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OCC Issues Guidance on Smart Card/Stored Value Card Risks

WASHINGTON-- The Office of Comptroller of the Currency issued guidance today to banks on the risks inherent in a variety of smart card and stored value cards that have evolved in the marketplace. The bulletin provides basic information that will assist banks in identifying risks so that they may develop appropriate risk management systems if they begin to offer products and services that involve such cards.

"Stored value cards can take a lot of different forms," said Comptroller of the Currency Eugene A. Ludwig. "As banks consider whether and how they may become involved in this technology, it is critical for them to understand the risks, as well as the opportunities."

The OCC bulletin presents a definition of stored value cards and describes several kinds of stored value card systems. It also outlines the various functions and roles that banks can play in stored value card systems. Most significantly, the bulletin describes the risks banks may face in investing or participating in stored value card systems based on the risk categories of the OCC's Supervision by Risk program. Among these are:

- Transaction risk: the adequacy of internal controls, data integrity, transaction rules, employee performance, and operating processes in stored value card systems.
- Strategic risk: the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against those goals, and the quality of implementation.
- Reputation risk: the risk that arises from negative public opinion, especially in the case of marketing stored value cards.

In addition, the bulletin raises basic consumer awareness issues that banks will need to consider to inform consumers adequately. Examples of information consumers will need include:

- How to use the card.
- The fees associated with the card's use.
- What happens and who bears the loss when a card is lost or stolen.

The bulletin was developed by the OCC's Bank Technology Committee (BTC), a specialized group that the Comptroller established to identify and assess supervisory issues and risks arising from a variety of bank-related electronic technology. The BTC includes representatives from a variety of OCC departments and divisions, including: the Chief National Bank Examiner's Office, each of the

OCC's six district offices, the Multinational Banking Division, the Law Department, the Economics Department, the Consumer and Fiduciary Compliance Department, and the Information Resources Management Department.

In addition to his duties as Comptroller of the Currency, Mr. Ludwig coordinates the development of Treasury Department policy on electronic money issues.

A copy of the guidance can be obtained through the OCC Information Line at (202) 479-0141 and requesting document number 29648 or it is posted on the Internet at <http://www.occ.treas.gov>.

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The OCC charters, regulates and examines approximately 2,800 national banks and 66 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is to ensure the safety and soundness of the national banking system.