

**GOVERNING**  
INSTITUTE

RESEARCH SURVEY

March 2016

# Is the State Prepaid Debit Card Market in Trouble?

States say no; vendors say yes

## Introduction

Governments have broadly embraced prepaid debit cards. States use these cards to distribute Supplemental Nutrition Assistance Program (SNAP)<sup>1</sup> and Temporary Assistance for Needy Families (TANF) benefits, as well as unemployment insurance benefits and child support payments.

Few people want to return to the days of paper-based payments for benefit programs; it's costly for states and less secure and convenient for citizens. However, this era could return if states and their corporate partners don't reach a better understanding about new challenges in this market.

Unintentionally, state agencies may be pushing qualified issuers or program managers (the vendors with whom they contract to run their prepaid debit card programs) out of the business. As one example, JPMorgan Chase announced in 2014 it would leave the prepaid debit card market, including cards used to issue benefits.<sup>2</sup> Vendors say this is because states have introduced new requirements in their requests for proposals (RFPs), thereby increasing complexity for vendors and reducing their overall business margins.

In a recent study, the Governing Institute explored challenges confronting the state prepaid debit card market. This study revealed vendors (the generic term this report will use for card issuers and program managers) and states see the market quite differently.

While vendors said they have problems responding to state solicitations because of burdensome new requirements, state survey respondents said they have either not added requirements or the requirements added are insignificant.

This perception gap creates an urgent issue. If the gap persists, state procurements for prepaid debit card benefit programs might soon draw only a single bid, or no bids at all. From that position, it's just a short step to the expensive, time-consuming process of paper-based payments. To avoid that crisis, states and vendors need to collaborate to arrive at a more concordant understanding of the government prepaid card market.

The Governing Institute explored these perspectives to identify the most significant differences. This report highlights those differences, attempts to explain why the gap exists and offers strategies for fostering better collaboration between states and vendors.

State agencies may be unintentionally pushing vendors out of the prepaid debit card market with new requirements in their requests for proposals.

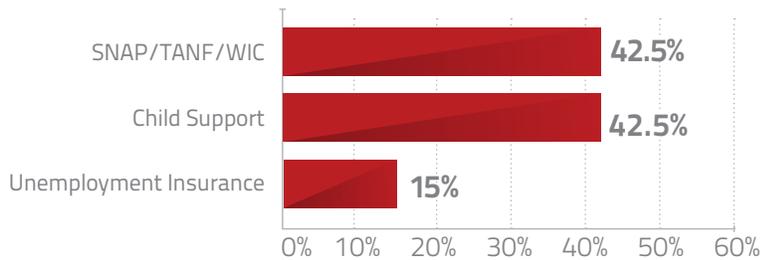
## Methodology and Demographics

In August 2015, the Governing Institute examined three RFPs — from California, Texas and the Western States EBT Alliance (WESA)<sup>3</sup> — and compared them to these entities' previous RFPs. While this represents a small sample of recent RFPs, we used these examples to initially assess whether RFP requirements have increased, decreased or remained roughly the same.

In addition, the Institute interviewed a select group of industry leaders from five companies in the prepaid debit card market. While these vendors include banks, technology companies or other firms that work in partnership with banks, our interviews focused on banks that issue government prepaid cards.

For the government perspective, the Institute reached out to all 50 states, ultimately interviewing 34 officials from 29 states at agencies with prepaid debit card programs. Among those sources, 42.5 percent oversaw federal Electronic Benefits Transfer (EBT) programs such as SNAP; TANF; and Women, Infants and Children (WIC); 42.5 percent oversaw child support payments (non-EBT usage); and 15 percent oversaw unemployment insurance payments (also non-EBT usage). In total, the research covered 40 programs.<sup>4</sup> In both sets of interviews, key questions focused on changes to RFP requirements, shifts in state and federal legislation, the future of the market, and advice for vendors and states about how to improve the RFP process.

## State Officials Interviewed Oversaw the Following Programs:



## RFP Analysis Results

When comparing each state's most recent prepaid RFP to its last issued prepaid RFP, all three states included an increase in support requirements such as program launch support. Two of the most recent RFPs also included new requirements for banking relationships (i.e., that the bank involved in the program have branches in the state). One of the RFPs required rebates or revenue sharing with the state, and one required an increase in the number of free ATM withdrawals for prepaid card users.

## Vendor Interview Results

### New Requirements

According to our interviews with vendors, states have added multiple requirements to their RFPs in recent years. Vendors said the most significant changes involved states requiring them to increase the number of free ATM withdrawals for prepaid card users and reduce the fees associated with card replacement. Four out of five vendors also reported new requirements for rebates or revenue sharing and, in the case of child support, for managing state disbursement unit (SDU) services.

Fewer vendors — two out of five — mentioned new requirements for assistance with payment programs, and four out of five said states had new requirements regarding banking relationships. Some vendors also reported seeing more requirements regarding service level agreements, day-of-draft funding and use of "most favored nation" status, whereby states by default request anything and everything a vendor has offered another state. Three of the five vendors said changes in state regulations have prompted states to add requirements to their RFPs.

### Impact of New Requirements on the Market

All five vendors said new requirements make it hard for them to realize a profit. Vendors see states asking them to take on more costs while limiting their revenues. As one vendor put it, with no other revenue sources to replace cardholder fees, vendors have fewer opportunities to use revenues to offset the cost of operation. While each state might not view its new RFP requirements as significant, it's challenging for vendors to meet a variety of new requirements added by many states at the same time.

Overall, vendors have a negative outlook on the future of prepaid programs. As one vendor noted, "Issuers are taking on more risks but getting less profitability because of exceedingly high service standards and requirements that are often not economically sustainable." Three of the five vendors predicted fewer or no vendors in the market in years to come, and two said the market would need to undergo significant changes.

### Communication

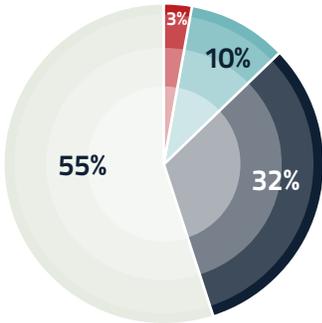
Have vendors discussed these challenges with states? When asked if they had made their concerns known, three of the five vendors said yes and two said no. When asked if their interactions with state officials had changed, two of the five vendors said no, two said there was less opportunity for collaboration and one noted a positive change: "There is more effort to try and educate states on what is going on in the government prepaid market before a state even gets a chance to issue an RFP."

# State Interview Results

## New Requirements

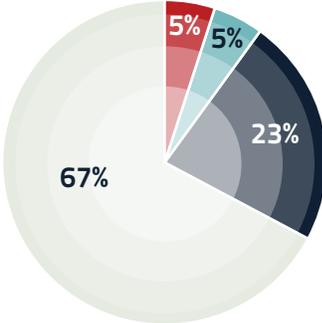
Most state officials don't believe they are adding significant requirements to RFPs. Fifty-five percent said they have made no changes to their RFPs and another 32 percent said they have made only small changes. Putting those two groups together, a total of 87 percent of state program officials don't think they are creating problems for vendors with new RFP requirements. Among officials who work on non-EBT programs (i.e., child support payments and unemployment insurance), 67 percent said they have made no changes and 23 percent said they have made only small changes.

Have RFP requirements changed in your state? (All Respondents)



- Yes
- Minimal/not significant change
- No
- Unable to respond

Have RFP requirements changed in your state? (Non-EBT)



- Yes
- Minimal/not significant change
- No
- Unable to respond

## Percentage of States Reporting No Changes in Specific Requirements\*

Requirement	All Respondents	Non-EBT Respondents
Requests for Rebates/Revenue Sharing	71%	71%
Fee Schedules	71%	71%
Initial Assistance/Launch Support	85%	81%
Banking Relationships	88%	86%

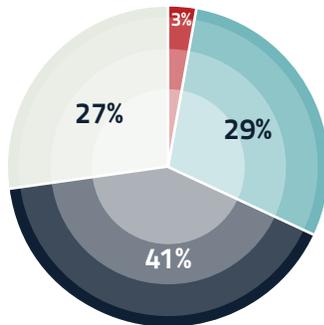
\* Percentages reflect respondents who said there were NO changes in the specific requirements listed.

While the majority of states said their RFP requirements had not changed, the limited number of RFPs analyzed by the Governing Institute show different results. For instance, all RFPs had new requirements for launch support. However, 85 percent of state survey respondents said they had not added new requirements for launch support.

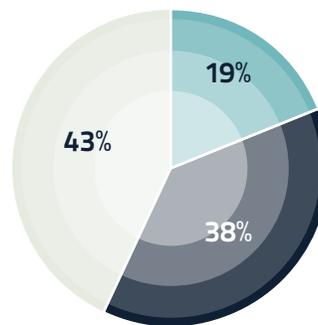
## Impact of New Requirements on the Market

While all interviewed vendors said the new requirements discourage them from responding to solicitations, many state officials don't seem to notice their absence. Among our respondents, only 29 percent said they have drawn fewer responses than in the past; 41 percent said they have drawn the same number of responses; and 3 percent said their recent RFPs have drawn more responses. When we considered only non-EBT programs, no officials said recent RFPs have drawn more responses, but 38 percent said they have drawn the same number, and only 19 percent said they have drawn fewer.

RFP Rate of Response (All Respondents)



RFP Rate of Response (Non-EBT)

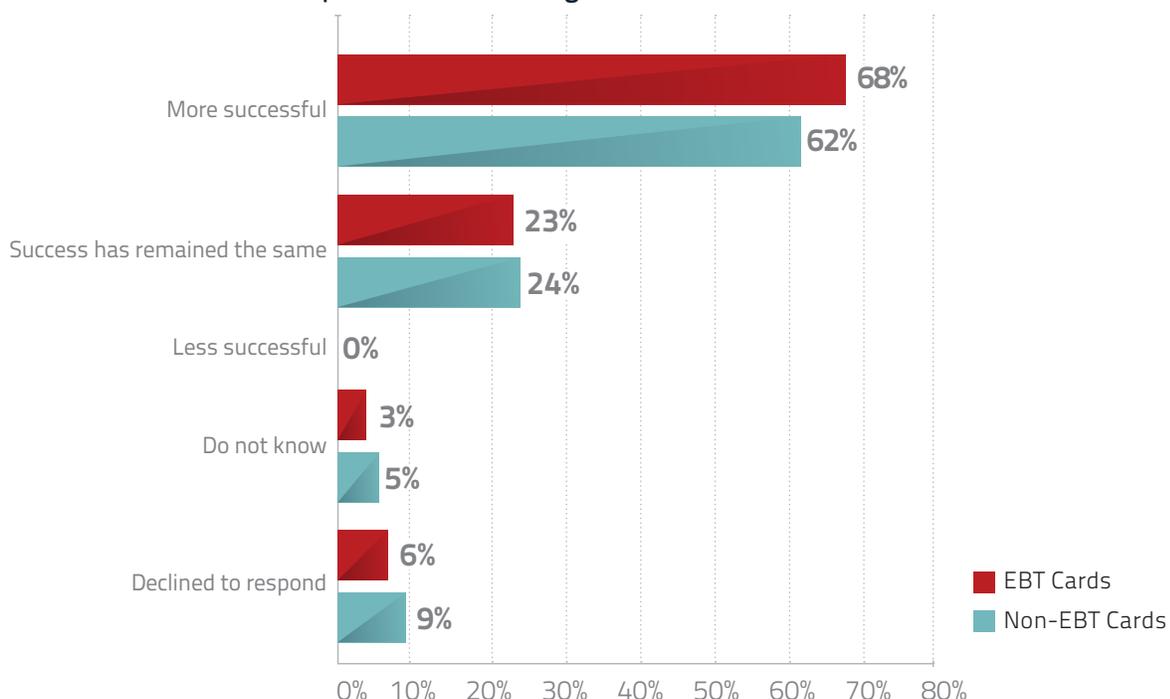


- More responses
- Fewer responses
- Same number of responses
- Do not know

Although only a few states have seen the number of responses drop, that doesn't mean other state procurements have sparked healthy competition. Of the 20 respondents who could report exactly how many vendors had bid on their most recent RFPs, 9 of them received only 1 or 2 responses; another 9 received only 3 responses.

When asked about the departure of JPMorgan Chase from the prepaid debit card market, 18 state respondents noted they were "shocked," "disappointed," "nervous," "surprised" or even "devastated." At the same time, all of them said their prepaid debit card programs are meeting their objectives. In fact, 68 percent said their card programs have grown more successful over time. The responses were similar for all programs versus non-EBT programs alone.

## Perceived Success of Prepaid Debit Card Programs Over Time

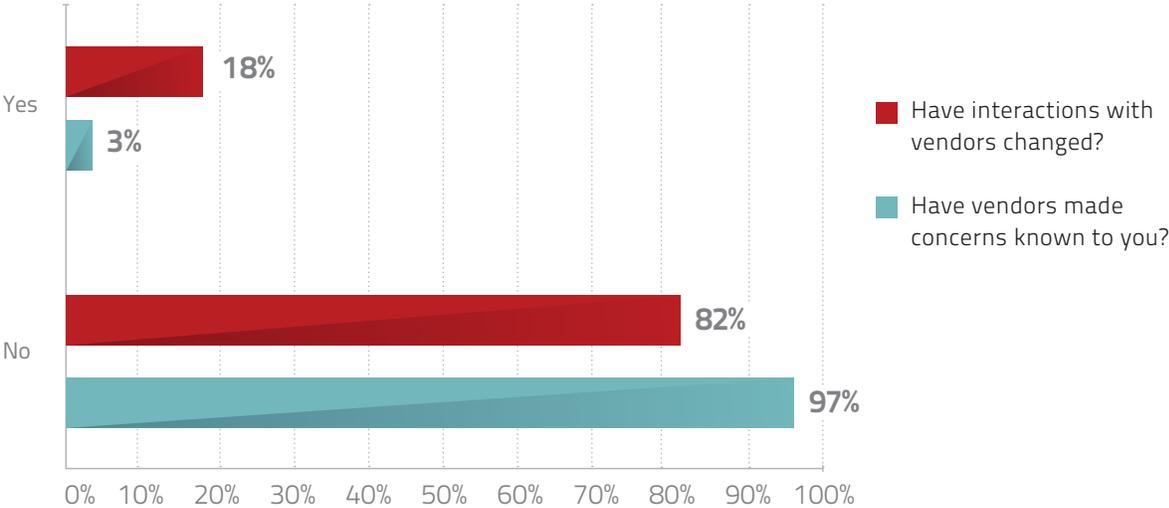


In stark contrast to the opinions of vendors, state officials were optimistic about the future of their prepaid debit card programs. They said these programs will most likely grow over time, will continue to improve their services to cardholders and will benefit from the use of new technologies.

### Communication

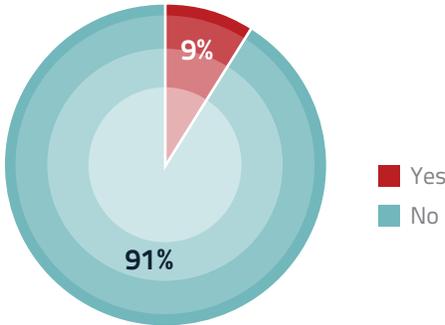
If vendors have an issue with the requirements in states' RFPs, states are not receiving that message. Nearly all of the state officials interviewed — 97 percent — said vendors have not expressed any concerns to them. Nearly as many — 82 percent — said interactions with vendors have not changed over time.

### Interactions with Vendors



States are not seeking advice from third-party experts either. Only 9 percent of respondents said they have used a consultant to help with RFP development, and only 2 respondents expressed interest in using a consultant in the future.

### Use of a Consultant in RFP Development



## The Root of the Problem

Clearly, vendors and state officials see the prepaid debit card market differently. This may be because state officials are not aware of how even small changes in RFP requirements affect vendors' profitability.

For instance, when asked about changes in recent RFPs, one state official reported only "minor changes pertaining primarily to the retailers and their acceptance of prepaid cards, and any charges that may be applied to prepaid card transactions." A state official might consider a revised fee schedule to be a minor matter, but vendors disagree. As one vendor put it: "States are asking for fewer fees to the point where issuers' margins and profitability from the programs are very compressed."

States also may not have an overall picture of how other states are handling their prepaid card procurements. Due to this, officials may not understand the cumulative effect of many small changes across multiple states. It might be true that a new requirement in one RFP makes only a small impact on potential vendors, but if 20 states make the same change, the impact increases tremendously.

Vendors may add to the challenge by not taking charge of the education process. It was also clear that communication was lacking between vendors and states. Three of the five vendors surveyed said they are communicating their concerns to state officials, but nearly all the state officials said this is not the case.

## Best Practices for Vendors and States

Information is key to maintaining a healthy, competitive market for prepaid debit card benefit programs. "Smart issuers know they have to communicate with states prior to the RFP being released," said one vendor.

But some vendors say there is a dearth of information exchange between states and issuers. "Requirements have taken away the opportunity for collaboration," said one vendor. "The current structure of RFPs is a rigid one, where states list the mandatory requirements and issuers respond."

To help change the situation, there are several things states can do to ensure they receive the most competitive, advantageous RFP responses. States could consider streamlining and carefully evaluating the impact of adding more technical requirements as compared to their prior solicitations. They could also collaborate with other states to create standard requirements and stagger RFP response due dates, which would ease the process for vendors. Finally, states could look into consortia or other contract vehicles, allowing them to combine their needs with other states and take advantage of lower pricing.

To further initiate change, vendors need to meet the states halfway. That does not simply mean vendors must explain their concerns, clearly and explicitly, once they have an RFP in hand. Vendors should develop formal programs to teach state officials about the economics of debit card programs. This way, states understand the realities before they design future solicitations. They should also proactively reach out to states to avoid RFPs not suitable for a response.

In addition, the market needs a neutral third party to facilitate better discussions between states and vendors. An open forum — perhaps a conference organized by a professional association — would allow state officials and vendors to collaborate on solutions without violating procurement regulations.

It is also important to note some of the aforementioned challenges have arisen only recently, and they continue to evolve. If a third party were to step in to monitor further changes in RFPs over time, track changing relationships between vendors and states, and report on the results, the entire industry would benefit.

## Endnotes

1. Even though EBT cards are not truly prepaid cards, for the purposes of this document we use the term "prepaid card" to designate both EBT and non-EBT government benefit cards.
2. David Henry, "JPMorgan Chase plans to exit prepaid card business," Reuters, January 9, 2014, <http://www.reuters.com/article/us-jpmorgan-cards-prepaid-idUSBREA080XM20140109>
3. WESA includes Alaska, Arizona, Colorado, Guam, Hawaii, Idaho, Wyoming and Nebraska.
4. Because some states use the same card for multiple programs, the number of programs exceed the number of interviews.



# GOVERNING

I N S T I T U T E

The Governing Institute advances better government by focusing on improved outcomes through research, decision support and executive education to help public-sector leaders govern more effectively. With an emphasis on state and local government performance, innovation, leadership and citizen engagement, the Institute oversees Governing's research efforts, the *Governing* Public Official of the Year Program, and a wide range of events to further advance the goals of good governance. [www.governing.com](http://www.governing.com)

UNDERWRITTEN BY:



**MasterCard**

MasterCard (NYSE: MA), is a technology company in the global payments industry. We operate the world's fastest payments processing network, connecting consumers, financial institutions, merchants, governments and businesses in more than 210 countries and territories. MasterCard's products and solutions make everyday commerce activities — such as shopping, traveling, running a business and managing finances — easier, more secure and more efficient for everyone.