

WHAT'S AHEAD IN STORED VALUE Prepaid TRENDS

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GIFT CARDS

Cardholders' Fate Uncertain When Stores Go Bankrupt

By Adam Saytanides

With consumers feeling pressure from the housing crisis and a tightening economy, retailers are facing a rough year. Lillian Vernon and The Sharper Image filed for bankruptcy protection in February, and Linens 'n Things Inc. filed May 2 for Chapter 11.



— Dan Horne, Providence College

Industry observers such as Dan Horne, associate professor of marketing at Providence College, expect the uptick in retail

bankruptcies to continue.

"The economy continues to suffer, and people are spending all their money on food and gas," Horne tells *Prepaid Trends*. "This isn't the last. You're going to see some [other retailers] go under."

So where does that leave shoppers who are holding gift cards from big

retailers that have filed for bankruptcy? Until recently, no one really cared.

"Gift cards [and bankruptcy] have never been a big issue before because the volume wasn't there—unredeemed certificates would have been a small, insignificant number 10 years ago," Horne explains. "But now gift cards can be 2, 3, 4, even 10% of sales. Once the dollars get big enough, people start fighting over it, and it becomes newsworthy."

Indeed, The Sharper Image found itself the subject of negative publicity when the retailer initially told the bankruptcy court it did not intend to honor outstanding gift cards and certificates valued at \$42.6 million, according to Consumer Reports. The Sharper Image did not return messages seeking comment.

Brookstone Inc., a savvy competitor specializing in high-end gifts and based in Merrimack, N.H., sensed an opportunity and quickly announced in late February that it would honor Sharper Image gift cards by offering a one-time, 25% discount to shoppers who surrendered the cards at any

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NEW APPLICATIONS

H&R Block Adds Mobile Banking To Emerald Card

By Ben Jackson

H&R Block Inc. has begun testing mobile-banking services for its Emerald MasterCard, the company announced May 28.

Cardholders can use the service to check balances and receive account-



— Kevin Morrison, H&R Block

reload alerts on their mobile phones, the company says.

Based in Kansas City, Mo., H&R Block plans to conduct a test through the summer

and then roll out the service to all its Emerald card customers during the next tax season, says Kevin Morrison, H&R Block assistant vice president of products.

H&R Block decided to add the service because a large number of cardholders use the card all year long by reloading it with payroll deposits, Morrison says.

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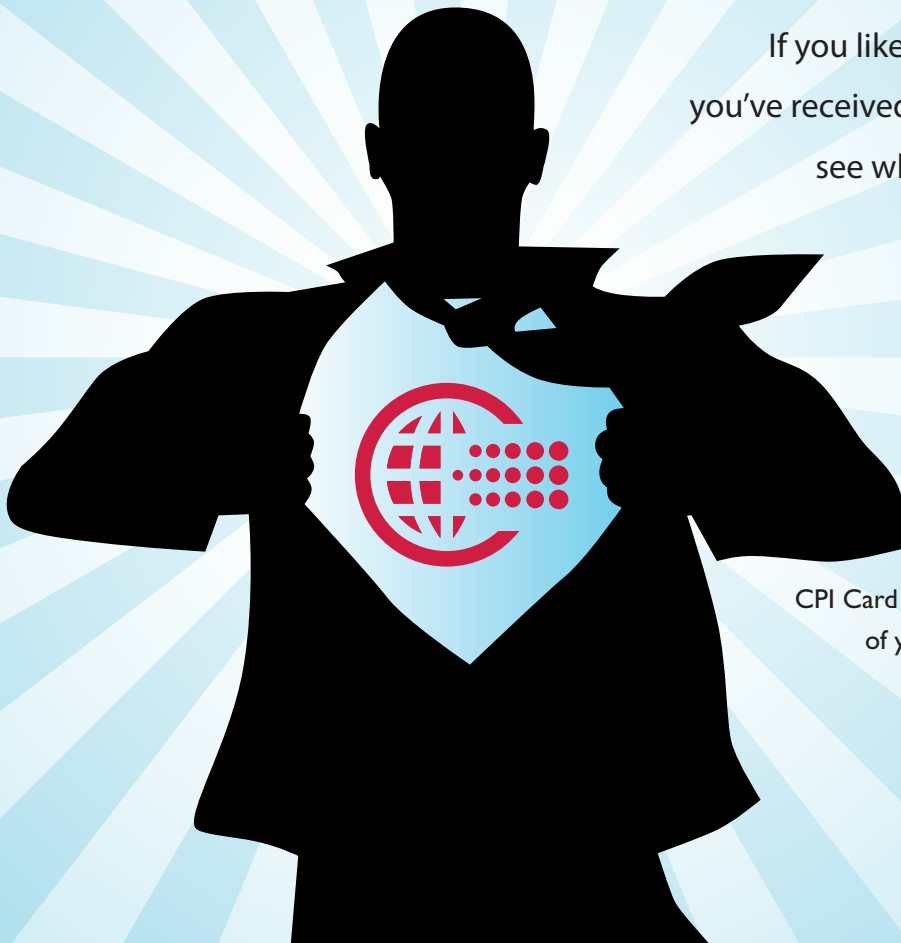
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CONSUMER INCENTIVES

Babee Card Helps Outfit UK's New Mothers

By Ben Jackson

Necessity was the mother of invention for a card aimed at new mothers in the United Kingdom.

Altair Financial Services PLC, a card processor, and Blueberry Card Services LTD., a prepaid card manager, announced May 16 they have launched the BaBee Prepaid MasterCard.

Mothers receive discounts when using the card at selected retailers online, says Gemma Johnson, Blueberry CEO.

Johnson created the card while she was pregnant.

"I was looking for a way for my family to contribute to the birth of my son without buying me duplicate things," she says. "I wanted to create a portal where other mothers could make the most of their money when they needed it the most."

The BaBee card may be the first card aimed at new mothers, Doyel Maitra, a MasterCard Europe spokesperson, says in an e-mail message.

Other cards offer discounts for specific merchants, such as the Maestro card that the Aspinall Foundation announced in March, Maitra says.

The Aspinall Foundation breeds endangered species in wild animal parks in Kent, in the United Kingdom, and reintroduces them to their natural habitats, according to the foundation's Web site. Half of the profits the card generates go to support the foundation. Using the card also gets consumers discounts of up to 25% with certain retailers and at the Aspinall Foundation's shops and in its parks, according to a the foundation.

Blueberry's Babee card costs \$29.11 and can be reloaded for free using the Internet and automatic fund transfers, Johnson says.

Mothers buy the Babee cards online



Mothers receive discounts when using the card at selected retailers online.

—Gemma Johnson, Blueberry CEO, and son Teddy

and receive a personalized card in the mail within two to three days, she says.

Consumers can reload the card through text messaging for \$2.36 or with top-up cards that cost \$9.72, Johnson says.

The top-up cards and text messaging enable consumers other than the cardholder to contribute funds to the card, she says.

While mothers cannot use the cards in stores, they can purchase vouchers to use in stores, she says.

Mothers can buy vouchers for grocery stores at an 8% discount, and receive them in the mail a few days after buying them, Johnson says. The vouchers work like a gift certificate or

gift card.

Blueberry plans to offer in-store discounts for the cards, she says.

H. William Baustein, senior vice president of client services and new business solutions for Stored Value Solutions, a subsidiary of Ceridian Corp. based in Louisville, Ky., says marketing to certain demographics brings higher response rates for retailers and manufacturers who use closed-loop cards to promote certain products than mass promotions.

At least five of Stored Value Solutions' customers offer cards that enable someone other than the cardholder to load funds onto the card. Baustein says those cards are most popular with parents with children off at college, and he says a system such as the Babee Card where multiple consumers load funds onto one card could be easy to create.

"All I'm aware of from our base is two cards—that's not to say you couldn't have three or four cards tied to the same account number," Baustein says. "I think one of the reasons it hasn't been done is it has been very easy to do a double card where you just snap them."

Right now, a new mother has to buy the card herself online so that the issuer can verify personal information about the cardholder. But Blueberry is setting up a system to enable consumers to buy the card as a present and several gift givers could contribute, Johnson says.

The cards expire after one year, and a cardholder would need to buy a new card to continue getting the discounts, she says.

She predicts the names on the Babee cards will change, but the cards themselves will remain popular.

"There is a very niche market, but a very renewable market" for the Babee card, Johnson says.

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► **GIFT CARD** cont. from p.1
 Brookstone store. On March 28, Brookstone stated in a press release that it would continue accepting the Sharper Image cards.

Smarting from the bad PR and potential loss of market share, The Sharper Image changed course and asked the bankruptcy judge to allow the company to redeem outstanding gift cards, with the condition that cardholders redeem the entire amount of their cards and buy merchandise costing double the amount of the gift card balance, the company said in a press release in early March.

“We have worked very hard to address the concerns of our customers, and to dispel rumors in the media that Sharper Image’s gift cards are worthless,” announced CEO Robert Conway in a March 7 press release, just 10 days after Brookstone made its offer.

In contrast, Linens ‘n Things, which

is based in Clifton, N.J., declared from the start it would honor all gift cards, according to a May 5 press release.

Linens ‘n Things’ policy did not result from lessons learned from Sharper Image’s faux pas but instead arose from the different financial problems the companies face, says Brian Riley, senior analyst for the TowerGroup Inc.’s bankcards practice. TowerGroup, a MasterCard Worldwide research arm, is based in Needham, Mass.

“Sharper Image was a company that fell to floundering retail sales; Linens ‘n Things was strapped with debt from a buyout,” Riley says in an e-mail message to Prepaid Trends. “It’s not particularly true that one company did more than another. One had the capacity to do something, and another did not.”

Retail chains that file under Chapter 11 reorganization intend to re-emerge



— Brian Riley, TowerGroup

from bankruptcy or to sell their operations to the highest bidder, says Claudia Springer, managing partner at Reed Smith LLP’s Philadelphia law office and an expert in bankruptcy law. Because companies that file for Chapter

GIFT CARD cont. on p.11 ►

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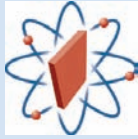
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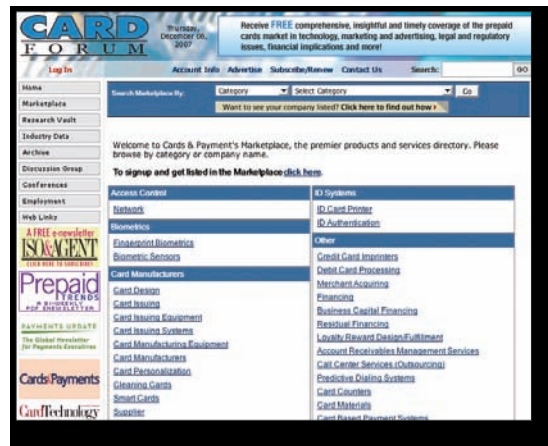
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► **EMERALD** cont. from p.1



— Lisa Stanton, Monitise Americas

“You’ll see spikes of telephone calls the day before payday,” he says.

Now, cardholders can receive automatic text messages when funds are loaded onto the card, Morrison says.

Cardholders also can send a text

message requesting their balance at any time, he says.

Other companies have used text messaging to help cardholders keep track of their funds.

Based in Austin, Texas, NetSpend Corp. has offered cardholders the option of getting balances in e-mails sent to cell phones or e-mail accounts, according to an e-mail from Meghan Butler, a spokesperson for the company. Last year, the company began using two-way Short Message Service (SMS) text messaging to provide information to customers, Butler says.

“NetSpend cardholders with SMS-enabled cell phones have no reason not to know their balance at any time,” Butler, spokesperson for NetSpend, tells *Prepaid Trends*.

Metavante Mobile Financial Services, a division of Milwaukee-based Metavante Corp., and Monitise Americas, a joint venture of Metavante and London-based

Monitise plc, is providing the service to H&R Block.

Monitise also uses SMS technology for the Emerald card service, says Lisa Stanton, Monitise Americas’ CEO.

“SMS text messaging is the most ubiquitous feature on cell phones today,” Stanton says. “Virtually any cell phone on the market can send and receive text messaging.”

Monitise also offers software that consumers can download to a phone for bill payment, account transfers and work with contactless chips for payments, Stanton says. H&R Block does not offer those services.

Metavante provides the processing for Emerald card transactions, and Monitise provides the connection between Metavante and the telecommunications companies, says John Focht, division president of Metavante’s issuing solutions group.

EMERALD cont. on p.12 ►

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Agenda at-a-Glance

SUNDAY, JUNE 22, 2008

2:00 PM - 5:00 PM
Pre-Conference Workshop
Mobile Marketing: How
Financial Institutions Can
Deploy the Newest Mar-
keting Channel
Workshop Leader:
 Doug Rozen
Global Vice President, Inter-
active and Mobile Marketing,
 CARLSON MARKETING

MONDAY, JUNE 23, 2008

8:30 AM - 9:15 AM
What is the Mobile Com-
merce Value Proposition?
 Bob Egan
Chief Analyst, TOWERGROUP

9:15 AM - 10:00 AM
Mobility as part of the
Bank's Overall Business
Strategy
 Steve Kietz
EVP, Global Growth Ventures
and Innovation, CITIGROUP

10:30 AM - 11:15 AM
A View from Frontlines:
Multiple Perspectives on
the Development of Mo-
bile Financial Services
 Brandon McGee
VP, Senior Product Manager,
Mobile Services,
 HUNTINGTON BANK
 Toshihiro Uchida
VP, Fidelity eBusiness Wireless
 FIDELITY INVESTMENTS
 Ginger Schmeltzer
SVP, SUNTRUST

11:15 AM - 12:30 PM
Mobile Channel Usage
Forecasts: Setting the
Stage for Revenue Oppor-
unities
 Jean Garascio
Associate Analyst, JAVELIN
 STRATEGY AND RESEARCH

1:45 PM - 2:30 PM
The Next Step: How Banks
can Move from Early Adop-
tion to Mass Adoption
 Tripp Rackley
CEO, FIRETHORN,
a Qualcomm Company
 Additional panelists
 to be announced

2:30 PM - 3:15 PM
How to Make Money in
Mobile Payments
 Joe Salesky
CEO, CLAIRMAIL
 Drew Sievers
Co-Founder & CEO
 MFOUNDRY
 Additional panelists
 to be announced

3:45 PM - 4:30 PM
Panel Discussion
Authentication and Risk
Management in Mobile
Financial Services
Moderator:
 Maria Arminio
Founder,
 AVENUE B CONSULTING
 Panelists to be announced

4:30 PM - 5:15 PM
NFC Mobile Payments
Ecosystem and Applica-
tions-An Update of Pilots
around the World
Moderator:
 Mohammad Khan
President & Founder, VIVOTECH
Panelists:
 James Anderson
VP, MasterCard Mobile Center
of Excellence, MASTERCARD
 Damien Balsan
Head of NFC Business
Development Americas,
 NOKIA DEVICE EXPERIENCES
 Remy de Tonnac
CEO, INSIDE CONTACTLESS
 Dom Morea
SVP, Product and Business
Development, FIRST DATA
 CORPORATION

TUESDAY, JUNE 24, 2008

8:00 AM - 8:15 AM
Chairperson's Recap of
Day One
 Bob Egan
Chief Analyst, TOWERGROUP

8:15 AM - 9:00 AM
The International Scene:
Lessons to Apply from
Successful Mobile Deploy-
ments Abroad
Moderator:
 Michael J. Herrmann
Research Director,
 CENTER FOR FINANCIAL
 SERVICES INNOVATION

Panelists:
 Rodney Robinson
Vice President,
Business Solutions, OBOPAY
 Lisa Stanton
CEO, MONITISE AMERICAS
 Serge Van Dam
Head of Marketing, M-COM

9:00 AM - 9:45 AM
Case Study: Creating a
User-Friendly Mobile
Experience
Presenters:
 Adam Kornak
Enterprise Mobility Strategy
Manager, Financial Services
Group, MICROSFT
 Brent Wilkins
Managing Director,
 CANTOR FITZGERALD

10:15 AM - 11:00 AM
Case Study: Prepaid/Stored
Value Mobile Applications
 Eric Dumois
Program Manager, Mobile
Financial Services, METROPICS

11:00 AM - 11:45 AM
Case Studies: Connecting
the Bank and Merchant
through Mobile Commerce-
Maximizing Exposure and
Generating Revenue
 Mike Keresman
President, Founder & CEO,
 CARDINAL COMMERCE

11:45 AM - 12:30 PM
Mobile Services in Corpo-
rate Cash Management
and Treasury Services
 Speaker to be announced

12:30 PM
Conference Adjourns

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GUEST COLUMN: REGULATION

Agency Shifting Responsibility to Banks For Stores and Sponsored Nonbank ATMs

By Patrice Motz

Last week, the Financial Crimes Enforcement Network released a ruling that says merchants and nonbank owners of ATMs that reload prepaid cards are not in a regulatory category called money services businesses. The ruling means a bank that sponsors ATM and point-of-sale locations must comply with the Bank Secrecy Act for the transactions conducted at locations it sponsors.

Banks that sponsor nonbank owners and operators of ATMs and merchants "are fully responsible for transactions initiated at those ATMs and POS terminals to the same extent as if they owned and operated them," FinCEN said in the March 10 ruling.

In the past, a shift of responsibility to sponsoring banks would have had little

impact on banks' risk and compliance because ATMs primarily dispensed cash and merchants did not accept cash as part of a card-network transaction. Because ATMs and merchants are reloading prepaid cards, the risks banks face by sponsoring ATMs and merchants change with this ruling.

LIMITED SCOPE OF RULING

The FinCEN ruling has limited effect and scope. FinCEN issued the decision to the party that requested the ruling as a private-letter ruling and made it public May 20. The letter does not disclose who requested it. FinCEN limits the ruling to the facts presented. To the extent the ruling is binding, it affects only the requesting party. The requesting party was an unnamed

owner-operator of a debit card network.

Some observers read the decision as general guidance and a final decision but doing so presents dangers. First, merchants who reload prepaid cards in programs other than the one described in the ruling may receive a different decision from FinCEN. Second, FinCEN based the decision on the facts presented. To the extent the actual situation differs from the facts presented—either because the facts changed or were inaccurate or incomplete when presented—FinCEN may change its decision.

MERCHANT OBLIGATIONS

Merchants also must understand their obligations to prevent money laundering. **GUEST COLUMN** cont. on p.11 ►

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► **GIFT CARD** cont. from p.5

11 protection plan to stay in business, the public usually takes it for granted the company will continue to redeem gift cards to maintain customer loyalty and to protect the image of the brand, Springer says.

The Sharper Image case is the first she can remember where there has been a question as to whether the company would honor the cards during reorganization. "It's not necessarily a decision being made by the company," she tells *Prepaid Trends*.



— Claudia Springer,
Reed Smith LLP

Once bankruptcy proceedings have begun, the decision of whether to honor the cards rests with creditors more than with company

management, Springer says. Tightening credit markets may cause some lenders to put pressure on retailers who otherwise would not think twice about honoring outstanding cards, she says. Nothing is in place to stop the company from using funds in gift card accounts to pay creditors, Springer and Horne both note.

"We are getting a bit of a change here," Springer says. "It depends on how optimistic the lender is that the organization can get out of Chapter 11."

"Gift cards are essentially IOUs, so somebody has to pay for the inventory going out," she says. "If they're not willing to lend you the money sufficient to purchase enough inventory to honor your gift cards and replenish inventory levels once the cards are redeemed, then how can you conduct your business? That's probably what happened with Sharper Image."

Gift card buyers have few protections if a bankrupt retailer cannot honor the

GIFT CARD cont. on p.12 ►

GUEST COLUMN cont. from p.9 All

merchants in the United States must comply with federal and state criminal statutes. Merchants that reload prepaid cards and have failed to put systems in place to prevent money laundering may find themselves unprepared.

For example, employees who have not been properly trained may fail to identify common money-laundering techniques that put the merchant at risk. Additionally, employees of large merchants can be as susceptible to bribery by criminals as employees of convenience stores and other outlets that distribute money services business products.

Merchants subject to the ruling may have independent Bank Secrecy Act obligations. Such merchants might meet the "trade or business" test under the act, meaning they must file FinCEN Form 8300 for all reload transactions involving cash or monetary instruments of more than \$10,000. Those merchants must file Form 8300 for single or related transactions greater than \$10,000.

The aggregation period for multiple transactions—the time in which multiple transactions must be added together to see if they meet the threshold—is one year. In addition, the merchant must notify the cardholder that it has filed a Form 8300.

SPONSOR BANKS

As a result of this ruling all banks should take a hard look at the products and services they offer and determine whether through ATMs they own or through ATMs or merchants they sponsor, they directly or indirectly participate in one or more prepaid card reload programs. If a bank does participate, it should evaluate, update and enhance its Bank Secrecy Act and money-laundering prevention compliance, including the following controls:

- Risk Assessment
- Monitoring
- Currency Transaction Report and Suspicious Activity Report Filing
- Training
- Customer Due Diligence

A sponsoring bank may not have

enough information about transactions or cardholders to meet some of its Bank Secrecy Act obligations. Sponsoring banks need to work with issuing banks and debit card networks to assure that they have access to information they need to comply with the act, especially compliance with Currency Transaction Reports and Suspicious Activity Reports. Networks may need to change rules.

OBJECTIVE - CLARITY

The FinCEN ruling has raised questions rather than brought clarity to the prepaid world. Are nonbank-owned ATMs and merchants in reload programs operated by credit card networks money services businesses? Are nonbank-owned ATMs and merchants that participate in reload networks owned and operated by large money services businesses (such as Western Union or MoneyGram) or owned by other nonbank entities, to be deemed money services businesses? Is a merchant that participates in more than one reload program a money services business for some reload transactions and not a money services business for other reload transactions? Will the sponsoring bank have Bank Secrecy Act responsibility for all reload transactions processed through the POS terminals at the merchant, regardless of whether the reload program is a bank or a nonbank reload program?

To the extent that FinCEN addresses the status of players in the prepaid space in a piecemeal fashion, clarity of Bank Secrecy Act obligations will be illusory. Industry members should take action individually and collectively; industry players should urge FinCEN to take industry-wide action to bring certainty to the prepaid space.

FinCEN needs to involve interested parties, including state and federal bank regulators, in its consideration of how to improve the way it allocates the burdens of the Bank Secrecy Act and obligations to prevent money laundering. Until FinCEN begins to take action based on a complete understanding of the payment systems involved, both domestically and globally,

GUEST COLUMN cont. on p.12 ►

Prepaid TRENDS

WHAT'S AHEAD IN STORED VALUE

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GIFT CARD cont. from p.11

card, Springer says. The California attorney general's office tried to prevent Sharper Image from requiring customers to spend extra to redeem the cards, but the Alameda County Superior Court stayed the action until the outcome of bankruptcy proceedings.

Consumers who recently bought gift cards with a credit card could dispute the charge with their credit card company and try to recover the value that way, Springer says.

Because gift cards have emerged so recently as a major source of income, legal precedent regarding what to do with the cards when a retail chain files for bankruptcy is taking shape on a case-by-case basis.

The biggest concern to the gift card industry and consumers alike is what would happen if a big retail chain files for Chapter 7 liquidation and shuts its doors

EMERALD cont. from p.7

Monitize converts the text message into a format that works with Metavante's system, so Metavante can supply the account information, Focht says.

Metavante and Monitize have begun discussions with other companies about offering the service to other prepaid cardholders but have not struck any deals they choose to make public, Focht says.

By letting cardholders check their accounts with text messages, H&R Block can reduce costs at its call centers, and cardholders can get information more conveniently than by going to an ATM or making a phone call, he says.

H&R Block distributed 2.6 million cards this tax season, the company says, up from 2 million cards issued last tax season, Morrison says.

Customers use the cards to receive tax refunds and can sign up to have payroll checks deposited to the cards, connect them to lines of credit and savings accounts and link to funds-transfer services, the company says in a release.

Adding text alerts makes keeping track of those options easier for everyone, Morrison says.

"It will be a cost savings for us; it serves

for good. In such circumstances, the company would have no incentive to honor gift cards. That could reduce consumer confidence in the prepaid card industry, observers agree.

"It would reflect very poorly on everybody else," Horne tells *Prepaid Trends*. "It could have a ripple effect throughout the industry."

TowerGroup's Riley says many consumers do not differentiate between competing cards.

"When people see plastic, they believe a card-is-a-card-is-a-card," he tells *Prepaid Trends* in an e-mail message. "These were never intended to be savings products, and they lack the protections one assumes they have with their debit or credit card."

How should gift cardholders avoid the perils of bankrupt retailers? Horne, Springer, and Riley agree: Spend that card as fast as you can! **{PT}**

our client base better," Morrison says.

H&R Block has 13,500 offices across the United States where consumers can sign up for an Emerald card, the company says.

The company does not automatically enroll customers in the text-messaging service because cardholders typically must pay their wireless service provider for each text they receive, Morrison says.

"We'll put it out there. Otherwise, we will not automatically turn it on," Morrison says. **{PT}**

GUEST COLUMN cont. from p.11

the debit and credit networks, the processors, program managers, marketers and independent sales organizations it will continue to issue rulings that contribute to confusion in the marketplace. Such confusion only results in higher costs to all—either in unnecessary duplication of compliance efforts or no compliance action, which ultimately could result in regulatory enforcement actions and prosecutions.

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The text of FinCEN's letter at: www.fincen.gov/statutes_regs/guidance/html/fin-2008-r005.html **{PT}**