

# General Discussion

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Session 4

**Ms. Schneider:** Paul, thank you. I will start us off with some questions and then we will open it up to the audience. The first question I want to pose is jumping off from much of what Paul was talking about—the idea that payments alone are only one piece of the financial puzzle when you are talking about any household, right? Payments can be a real facilitator for additional services or it can be the backbone of a relationship through which you provide others services.

Louisa, you talked about that some. I am curious to hear more from Kevin and Steve on that topic. How do you think about payments as part of the overall product suite and customer relationship?

**Mr. Morrison:** Payments or credit?

**Ms. Schneider:** Payments. Given that you talked about U.S. Bank's prepaid offering as a way of being an entry point into a relationship, how do you think about how that entry point into the relationship becomes the basis of a broader financial relationship?

**Mr. Morrison:** That is exactly the way we designed our Convenient Cash product. What we said was, "That is our way to establish a relationship with a new client."

It was the ability to provide them a product and start building that relationship, and then graduate them into a more mainstream relationship with the bank with mainstream products and services. Interestingly enough, as of right now, those mainstreams are traditional checking account, savings account, and then eventually lending products.

It is always interesting and there is a great conversation around this issue. At what point, if you are unbanked or underbanked, do you get out of that segment and move up to the next segment? "Now that I am 'traditionally banked,' meaning I have a traditional product, then am I now more open to a lending product?"

It has been made pretty clear recently that lending products tied to prepaid are not acceptable at this point. I understand, to a degree, why. But it also pigeonholes prepaid as a whole. We try to be careful with that. But to your point, that is exactly what it is. It is a graduation process in our mind.

**Ms. Schneider:** Steve, you have often been vocal that payments are the end-game. That is the goal and providing a good, convenient, high-quality payments product is what this customer base needs. It is interesting for us to have a dialogue about that and hear your point of view.

**Mr. Streit:** Yes, the customer needs, not just a convenient way to pay electronically—nowadays you cannot even go on an airplane without being told you cannot buy Pringles potato chips without a debit card in flight. So it is very important to have electronic payments to buy online and in all kinds of channels.

People need credit too and they want credit. Kevin alluded to this a little bit. It is just so difficult to do with a fellow who is not in the mainstream bank environment and does not have a FICO score above 580 or 600.

Early in our career—going back a decade ago—we dabbled in that and the charge-offs were 50 percent. That is just not a viable business model.

We learned something else and, Rachel, we have talked about this over the years offstage, too. The customer at the end of the day did not like it. In other words, the sense was, “Hey, the reason I like this product—in Green Dot’s case—is because I cannot get into trouble. There are no penalty fees or overdraft fees. It is simple. No matter what I do, there is no negativity to it.” There is karma about a product that says, “We are not going to hassle you and the product is going to do what we say. And that is it.”

As soon as you layer on credit products and repayment and penalty fees, the whole karma of the product spins out of control. “Hey, you did not do this and now we are going to call you and do this.”—then we are just one more bill collector calling you at dinner time. The comments were that it was ruining the whole vibe of the product.

We do not like it, but it does not mean that people do not need credit. Look, let’s face it. Not everybody is able to handle credit properly. That is a skill set you either have or do not have. Sometimes it is a situation of education and sometimes it is just your income and cash flow. For us, it is not our cup of tea, to be sure.

In terms of “the endgame,” our customers are saying, “Look I want somewhere to put my money. I want it to be safe and insured. If I have a problem or an unauthorized charge, I want to be able to call somewhere and get the money credited back (which is Regulation E), and I want to know you are not going to hurt me and you are going to help me and I will use you when I want to and won’t when I don’t.”

When you think about it, that is not a bad offer. Life should be that simple. So it is not the end game. We think consumers need all kinds of things.

*Ms. Schneider:* Thanks. That is helpful.

Louisa, the government is clearly making huge efforts to get everybody into electronic payments, at least with respect to receiving a government check. You talked about the Treasury's goal of not having any more paper checks be sent out as of 2013. What do you do to ease that transition process for people who, in fact, are attached to the idea of paper checks and like receiving them for one reason or another?

*Ms. Quittman:* First of all, it is worth pointing out 2013 has been a long time in coming. Some of you in the room know we have been working under this mandate since 1996. This is not something we have done in a hurry and we really have tried to figure out what are the products and services that will migrate check users to electronic payments. The tax refund is still an exception, but it is all the other federal payments.

We have developed the voluntary method. We have developed the card product, but we are still really very much looking for partners in the private sector to help us, because the government cannot do this alone. For financial institutions—whether it is Main Street financial institutions or next-generation financial institutions—you should really see this as an opportunity to bring these people into your institution and into your products and services. All they need is a number to be able to get their check sent as an ACH payment into your financial institution on a monthly basis. This is not something we can do alone in the government. We are giving our best effort.

There is also a lot more that we can do with the community sector, local governments, and state governments to also help promote the understanding that this change is coming. It is beneficial to people in the long run. It does give them greater safety and convenience. Their check is always there on the first day of the month. They do not have to worry about somebody taking it out of their mailbox. So we have been pushing those messages hard. To make this really effective, it does take the whole industry as well.

*Ms. Schneider:* That is helpful. One thing that is interesting for this group to think about, since we clearly have such depth in terms of payments systemic knowledge in the room, is: What is the barrier from the customer's point of view? Why have you not achieved 100 percent adoption? And why are people still attached to checks? Can you speak to what the perception is among consumers?

*Ms. Quittman:* It has been implicit, but nobody has explicitly said it all day today, but there is really a generational change. Many Social Security recipients—not all, but many—are people 60 and over. I think we are going to have a generational change as baby boomers are now starting to be Social Security recipients; they have a very different approach, at a minimum, to online banking or direct deposit than perhaps people from generations before.

I think it also speaks to—and I do not have a detailed data breakdown—the fact that the populations in this country that are financially excluded are very strongly correlated with people who are living in low-income communities or are minority populations—African-American, Hispanic, and native populations. These people have not been traditionally well-served by the financial mainstream and financial institutions, and have not been welcome in banks in many places around the country over the last 50 to 100 years.

So the distrust of financial institutions is deep in this country in a lot of communities. It is going to take outreach from us and from you and from community partners and from state and local partners to really bridge that gap. I know you all have data probably saying the same thing.

*Ms. Schneider:* We do. I would think that is a piece of it. There is also an element of how easy it is to get cash in and out of the system. For a consumer who wants to be able to carry cash in their wallet, the big issue is: how can I cash that check when I receive it from Social Security or, if I get my funds on a card, can I easily convert that card into cash? That is a systemic issue. We have seen more and more improvement, more and more growth, more innovation in ways that people can get cash in and out of the electronic system. To me, that is a big part of the solution ultimately.

*Ms. Quittman:* I will say one other thing. We were talking earlier about how many merchants take this product or take that product; there are still merchants out there, particularly landlords, who do not take a check, who will only take a money order. Probably most of you do not live in those neighborhoods and I do not either, but Steve knows, because his customers live there.

Modern technology does lag in low-income communities in this country. It will change. I do not know how quickly it will change, but there are still a lot of people who take a money order to their landlord. That is how they pay their rent. Or they pay cash for their phone bill and for their power bill. They go down to the store and pay that way, because that is the most effective way for them to do it.

*Mr. Morrison:* What is very interesting is that financial services are financial services. Whether you are getting them at the check-cashing window in those low-income neighborhoods or the payday lenders, they are still financial services. What we are in the process of doing is figuring out how to bridge that gap to introduce them into the financial mainstream. To your point, in those low-to-moderate-income neighborhoods, those are the services being made available.

In our research, in one-to-one interviews with these unbanked or underbanked, we heard them loud and clear when they said, “Well, when I walk into a check casher, the cost of cashing my check is right up front. I know exactly how much it is going to cost me when I cash that check. And when I take my money, it is mine and I am gone. At a bank, I do not see that clear disclosure of fees. Then

sometime down the road, all of the sudden, there is a fee taken out of my account and I do not know why.”

That is a loud and clear message of what changes we need to make—at least in financial services—to make sure we are educating and providing that transparency to this segment.

*Ms. Schneider:* Let’s take some questions from the audience.

*Mr. Salmon:* I am fascinated and very happy to hear from Louisa that the Treasury has been experimenting with a reloadable prepaid debit card. I think this is a fantastic development.

Of course, she is sitting between the two other panelists with prepaid debit cards. You said, Louisa, that the response you got was much better for the one without a monthly fee than for the one with a monthly fee. As to this question of the ease of getting cash in and out, the chap to your left (Kevin Morrison) does not have a reloading fee on his card and the chap to your right (Steve Streit) does have a reloading fee on his card.

The question is for Steve. 1) What was the reload fee on your card? And 2) To what degree is the reload fee a less obvious, less salient hidden tax on people with prepaid debit cards, which they might not be so concerned about initially, but might cost them more in the long term?

*Mr. Streit:* It cannot be hidden, because you cannot buy it without the cash register employee saying that reload will cost you, say, \$3 at a Wal-Mart, or \$4 at a 7-Eleven, and maybe \$5 somewhere else. It would be hard to not know that it is there. So the hidden part is not there.

The question is, Do people know about reload fees? The answer is I suppose they do, because there is no way not to know about them. The better question is, Would people reload more, if there were lower fees or different fees? We are always doing pilots and testing. Amazingly, so far, we are not seeing great differences, but we are game to try all kinds of different tactics and options. You never know. This is still a relatively young industry.

I am not sure, to be honest with you, what you do, Kevin, for reloads at U.S. Bank.

*Mr. Morrison:* At U.S. Bank we chose to allow free reloads—which surprisingly enough, with the product we offer, almost 75 percent of the people come back in to the bank to do reload. It is a free offering. Strangely enough, it came from the tellers and bankers within the retail branch. Again, we are very fortunate to have a retail branch network. We have that footprint, so we take advantage of it.

If I walked into a bank to deposit a check into my account and they said, “That will be \$4.95,” I am going to think that one through as a bank customer. This is the same thought process that the bankers and tellers went through. They

said: “We are not going to tell these people that we are going to charge them money in order to put money into their account.” In their mind that is what they are doing. This is a financial account for these people. That is why we chose not to put a fee for reload on the card.

**Mr. Streit:** That is a good point. I should say, by the way—because this is not a prepaid crowd—that the majority of funds loaded to cards through direct deposits, typically are 60 to 70 percent, which is completely free. So we are talking specifically about the retail cash reloadability of the card. In fact, in Green Dot’s case, as many of you may or may not know, we actually pay consumers a \$10 bonus when they enroll in direct deposit. Our direct deposit penetration is up in triple digits year over year now for two or three years going. So we certainly urge people to reload in direct deposit. They are our best customers. And they also get their monthly fees waived, as well. For those of you who know the company or hear the conference calls, we have a significant number of customers who pay no monthly fee and no reload fee. They are actually our best customers through interchange and ongoing use.

The retail branch network is an advantage. The disadvantage is there are not a lot of U.S. Banks relative to retail stores and the hours are different. So everybody has to pick and choose their product. I am not sure there is any one way or one right product in the same way there are 9,000-plus banks in the United States that have different fees and so forth. People ought to use the product that makes the most sense.

**Ms. Schneider:** Thanks, Steve.

**Ms. Benson:** I have a question about the customers who are unbanked using Steve’s prepaid card or the card that Louisa is providing. Some of them are obviously trying to send money home to relatives in developing countries, who may be using the mobile wallets provided in the developing world, perhaps from the carriers or the banks depending on that area. What are you doing to help them do that—to make payments out of their prepaid card accounts in the United States—at a reasonable cost?

**Mr. Streit:** I do not know, Kevin, about U.S. Bank. But, we actually discourage international money transfer with the cards. In fact, if we see somebody doing it, that is a good reason to have the account closed. It is just not what the product is used for. These are FDIC-insured domestic accounts. You have to have full CIP (Customer Identification Program) and KYC (Know Your Customer) to open the account like any checking account. It is not designed for money transfer.

Does that mean that out of our millions of customers somebody did not send a card to Mexico and they are moving money that way? Maybe, but again, if there are too many transactions coming out of a foreign country, our fraud division would probably block it. That is not the way this product is used. Can it be used that way or could there be other products that could be used that way? Sure, I

think Western Union has a product similar to that. There are fees for that and you can do that. But that is not something we do on our side.

**Mr. Morrison:** I concur with Steve. We do not offer that type of service for exactly those same reasons. Quite frankly, there has to be some level of sophisticated integration to get to that point of using a mobile wallet to transfer funds offshore and tracking of that transaction to validate that there is not a level of AML (anti-money laundering) or fraudulent activity going on. It takes quite a bit of sophistication to get to that level and it will get there at the speed technology moves, but as of right now, our product is not built for that either.

**Ms. Quittman:** Let me just add the Direct Express card is really meant to be a lifeline account card because of the statute and the regulations that enable it. It is meant to receive benefits, so it has a limited functionality so that it can be very low cost and be that lifeline to receive Social Security and similar benefits. The Treasury Department is not looking to create a sophisticated card product that is meant to meet that specified need.

**Mr. Breloff:** I would also add I do know that a lot of money transfer organizations are working on this issue now and we come across it a bit. Part of the challenge is not many people have a mobile wallet still. A lot of the work we have been a part of internationally is more about trying to get people on the receiving end excited about having a mobile wallet. Once they have a mobile wallet, there will be more pull to have it connect to inbound international remittances they are getting. So far, there has not been significant volume that I am aware of.

**Ms. Merritt:** On the subject of international remittances, for Paul, you mentioned one of the impediments you are seeing was the inability to have cash-out distribution in some countries. That could likely be an obstacle for adoption and financial inclusion. Are you starting to see movement from some of the central banking authorities or regulatory authorities in some of these poorer markets to allow cash-out distribution from the mobile channel like they do in Kenya?

**Mr. Breloff:** We work a lot with domestic remittances. A lot of the work we do is focused on building remittance corridors and cash-out points for domestic flows. The international flows depend market by market. So places like Bangladesh and the Philippines, there is a ton and this is significant. In a place like India, the people who are lucky enough to have relatives who are sending money from overseas are probably in a place that is well-enough served, so it is not as big a problem.

Right now, the harder challenge—and where, for example, the Reserve Bank of India would spend more time—is building that cash-in and specifically, cash-out network in more rural areas for domestic transfers. That is where a lot of the focus has been.

Certainly, there are efforts. What ends up happening, usually, is Western Union and MoneyGram wait until a domestic agent network has been built, then

come in and take the whole thing. I have been part of that a few times. We do not have a strong view of whether that is a bad or good thing. All in all, in the short term, it is good for customers because there are more places they can access it. It makes it harder and harder for people to come in with more competitive offers obviously, because it just cements their position that much more.

**Mr. Tomasojsky:** I guess I am a little confused. You were speaking about good public policy. Louisa, you said it is good to have prepaid cards available for consumers to receive government benefits electronically. Yet, there was a hearing last week about the Treasury Department and tax refunds going to prepaid debit cards that made it sound like that was a bad thing because of fraud that is going on associated with the refunds. There really seemed to be some focus on the prepaid card as the problem, as opposed to maybe other parts of the process.

There was also some discussion about having access, of course, for electronic payments, for bill payments, rental payments, and other types of payments, and to avoid money orders or to use money orders or whatever. Yet, Regulation II now states that to remain exempt as a prepaid debit card issuer and receive a higher form of interchange, you cannot have electronic bill payment unless it is done through the cards. So you cannot have an ACH bill payment or issue a check because you would lose the exemption.

It seems that some public policies and regulations are going against other public policies...maybe you can help with my confusion.

**Ms. Quittman:** Public policy is complex. And public policy in the payments space is complex. It is! I do not purport to be an expert on every aspect of regulations you are referring to, so that is my disclaimer. I am not an expert on all those aspects of payment policy. My area of expertise is in financial inclusion.

But let me do my best to answer what I understand. Treasury is working on a number of fronts to address our mandates as a payer, which is to get rid of paper checks for Treasury—as a payer. We are trying to do that in a way that is efficient for the government and beneficial for the consumers, which are federal benefit payees.

First of all, we are mandated to do that by Congress and we are trying to do that as effectively as possible. We are also, in our other role as tax administrator, trying to ensure we run a tax system as efficiently and as effectively as possible, which is extremely complex.

I am not in the IRS and I am not a tax-policy expert, but there are always competing interests in terms of ensuring we are getting our taxes in and there is not fraud in the system, but also that taxpayers get their refunds appropriately, as quickly and effectively as possible. I do not have all the answers to your question because there are a lot of different parts to that and a lot of balancing of various interests.

**Ms. Schneider:** Does anybody else want to offer a perspective on that? The other thing I would add to this is, from a public policy perspective, the government is



trying to play multiple roles here. So the work Louisa has been talking about is mostly government as payor. As payor, they are thinking very much about how to maximize the ways people can be paid in order to improve the experience of being paid and lower government costs. That role sometimes leads to different outcomes than the role that government also plays of, “How do we maintain consumer protection and play whatever role we think we should play in the payments infrastructure systemically?”

Unfortunately, what you are pointing out is, as government plays those multiple roles, we are not always seeing a consistent answer. We are not always seeing a consistent point of view about, in particular, this product.

My perspective is that this is due, in part, to that fact that prepaid is still relatively new. There is still a need to work out a lot of understanding of what the product is. As Steve pointed out, consumer awareness is still a major issue. It is also the case that a more broad understanding of what this product category of prepaid is about is still a major goal. There is still plenty of work to do there, to ensure that we are regulating it appropriately and talking about it with consumers in the best possible way. And, all that is happening in the context of a product that is changing and still growing.

**Ms. Garrett:** I actually have a characterization question for all of you. I have heard some of you say different things about it in the past. People like Steve are asked, “When are you going to graduate them to mainstream banking products?” They ask U.S. Bank, “So when do they get to move to a mainstream banking product?” Yet, with prepaid, we have products that have FDIC insurance, bill pay, and mobile banking that are probably more robust than most traditional checking accounts. I guess my question for you all is, What is mainstream banking, if it is not these products?

**Mr. Streit:** I am so glad you asked that question. Here I was going to be polite, because Kevin is a friend and he has a great program at U.S. Bank.

Look, we do not see it as this concept of “graduate somebody to credit” or “graduate somebody to DDA,” where fees are five times a prepaid card. I do not know who is graduating what or how, but the customers do not see it that way. We have done so many focus groups. I just do not know how to describe it. It is like saying you are going to graduate from a green suit to a brown suit. They are unrelated, if you like green or if you like brown. This is not high school where, if you pass your math test, you go to the next grade—or maybe not, in many parts of the country.

That is always offensive. I have to be honest with you, as somebody who works a lot with our customers. And by the way, Green Dot’s customers’ average yearly family income is \$50,000, 25 percent of our customers have a household income of \$50,000 to \$75,000, half have bank accounts when they buy their Green Dot card and 75 percent were previously banked at a traditional retail bank. We are not talking about Martians with antennas on their head running around. People

always tend to talk about our customers as if somehow they are not regular, everyday Americans who work with us every day. Now I will stop that.

The answer is that we do not see a graduation strategy. We see a right-product strategy. That is someone who says, “I used to use credit. I got in trouble. I do not want a credit card and I got rid of it. I want a product that I do not get into trouble with and that I know where it is” or “I had a bank account at a major bank or a smaller bank and do you know what? Every time I did such and such, I got hit with \$35 and that made me bounce these other checks, that made me bounce the other five checks” and all these things.

I spoke before—which is a weird thing for a bank holding company CEO to say—but karma should play a role in your product. Treat people as you like to be treated. It is very basic stuff. You do not need to have a Harvard MBA for that and that is the way it is.

I hear that graduation stuff—and Kevin I do not even mean it that way—but I do not believe people graduate to credit. They want credit and they can qualify or not. Or they want a checking account because they believe that is what they need or they want a prepaid card. When we go to lengths, as Green Dot has, to have FDIC insurance and Reg E, and 3,000 call center employees answering calls, the Green Dot experience is in many cases more satisfying, less expensive, and more predictable than any regular checking account. The same goes for other prepaid companies.

I hear what everyone is saying. People often say, “Unbanked: you are unbanked and you have a prepaid card.” But, if you have a Green Dot prepaid card, you are banked, you are in a bank, you have a bank account with all the same rights, privileges, and abilities that anyone with any checking account—including U.S. Bank or anywhere else. OK, now I will be quiet. Good question. Thank you.

**Mr. Morrison:** It is always the lawyer that starts it up, isn't it? No, it is an excellent point. Graduation strategy is a term that has been used for quite some time, but Steve makes an outstanding point. Today, as we sit in this room, we are who we are, have the experiences we have, and live in the neighborhoods that we live in. We know what traditional is.

I have a 15-year-old daughter, who has a Convenient Cash account but she does not call it a prepaid card and it does not say “prepaid card” on it. She does not know what a check is and she is never going to write a check. We have—to the point that was made earlier—a generational thing going on here. As this generation comes up, they will choose the financial services and products which they will utilize, for whatever best fits their need. And it is not going to be a real big decision point for them.

I truly believe, at the rate we are going, very soon in the future it will be more than likely on a phone. It will be a tap on an app on your phone and you will have three accounts to select from: your spend account, your save account, or your

credit account. You will decide which one you want to use, wave your phone and you are done. That is where we are heading and all of this will be academic by then.

As we sit today and as we look to address “Ensuring Consumer Access to the Payments System in the Connected Age,” all of the subjects that have been discussed thus far integrate right to the mobile wallet: the ability of the Web continuing to grow, how we work together to get through it—including the federal agencies, whether it be CFPB or the Fed, working to provide those services to all of our clients. At the end of the day, they are as much clients of the Fed as they are our clients and our customers. That is the point we are heading toward. So good point, Steve.

**Ms. Schneider:** I want to thank all of our panelists very much for this conversation and thank all of you. We really appreciate your engagement on this topic.