiary, MasterCard Worldwide, and TransCard, the prepaid card processing company.

Dana learned of the program and Central Bank became an early adopter of the reloadable prepaid debit card effort.

"We sell them as an alternative to a checking account," said Dana. The Central Bank Prepaid Express Card, as the institution branded its program, is positioned in the bank's materials as a more attractive payment alternative to three other programs marketed to low-income consumers. These include the Walmart Money Card, Netspend Feeadvantage, and the U.S. Bank Visa Buxx Teen Prepaid Card. The bank's offering stacks up favorably in several respects. For example, the bank charges no fee, or a lower one, for several services. Furthermore, if they will attend free financial training classes that the bank offers, Central Bank will refund some fees, placing the money back in the card account.

"If prepaid card customers will attend free financial training classes that it offers, Central Bank will refund some fees"

Dana said this gives Central the opportunity to reach out to a segment of the community that has been abused by some players in the past. The bank has been working on additional means of attracting customers to its prepaid offerings, exploring, among other efforts, a tie-in with tax refunds.

TransCard, ABA's partner, works out many aspects of prepaid offerings for the bank client, essentially giving the organization a pre-packaged way to meet the needs of customers and potential customers without having to start from scratch.

"It's an easy deliverable," said Dana.

Currently Central Bank offers the ABA program in two of its variations, as a payroll card which receives direct deposits from employers, and a general purpose reloadable card. (As of mid-May 2012, the bank had issued about 900 cards, and the cards have accounted for loadings of as much as \$550,000 in deposits a month. Overall balances, of course, vary with card usage and loading traffic.)

Interestingly, given Dana's hope in time to compete with payday lenders and check cashers, TransCard wrote a white paper about "Taking the cash out of check cashing" banks that have used the prepaid card program as a means of turning check cashing for noncustomers into a means of opening prepaid accounts.

Growing participation in ABA program

At the time of the conference, 45 banks had joined the ABA program, adapting the prepaid cards to their markets. (Adoption keeps rising, with the total coming to 56 banks as of mid-May.) At the prepaid forum, listeners heard not only from Dana, but from two other bankers whose institutions were among the early adopters. (The stories of both banks has been told more extensively on this website before. [Read them here](#) and [here](#).)

The Community Bank Prepaid Program isn't solely meant for the unbanked or underbanked. TransCard and MasterCard see many markets for the devices, including college students living on allowances uploaded from home; teenagers learning how to live within their means; and local employers looking for an alternative to payroll checks--each week's pay gets deposited to a prepaid card account.

Some consumers already see prepaid cards as an aid to spending control for special purposes, such as vacations, and as a safer way to carry money than currency.

“Safer than cash is a huge message,” said speaker Carol Duchardt, group vice-president, U.S. Region Prepaid, Commercial/Consumer Prepaid at MasterCard Worldwide.

There are also potential specialty applications. During the ABA forum listeners heard some details of H & R Block’s Emerald Prepaid MasterCard debit card. The device—not part of the ABA program, but cited by Duchardt as an example of what’s possible—is designed to begin carrying a taxpayer’s refund balance or refund anticipation check. It permits reloading and other transfers, through the tax company’s affiliated bank. Payroll and government benefits checks can also be deposited to the card.

The ABA program’s cards go far beyond the kinds of one-shot prepaid cards bought off the rack at the local pharmacy. As reloadable devices, they function much like traditional bank accounts, with many convenience features not even widely available for bank accounts. For example, cardholders can receive text messages to their mobile devices alerting them to transactions and low balances, while also being able to check balances with those devices. Online budgeting tools can be accessed by cardholders, and additional services are under development.

Slicing up the potential takers

Duchardt said that more than half of the U.S. retail banks MasterCard has surveyed have made prepaid cards a business priority. She said there are four broad markets for the ABA prepaid program among consumers, based on segments prioritized by surveyed banks. (The percentage of banks targeting each segment follows the segment name):

- New customers, 54%, including the under-served and those turned down for traditional banking products. (The May ABA Banking Journal article, “How to reach the unbanked,” tells the story of United Bank, Atmore, Ala., and its “Advantage Card,” an adaptation of the ABA program.)
- New customers, 41%, notably young people just entering their need for banking services.
- Existing customers, 40%, as a cross-sell opportunity for relatives, special purposes, etc.
- Existing customers, 38%, at the low-income end, where prepaid card services may hold special attraction.

Duchardt noted that MasterCard research predicts that open-loop prepaid card volume could hit \$442 billion by 2017. (An open-loop card is one that can be used throughout a network, such as the ABA program card, while a closed-loop card can only be used at a single retailer or single group of retailers.)

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