

# PREPAID CARDS: THE CLEANUP

New industry guidelines aim to crack down on money laundering

By Ben Levisohn

The world's oldest profession is using one of the newest financial products. At high-end escort service Hush Hush in Charlotte, N.C., prepaid cards were the preferred method of payment. Hush Hush madam Sallie Wamsley-Saxon, who pled guilty in federal court to charges of prostitution and money laundering in early February, used the cards to transfer funds to her "Southern Belles," as she called the escorts, or collect money from clients who paid up to \$700 an hour.

With many of the features of a standard debit or credit card and far more anonymity, prepaid cards have become a vital link in the money-laundering chain. They work pretty simply: At a store or online, consumers load cash onto plastic that can legitimately be used at retailers and ATMs. It's that ease of use, in part, that has attracted criminals. "[Prepaid] cards provide a compact, easily transportable way, and potentially anonymous way to store and access cash," warns a federal government report on money laundering.

Prosecutors' growing focus on prepaid-card crime has prompted the trade group Network Branded Prepaid Card Assn. to develop industry guidelines, released on Feb. 25. And a recent court settlement may force companies to implement stricter controls that detect and prevent bad acts, which may lead some players to exit the business.

## SERVING THE UNBANKED

Created in the mid-1990s, prepaid cards were developed for employers who needed an efficient way to pay workers. The product has since been marketed as an alternative to cash for consumers who don't want or don't

qualify for a credit or debit card—the so-called un-banked. Over the past decade, the cards have been one of the fastest-growing segments in consumer finance, with everyone from undocumented workers to high school students using them. Between 2004 and 2007, transactions increased by nearly 150%, to \$32 billion, growth that's attracted dozens of issuers, including big banks such as Bank of America, KeyBank, and Capital One Financial, and smaller firms including Green Dot and Meta Financial. And with consumers getting pinched today, card companies are aggressively pushing prepaids; there's no credit risk, since users hand over the money before spending it.

Historically, there has been no regulatory standard for monitoring prepaid cards. Banks, which are governed by the Bank Secrecy Act, must register account holders and file suspicious activity reports. Other companies don't

follow the same rules, so policies vary.

New guidelines may change that. The industry association recommends that companies limit the use of cards and work with the retailers who sell them to better identify suspicious behavior such as buying multiple cards.

A recent settlement with the Justice Dept. may also prompt reforms. Wire-transfer service Sigue entered into a deferred prosecution agreement on charges it failed to maintain an effective money-laundering program. Under the terms of the deal, the company will pay a \$15 million fine and spend \$9.7 million on controls. Says Robert Pargac, Sigue's general counsel: "[The deal is] good for the industry because it provides regulatory guidance."

Lawyers say the agreement could mean prepaid issuers also face liability in money-laundering cases, even without knowledge of wrongdoing. "It raises questions of how far companies have to go to evaluate customer behavior," says Carol Van Cleef, a partner at law firm Bryan Cave.

If compliance becomes too costly, some players may decide prepaids aren't worth the hassle. Several companies bowed out of the wire-transfer business when new rules were enacted after 9/11. "It could inhibit the industry, not [stop] money laundering," says Brad Hanson, vice-president of Meta. "If we limit the products, the money will just go underground." **| BW |**

