

WHAT'S AHEAD IN STORED VALUE

Prepaid

TRENDS

October 23, 2008 | Volume 3, Issue 23

CRIME

Prepaid Money-Laundering Concerns Grow

By Adam Saytanides

As stored-value cards become more popular with consumers and more widely accepted by merchants and at ATMs, the risks increase that criminals will use them to launder money. A recent study by the Australian Institute of Criminology notes that the U.S. gift card market could reach \$88 billion this year. Open-loop gift card sales could reach \$5

billion, a projected \$3.7 billion increase since 2003.

Indeed, though the use of stored-value cards to smuggle funds is not widespread at the moment, "criminals are adept and will seek new ways to exploit the business," says Kim-Kwang Raymond Choo, a research analyst at the institute who compiled the September report "Money Laundering Risks of Prepaid Stored Value Cards."

In fact, Choo's report suggests that opportunities abound for the enterprising outlaw.

Criminals easily can purchase large quantities of stored-value cards, perhaps from different issuers, and then smuggle the cards out of the country to be converted into cash, the study points out. "Even if cards are located at entry points, customs officials may be unable to ascertain how much value is loaded on each card," Choo notes.

Crooks often buy stored-value cards using cash from criminal activities or stolen credit cards, he adds.

This sort of scheme becomes even more difficult to detect if the criminal organization uses a group of different individuals, so-called "card mules," to purchase cards from various locations, according to the report.

"Card mules may be recruited through e-mail messages, Web sites or newspaper advertisements that purport to be legitimate businesses," the report says.

Law-enforcement agencies should work to educate international students and tourists because such individuals frequently are the targets of these recruiting techniques, Choo tells

MONEY LAUNDERING cont. on p.7 ▶

CONSUMER INCENTIVES

UniRush Adds Credit Reporting, Texting To Its Prepaid Cards

By Ben Jackson

UniRush LLC is adding options to its RushCard and Baby Phat cards. Cardholders now can build credit histories based on their ability to show they can pay bills on time using their cards, and they will receive account-activity text alerts on their mobile phones, the New York-based prepaid card provider announced last week.

UniRush decided to add the services because of cardholder demand, Ram Palaniappan, general manager for Cincinnati-based UniRush Financial Services, tells

Prepaid Trends. "Almost everything we do is driven by what our cardholders are asking for," he says.

Pay Rent Build Credit Inc., an alternative credit-scoring company based in Annapolis, Md., will compile payment histories for cardholders who choose to use the credit-reporting service, Palaniappan says. The opt-in service is free, he says.

UniRush will report to Pay Rent Build Credit such payments as utility bills, rent, and cable and phone service

RUSHCARD cont. on p.9 ▶

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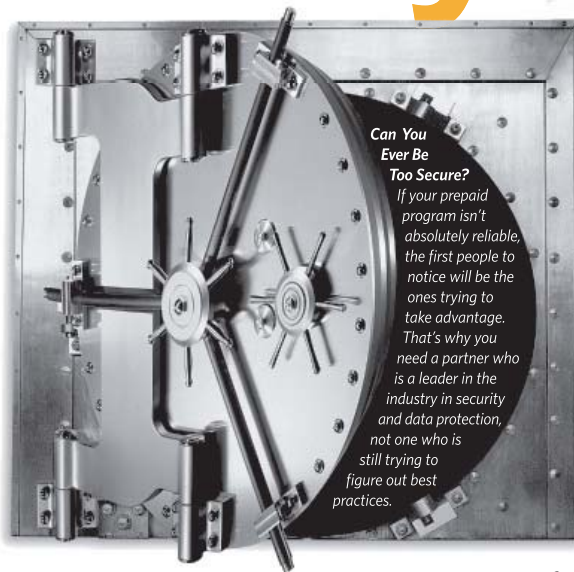
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CONSUMER VIEWS

Will Cash Replace Gift Cards In Tough Times?

By Ben Jackson

Tough economic times may give cash an edge over other forms of payment, including prepaid cards, new survey data suggest.

Commissioned by Western Union Co., the September survey of 1,000 adults found that 56% of respondents would prefer receiving \$100 in cash instead of a \$100 gift card, while 57% plan to give cash this holiday season.

“While the popularity of gift cards has increased exponentially in recent years, with consumers preferring to choose exactly what they wanted from a retail store, our survey now reveals a new trend: people want more flexibility,” Stewart A. Stockdale, Western Union executive vice president and president of the company’s U.S. and Canada regions, said in a statement.

Archstone Consulting LLC, a market-research firm based in Stamford, Conn., predicted in September that retail gift card sales would fall 5%, to \$25 billion from \$26.3 billion in the 2007 holiday shopping season. The company made this prediction based on a survey of 1,000 consumers that found most respondents want open-loop prepaid cards, the company says.

Western Union announced earlier this month that its survey results prompted the company to launch a new campaign, “Cash, the perfect gift,” to encourage consumers to give cash to one another and to send funds over Western Union’s networks. Based in Englewood, Colo., the company did not disclose the cost of the campaign but said it would include radio and television advertisements and Web sites where consumers can post stories about gift giving and send free e-cards



to family and friends.

The company commissioned New York-based GfK Roper Public Affairs & Media to conduct the survey to learn more about consumers’ gift-giving plans so it could plan its to advertisements better around such holidays as Diwali in India; Eid al-Fitr, which Muslims celebrate around the world; and the Chinese New Year, Dave Liggett, a Western Union spokesperson, tells *Prepaid Trends*.

“We have people from all those different countries that send money from the United States,” Liggett says.

Though the international aspect was important to the campaign, the survey results suggest the state of the U.S. economy has affected consumers’ plans, Liggett says.

Western Union is not alone in encouraging the use of cash. In September, the National Foundation for Credit Counseling released eight tips to help consumers find \$1,000 for holiday

spending before the Friday after Thanksgiving, considered the busiest shopping day of the year. Among the suggestions were eliminating bank fees by avoiding overdrafts and foreign-ATM fees, and to stop using credit cards and make purchases with cash instead.

However, using a prepaid card for holiday shopping could be a good idea for consumers who do a lot of impulse spending, Gail Cunningham, a spokesperson for the foundation, tells *Prepaid Trends*. “I would think any action that you could take that limits your spending to what is reasonable to your situation is a good move,” she says.

Signs of changing consumer views toward gift cards appeared earlier this year, when Wal-Mart reported in February that consumers were waiting longer to use gift cards and were spending gift card funds from 2007 on such necessities as groceries and laundry detergent (*Prepaid Trends*, 2/27).

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TRANSIT

Transit Authority, Car-Sharing Service To Share Card

By Ben Jackson

The Chicago Transit Authority and I-Go Car Sharing, a Chicago-based nonprofit organization that enables consumers to rent cars by the hour, have agreed to create a card that would work with both agencies' systems, the organizations announced earlier this month.

Beginning in December, 5,000 consumers who sign up with I-Go's car-sharing service and agree to get a Chicago Card Plus card from the transit authority will receive one card they can use to ride trains and buses and unlock I-Go cars, Richard Kosmacher, I-Go business development manager, says.

Consumers use the card to access I-Go cars by waving them over a sensor on the car's windshield. The transit authority waived \$5 fee for the Chicago Card Plus for first time users Jan. 1. The waiver will continue until further notice, according to the authority's Web site.

The card is not a test but the beginnings of a new program, according to Sheila Gregory, transit authority general manager spokesperson. The two organizations plan to launch the shared card to the general public by the end of the year, she says.

The card would carry two chips, one for transit payments and one for I-Go car access, so the revenues from the two organizations would not be combined, Kosmacher says.

"It's kind of exciting—one card in your wallet, and you can truly kill two birds with one stone," he says.

The goal is to make commuters' lives simpler by providing them one card that can meet a variety of transportation needs, Kosmacher says.

"I don't have to think about 'have I got the money in my pocket for what I am about to do;' it is all embedded in the card," he says.

The Chicago Transit Authority wants to promote public transportation by giving commuters more options, the agency says

in a press release.

"Teaming up with I-Go Car Sharing makes transit even easier to use, which is important as we continue to find ways to meet the diverse transportation needs of our customers," Carole Brown, Chicago Transit Board chairperson, said in a statement.

Rick Harnish, executive director of the Transit Rider's Alliance, a Chicago-based nonprofit focused on promoting public transportation, says he is not aware of any

develop alternative means of transportation, he says.

I-Go Car Sharing members usually give up their own cars when they join the service, so members tend to ride transit authority buses and trains moreso than they did when they owned their own cars, Kosmacher says.

"We're not a competitor to CTA; we complement their business," Kosmacher says. "You don't own the train and bus you're on; you don't own the I-Go car. I-Go is a pay-for-use service just like public transportation is a pay-for-use service."

I-Go has about 11,000 members and 100 cars, and the new card would bring in more members, Kosmacher predicts.

"We'll get people joining I-Go because of the interest and excitement over this," he says.

The Chicago Transit Authority plans to advertise the new card at bus stops and train stations, Kosmacher says.

The Chicago Card Plus requires commuters to have a credit card on file with the transit authority. The authority automatically tops up the card balance when it falls below a certain level. I-Go requires its members to set up an account with a credit card and bills them each time they use a car.

"What people will do, I think, is they will upgrade to the Chicago

Card Plus" from other transit cards that are pay-as-you-go and join I-Go, Kosmacher says.

The Chicago metropolitan area has three major public transportation agencies under its Regional Transit Authority: the Chicago Transit Authority, Chicago Metra Commuter Rail service, and PACE suburban bus service. They do not all accept one form of payment, but getting them onto one system is the best option, Harnish says.

"You should be able to use one fare card for your parking garage, CTA, PACE, Metra and the toll road and getting the shared cars," Harnish says. "That makes the whole thing seamless."

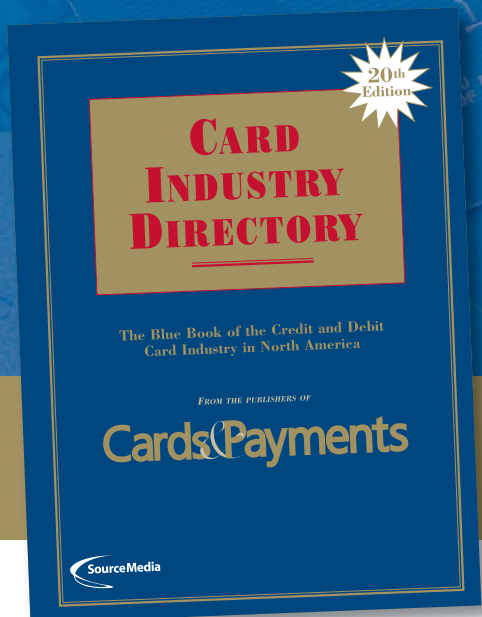
{PT}



other transit system working with car-sharing companies, but he believes it is a great idea.

"We've designed our current infrastructure in a way that there are times when you absolutely have to have a car," Harnish tells *Prepaid Trends*. "If a shared car becomes part of the transit network, the overall goal of reducing auto trips becomes achievable."

Even with recent drops in the price of oil, over the long term, oil prices will continue to rise, and that means consumers will not be able to afford to drive the way they do now, Harnish says. So it is necessary to



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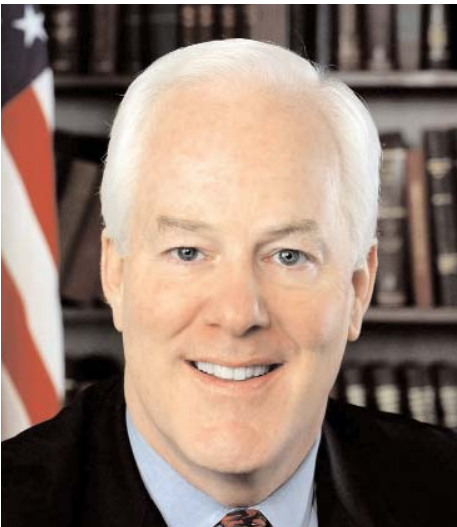
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► **MONEY LAUNDERING** cont. from p.1*Prepaid Trends*

Sophisticated money launderers potentially also could exploit open-loop systems, especially by using stored-value cards that offer large balance loads and multiple cards for a single account, according to the report.



► **U.S. Sen. John Cornyn's Violence Crime Control Act would permit the treasury secretary to issue regulations on prepaid cards.**

For example, the report notes, the Travelex Cash Passport card in Australia has a maximum card balance of AU\$10,000 (US\$6,618). During a 12-month period, cardholders could load AU\$45,000 (nearly US\$30,000) onto the card, and the 24-hour ATM withdrawal

limit is AU\$6,000 (roughly US\$4,000). Because two cards can be issued for each Cash Passport account, if authorities apprehend and search a suspect trying to carry one or more cards through customs, the cards may have little to no stored value.

"I can move money to the other card after crossing the border," Choo tells *Prepaid Trends*. Once the criminal has reached his destination, an accomplice can transfer thousands of dollars from one card to the other, and the funds can be accessed immediately, he says.

Choo offers the following hypothetical example:

"criminal associates in Country A could purchase open-loop cards from [issuers] that allow two cards to be issued per account. They then send one card to an associate in Country B. Once the suspect in Country B receives the card, the associates will deposit [additional] funds into the account, which allows the suspect to withdraw the criminal proceeds from any participating networks/ATMs" in Country B. To avoid detection, criminal organizations can "work with smaller sums or utilize people who are well under the financial system's radar," he

MONEY LAUNDERING cont. on p.11 ►

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► **RUSHCARD** cont. from p. 1

from participating cardholders, says Corey Stone, Pay Rent Build Credit CEO. “Those are all things where you can establish a history of making regular, recurring payments,” he says.

Lenders would factor in cardholders’ bill-payment histories into credit decisions in about six months, Stone says. For mortgages, lenders want to see a year’s worth of payments, he says.

Though Pay Rent Build Credit’s efforts are still in the early stages, early results suggest bill payments can be a good predictor of creditworthiness, says Arjan Schütte, associate director of the Chicago-based Center for Financial Services Innovation, a nonprofit research arm of the Chicago-based ShoreBank Corp. The center has invested in Pay Rent Build Credit.

Pay Rent Build Credit has been working with auto lenders that have made loans based on its credit scores, Schütte says. The loans have performed well, though he declined to provide detailed numbers.

The number of loans is small, and the loans are confined to regional lenders. But the low default rates of the portfolio have shown that the data Pay Rent Build Credit gathers is relevant, Schütte says.

Consumers today face a system in which they can be penalized for falling behind on regular bill payments, but they traditionally have received no credit for keeping up with them, Stone notes. “If you don’t pay these kinds of bills and they go to collections, they do show up in TransUnion, Equifax and Experian” credit reports, Stone says. “Paying bills up until [Pay Rent Build Credit’s service] has not helped people build good credit; it just kept them from bad credit.”

Pay Rent Build Credit has five prepaid card providers that use its services, including AccountNow Inc.,

Ready Credit Corp., and Futura Card Services, a division of Stored Value Cards Inc., and another which has not yet been announced, Stone says. The company’s services are especially helpful for payroll card programs in which consumers have the bulk of their pay deposited to the card account and they use the card to pay bills, he says.

Getting bill-payment data from multiple prepaid card companies will make Pay Rent Build Credit’s credit



scores more valuable on a national level and make general purpose reloadable prepaid card accounts more like checking accounts, Schütte says.

Next month, Pay Rent Build Credit plans to begin testing its service with an association of check cashers in Illinois that Stone declined to name. During the test, consumers who make utility payments at a participating check-casher location would build a credit file with Pay Rent Build Credit, Stone says.

Besides helping build their credit scores, UniRush is enabling cardholders the option to receive automatic account-balance and transaction text alerts at no extra charge, Palaniappan says. “This gives them another way to

keep track of much money they have and keep track of transactions,” he says.

Consumers also can choose a feature that enables them to send text messages to UniRush to get such account information as balances and transaction histories, Palaniappan says.

Manufacturers and Traders Trust Co., which is based in Buffalo, N.Y., issues the reloadable, Visa-branded RushCard and Baby Phat Cards. Columbus, Ga.-based Total System Services Inc. processes the card transactions. Consumers pay a \$19.95 activation fee to get the card and \$1 per bill payment.

Cardholders can reload their cards at more than 28,000 MoneyGram and at more than 10,000 CheckFree locations nationwide. While RushCard does not charge a fee to reload the card, CheckFreePay and MoneyGram charge \$3.95 for reloading the card at a

participating retail location.

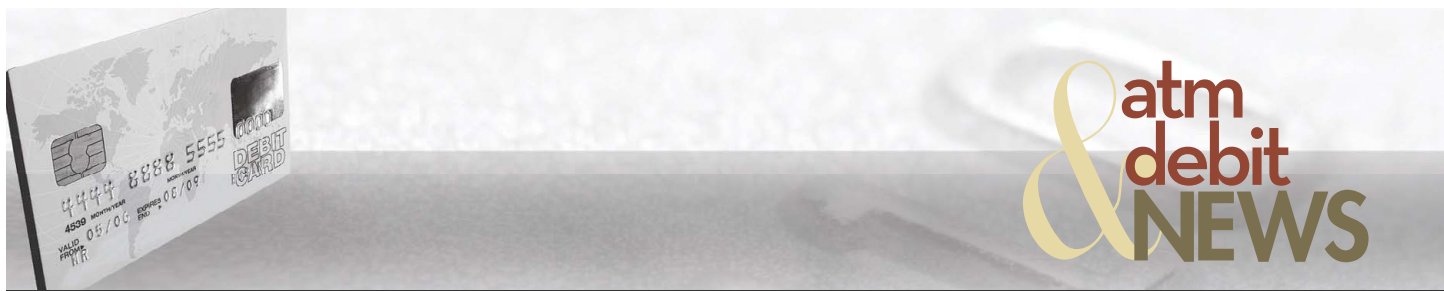
The majority of the funds loaded onto the cards come from direct deposits of payroll and government benefits, Palaniappan says.

“Most of our cardholders put all their money on the card and get all of their income on the card as well,” he says.

UniRush encourages consumers to set up direct deposit through a weekly sweepstakes in which cardholders who choose direct deposit can win up to \$14,000, Palaniappan says.

UniRush has 1.5 million cards outstanding, spread over most of the country, he says. Consumers can sign up for the card by visiting the company’s Web site or by calling the company. The largest source of new card members is word-of-mouth referrals, Palaniappan says.

“When a card member refers friends, the cardholder gets a monetary credit for doing that,” he says. Cardholders earn \$5 for each referral who becomes a RushCard holder. **[PT]**



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► **MONEY LAUNDERING** cont. from p.7

adds.

A study by the U.S. National Drug Intelligence Center published in June echoes some of these concerns. The center's study looked at how crime syndicates in the Washington/Baltimore area are laundering money and notes that stored-value cards are growing in popularity among drug dealers.

"Stored-value cards are increasingly used by traffickers to launder money because they are an easily transportable and virtually anonymous way to store and access cash," the report says. "Stored-value card programs often accept applications without face-to-

cards] outside the country," Choo tells *Prepaid Trends*. "The U.S. may well be the first country to introduce" legislation to track stored-value card shipments overseas, he notes, referring to the Violent Crime Control Act Sen. John Cornyn, R-Texas, and Rep. Lamar Smith, R-Texas, introduced in July 2007. The bill has been stuck in committee and has yet to come up for a vote.

"Sen. Cornyn is very concerned about the use of [stored-value cards] to launder money," says Tina Gray, the Texas senator's press secretary, in an e-mail message. "His bill ... would permit the treasury secretary to issue regulations related to [stored-value cards]. The means of regulation will need to be adapted to the most-recent

security-conscious. It's a key priority for them. ... They definitely have not been associated with any criminal activity." Choo says though there no 'prepaid-specific' data is available, the law has contributed cracking down on money laundering by giving the Australian Transaction Reports and Analysis Center, a government anti-money laundering agency, greater access to financial transactions.

In its annual report for 2007-2008, the center reported that it received almost 18 million financial transaction reports, up 14% from 16 million the previous year, and it provided 36,511 suspicious transaction reports to partner agencies, up 18% from 31,029 in the previous year.

Regulating stored-value cards is a tricky balancing act for government because the cost of compliance sometimes can be too great for small and medium-sized card issuers and distributors. Overly cumbersome requirements could discourage smaller distributors, such as corner-store retailers, from cooperating with authorities, Choo says.

Smaller prepaid card providers "may not have adequate money-laundering programs in place and may not have well-trained staff to detect" suspicious activity, he adds.

Tracking and improving compliance rates is no easy task, Choo tells *Prepaid Trends*. "The costs of money laundering must be more prohibitive than compliance costs," he says.

The effectiveness of new regulations is difficult to assess given the shadowy nature of money laundering and because "there is no data on prepaid providers' extent of compliance," Choo says. More studies and information are needed because a close partnership between government authorities and private industry is necessary to tighten security, he insists.

Only if industry data are shared with law enforcement can authorities get a handle on prepaid money-laundering trends, Choo says. **{PT}**

► **"Stored-value cards are increasingly used by traffickers to launder money because they are an easily transportable and virtually anonymous way to store and access cash."**

— Money Laundering Risks of Prepaid Stored Value Cards, Australia Institute of Criminology

face verification of cardholder identity, taking applications online or by fax. Funds can be prepaid by one person and withdrawn by another through ATMs anywhere in the world."

Governments are starting to recognize the need to more closely track stored-value card purchases and accounts to prevent criminals from using the prepaid industry to launder money.

Australia, for example, passed the Anti-Money Laundering and Counter-Terrorism Financing Act in 2006. The law established reporting requirements for all providers that issue and reload stored-value cards, regardless of size.

But loopholes remain. "In many countries (Australia included), there are no reporting obligations in relation to mailing or shipping of [stored-value

technology."

Stephen Houdak of the U.S. Financial Crimes Enforcement Network tells *Prepaid Trends* that the U.S. Treasury Department also is concerned: "we recognize the money-laundering threat it potentially represents. We continue to work closely with law enforcement agencies, and we continue to produce studies and evaluations for their internal use in addressing the problem. There is a balance to be had between addressing the risk and damaging commerce, and we're working to strike that balance as we move to address the issue in the future."

Australia's law "has been largely effective for U.S.-issued and Australia-issued cards," Choo says. "The major branded card providers are very

Prepaid TRENDS

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News Briefs

ECommLink Signs Payroll Card Processing Deal

Prepaid card processor eCommLink Inc. announced Oct. 15 that Virtual Automated Technologies Inc. has hired the company to provide payroll card processing. Las Vegas-based ECommLink also will provide processing for prepaid cards that Virtual plans to use for marketing-commission payments, payday loans and consumer incentives, eCommLink says. Based in Portland, Ore., Virtual enables employers and employees to manage their payroll funds using cards, the company says. ECommLink is doing final processing tests with Virtual, Wally Wright, eCommLink vice president of sales, tells CardLine. "We're hoping to have most of the payroll [cards] on our platform by the end of the year," Wright says. Virtual has commitments for more than 200,000 payroll cards. ECommLink will process transactions initiated with those cards, Mike Busher, president of Virtual, tells CardLine.

NetSpend Creates New Emerging-Markets Business

Prepaid card provider NetSpend Corp. announced Oct. 14 it has formed an emerging-markets business that will focus on unbanked and underbanked Hispanic consumers in the United States. NetSpend decided to create the new business because of an agreement to buy the assets of Procesa International LLC, which provides cross-border bill-payment and mobile-phone top-up services, NetSpend says. NetSpend has not disclosed a price or a closing date for the deal, Patrick Brown, Procesa founder and CEO, tells CardLine. Brown

will head the new unit of NetSpend once the deal closes, he says. Charlotte, N.C.-based Procesa has a network that enables immigrant consumers in the United States to pay bills or buy cell-phone minutes for relatives in Mexico and Central America, but it does not offer prepaid cards, Brown says. Consumers pay between \$1.50 and \$3 per transaction, Brown says. NetSpend will offer these services to its cardholders after the deal closes and will offer its cards in stores in Hispanic neighborhoods to attract more customers, Brown says.

Springbok Creates Message Service For Prepaid Cards

Springbok Services Inc., a prepaid card manager, announced Oct. 13 the launch of a personalized message system for its prepaid MasterCard and Visa cards. Based in Englewood, Colo., Springbok will offer the service to its corporate clients so they can send customized messages to cardholders, the company says. Clients may use Web pages, mobile-phone text messages and e-mail messages to send information to cardholders when they reload cards or check balances, the company says. Corporations could use messages for loyalty and employee-incentive cards to encourage specific cardholder behavior, Springbok says. "The more ways you can communicate to the cardholder... the better the ROI on the investment is going to be," Sarah Grotta, Springbok executive vice president of business development, tells CardLine. Pricing for the service depends on the number of cards a company distributes, but Springbok does not charge per message, Grotta says.



Calendar

Please send your meeting and conference news to: Benjamin.Jackson@sourcemedia.com

Prepaid Cards Australia

Oct. 28-30

Swissotel, Sydney, Australia

http://www.terrapinn.com/2008/pre_au/

Cards Africa 2009

March 17-20, 2009

Sandton Convention Centre, Johannesburg, South Africa

<http://www.terrapinn.com/2009/cardsza>

3rd Annual Health Savings Accounts Symposium

Nov. 12-13, 2008

Doral Golf Resort & Spa, Miami, FL

<http://www.sourcemediaconferences.com/HSA08/>

Reinventing Loyalty Conference

Dec. 1, 2008

Roosevelt Hotel, New York, NY

<http://www.sourcemediaconferences.com/LOY08/>