Visa’s new designation rules for reloadable prepaid cards

The CFPB also intends to regulate GPR cards

Approximately $65 billion was loaded onto general purpose reloadable (‘GPR’) prepaid cards in 2012, more than double the amount in 2009. Five percent of adults, or about 12 million people, use prepaid cards at least once a month. A Pew Charitable Trust survey found that most users use prepaid cards to avoid the risk of overdraft fees and as a commitment device, or a tool to restrict their ability to overspend or to incur interest charges. Prepaid cards may be viewed as an alternative or complement to checking accounts. Given the significance of prepaid cards, both Visa and the US Consumer Financial Protection Bureau (CFPB) are seeking to regulate them − Visa through a designation and the CFPB through future rules.

Visa designation

On 3 June 2014, Visa announced a new designation for consumer reloadable prepaid products in the United States developed with the Center for Financial Services Innovation and The Pew Charitable Trusts. The designation was developed to simplify fees, improve consumer protection and foster opportunities for cardholders to improve their financial condition. Green Dot Corporation, the largest provider of reloadable prepaid debit cards in America, announced that it supported the Visa designation.

A prepaid program must satisfy the following set of standards to qualify for the Visa designation, evidenced by a seal that will be visible on card packaging and material.

Simplified fee structure and transparent disclosures

First, there must be a flat monthly fee that includes all basic day-to-day activities (actual fees between cards may vary). Consumers must not be charged: (a) transaction decline fees, (b) customer service fees, (c) in-network ATM withdrawal or balance inquiry fees, (d) PIN or signature transaction fees, or (e) cash back at point of sale (POS) fees. Second, neither overdraft coverage nor overdraft fees are allowed. Third, consumer-friendly communication of fees is required (e.g., fee box and disclosures). Fourth, there must be a quick-use guide for consumers to find the best ways to use the product for the lowest cost.

Consumer protection

First, individual Federal Deposit Insurance Corporation/National Credit Union Administration insurance is required. Second, there must be dispute resolution rights under Regulation E. Third, all cards must be covered under Visa’s 100% Zero Liability policy (Visa’s Zero Liability policy covers US issued cards only and does not apply to ATM transactions, PIN transactions not processed by Visa or certain commercial card transactions). Fourth, there must be access to Visa’s Prepaid Clearinghouse Service (PCS) for better fraud protection.

CFPB Regulation

Currently, GPR cards are largely not addressed by federal law. In an Advanced Notice of Proposed Rulemaking issued on 23 May 2012, the CFPB announced its intent to regulate GPR cards and sought public comment regarding the costs, benefits and risks to consumers using GPR cards. The CFPB intends to evaluate and address coverage of GPR cards by Regulation E, product fees and disclosures, product features and other information on GPR cards.

On 18 March 2014, the CFPB unveiled model forms of prepaid card packaging disclosures to be used in interview testing with consumers. At a US House Financial Services Committee meeting on 18 June 2014, CFPB Director Richard Cordray said that the CFPB will issue regulations providing new protections for “those [prepaid] cards [that] are [currently] not protected by any of the consumer financial protection laws,” with the CFPB aiming to “create clear, straightforward comparable apples-to-apples disclosures so that people can look at different prepaid cards and get a good sense of the fees.”

Cordray expects a proposed rule for public comment to be issued by the end of summer 2014.

With developments to come, the regulation of prepaid cards, including through the Visa designation and future CFPB rules, should continue to be monitored.

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The authors thank Joseph Lanz, Information Resources Manager with Dorsey & Whitney LLP in New York, for his help with this article.

1. The Pew Charitable Trusts define GPR prepaid cards as those that are widely available to the public, allow customers to load funds via cash and direct deposit, and provide the ability to spend money at unaffiliated merchants and to access funds through ATMs. The Pew Charitable Trusts, “What is a GPR Prepaid Card?” (6 Feb 2014), available at http://webcache.googleusercontent.com/search?q=cache:ehbhMxk60YJ:<pewtrusts.org/our_work/report_detail_full.aspx%3Fid%3D3699638992+&dc=3&hl=en&ct=clnk&gl=us</pewtrusts.org/our_work/report_detail_full.aspx%3Fid%3D3699638992+&dc=3&hl=en&ct=clnk&gl=us>
3. Ibid.