

Navigating the Learning Curve: A Case Study in Developing Quality Prepaid Products



Sunrise Community Banks
Minnesota's Socially Responsible Bank®

If there is one lesson David Reiling takes away from all the ups and downs he has faced over the last eight years at the helm of Sunrise Community Banks, it is the need to offer consumers “quality through and through.” For Reiling, the general purpose reloadable prepaid card is an excellent avenue to provide such quality service to customers.

The prepaid card “is the only model that I’ve been able to find that can facilitate a sustainable method to provide [financial] access to low-balance, high-transaction consumers and do it in a convenient and transparent way with fair pricing,” said the chief executive of the Minneapolis-St. Paul-based bank. “The fact is there are a lot of different uses and flexibilities that can happen. In and of itself, a prepaid platform can be a very convenient access point for underserved consumers.”

Since launching its first general purpose reloadable prepaid card program in 2008, Sunrise Community Banks affiliate University Bank has expanded to issuing 50 prepaid card programs for 16 program managers. An early adopter of the Center for Financial Services Innovation’s Compass Guide to Prepaid, University Bank is a model example of how to ensure quality in creating a successful prepaid program.

“The Compass Principles were so natural for us,” Reiling said. “That was our thinking. You have to implement quality from the very beginning to the very end. ... Quality will have to ring all the way through.” Reiling’s commitment to quality prepaid programs is the culmination of many years spent searching for a financial product that appealed to low- and moderate-income consumers who often fell between the cracks in financial services, yet was also profitable. Below is that story.

A Foray into Check Cashing

In 1995, Reiling bought University Bank, a failing bank in a low-income neighborhood in St. Paul. Two years later, with the bank back on solid financial footing, Reiling noticed an interesting phenomenon: it seemed more people in the community were going to the check casher on the corner than coming in to the bank. He drove around the neighborhood, searching for answers, and discovered that there were five check cashers within a six-block radius of the bank. Reiling decided he needed to buy one. “I brought the business into the bank, cut the fees in half, and pulled up a chair,” he said. “I literally pulled up a chair and talked to people as they came in to cash their checks.”

Reiling finally got the answers he had been seeking, but they were not positive. “I learned as a bank that we were horrible check cashers. We were slow and inconvenient and we didn’t know what we were doing,” he said. “I also learned that people didn’t really trust banks.”

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Reiling set a goal to get 100 people who used the check cashing service to open up bank accounts—which forced him to consider how best to provide appealing financial services and convenient access to low-balance carrying consumers. “We tried all sorts of different checking accounts with no fees, reduced overdraft charges, provided overdraft education, all of which didn’t work very well,” Reiling said. There was still a large group of consumers who came into the bank who either didn’t qualify or had little interest in a traditional checking account. Reiling was determined to find a way for his bank to serve these consumers. The next few years would be a lesson in experimentation.

The Discovery of Prepaid

In the early 2000’s, University Bank became one of the first financial institutions to experiment with stored value cards. Like debit cards, stored value cards used magnetic-stripe technology to store financial information and track funds. Their specific functions ranged from gift cards to general purpose prepaid cards. Armed with a grant from the National Community Investment Fund (NCIF), which invests in financial institutions that serve underserved communities, University Bank tested stored value cards, which the bank saw as an introductory banking product for the underserved market.

The bank first tested a non reloadable prepaid card, but soon found this model to be problematic. At the time, the state legislature in Minnesota was seeking to ban fees for stored value gift cards. The bank was also competing against local check cashers, which sold prepaid cards at similar prices. Ultimately, the pilot program proved to be quite expensive to administer, resulting in a net loss. But the bank was experimenting with general purpose reloadable prepaid cards simultaneously, and found those to have much greater potential. Late in 2006, the bank beta tested a prepaid card that connected to a cardholder’s cell phone. Users could reload the card with cash via MoneyGram, online, and through their cell phone. Users could also have their paychecks directly deposited to the cards.

University Bank began to pilot the cards in 2007, and officially launched the program in 2008. But the program again proved financially unsustainable and the bank was unable to cover its administrative costs. This was all part of the learning curve. Reiling realized that in order for a prepaid card program to be profitable, the bank would have to negotiate better contracts with processors and ISOs, and also reach a significant scale with the business. Ultimately, Reiling decided that the best way to achieve scale was to serve as the issuing bank, which would allow it to offer many different kinds of cards through program partners, targeting both the general population as well as underserved consumers without bank accounts.



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About Sunrise Banks

Headquartered in Minneapolis-St. Paul, Sunrise Community Banks consists of three locally owned and managed banks: Franklin Bank, Park Midway Bank, and University Bank. Sunrise Community Banks and its affiliates are certified Community Development Financial Institutions (CDFIs). This certification is reserved for financial institutions that have a primary mission of community development and serve a distressed target market.

A Powerful Model

Believing in the power of prepaid cards as a way to serve the segment of the market he saw continually using check cashers, as well as a myriad of other consumer segments, Reiling set out to carve a niche for the bank in the prepaid issuing business.

“If I didn’t believe in the platform, I would have exited long ago,” he said. “The platform in and of itself is the only model that I’ve been able to find that can facilitate a sustainable method to provide access to low-balance, high-transaction consumers, and do it in a convenient and transparent way with fair pricing.”

The prepaid card market is appealing for several reasons. For one, it is a scale business, Reiling said. “If there wasn’t a market there, there’d be no reason to do this,” he said. In 2009 there were 6 billion prepaid card transactions, with total value of more than \$140 billion in the U.S., according to the Federal Reserve. And prepaid transactions are growing at a faster rate than transactions on debit and credit cards. Federal, state and local governments also are encouraging the use of prepaid cards, using them to pay employees and distribute benefits, from tax refunds to Social Security payments.

Yet another reason the prepaid card is an appealing financial product is because of the expanded distribution channel. “You extend your own sales force into other retail channels,” Reiling said. “A grocery channel is trusted way more than the banking channel. ... When you go into a Safeway store and see an 8’ x 8’ rack of prepaid cards, a customer is more than happy to buy that card there than coming into a bank. ... It’s in an environment where they’re comfortable.” And perhaps the most attractive aspect of a prepaid card is its flexibility. “It is a flexible enough product to offer all sorts of customized features that serve the underserved market,” Reiling said.

Prepaid cards can be personalized in so many ways, he said. For instance, Sunrise could strike up a partnership with a consumer products company to brand a prepaid card that offers users a discount whenever they buy certain products using the card.



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A Transformative Experience

Just as University Bank was starting to gain traction with its general purpose reloadable prepaid card business, it hit a snag—but in the end, the bank came out on top. An experience with reality television stars the Kardashian sisters would reinforce for Reiling and his staff the need for quality assurance metrics and thorough due diligence.

“When we thought we were gaining traction, we did the Kardashian Kard. ... It transformed us once again,” Reiling said. In early November 2010, the Kardashian Kard made a big splash in the general purpose reloadable prepaid card market. Named for the reality television stars, the card was sure to be popular among the coveted target audience of “Millennials.” But the card became something of a media relations nightmare, with high-profile figures like Connecticut Attorney General Richard Blumenthal and other consumer advocates outraged over its pricing structure.

The card’s monthly fees averaged out to be in line with other prepaid cards on the market at the time. However, this particular card charged users six to 12 months of fees at once to activate it. This pricing structure was meant to retain customers and encourage repeat use, which has become a challenge for some prepaid card programs. “I didn’t think it was that much of a stretch, but I was certainly corrected,” Reiling recalled. “People pay an annual fee for an American Express card. I didn’t think much about it. I didn’t see that pricing, that math as a major calculus leap.” Distraught by the outcries over the fees, the bank pulled the card from the market in less than two weeks after its launch. In that time, just 16 cards were sold.

For Reiling, the experience with the Kardashian Kard underscored the need for quality control at every stage of the process to ensure a responsible product that will uphold the reputation University Bank and its partners have in the market. “You have to implement quality from the very beginning to the very end,” Reiling said. “The concept decisioning, your partner and the program managers and the programs they bring to you, how you display [the product] and communicate to the consumer. It’s the oversight of the program, it’s the marketing to keep the program alive and doing well, it’s innovating in a safe way with product features that the consumer will like. Quality will have to ring all the way through.”



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University Bank and the Compass Principles

In 2011, as part of its reevaluation of prepaid card program processes and procedures following the episode with the Kardashians, University Bank sought the guidance of CFSI. It began working with CFSI to develop a scoring model for prepaid programs that was loosely based on the early iterations of the Compass Principles. The bank committed to using a framework to evaluate and monitor prepaid programs for both financial sustainability and mission compliance.

The bank has since made a public commitment to CFSI's Compass Principles and has pledged to incorporate the Compass Guide to Prepaid into its ongoing assessment of existing and new prepaid programs. The bank also plans to weave the guide into its communications with prepaid program managers and conduct regular reviews of its adherence to the Principles.

The commitment to the Compass Principles was a natural step, said Nikki Foster, chief corporate responsibility officer at Sunrise, as it signifies the bank's commitment to quality. "We use independent third-party resources as much as possible because they add a layer of credibility and demonstrate accountability to externally-set standards," she said. "The values closely match the values of our company." The bank has also worked to ensure it has the appropriate infrastructure in place to achieve the quality it seeks in its prepaid programs. "We have weekly meetings of our approval committee and we review contracts and art work and terms, and new regulations that come out, not only federal but every state; it is constant," Reiling said. "You need to have the infrastructure in place and the policies and procedures to run an effective program. In this business, you really need to maintain control over everybody involved."

A Promising Future

Today University Bank has 2 million active cards through 50 different prepaid programs for 16 program managers. The bank has plans to roll out its own University Bank-branded prepaid card in early 2013. Reiling believes this will offer the bank an important avenue to new customers, primarily through partnerships with local nonprofit organizations like Lutheran Social Services of Minnesota, which can promote the card along with various bank accounts at its East Side Financial Center, a financial counseling center.

Having its own prepaid card also gives the bank the opportunity to experiment with new features. "Quite frankly, if this is the testing ground for different products and services, we can then go to our program managers and say we're comfortable in offering this type of product set," Reiling said. "I prefer to test things in a micro environment and one that we know before we fire it out nationwide."



COMPASS COMMITMENT

University Bank is one of the first companies to make a public Compass Commitment.

The Center for Financial Services Innovation is looking for organizations to take action on the Compass Principles, aspirational guidelines that define how providers can work toward a vision for the future in which financial services are safe and actively contribute to improving people's lives.

University Bank has publicly committed to a specific, measurable, and high-impact initiative to demonstrate application and adoption of the Compass Principles.

Who is David Reiling?



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Banking is in David Reiling's blood. Reiling's father, Bill Reiling, purchased Franklin Bank in the 1980s and later Park Midway Bank. Both companies operated under the Franklin Bancorp Inc. umbrella. In 1995, Reiling bought University Bank and served as its president. Reiling and his father's banks began operating under the same brand, Sunrise Community Banks, in 2004, the same year Reiling added the

chief executive title. He served as president of University Bank until 2006, when he took on the CEO role full time.

Prior to purchasing University Bank, Reiling worked on the West Coast, first at First Interstate Bank (now Wells Fargo) and later at Citibank in Los Angeles. He held various positions there, including business banking officer and executive of Citigold, the bank's premium banking product line. Working in inner-city branches, he got first-hand experience serving urban communities.

Reiling is active in the community, serving on the Board of Breck School and as chair of the Community Development Banker's Association. Reiling is also a member of numerous civic and professional associations including the Saint Paul Chamber of Commerce and the Social Venture Network. He has lectured on community development banking topics to numerous schools, nonprofits, and civic organizations. Reiling was Ernst & Young's Socially Responsible Entrepreneur of the Year in 2002.

Reiling is a graduate of the University of San Diego and the University of Wisconsin-Madison Graduate School of Banking.