Prepaid Goes Mainstream! Not Only Cards--But Mobile Apps, eWallets… As the Marketplace Changes, So Do the Risks!

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Network Branded Prepaid Card Association


**NBPCA: Who We Are**

The non-profit, inter-industry trade association focused solely on prepaid cards issued by financial institutions - carrying the American Express, Discover, MasterCard or Visa logo. NBPCA’s membership uniquely has representation from the entire Prepaid value chain and currently includes over 800 people from 90 companies.

**NBPCA: What We Do**

- **Educate**: Consumers, Corporations, Government, 3rd Parties, and Media
- **Advocate**: Industry bar through the Code of Conduct and Leading Practices
- **Protect**: Consumer choice, fully featured competitive product set
- **Promote**: Unique benefits to all audiences and customers: Consumers, Businesses, Government, Media, and 3rd Parties
Agenda

• Current Emerging Payments Landscape – Judie Rinearson, Bryan Cave
  – Prepaid
  – Mobile Applications

• Risk Perspective from Law Enforcement – Robert Holman, Homeland Security

• Risk Perspective from Banking Perspective – John Hagy, MetaBank

• Q’s & As
The Mainstreaming of Prepaid

• *Surprise! Prepaid debit cards actually a good deal for consumers.*”  
  Bob Sullivan, Columnist, NBC News May 2013

• *Prepaid debit cards gaining popularity and fees are falling.*  
  Cleveland.com, April 2013

• “*Prepaid Debit Cards Close the Gap on Checking*”  
  Fox Business News, April 2013

• *Federal government chooses direct deposit and prepaid cards over mailing checks*  
  Bank Credit News

• *Prepaid cards can be a good choice if you choose wisely*  
  Herb Weisbaum, NBC TODAY “Consumer Man” April 2013
Figure 2: Total Amount Loaded on Open-Loop and Closed-Loop Prepaid Cards in the United States, 2003–2016

Source: Mercator Advisory Group, 2013
Prepaid Legal Landscape *Almost* Complete

- Bank Regulatory Guidance
- FinCEN Prepaid Access Rules
- State consumer protection laws
- State abandoned property laws
- Privacy & Data Security Laws
- Federal consumer protection laws *on gift cards*
- *Still waiting for CFPB Notice of Proposed Rulemaking on Reloadable General Use Cards*
Recent Risk Concerns

- Fraud and Criminal Misuse
  - 60 Minutes TV Show – Tax Fraud Using Prepaid Cards
  - Senate Committing on the Aging – Phone Scams using “prepaid load” products – GreenDot announces withdrawal of MoneyPak
  - IRS limits # of tax returns on prepaid cards
  - Limits on access to Death Master File
Mobile Payments and eWallets

• “Are we there yet?”
• NFC battles
  – NFC vs SMS vs Bluetooth vs barcodes/QVR, etc.
  – Waiting for Apple
• Retailers making moves
  – Starbucks
  – Amazon
• Person-to-Person apps
• Lack of consumer adoption – Security concerns may be the trigger
Mobile Payment Applications

The Fastest Way to Pay
- Pay with your phone
- Check your balance
- Reload your card
- Track your Stars
The Newest eWallet – Applepay
A New Era?

• “When you look at your smartphone, you probably don’t spend much time thinking about the poor calculator, day planner and digital camera it helped send to the dustbin of history. But starting today, that same phone is taking aim at another victim: your wallet and the credit cards you carry in it. Both are on “deathwatch” as Apple rolls out Apple Pay for the iPhone 6 and 6 Plus. While the impact of the new software will be limited at first, it will usher in a new era of convenience and security that will ultimately bring benefits to everyone — whether or not they are iPhone users.”

What is Apple Pay

- Uses your iPhone to pay in retail stores, verifying your ID with the fingerprint sensor.
- Uses iPhone 6 or 6 Plus - with NFC (near field communications) chip as well as TouchID.
- Largest bank credit cards — Citi, Wells, BofA, Capital One and JPMC — now work. 500 smaller banks by early next year. Use Card in iTunes account add others with camera.
- Security – uses Tokenization – transmits token number to the processor instead of actual card number.
What is Apple Pay

• To accept Apple Pay, a retailer needs an NFC-equipped point-of-sale terminal – now only 220,000 out of 8 million.

• McDonald’s, Subway, Macy’s, Whole Foods, Walgreens -- the first wave

• Link to EMV - Every merchant in the U.S. needs to support chip-based credit cards by October 2015 or face the liability risk of fraudulent transactions on their own (today, that risk is borne by issuing banks).
Big Question: MCX – Merchant Customer Exchange

Apple Pay vs. MCX: Which has bigger potential in mobile payments?
Merchants refuse to accept Apple Pay.
Risk Concerns

• Lost/stolen mobile phones; transponders; data security breaches

• Who will “win”?
  – Consumers?
  – Merchants?
  – Banks?
  Or ....
  – Criminals?
Risk Perspective from Law Enforcement –
Robert Holman, Secret Service
Mobile Product Risk- A Banking Perspective

John Hagy, MetaBank
Emerging Payment Risks- Mobile

• Existing bank account

• Common Products
  – Mobile check deposit
  – Mobile account information access
  – Mobile payments, eWallets, others
Emerging Payment Risks - Mobile

• Risks managed as any other bank product
  – Risk based approach
  – Assessment of Risks
  – Design and implement controls
  – Document, document, document
  – Test and validate
Emerging Payment Risks - Mobile

- Third Party Servicer - OCC Bulletin 2013-29
  - Due Diligence and Third Party Selection
  - Contract Negotiation
  - Ongoing Monitoring
  - Termination
Emerging Payment Risks-Mobile

• BSA/AML
  • Fraud--- transaction monitoring
  • SAR investigation and Reporting
  • CIP/CDD ---- ID verification
  • Geographic– high risk locations, international

• Data and Physical Security
  • Privacy
  • Lost phone
  • Authentication, malware and hacking
Emerging Payment Risks- Mobile

• Compliance and Consumer Protection
  • Marketing materials
    – Online ads
  • Terms and Conditions
    – Disclosures
  • Dispute and error resolution
  • Complaint management
  • State law requirements
FTC “Dot Com” Guidance

- In March 2013, the FTC revised its 2000 online advertising guidance to address the expanded use of smart phones and the rise in social media marketing ("Dot Com Guidance").
- The Dot Com Guidance explains how to make disclosures clear and conspicuous on all devices and platforms and particularly those that may have small screens.
- The FTC emphasizes that if a required disclosure cannot be made clearly and conspicuously on a particular device, then the advertisement should not run on that device or platform.
- Advertisers should place disclaimer as close as possible to the triggering claim.
- Advertisers should avoid using pop-ups to communicate disclosures since pop-ups are often blocked.
- Hyperlinks and scrolling should be used cautiously.
- Disclosures that are necessary to prevent deception or unfairness should not be relegated to cardholder agreements or other terms of use.
- Space-constrained ads are not exempt from the disclosure requirements contained in the Guidance. When a space-constrained ad requires a disclosure, incorporate the disclosure into the ad whenever possible. However, when it is not possible to make a disclosure in a space-constrained ad, it may, under some circumstances, be acceptable to make the disclosure clearly and conspicuously on the page to which the ad links.
FTC: Marketing your Mobile APP

- Tell the Truth About What Your App Can Do
- Disclose Key Information Clearly and Conspicuously.
- Offer Choices that are Easy to Find and Easy to Use
- Protect Kids’ Privacy – additional requirements under the Children’s Online Privacy Protection Act (COPPA)
- Collect Sensitive Information Only with Consent
- Keep User Data Secure
Emerging Payment Risks-Mobile

• What’s next?
  – Landscape will not remain static
    • Tokens
    • Encryption
    • How much data is needed, really?
    • New payment forms
  – New innovations and new products will cause Banks to continue to assess and evaluate how to manage risk
Q&A

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