

TOP 10 PREPAID COMPLIANCE BEST PRACTICES

Through extensive experience with federal regulators and dynamic business relationships with its Prepaid Card partners, Sutton Bank employs straightforward compliance practices to offer superior prepaid card products. As an early adopter of the prepaid card model, Sutton's years of experience are expertly supported by a compliance team with over 60 years of hands-on involvement. Sutton Bank and its many teams innovatively manage the issues and uniquely handle the challenges facing the prepaid card industry by the adoption of these simple yet effective "Top 10 Prepaid Compliance Best Practices."

1. KNOW THYSELF!

"THE FIRST THING YOU HAVE TO KNOW IS YOURSELF." – **ADAM SMITH**

Your organization's position in the prepaid card process will determine what best practices you should employ. These are the major participants in the prepaid card process and any one entity can play multiple roles:

- Issuing Bank
- Provider of Prepaid Access
- Program Manager
- Processor
- Programs

2. KNOW THY LAW: MAKERS AND ENFORCERS!

"LAW IS NOTHING ELSE BUT THE BEST REASON OF WISE MEN APPLIED FOR AGES TO THE TRANSACTIONS AND BUSINESS OF MANKIND." – **ABRAHAM LINCOLN**.

Federal and state regulators have provided guidance on how to follow the law when offering prepaid card services, which governs the actions of each participant in the prepaid card process. The following are the primary sources of guidance in this area:

- FinCEN—Financial Crimes Enforcement Network Rules, Guidance, FAQ's
- FFIEC—Federal Financial Institutions Examination Council
- State Prepaid Card Law

"LAW ENFORCEMENT OFFICERS . . . ARE DEDICATED PUBLIC SERVANTS WHO ARE SWORN TO PROTECT PUBLIC SAFETY AT ANY TIME AND PLACE THAT THE PEACE IS THREATENED. THEY NEED ALL THE HELP THAT THEY CAN GET." — **BARBARA BOXER**

Be ready to engage those regulatory or law enforcement agencies that have the authority to review, examine or investigate aspects of the prepaid card process. Each of the agencies identified below have some measure of authority over the prepaid card process:

- Federal
 - US Secret Service, FinCEN, DOJ, CFPB, OCC, FDIC
- State
 - Financial Regulators
 - State, County and City Law Enforcement

3. KNOW THY CUSTOMER!

"BEING RESPONSIBLE SOMETIMES MEANS TICKING PEOPLE OFF." — **GENERAL COLIN POWELL**

Businesses or Individuals are the Customers in the prepaid card process. Federal law requires that due diligence, CIP, is conducted on the customer before issuing a prepaid card. It is our responsibility to confirm that the customer is who they say they are. Some customers do not like answering necessary questions during this process or may consider it an intrusion of privacy. Regardless of the customer's response, you must always:

- Conduct CIP on Business Customers
- Conduct CIP on Individual Cardholders

4. KNOW THY ENEMY!

"HOLD YOUR FRIENDS CLOSE BUT YOUR ENEMIES CLOSER." – **MARIO PUZO**

Learn how the criminals think and act so that you can prohibit criminal activity where possible and track it where necessary. The following scenarios may be signs of criminal activity:

- Merchandise Returns
- Negative Card Balance
- Round \$ Figures
- Transactions at odd times of day
- Repeating Transactions for exact dollar amounts
- Cash On/Cash Off
- Identification Theft
- High Dollar Government Benefits/Tax Deposits
- Micro deposits

5. KNOW THE CRIME!

“THE ONLY THING NECESSARY FOR THE TRIUMPH OF EVIL IS FOR GOOD MEN TO DO NOTHING.” – **EDMUND BURKE**

As a participant in the prepaid card process, you are responsible for assisting federal, state and local law enforcement to stop criminals from using the US Financial System to commit crimes. Laundering Money facilitates criminal activity—these are a few examples:

- Drug/Sex Trafficking
- Elder Abuse
- Theft/Fraud
- Bribery
- Tax Evasion
- Embezzlement

6. KNOW WHEN TO ASK QUESTIONS!

“ASKING QUESTIONS IS AN ESSENTIAL PART OF INVESTIGATION.” – **JUSTICE ANTHONY KENNEDY**

Efficient transaction monitoring in the prepaid card process requires that you know what types of transactions require further investigation. Transactions that occur in certain geographic areas or on certain websites can identify a need for further investigation—these are a few examples:

- High concentrations of transactions along known sex trafficking routes
- High concentrations of transactions in known drug trafficking areas
- Internet Gambling and Illegal Pornography Websites

7. KNOW THY RESOURCES!

“PEOPLE ARE YOUR MOST IMPORTANT RESOURCE . . . TECHNOLOGY IS ONLY AS GOOD AS THE PEOPLE WHO USE IT.” – **ANONYMOUS**

Best-of-show prepaid card programs utilize both internal and external people and technology to monitor for criminal activity.

- Invest in training for your monitoring teams so that they can effectively identify criminal activity
- Fine tune your Software Systems to enhance the quality of transactional and behavioral monitoring
- Participate in information sharing groups which can provide your organization with real time information on the patterns, places, and trends of criminal activity

8. KNOW THY TRANSACTIONS!

“MASSIVE SCHEMES ARE NOT DONE BY IMPULSE, BUT BY A SERIES OF SMALL THINGS BROUGHT TOGETHER.” – **GEORGE ELLIOTT**

Criminals know that Small Dollar Transactions may not get as much attention from those monitoring their activity. As a result, you should monitor small dollar transactions to identify criminal activity conducted in small dollar amounts. For example, the average sex trafficking transaction is \$90.00.

9. KNOW THY HISTORY!

“THOSE THAT FAIL TO LEARN FROM HISTORY, ARE DOOMED TO REPEAT IT.” – **WINSTON CHURCHILL**

Building an affective prepaid card business requires implementing what has been successful in the past and not implementing what has been unsuccessful. Investigate how other companies have successfully implemented prepaid card businesses through conferences, networking and talking to current business partners.

10. KNOW THE FUTURE!

“WHAT NEW TECHNOLOGY DOES IS CREATE NEW OPPORTUNITIES TO DO A JOB THAT CUSTOMERS WANT DONE.” – **TIM O'REILLY**

Evolving technology and changing regulations will change the prepaid card business. Building an effective prepaid card business requires an understanding of what technology and regulations are on the horizon so that you can plan and prepare for them—these are a few examples:

- Tokenization
- P2P Transactions
- Real-Time Transactions
- Mobile Wallets
- Virtual Currency
- Business to Business e-payments
- NFC Adoption