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Unintended consequences of prepaid access cards

Once known as "stored value" cards and now deemed "prepaid access" cards by new treasury department regulations, these plastic debit cards are the latest items for criminals to use in money laundering, the movement of illicit funds and possibly even the financing of terrorist activities. They are also difficult for law enforcement to trace and investigate.

These debit cards originated a few years ago as convenient and mobile ways to store funds on a card not associated with a bank account. They are legitimately used by lower income individuals and even students who are transient and may not have access to the traditional banking system. Plus, they are a good substitute for cash or travelers' checks when on the road.

The reloadable cards can be purchased for $3 to $5 at many retailers (including Wal-Mart, Walgreens and CVS) and then used to load as much as $1,000 on the card (or more in some cases).

What's wrong with that, you ask? Unlike a bank account, where banks have to comply with know-your-customer regulations, transactions at these retailers are completely anonymous. And the cash used to "load" or "reload" the card could be the proceeds of an illicit act.

Retailers have no know-your-customer regulations to govern the transactions. But they're coming.

I first encountered the illegal use of these cards as special agent in charge of the tax fraud investigations division for the state of New Mexico.

Since the start of electronically filed tax returns, we had always had a few folks filing false tax returns using fake names, fake income and deductions and fake withholdings. The returns claimed refunds for overpayments and the state sent the refunds to the address on the returns or directly deposited the refund to bank accounts designated on the returns.

Once we determined we had false returns, it was not difficult to find who did it because we either traced the refund to an address or to a bank account.

Then, in 2009, we discovered a new twist. The bank account number provided on the fraudulent tax return for direct deposit wasn't a bank account number at all. Although it looked like a bank account number and acted like a bank account number, it actually was the number of a prepaid access card that had been purchased anonymously.

Although we could trace the card number back to the financial institution that provided the cards to the retailer and then to the particular retailer that sold the card, that's where the trail ended. The retailer had no record of who bought the card.

The Financial Crimes Enforcement Network, a part of the U.S. Treasury Department, has recently issued regulations that will put in place suspicious activity reporting rules as well as customer and transactional information collection requirements on providers and sellers of certain types of prepaid access cards similar to other "money service businesses." Exempted from these rules are sellers of certain "closed loop" cards that can be used only at a designated retailer, such as Target gift cards. The regulations were to take effect Sept. 27, but the effective date has recently been extended to March 31.

The cost of the information collection and retention requirements of the new regulations will most certainly be passed through to the consumers, raising the cost for all of us.

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