



# New Regulations Strengthen the Appeal of Payroll Cards

FSV Payment Systems  
White Paper  
January 2012

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From an employer perspective, the benefits of implementing a payroll card (or “pay card”) program are well-documented – particularly the cost savings. Recent regulatory changes have resulted in a stronger case for pay card use among employees, as well. Pay card programs offer a more cost-effective option for employees than a cash-based financial model or even checking account use. Employers that offer pay card programs drive participation in electronic pay by providing employees with the economical access to financial services they need. As traditional checking accounts become more expensive, offering a pay card alternative will be a necessity for employers looking to maintain high levels of direct deposit participation.

## Paying Electronically to Checking Accounts or Pay Cards

Employers would generally prefer to pay employees electronically for more efficient and cost-effective payroll distribution.

### *Exhibit 1:* Employer Cost Savings Related to Electronic Pay

<b>\$223.00</b>	Annually Per Employee with a Pay Card <sup>1</sup>
<b>\$2.87 - 3.15</b>	Per Payment <sup>2</sup>
<b>\$8.00 - 10.00</b>	Per Replacement Check <sup>3</sup>

Employees can be paid electronically in two ways – direct deposit to their personal bank account or to an employer-established pay card account. For many employees, pay cards are the optimal payment vehicle. According to MasterCard®, an employee without a banking relationship can expect to pay \$1,000 more each year on fee-based money-management tools than an employee with a payroll card. By offering a payroll card program, employers provide employees without checking accounts the opportunity to enjoy the convenience and cost savings associated with electronic pay.<sup>1</sup>

<sup>1</sup> Towers Watson, MasterCard® Pre-Paid Payroll Card Business Case, May 2010.

<sup>2</sup> NACHA, AFP and APA, Launch Electronic Payroll Coalition, October 2010.

<sup>3</sup> American Payroll Association, 2011.

MasterCard is a registered trademark of MasterCard International Incorporated.

According to analysis conducted by Bretton Woods, Inc., even employees who maintain checking accounts would save by switching to pay cards. The research shows that employees with checking accounts paid more than three times the overall financial costs of payroll cardholders.<sup>4</sup>

## Regulatory Impacts on Checking Account and Direct Deposit Participation

Regulatory changes intended to benefit merchants have dramatically decreased bank revenues among leading banks. In order to recoup billions in lost revenue, banks are rethinking their checking account offerings and fee structures. According to Bretton Woods, Inc., “The impact of Regulation E, Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, addressing interchange fees and the yet to be determined influence of the new Consumer Financial Protection Bureau, are having a chilling effect on bank fee income and will impact the consumer in the form of direct new fees for checking accounts and higher indirect costs for banking services.”<sup>4</sup>

In fact, major banks are making headlines as they cut perks, raise minimum balances and introduce new fees in an attempt to recover losses resulting from regulatory restrictions on overdraft fees and interchange revenue. According to the American Bankers Association (ABA) opening a new account costs the bank as much as \$200, plus \$300 per year to maintain.<sup>5</sup> While Bank of America and other major banks have dropped their plans to introduce certain new debit card fees, the banks’ need for revenue to offset checking account overhead remains. Consequently, banks have restricted free checking accounts to only their more affluent customers.

Consumers, however, expect to pay very little for financial services.

According to a poll conducted by Ally Bank:

- 84 percent of respondents believe it is not acceptable to charge a fee for checking
- 79 percent believe it is not acceptable to charge a monthly maintenance fee
- 77 percent believe it is not acceptable to charge an ATM fee<sup>6</sup>

4 Bretton Woods, Inc., “Analysis of Reloadable Prepaid Cards in an Environment of Rising Consumer Banking Fees,” March 2011, <http://bretton-woods.com/71501/index.html>

5 American Bankers Association, “The Cost of a Checking Account,” June 2010, <http://www.aba.com/NR/rdonlyres/03BDA3D5-54B2-41E4-8745-302C9E6C405A/73819/CostofCheckingAccounts2Q2010.pdf>

6 Ally Bank, “Ally Bank Survey Explores Consumer Sentiment on Bank Fees,” November 10, 2011, <http://media.ally.com/index.php?s=43&item=499>

## Pay Card Value Proposition

### For Employers

- Cost savings
- Productivity gains in the payroll department
  - Escheatment and lost/stolen replacement process shifted to vendor
  - Manual check processing eliminated
  - Exception processing reduced
- Productivity gains in the field;
  - Employees no longer pick up paychecks on location; no longer leave work to cash checks
  - Managers no longer involved in paycheck distribution
- Improved employee satisfaction
- Support for sustainability program

### For Employees

- The benefits of direct deposit without a checking account
- No more trips to pick up or cash checks
- Immediate access to pay on payday – even on sick and vacation days
- Free access to pay; no check-cashing fees
- More economical than financial services using checking accounts or cash-based models
- Increased purchase and bill payment options
- No more lost or stolen checks
- More security – carrying less cash
- Program-specific features and services, e.g., interest-bearing savings accounts, rewards programs, live customer service, text alerts and money transfer

In fact, 61 percent of debit cardholders who responded to a recent Associated Press poll said they would stop using debit cards if their bank charged a \$3 monthly fee for the service.<sup>7</sup> Obviously, consumer sentiment runs counter to the banks' need to fund their products and services.

As new fees are implemented, some employees may no longer find checking accounts appealing or affordable. According to the American Banker article, "Another Durbin Outcome Could Be More Unbanked," Jamie Dimon, CEO of J.P. Morgan Chase, suggests that new fee structures would likely lead 5% of consumers to be priced out of the banking system.<sup>8</sup>

Whether employees are priced out or just refuse checking accounts, direct deposit participation will be negatively affected for employers without a pay card program to offer as the economical electronic pay alternative.

## Maintaining Participation in Electronic Pay

If employees return to paper checks, employers will pay more to process payroll. Direct deposit participation generates significant savings for employers. Beyond the costs of producing and distributing paper checks, employers with eroding direct deposit participation are faced with a return to non-core, time-consuming productivity wasters, like lost/stolen check replacement, misplaced shipments, and escheatment.

With free checking no longer available for many entry-level workers and those with low to moderate incomes, the need for a cost-effective alternative has grown. Employers who offer pay cards have the solution at hand, as these cards allow employees without bank accounts to receive their pay electronically. Employers that promote the benefits of pay cards to employees who are defecting from checking can expect to maintain their electronic pay participation and virtually eliminate paper checks from their payroll distribution. Pay cards, which offer free access to pay, represent a significant value proposition for these employees as a cheaper means of managing their money – particularly for young adults entering the workforce who have not yet established banking relationships.

Employers promoting pay card use – whether implementing a new program or maintaining electronic payroll participation – are responsible for explaining the value proposition to employees, who may be unfamiliar with the benefits. MasterCard has conducted primary research on messaging that is effective with employees without checking accounts (unbanked employees).

<sup>7</sup> Associated Press Poll, "Debit Card Fees Might Change Behavior," July 14, 2011, <http://ap-gfkipoll.com/featured/ap-gfk-poll-debit-card-fees-might-change-behavior>

<sup>8</sup> American Banker, "Another Durbin Outcome Could Be More Unbanked, Chase's Dimon Contends," January 21, 2011

For Unbanked Employees Who...	Effective Messaging
Are accepting, even satisfied, with the status quo and current fees	Give yourself a raise
Those that use alternative financial services haven't been educated on how a pay card replaces payment by paper check	A better way to get your pay
Are dissatisfied with relatively large amounts of time spent performing day-to-day financial transactions	Got better things to do with your time?
Complain of difficulties accessing their paychecks in a timely manner	Your money on your schedule
Are exposed to considerable financial liabilities because they keep their funds in cash	Is your money safe?
Want access to financial transactions they're not currently able to perform	Go anywhere you want to go
Are open to an easier and more accessible form of payment but are concerned about maintaining control over budgeting	Your budget made simple

Promoting the value of pay cards to employees is essential to ensuring sufficient participation to capture the cost savings associated with distributing payroll electronically.

## Conclusion

Most employers have come to expect and rely on the significant cost savings gained from paying employees by direct deposit rather than paper checks. Unfortunately, direct deposit participation is likely to erode as checking accounts become less accessible and less appealing to many employees. Employers that wish to continue enjoying the cost savings associated with electronic pay must provide employees an economical means to participate or face a return to the hassle and expense of producing and distributing paper checks. Pay cards offer employees a cheaper means to access their pay, along with other compelling benefits. Only employers offering a progressive pay card program can expect to maintain nearly total electronic pay regardless of checking account participation levels among employees.

## About FSV Payment Systems

FSV Payment Systems is a leader in the delivery of prepaid debit program management and processing services. One of the most experienced providers of electronic payroll solutions, FSV has established a track record of successful program implementations for major employers – helping them reach the high adoption rates necessary to achieve their business objectives. FSV is headquartered in Houston, Texas, and operates a state-of-the-art client and cardholder service center in Jacksonville, Florida.

<sup>9</sup> Towers Watson, "MasterCard Pre-Paid Payroll Card, Research and Messages," June 2010