

Remarks of Daniel R. Henry
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Subcommittee on Financial Institutions and Consumer Protection
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Mr. Chairman, Senators, thank you for the opportunity to appear before you today and talk about the ways in which entrepreneurial companies are serving a huge part of the American population that has been underserved by the banking system this Committee oversees. I am Dan Henry, Chief Executive Officer of NetSpend. NetSpend is one of the nation's leading providers of general purpose reloadable prepaid debit cards for underbanked consumers. Our mission is to empower consumers with the convenience, security and freedom to be self-banked. We are proud of what we do, and committed to collaborating with policymakers, regulators, advocates, and our industry peers to promote a clear and effective regulatory framework for our industry and the consumers we serve.

I joined NetSpend in 2007 after having spent more than a decade building another business that brought modern financial services to consumers in former Warsaw Pact countries where, for a time, entire populations were essentially unbanked. When I came to NetSpend initially as an independent Board member, I was astonished to learn that a huge portion of the population of my *own* country was unbanked, and excited to be part of a company that had figured out a way to change that—so excited that, when the opportunity presented itself, I joined the company full time as its CEO.

According to the FDIC, there are 60 million underbanked consumers in the United States. This number includes consumers who literally have no bank checking or

savings account, and a larger number who have a traditional bank account but primarily rely on alternative financial services providers like check cashers for their financial services needs. Why is this? Consider another fact from the FDIC: 73% of banks are aware that there is a significant underbanked population in their market, but less than 18% of them say that serving that population is a priority. Most traditional bank products and fee structures really are not designed for underbanked consumers, who typically maintain very low average balances. It may surprise you to hear that, of NetSpend's 2.1 million active cardholders, several thousand are employees of Bank of America, Chase, and Citibank—presumably customers who know what their alternatives are, and concluded the NetSpend card is the best one to meet their needs.

Our customers are typically working Americans who want control, security and convenience in their financial services, and who typically have not had good experience getting what they need from traditional bank products. They are almost all U.S. citizens, the majority earning \$50,000 or less per year, with high school educations or less. They typically put a few hundred dollars into their card accounts every couple of weeks, and maintain an average balance of less the \$100. They are people who deserve the same quality of financial services as the more affluent customers targeted by traditional banks—which means they need products tailored to their unique needs. We are proud to have the opportunity to serve them, and mindful of the responsibilities that come with that. We think most of our customers are pleased with our products and services, and well aware of their options, as evidenced by the customer testimonials I have provided (and would request, with your permission, be included in the record).

The reason we have our customers is because we provide them with a better solution to meet their financial services needs versus a traditional bank checking account or cash—which is often what they were using before they got a NetSpend card. The majority of our customers come to us because we were recommended to them by a friend or family member. Bear in mind that the NetSpend card, like the similar products of our competitors, *is* a bank account. It is FDIC-insured on a pass-through basis, subject to the same consumer protections and compliance requirements as a checking account, and provides access to a host of financial services including flexible fee plans that can be tailored to a particular customer's usage and budget, a 5% savings account, free person-to-person account transfers, free direct deposit of payroll and benefits, bill payment services, real time account alerts that let consumers always know how much money they have, more than 100,000 brick-and-mortar locations where consumers can add funds to the card accounts, and a host of financial literacy and budgeting tools. We have also developed what we believe are effective and responsible ways to help our customers meet short-term emergency needs, by allowing them to incur a negative balance of up to \$10 without incurring a fee, and with a fee-based overdraft program that allows customers to overdraw their accounts by up to \$100—but with buffers and a grace period that result in most overdraft transactions to avoid any fee, effective measures to prevent excessive use, and education about available alternatives. We believe our overdraft program is the best in the industry and the fees are cheaper than any bank or credit union. So our product is a bank account—but one in which we have stripped out the real estate and personnel costs of bank branches, leveraged the infrastructure of non-bank retailers, employers and direct

marketing to reach underbanked consumers where they live, work and shop, and leveraged technology to build a product platform and network that provides these consumers with utility, security, dignity and access they have never had before.

The fact is that American consumers are migrating to reloadable prepaid debit cards like NetSpend's because our products are better—and cheaper—than the alternatives. Just this week the economist Michael Flores of Bretton Woods, Inc. released a new study of reloadable prepaid cards that showed the following:

- Consumers that use a reloadable prepaid card with direct deposit have an average cost savings of 40% versus a low-balance checking account. Checking accounts have monthly fees that can be avoided with a recurring direct deposit or a daily minimum balance of up to \$1500—while the typical underbanked consumer maintains a balance of less than \$100. Reloadable prepaid cardholders costs average \$8-\$20 a month if they use direct deposit, versus \$15-\$37 a month for low-balance checking account users.
- Consumers who switch from cash to a reloadable prepaid card have an average cost savings of 56%. Cash costs consumers an average of \$9-\$48 a month—and that doesn't even factor in the costs in terms of the time they spend cashing checks, sending money and paying bills with cash.

The study also showed what those of us in the industry know well—the prices of reloadable prepaid cards are trending down, due to fierce competition and savvy

consumers, while in the aftermath of interchange fee caps and other factors the price of low-balance checking accounts is trending up. The study shows that satisfaction with prepaid remains high, and the customer profile is expanding beyond the underbanked, as a new generation of Americans gravitates towards products like ours—and the idea of being “self-banked.” The study reminds us that many of the consumers we try to serve do not have equal access to checking accounts, because they are among the up to 19% of U.S. adults (according to the FDIC) who can’t qualify for an account because they are in the ChexSystems or TeleCheck database of customers that have mishandled accounts in the past.

Perhaps because of the entrepreneurial energy of our industry, and the way it uses non-bank channels and cutting edge technology to serve underserved consumers at a low cost, there is sometimes a perception that the prepaid industry is an unregulated, or at least under-regulated, “Wild West.” The fact is that we and our products are highly regulated, at both the federal and state levels.

NetSpend and its competitors partner with banks that want to serve these customers, and help them use innovative technology and marketing approaches to develop and market new products to customers who those banks would not otherwise reach with checking accounts originated in their branches. The products and programs are principally regulated by the regulators of the issuing banks, which we experience throughout the year as our issuers undergo their examinations by the OCC and FDIC and every aspect of what we do is closely scrutinized. Those agencies also (in our view) have

the authority to directly examine us as a service company for our banks. We are required to (and do) provide Regulation E-compliant electronic statements and error resolution procedures, full dispute and chargeback rights, and privacy policies that comply with Gramm-Leach-Bliley and applicable state law. We must maintain comprehensive anti-money laundering programs both for our banks and as a prepaid access provider under the rules adopted last year by FinCEN. Those of us who work with retailers to handle consumer funds are regulated by the states as money transmitters, subject to regular joint examinations. And one of our leading competitors just received approval from the Board of Governors of the Federal Reserve to acquire a state bank and become a bank holding company, which I think reflects the maturation of the industry and the recognition among the regulators of its importance to the future of financial services in America.

We at NetSpend welcome efforts to eliminate any ambiguity about what rules apply to our business and our industry. For the past two years, I personally have led an outreach program to financial regulators and consumer advocates to help achieve that. We have appreciated our direct engagement with the extremely capable staff of the new Consumer Financial Protection Bureau as they work to learn more about our industry and the customers we serve. We are pleased that leaders in Congress have focused their attention on the industry, as reflected in Senator Menendez's proposed Prepaid Card Consumer Protection Act—many of the provisions of which involve standards to which we already adhere and support. But we also believe it is very important that we maintain ground rules in a way that enhances consumers' freedom of choice, rather than limiting it. We are all committed to developing more effective ways to communicate with our

customers about the fees, terms and conditions of our products. We already try to do that every day, because the better consumers understand our offering, the more likely they are to choose it over the alternatives. But limitations on the products, such as restrictions on the types of fees that can be charged, will only harm consumers.

For example, Sen. Menendez's bill would prohibit a consumer from being charged a per-transaction fee for using their card to make a purchase. At NetSpend, we give our customers the choice of paying a monthly fee, or paying on a per-transaction basis. And the data show that the customers who opt to pay as they go do so because it is the right plan for their usage. We believe legislation that would limit our ability to give consumers these choices, which they typically use to their advantage, would not achieve the desired result. The focus should be on maximizing consumer choice—and creating an environment for continued innovation and competition—by focusing on maintaining high standards of disclosure of fees and other terms.

I believe those of us who serve the underbanked population of the United States have a higher standard to which to adhere, with an ethos of service to hardworking people often struggling to make ends meet. And in doing so, we learn how very savvy those consumers are about the costs of the financial tools they use—especially when we do our job well in communicating with them about their choices. To do so, we need to be allowed to compete on a level playing field with the traditional bank products that have failed these consumers. We believe price controls and prohibitions will only limit choice and stifle innovation in a brand new industry whose rapid success shows how great are

the unmet needs of our customers. We look forward to working with policymakers, regulators, and advocates to continue enhancing disclosure standards in a way that gives everyone confidence that the choices our customers make are fully informed—while we all work to facilitate the development of financial services products that serve underbanked Americans who have largely been left behind by traditional banking products.