



The Compass Guide to Payroll Cards

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The Center for Financial Services Innovation (CFSI) is the nation's leading authority on consumer financial health. CFSI leads a network of financial services innovators committed to building a more robust financial services marketplace with higher quality products and services. Through its Compass Principles, a lineup of proprietary research, insights, and events, CFSI informs, advises, and connects members of its network to seed innovation that will transform the financial services landscape.

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Overview

Introduction

Employers are increasingly turning to payroll cards to pay their employees. In 2013, employers loaded \$30.6 billion onto more than 5 million payroll cards and the industry is expected to enjoy strong growth in the coming years.ⁱ

For employees, particularly those who work in low-paying or hourly jobs, payroll cards can serve as an important tool for building long-term financial health. According to the Consumer Federation of America, only one fourth of the lowest-income workers receive their wages via direct deposit into a bank account, compared with more than 80 percent of the highest-income workers.ⁱⁱ For these low-income employees without a bank account, payday arrives either in the form of cash, which can easily be lost or stolen, or a paper check, which requires a costly and often time-consuming visit to a check casher.

Payroll cards offer employees an affordable, safe, and convenient alternative. High-quality payroll cards carry few fees, and cardholders can generally perform basic transactions, such as making a purchase or checking their account balance, for free. Payroll cards are eligible for pass-through insurance issued by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share

In 2013, employers loaded \$30.6 billion onto more than 5 million payroll cards.

Insurance Fund (NCUSIF), so the cards are safer and more secure than transporting cash. The accounts underlying the payroll cards are easy to open and they provide employees with immediate access to their wages on payday. Some cards also offer additional tools, such as customizable alerts and saving accounts, which allow cardholders to monitor their spending and saving behavior.

A payroll card is a reloadable prepaid debit card that is offered by employers to their employees as a way to receive wages electronically. Each pay period, employees' wages are deposited into the payroll card account via direct deposit. The employee can then use the card to make purchases in stores or online, pay bills, or withdraw cash from automated teller machines (ATMs), bank branches, or through cash back at retail locations. Some payroll cards have additional features, such as savings accounts and personal financial management tools, that allow employees to track and manage their spending.

The Payroll Card Industry

Traditionally considered a product for “un- or underbanked” employees, payroll cards are becoming increasingly mainstream.¹ According to the Mercator Advisory Group, 86 percent of workers who receive their wages on a payroll card also have a checking or savings account at a bank.ⁱⁱⁱ As payroll cards become more sophisticated financial tools, employees across the economic spectrum are likely to continue to turn to payroll cards to access, spend, save, and manage their money.

Payroll cards are fundamentally high-quality products, but their design and delivery is not uniform across the industry. Some cards carry high fees for discretionary services and others have limited functionality. Certain employers have been accused of running afoul of federal and state laws by requiring employees to receive their wages on a payroll card rather than offering them multiple options, such as direct deposit into a bank account. In the wake of recent lawsuits, state legislators from Hawaii to New York have introduced legislation further regulating and, in some cases, curtailing payroll card providers’ ability to offer the cards.

While the scenarios alleged in these lawsuits are concerning, the media and legislative backlash against payroll cards has not been constructive. Since payroll cards provide value to so many hard-working Americans, condemning the industry as a whole by enacting overly restrictive legislation is not productive. Rather, we should encourage all actors in the payroll card value chain—beginning with the financial service providers that design the cards and ending with the employers that deliver the cards—to work together to ensure that high-quality programs are available to all employees.

CFSI’s Compass Guide to Payroll Cards can help the industry in this endeavor. The Guide builds on the valuable work of other organizations, including the American Payroll Association, Consumer Action, the National Consumer Law Center, and the Network Branded Prepaid Card Association, to affirm standards of excellence in the payroll card industry. By drawing upon CFSI’s Compass Principles, the Guide aims to ensure payroll cards can be a force for good in employees’ lives.

Financial health is achieved when an individual’s day-to-day financial system functions well and increases the likelihood of long-term financial resilience and opportunity. There are three foundational elements to financial health:

- A well functioning day-to-day financial life
- The ability to be resilient in the face of inevitable ups and downs
- The potential to seize opportunities and achieve financial mobility over time

By providing employees with a safe, efficient, and cost-effective way of receiving their wages, payroll cards allow hard-working Americans to plan for the future and to seize opportunities as they arise.

For more information, please see CFSI’s [brief about financial health](#).

¹ The Federal Deposit Insurance Corporation (FDIC) defines “unbanked” households as those that do not have a checking or savings account at an insured financial institution and “underbanked” households as those that have a bank account, but also use alternative financial services outside of the banking system.

At the heart of the Compass Principles is a commitment to mutual success in the customer-provider relationship. By approaching each customer interaction as an opportunity to build a lasting relationship, providers can successfully and profitably design products and services that align provider success with customer satisfaction.

The Compass Principles

The [Compass Principles](#) are aspirational guidelines designed to assure quality innovation and execution in the financial services marketplace. The Principles reflect the belief that the U.S. financial services industry can actively contribute to improving people's lives, while delivering sustainable value to consumers and providers alike.

The four Compass Principles are:

- **Embrace Inclusion: Responsibly expand access.** Consumers, including those from traditionally underserved groups or communities, are creatively reached and well-served with a relevant suite of quality, affordable financial services that promote consumer choice and are provided in a safe, dignified, and convenient manner.
- **Build Trust: Develop mutually beneficial products that deliver clear and consistent value.** Consumers can clearly understand and derive value, without pitfalls or unwelcome surprises, from financial products designed to align provider and consumer goals.
- **Promote Success: Drive positive consumer behavior through smart design and communication.** Consumers are empowered to make wise money choices via smart product design and guidance that is relevant to their specific concerns and financial situations, coincides in a timely fashion with key life events or decisions, and is immediately actionable.
- **Create Opportunity: Provide options for upward mobility.** Consumers have appropriate options that create opportunities for increased financial prosperity, and they are encouraged to pursue those opportunities.

The Compass Principles are guided by the following six values:

- **Profitability and Scalability:** The Compass Principles provide a framework that is pragmatic, achievable, financially sustainable, and scalable.
- **Deep Customer Knowledge:** The Compass Principles are formulated and must be implemented with a solid understanding of real consumer needs.
- **Safety:** The Compass Principles support and build upon consumer protections.
- **Variation and Choice:** The Compass Principles allow for judgment on the part of individual providers, because there is no one right way to meet all customer needs.
- **Relationships:** The Compass Principles focus on success for both consumers and providers and encourage providers to view each customer interaction as an opportunity for a long-term relationship.
- **Cross-Sector Participation:** The Compass Principles incorporate the perspectives of a range of practitioners and experts.

The Guide

Purpose and Audience

The Compass Guide to Payroll Cards is a tool for ensuring the quality of payroll cards. Program managers can use the Guide to improve existing offerings or to design new ones. Issuing banks, processors, and payments networks can use the Guide to determine which features and functionalities to develop and offer to their partners. Employers and employer associations can use the Guide to evaluate potential payroll programs and to ensure they are providing a top-notch experience to their employees.

The Compass Guide to Payroll Cards does not function as a “seal of approval” for any product or company; CFSI will not monitor how individual providers use this Guide or evaluate the extent to which they adhere to its principles. The Guide also does not provide advice about regulatory compliance. Users should seek legal counsel to ensure compliance with all applicable laws and regulations.

Structure of the Guide

The Compass Guide to Payroll Cards outlines guidelines across three levels:



Core practices are the standards for a high-quality payroll card. A payroll card program should not be considered high quality unless it meets these practices.



Stretch practices are additional best practices for providers looking to move beyond the Core practices.



Next Generation practices are for providers that have met the minimum standards for quality, challenged themselves to stretch beyond those standards, and are considering the next step in high-quality product design.

Below each guideline are examples that illustrate how a company might apply this guideline. **These examples are for illustrative purposes only and should not be used as a checklist.**

Next to each guideline and/or example is an icon identifying which member of the payroll card value chain is *primarily* responsible for implementing that policy or practice, even if another party may have the compliance obligation (see icons below). However, all members of the value chain, from employers to issuing banks, should be diligent in ensuring compliance with these policies and practices. As roles and responsibilities become less distinct—for example, issuing banks are increasingly taking on the role of program manager—all parties should be responsible for ensuring the integrity of product design and delivery.



Program Manager—Manages the payroll card program and is generally responsible for defining the product features, managing the customer interface(s), marketing, and overseeing the day-to-day operations of the card.



Issuing Bank—A bank or other depository institution that serves as the issuer of the card and holds payroll cards’ funds in a pooled account or in separate accounts. The issuing bank may, in some cases, serve as the program manager and is always responsible for ensuring compliance on its programs.



Payments Networks—Provides a gateway for the exchange of data and electronic funds transfers between issuers and acquirers.



Processor—Processes transactions and may offer additional support such as authorization and settlement services. This role is frequently performed by the program manager, but may be performed by a third party entity as well. The processor also provides a platform for defining program settings, fees, and other parameters.



Employer—Distributes payroll cards to employees and oversees the management of the program.

Bringing the Practices to Market

The Compass Guide to Payroll Cards can help providers offer new and creative solutions that enable employees to achieve long-term financial health. As they seek a competitive advantage through customer-focused design and innovation, companies will implement these practices in their own ways. The Stretch and Next Generation practices address features for consideration by providers that are looking to expand product functionality. Not all providers will choose to or will be able to offer these features due to business or legal constraints. There is no one-size-fits-all approach to a high-quality payroll card and there is inherent value to choice, diversity, and innovation in the marketplace.

Financial service providers cannot do this alone; employers are integral to the success of payroll card programs. Employers must ensure that employees have a choice about how they receive their wages—anything less would violate federal laws—and they should provide employees with the information they need to make sure that the choice is an informed one. Employers are also responsible for selecting a high-quality payroll card in the first place, for educating their employees about how to get the most out of their cards, and for ensuring that cardholders receive the support they need to effectively use their cards.

Financial service providers should also consider themselves responsible for directing how their payroll cards are implemented. When third-party contractors violate regulations, laws, or industry best practices, the contracting institution often absorbs the damage. Program managers, issuing banks, and payments networks should educate employers about industry best practices, such as the ones listed in this Guide, and should maintain an open dialogue with employers around product changes, especially regulatory ones. They should also provide marketing and education toolkits and templates for employers to pass on to their employees. For more on managing third-party relationships, please see CFSI's Compass Advisory Note, "[Managing Third-Party Relationships to Decrease Risk and Maximize Quality](#)."

There is no one-size-fits-all approach to a high-quality payroll card and there is inherent value to choice, diversity, and innovation in the marketplace.

Payroll card providers and the employers that deliver the cards do not operate in a vacuum; payroll cards are subject to a host of federal and state regulations. The recommendations outlined in this Guide have been designed to take into account the regulatory environment of the payroll card industry. Although many of the guidelines articulate industry-wide best practices that are outside the scope of regulations, a few of the guidelines reinforce practices and policies that are currently required by law. This Guide does not capture all federal and state laws, nor does it purport to make recommendations from a regulatory or policy standpoint. By defining industry-wide best practices, the guidelines inherently go beyond what should be required by current or future regulation.

The Compass Guide to Payroll Cards sets a high bar for payroll cards. The Guide, as well as the overall Compass Principles framework, is rooted in the belief that providing value to consumers benefits businesses in the long run. Payroll card providers that embrace the guidelines outlined in this document are likely to reap the benefits of loyal, engaged, and profitable customers. The most successful payroll card programs will be those that align provider profitability with cardholders' success.

Compass Guidelines for Payroll Cards

The examples provided below each guideline illustrate how a company might apply that guideline. These examples are for illustrative purposes only and should not be used as a checklist or legislative template. There is no one-size-fits-all approach to a high-quality payroll card and there is inherent value to choice, diversity, and innovation in the marketplace.

Next to each guideline and/or example is an icon identifying the member of the payroll card value chain that is *primarily* responsible for implementing that policy or practice, even if another party may hold the compliance obligation. However, all members of the value chain should be diligent in ensuring compliance with these policies and practices.

Core Practices

Choice

1. Employees are offered a choice about how they would like to receive their wages.

Examples

- a. As required by Regulation E, employers can only require electronic direct deposit of wages if the employee is allowed to choose the institution that will receive the direct deposit.^{iv} This means that employers cannot automatically enroll employees in a payroll card program without also offering employees another method of wage payment.
- b. Where state wage and hour laws require that employers provide their employees with the option of receiving their wages on a paper check, that option is offered as well.



Program Manager



Issuing Bank



Payments Networks



Processor



Employer

Choice *(continued)*

2. Employees are provided clear information that enables them to make an informed decision about how they would like to receive their wages prior to enrollment.

Examples

- a. Communications, such as a set of answers to Frequently Asked Questions (FAQs) or a schedule of fees, are provided to employees.
- b. Information is provided to employees about how to select their desired payment option and how to later change that selection.
- c. Communications ensure that employees understand that receiving a payroll card is not a condition of employment and that at least one additional method of wage payment must be offered.



Safety

3. Cardholders' funds are insured with FDIC or NCUSIF pass-through insurance.²



4. In the case of a lost or stolen card or unauthorized charges, errors, or disputes, the cardholder's liability is limited and the cardholder has effective procedures to resolve disputes.

Examples

- a. As permitted under Regulation E, the financial institution limits the cardholder's liability for any unauthorized transfer reported by the cardholder within 60 days after the cardholder electronically accesses an online transaction history or receives a periodic statement describing the unauthorized transfer.^{3,v}
- b. If a cardholder disputes a charge, the program manager follows procedures to investigate the dispute quickly, to reverse the charge if appropriate, and to provide the cardholder with a clear explanation if the charge is not reversed.
- c. Any "Zero Liability" protections mandated by the payments networks are passed along to cardholders to ensure that their responsibility for unauthorized transactions is limited.



Program Manager



Issuing Bank



Payments Networks



Processor



Employer

² Federal Deposit Insurance Corporation (FDIC) pass-through insurance insures cardholders' funds up to \$250,000 should the bank holding these funds in a pooled account fail. National Credit Union Share Insurance Fund (NCUSIF) does the same for funds held in a pooled account at a federally insured credit union. For credit unions that do not participate in the NSCSUIF, cardholders' funds are insured by applicable state insurance funds.

³ Under Regulation E, the cardholder's liability is also limited for any unauthorized transfers reported by the cardholder within 120 days after the transfer is debited or credited to the account if the cardholder does not electronically access an online transaction history or receive a periodic statement describing the unauthorized transfer.

Affordability

5. Cardholders are able to access their full net wages each pay period without cost.

Examples

- a. As required by certain state wage and hour laws:
 - i. Payroll cardholders are entitled to at least one free withdrawal of their full net wages each pay period.
 - ii. Fees, such as monthly maintenance fees, that deny cardholders a chance to access their full net wages each pay period are not assessed.



6. Cardholders can perform basic functions without incurring unreasonable fees.

Examples

- a. An accessible and convenient network of ATMs provides cardholders with at least one free in-network withdrawal per pay period.
- b. Cardholders can access information about their account balance for free through online or mobile channels, an interactive voice response (IVR) messaging system, or via text message or email alerts.
- c. Cardholders can access their transaction histories for free via online or mobile channels, or through a paper transaction history, made available upon request. Other methods of accessing transaction histories, such as on-going monthly paper statements, may carry a fee.
- d. Transaction decline fees, inactivity fees, and card replacement fees are reasonable and communicated clearly to cardholders.
- e. IVR systems are free and efforts are made to limit the costs of speaking to a live agent (for example, by providing a certain number of free calls per pay period or by reimbursing cardholders who are calling to resolve an error).



Program Manager



Issuing Bank



Payments Networks



Processor



Employer

Access

7. Cardholders can make purchases from, and payments to, a variety of merchants and billers.

Examples

- a. The payroll card is network-branded and is accepted anywhere the network brand is accepted.
- b. Cardholders can pay bills and receive payment confirmation online, via kiosk, phone, or walk-in bill-pay locations.
- c. Cardholders can establish payments to billers and other payees through online or mobile channels.



8. Wages that are loaded onto the card are available for immediate use on payday.



9. Cardholders can make withdrawals at locations that are accessible and convenient.

Examples

- a. Cardholders can withdraw cash at locations that are accessible and convenient to their place of work, including at a wide network of ATMs, bank tellers, and merchants that offer cash back with purchases.
- b. Online and mobile tools are provided to help cardholders identify these locations.



Program Manager



Issuing Bank



Payments Networks



Processor



Employer

Transparency

10. Before enrolling in a payroll card program, employees receive communications that allow them to understand the card's fees and account terms.

Examples

- a. Employees receive materials that display fees in a clear and conspicuous manner, such as a fee box.
- b. A comprehensive set of answers to FAQs or a user's guide allows employees to understand the basic functionality and consumer protections of the cards.
- c. Online tools, such as tutorials, videos, or guides explain how cardholders can use their cards without incurring unnecessary fees, resolve disputes, and perform basic transactions.



11. Upon enrolling in a payroll card program, cardholders are provided with a clear and understandable set of Terms and Conditions.

Examples

- a. As required by Regulation E:^{vi}
 - i. Cardholders receive written disclosures in a clear and readily understandable format that they may keep.
 - ii. Cardholders are notified in a timely manner of changes that affect program fees.
- b. A complete schedule of fees is included with the Terms and Conditions.
- c. In addition to providing a written copy of the Terms and Conditions, an additional Terms and Conditions and fee schedule can be requested or is made available online.



Program Manager



Issuing Bank



Payments Networks



Processor



Employer

Information and Support

12. Cardholders are presented with multiple ways to conveniently access their account balance and transaction histories.

Examples

- a. Cardholders can view their account balance through online or mobile channels, at an ATM, through IVR messaging systems, or via text message or email alerts.
- b. Cardholders are presented with multiple ways to access their transaction histories, including through online or mobile channels, or via a monthly paper transaction history. Cardholders may opt-in to receive monthly paper statements.
- c. At least 12 months of transaction data can be viewed online or through mobile channels.



13. Cardholders can easily obtain customer service assistance.

Examples

- a. IVR customer service messages are clear, easy to understand, and offer service in multiple languages.
- b. Cardholders are offered the option to speak to a live customer service agent during regular business hours if they cannot resolve their issue through the IVR service. Efforts are made to keep hold times minimal.



Personalization

14. If an employer offers instant issue cards, a personalized permanent card is also available to cardholders, either as an option or issued automatically.

Examples

- a. Permanent cards are personalized and display cardholders' first and last names.
- b. Upon activating a permanent card, cardholders' funds are transferred from the instant issue card to the permanent card and are available for immediate use.



Program Manager



Issuing Bank



Payments Networks








Processor





Employer

Stretch Practices

Convenience

- 15. Cardholders can send money to other cardholders from their card.
 - Examples*
 - a. Cardholders can transfer funds from their card to another card within the same program. 
 - b. Cardholders can send remittances to other individuals who may be living outside of the United States. 
- 16. Cardholders can register for secondary cards to provide to friends or family. 
- 17. Cardholders are offered the option to split their wages between a payroll card and another form of electronic disbursement. 
- 18. Sub-accounts allow cardholders to set aside funds for budgeting or saving purposes. 

Mobile

- 19. A mobile application or a mobile-enabled website allows cardholders to perform basic transactions and access important account information on the go.
 - Examples*
 - a. Cardholders can register for short message service (SMS) alerts, including deposit notification alerts, low balance alerts, and transaction alerts. Clear and conspicuous opt-out instructions are provided. 
 - b. Cardholders can perform basic tasks, such as checking their account balance and viewing recent transactions. 



Education

20. Advice is provided to cardholders to ensure they derive the most value from their cards.

Examples

- a. Cardholders can sign up to receive alerts that encourage them to avoid unnecessary fees (for example, text messages are sent when cardholders could have avoided a fee by withdrawing funds from an in-network ATM instead of from an out-of-network ATM).
- b. Customer service calls serve as an opportunity for customer representatives to review cardholders' accounts, identify unnecessary fees that the cardholder is paying, and explain to cardholders how these fees could be avoided.



Portability

21. Cardholders can choose to receive multiple sources of funds on their cards.

Examples

- a. By agreeing to additional Know Your Customer (KYC) verification procedures, and providing additional documentation, if necessary, cardholders can choose to receive additional sources of funding, such as government benefits or tax refunds on their cards, or they can link their cards to a bank account or debit or credit card.⁴
- b. Cardholders can load their cards with cash at designated retailers, ATMs, or financial institutions.
- c. Upon leaving the employer that initially issued the payroll card, cardholders can retain use of their card and establish direct deposit at subsequent employers.



Program Manager



Issuing Bank



Payments Networks



Processor



Employer

⁴ Know Your Customer (KYC) is the process used by banks to verify the identity of their clients to prevent identity theft, financial fraud, money laundering, and terrorist financing.

Next Gen Practices

Budgeting

22. Personal financial management (PFM) tools enable cardholders to plan, budget, and track their expenditures.

Examples

- a. Online or mobile PFM tools display cardholders' spending behavior through visuals and graphics.
- b. Cardholders can customize text message and email alerts and link them to specific budgeting goals.



Savings

23. Cardholders have the option to store and accumulate funds in a savings account.

Examples

- a. Cardholders may store funds in a savings account that is on their card but separate from the main account, or they can link their card to a separate savings account.
- b. Incentives, such as interest or rewards, are offered to encourage cardholders to save.



Credit

24. If a credit service is offered in conjunction with a payroll card, providers exercise caution and only offer affordable and high-quality options that cardholders can repay without entering a cycle of debt.⁵

Examples

When offering access to a credit service in conjunction with a payroll card:

- a. Cardholders are offered a separate account repayable in affordable installments and based on their ability to repay.
- b. Cardholders affirmatively choose to open an account.
- c. Cardholders receive materials that allow them to ascertain and understand the fees and conditions associated with the account.
- d. A clear distinction is made between borrowed funds and earned wages.



Program Manager



Issuing Bank



Payments Networks



Processor



Employer

References

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- ii Brobeck, Stephen, Fox, Jean Ann, and Naron, Sean, "Can Consumers Avoid Check Cashing Fees?" Consumer Federation of America. October, 2012.
- iii Nash, Sheryl Nance. "For the Under-Banked, Payroll Cards have Two Faces," The Fiscal Times, October 2013.
- iv 12 CFR 1005.10(e)(2)
- v 12 CFR 1005.18(c)(3)(ii)
- vi 12 CFR 1005.8(a)

⁵ To learn more about what features define a high-quality small-dollar credit product, please see CFSI's [Compass Guide to Small-Dollar Credit](#).



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