

Smart Cards: Will They Make Consumers Part With Hard Cash?

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ST. LOUIS -- Economist Adam M. Zaretsky says that stored-value (or "smart") cards raise some key questions, especially: What happens if the card is lost? How and when does settlement of the transaction occur? Who will issue the cards?

"These are questions most potential card users are likely to want answered before deciding whether this technology is really a useful innovation or just a marketing gimmick," says Zaretsky, an economist with the Federal Reserve Bank of St. Louis.

Zaretsky's analysis of both the promise and the peril posed by stored-value cards appears in "Will That Be Cash, Check, Charge or Smart Card?" in the April issue of *The Regional Economist*, the St. Louis Fed's quarterly review of business and economic conditions in the Eighth Federal Reserve District.

He cautions that stored-value cards are *not* like cash in several ways:

- The consumer may believe he has "cash" on his stored-value card, but he actually has only some monetary value in the form of a promise that his bank makes to pay the debt incurred from his card.
- The transaction is not settled at the point of sale, as with cash, because the merchant still has to collect the funds from the bank.

Stored-value cards, Zaretsky further emphasizes, are also *not* like ATM, credit or debit cards:

- There is no guarantee of reimbursement if a stored-value card is lost, stolen or damaged, even if a personal identification number (PIN) prevents others from accessing the funds on the card.
- Transactions occur off-line, just as checks do.

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