PRESS RELEASE

Federal Deposit Insurance Corporation

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FDIC CLARIFIES CONDITIONS FOR INSURANCE COVERAGE OF STORED-VALUE CARDS; SETS PUBLIC HEARING ON ELECTRONIC PAYMENT SYSTEMS ISSUES

FOR IMMEDIATE RELEASE

The FDIC's Legal Division issued guidance today to help banks and thrifts decide whether the stored-value cards they issue qualify for federal deposit insurance.

Stored-value cards, which currently are being issued by only a few institutions, look like a credit or ATM card. However, the cards actually store electronic value, on either a magnetic stripe or a computer chip that make them a convenient alternative to cash. The cards can be used to pay for meals, retail goods and other purchases, and funds can be added or deducted from the cards as needed.

The question addressed by the FDIC is whether the funds represented by the cards are insured deposits under the law.

In a General Counsel opinion letter, the FDIC concluded that in most cases stored-value cards are not protected by deposit insurance. That's because the issuing institution would typically maintain a single pooled account to hold the funds represented by all their customers' stored-value cards. However, a banking institution could design a stored-value card in such a way that the underlying funds would be insured. For example, if the funds represented by the card are maintained in the customer's own account until a payment is made, deposit insurance would apply. All institutions would be required to tell customers whether the card they are buying is insured or not.

Most stored-value cards in use today have maximum values of about $100, meaning that a consumer's loss in the event of a bank failure is relatively small. However, the role of deposit insurance could take on more significance if individuals begin to use cards for larger purchases and maintain account balances of hundreds or thousands of dollars. In addition, the insurance question is important to banking institutions because it affects the amount of insurance premiums they pay to the FDIC.

The FDIC also decided to seek public comment on a variety of electronic payment system issues, including concerns raised by Internet banking and the use of electronic cash. In addition, the FDIC asked for comment on whether the agency should, by future regulation, determine that stored value cards are entitled to deposit insurance if they are treated as insured deposits by general usage. In considering whether to promulgate such a regulation, the FDIC would weigh a number of policy issues, including the level of public confidence in the new payment systems, consumer expectations, and the similarities between stored-value cards and other payments mechanisms.

Written comments on the notice will be due 90 days after it appears in the Federal Register. In addition, the FDIC is planning to hold a one-day public hearing to solicit additional views from bankers, consumer organizations and others.