



Written by [Kelly Holt](#) on September 8, 2011

U.S. Government — Tracking Cash Cards?

The U.S. government has found another way to invade privacy in the name of fighting terrorism by proposing legislation that would track prepaid debit cards. As usual, the real losers would be, not terrorists who won't comply anyway, but innocent Americans, or travelers, and card issuers burdened with yet another layer of record keeping and compliance procedures. The Financial Crimes Enforcement Network (FinCEN), a branch of the Treasury Department, has drafted rules, taking effect Sep. 27, to establish a "more comprehensive regulatory approach for prepaid access."



It's important to distinguish between these prepaid debit cards and the debit cards attached to your bank account. Once known as "stored-value cards" the cards will be renamed "prepaid access cards" — because they aren't tied to a bank account, the money paid for them in advance could be anywhere, currently outside the reach of monitoring by the government. Which is precisely the point. An assessment of financial security threats in 2005 by the Treasury Department noted that the 9/11 hijackers opened bank accounts, signed signature cards and received wire transfers, which left a financial trail. The assessment noted: "... had the 9/11 terrorists used prepaid ... cards to cover their expenses, [none of these financial footprints would have been available](#)," according to *MSNBC.com* last week.

FBI Director Robert Mueller even called the use of prepaid cards a [shadow banking system](#). The Treasury Department's assessment urged action to crack down on misuse of prepaid access cards, saying it was convinced that the shuttling of criminal proceeds across the border, "whether in the form of bulk cash or stored value" (on prepaid cards), poses "a significant threat to national security."

ACI Worldwide of New York creates and manages electronic payment systems for banks and major retailers. Senior product manager Jim Schlegel said the new rules are well-intentioned, but he questioned just how big a problem money laundering through prepaid cards really is. In an interview he said:

It's "such a small percentage of the overall problem, and attempts to propose very heavy legislation and requirements around it put a drag on an otherwise growing and profitable sector."

Agencies and bank regulators claimed that there's no way to know how much money moves undetected across U.S. borders via the use of these cards, but according to a [Government Accountability Office](#) report from October 2010, it's estimated that criminals smuggle \$18 billion to \$39 billion a year in bulk cash across the southwest border.

But, according to *MSNBC*, criminal organizations load prepaid cards with amounts just under the \$10,000 minimum that must be reported, then cards are sent across borders and/or to associates who can convert the amounts to cash — effectively a form of money laundering. The Financial Action Task Force (FATF) reported last year in an [examination of the](#) cash cards that the United States is the



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biggest user of prepaid cards and that by 2017 will account for 53 percent of the worldwide market.

The traditional problems of smuggling large amounts of cash are almost eliminated with the use of prepaid access card.

Jasbir Anand, a senior consultant at ACI, said the funds represented on such cards, which you can easily buy online, could:

travel across borders without limitation. The net impact of these rules would be an increase in the overall cost of debit cards for consumers for record-keeping and storage and so on that will eventually trickle down to fees on the debit card and a limitation on features.

MSNBC continued, "Even as it warns about the potential money laundering threat, the [FATF] also acknowledges that tight restrictions on prepaid cards could have a significant impact on lower-income people unable to 'take full advantage of mainstream financial service providers' because they have a poor credit record, for example, or because they have no permanent address and can't qualify for a bank account. That's more than 17 million Americans, [the Federal Deposit Insurance Corp. says](#), and for them, prepaid cards can be the only way they can gain "ready access to services."

The new rules could cause another problem. Overseas companies and banks that wish to continue doing business here might comply, but U.S. rules can't be imposed on the thousands of merchants in other countries.

And what about traveling with large amounts of cash? Three Senators — Amy Klobuchar (D-Minn.), Tom Udall (D-N.M.), and Jeanne Shaheen (D-N.H.) — introduced legislation last month to close that loophole. It would require travelers to declare "prepaid cards totaling more than \$10,000" when they enter or leave the United States, just like cash. But then entities issuing prepaid cards are placed at a competitive disadvantage to traditional or other standard bank cards if travelers find the prepaid cards less attractive. And trying to determine a card's balance while in flight, or at a gate is burdensome.

FinCEN is developing regulations, as required by the Credit CARD Act of 2009, to address gaps in regulations related to the use of stored value for criminal purposes, but much work remains. And even more vigilance on the part of Americans trying to hold on to both their privacy and their cash.



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