

## HOP ONBOARD THE PREPAID TRAIN

by [Steve Brown](#)

Identity theft once again tops the list of complaints received by the FTC. Of the more than 2mm complaints received in 2012, 18% were related to identity theft. Given this information and the issue faced by so many banks to generate fee income right now, perhaps it is time to consider boarding the train of prepaid cards before it leaves the station. To gain a deeper understanding in this area, it is important to know that nearly 60% of all banks offer or plan to offer prepaid gift cards and 52% currently offer or plan to offer general purpose reloadable (GPR) cards, according to a November study from Mercator Advisory Group and the ABA. Further, of the banks that chose not to deploy prepaid products, 34% said regulatory compliance concerns was a driving factor and 26% said they were concerned about profitability of the product. Meanwhile, the growth rate for prepaid card transactions was more than 20% between 2006 and 2009, according to the Fed, pushing prepaid cards to the #1 most rapidly growing form of electronic payment during that time. Finally, a study by Mercator Advisory Group finds consumers loaded \$57B onto prepaid cards in 2011 (up 33% from prior year); \$82B in 2012 (up 44%) and are expected to load \$117B this year (a 200% increase in 3Ys). If you're among the banks not yet offering prepaid products, you might be missing out on a fee-generating opportunity. What's more, you may be closing your doors to a growing segment of the population who are bypassing banks entirely and turning to reloadable cards for their financial needs. Indeed, a study published last year by the FDIC found 25% of households have used alternative financial services (like prepaid debit cards and credit cards) during that year. In addition, the study found that 29% of households do not have a savings account any longer and 10% do not have a checking account. Changes are afoot in the industry and it's not just the unbanked or young adults who are using these cards. The acceptance rate is growing among bank customers and older consumers as well. In fact, over 50% of consumers aged 35 to 64 years old bought prepaid cards between 2011 and 2012, according to a 2012 survey by Mercator. The competition is heavily involved as well. Consider new ATMs that can reload these cards, currently being rolled out nationwide by such banks as JPMorgan, Citibank, PNC, Bank of America and Wells Fargo to name a few. All of these large banks offer prepaid cards. As if that competition weren't enough, other players like American Express (Walmart Bluebird card), Green Dot, NetSpend and many others have also jumped into the fray. Ignoring the prepaid trend isn't a viable solution for any bank so it makes sense to do some research. For starters, there's fee income at stake. Just like debit cards, banks can charge prepaid card customers for making multiple ATM withdrawals and using a non-network ATM. Prepaid cards also reduce the cost to serve some customers. Moving lower profit customers to prepaid cards generates fees and also cuts down on the cost of maintaining these accounts. Negative publicity around overdraft fees is also negated through this vehicle. For banks that haven't yet climbed onboard the prepaid train, it's not too late. Most important is to understand the trend and act on it to avoid being left behind.

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## **BANK NEWS**

### **Competition**

S&P has lowered its outlook for BB&T to "negative," after the large bank saw its capital plan rejected by the Fed and amid concerns over risk management.

### **Rate Risk**

The latest FDIC data shows loans and securities maturing or repricing in 5Ys or more for banks under \$1B has jumped from about 13% in 2005 to nearly double that level at the end of 2012. Expect interest rate risk to be a key area of focus when examiners roll through over the next few years.

### **Competition**

Citigroup has agreed to pay \$730mm to settle claims it misled investors over a 2Y period related to bond and preferred stock offerings.

### **Housing**

The latest analysis by CoreLogic finds states with the largest percentages of home mortgages with negative equity are NV (52%); FL (40%); AZ (35%); GA (34%) and MI (32%). This compares to a national average of about 22%.

### **Corporate Cash**

Moody's reports US non-financial companies it rates held \$1.45T in cash at the end of 2012, up 10% from record levels hit in 2011. Interestingly, the top 5 companies on the list (Apple, Microsoft, Google, Pfizer, Cisco) represented 24% of the total.

### **Marriage**

Community banks might want to encourage married small business owners to get their spouse and come into the bank for financial advice. That's because a new Google survey of married Americans found about 19% do not talk about their financial situation until they are married and 14% never discuss personal finances. Meanwhile, 46% said they felt prepared or organized after sharing financial information with their spouse and 19% said it made them feel relieved or reassured.

### **Student Lending**

It is interesting to note that about 86% of all student loans outstanding are backed by the federal government. According to TransUnion, the 90+day delinquency rate for loans backed by the federal government is over 12%.

### **Small Biz Lending**

SNL's research finds small business lending by US banks fell by \$10.9B (2%) in 2012 to \$539.7B.

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