

# Savings on Prepaid Cards

## An Opportunity for Both Consumers and Industry

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New tools are emerging to help consumers access affordable financial services and save for emergencies.

Saving for an emergency is something that we are constantly told to do, but it's hard to save if you don't have a bank account—or enough money to meet minimum deposit requirements.

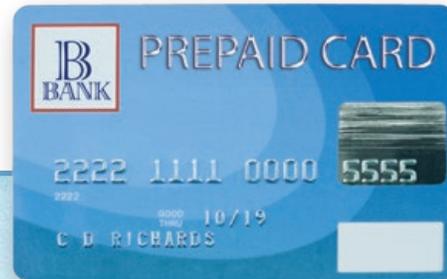
New opportunities are coming, however. We are entering an era of rapid technological advancement in the financial-services industry. You no longer need your provider to be located near you or have a physical presence at all. Consumers are being offered more choice, and competition among market participants is driving down costs.<sup>1</sup>

Financial-services companies are increasingly competing for customers in traditionally underserved markets and counting on new products to meet consumer needs. General-purpose reloadable (GPR) prepaid cards are one such product. As prepaid cards become more popular, it will be important for the industry to offer additional features that benefit the consumer. A feature that permits saving, for example, could help low- and moderate-income consumers begin asset building or create a fund for emergencies. There is some evidence that by lowering the barriers to entry and utilizing mobile technology to make it easier to transfer money from a spending account to a reserve account, consumers will begin the savings process and learn positive saving habits.<sup>2</sup>

Consumers seem to be using GPR prepaid cards to conduct everyday transactions in a way that is similar to use of debit cards. But there are differences. In the words of the Consumer Financial Protection Bureau (CFPB), “A bank account debit card is linked to your checking account; a prepaid debit card is not. Instead, you pay in advance to load funds onto a prepaid card, and then use the money you have loaded onto the card. In most cases, you can't spend more money than you have already loaded onto your prepaid debit card, but with bank account debit cards, if you opt into your bank's overdraft service, the bank may cover the cost of a purchase that exceeds what you have in your account, and charge you a fee (as well as requiring you to repay the overdraft).”

To acquire a fully functional GPR prepaid card, the consumer must go through an identification process that is similar to opening a checking account at a financial institution. Since most GPR prepaid cards do not offer overdraft protection, however, the GPR prepaid card provider will not need to check to see if the customer has a history of mishandling a checking account.

As the GPR prepaid market matures, there is an opportunity for the industry to experiment with product design and engage in research that will determine if the card is a financial tool that at least does no harm and, with enhanced features, is truly beneficial to consumers.



**What if prepaid cards had a savings feature? An emerging partnership is looking into ways to help lower-income people save for a rainy day. Partners include:**

- The Federal Reserve Bank of Boston
- Doorways to Dreams
- The Center for Financial Services Innovation
- Private-sector entities that focus on consumer finance

## Lower-Income Consumers

GPR prepaid cards are popular with many low- and moderate-income consumers. A 2013 Federal Reserve Bank of Boston study found—after controlling for demographic factors—that 49 percent of people with household income less than \$25,000 owned a GPR prepaid card, compared with just 18 percent of people with household income between \$75,000 and \$99,000.<sup>3</sup>

Although savings rates are generally low across the income spectrum, the concern is greater for lower-income populations given that a financial shock (for example, having the car break down) could have significant negative effects on financial stability. A tool for emergency savings could be especially important for such consumers and help them avoid having relatively small problems escalate from an urgent cash outlay to intractable, long-term debt.

GPR card companies that offer savings pockets have indicated that they are seeing consumers utilize the features to set money aside, but for extremely short periods of time—weeks, not months. So the industry knows that consumers are not going to be suddenly saving large sums simply because a savings pocket has been added to a card. However, saving even a small amount of money, and thereby changing savings behavior, can begin a process toward financial stability with the potential for long-lasting positive effects.

The GPR prepaid card market has matured to the point that approximately \$65 billion was loaded onto cards in 2012, representing more than double the load amount in 2009.<sup>4</sup> But although



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Increasingly, technology is connecting the unbanked to financial services.

Increasing numbers of companies are offering savings options on GPR cards—and in some cases, pairing those options with text reminders about saving and similar features to promote use—there is not a lot known yet about customer usage or the effects of different features on behavior. One goal for new research would be to determine which interventions and innovations in the prepaid-card market are effective in generating net new savings among consumers.

## The next horizon is determining if technological improvements can lead to improved financial habits overall and better money management.

An emerging partnership among the Federal Reserve Bank of Boston, the nonprofit Doorways to Dreams (D2D), the Center for Financial Services Innovation (CFSI), and several private-sector entities that focus on consumer finance looks promising for producing the necessary research. And the time is right for collaboration. All stakeholders want to see financially stable, economically viable households that are not only able to transact affordably and safely but are given the opportunity to set aside money for emergencies and aspirational goals should they choose to do so.

### Savings Pilot

In one study, D2D partnered with Banking Up, a financial-services technology company, to pilot a “Rainy Day Reserve” on Banking Up’s Upside Visa prepaid card. What they found was that there was demand from consumers for a savings product tied to GPR prepaid cards.

“The results of our design and pilot of the Rainy Day Reserve showed broad usage (16.5 percent adoption rate) and substantial savings (over \$14 million saved from October of 2011 to the present),” said Timothy Flacke, executive director of D2D. “We believe that when financially vulnerable consumers are offered a product that meets their needs—easy to access, simple to use, framed for a specific use like emergency savings—they will save more. For those without traditional savings accounts, having the opportunity and ability to securely set aside funds allows them to better manage unexpected expenses.”

The Boston Fed, D2D, and the CFSI are thinking about GPR prepaid card–linked savings as an important feature to begin the process of emergency savings. The next horizon is determining if technological improvements can lead to improved financial habits overall and better money management. Being able to reach people via their phones when they are making financial decisions is one promising avenue for encouraging them to set aside small amounts of money. Since most GPR prepaid cards have a mobile presence via a mobile phone app or mobile website, a text message or other notification could help users decide against making an unbudgeted purchase or remind them to put money aside at the point of sale if they have underspent an item’s predetermined budget.

Multiple channels, mostly digital, will be crucial to delivering high-quality financial services and leveling the playing field so that low- and moderate-income consumers have access to the financial information needed to make well-informed decisions. Technology can be a great equalizer in that it allows for access to financial services that are not dependent on a traditional physical presence.

As for the industry, lower-income people are an important group of consumers that could be drawn to traditional banking by way of GPR prepaid cards and perhaps become the source of future business. The industry has already taken steps to make the fee structure more transparent. Moving forward, it should continue to seek innovative approaches to engage consumers on asset building and to bring a full suite of financial-product options to all cardholders.

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### Endnotes

- <sup>1</sup> “Consumers Continuing to Load Up on Prepaid Cards” (report, The Pew Charitable Trusts, 2014), [http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs\\_assets/2014/PrepaidCardsStillLoadedReportpdf.pdf](http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs_assets/2014/PrepaidCardsStillLoadedReportpdf.pdf).
- <sup>2</sup> Sarika Abbi, Shaheen Hasan, and Elizabeth Straghalis, “Paving the Way Forward: Savings on Prepaid Cards” (report, D2D Fund, Boston, 2013).
- <sup>3</sup> Marcin Hitzzenko and Mingzhu Tai, “Measuring Unfamiliar Economic Concepts: The Case of Prepaid Card Adoption” (working paper no. 14-9, Federal Reserve Bank of Boston, 2014), <http://www.bostonfed.org/economic/wp/wp2014/wp1409.pdf>.
- <sup>4</sup> “Why Americans Use Prepaid Cards” (report, The Pew Charitable Trusts, 2014), [http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs\\_assets/2014/PrepaidCardsSurveyReportpdf.pdf](http://www.pewtrusts.org/-/media/legacy/uploadedfiles/pcs_assets/2014/PrepaidCardsSurveyReportpdf.pdf).