

Understanding Consumers' Evolving Use of Prepaid Cards

Industry view: Patricia Hewitt, Mercator Advisory Group

Economist's view: Scott Schuh, Federal Reserve Bank of Boston

Regulatory view: Marla Blow, Consumer Financial Protection Bureau

An Economist's View of Prepaid Cards

Scott Schuh, Federal Reserve Bank of Boston

The views expressed in this presentation do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System.

Are prepaid cards money? Not exactly....

Feature	Assets		Cards	
	Cash	Bank Account	Debit	Prepaid
Medium of exchange	✓	✓	✓	✓ (GP > other)
Unit of account	✓	✓	X	X
Store of value	✓	✓	X	X
Fees	Non-network ATMs only	Maybe	Rare	Many

...and prepaid cards differ from cash

Differences

- Cash more anonymous; may require less ID
- Cash accepted more widely
- Prepaid electronic/flexible
- Prepaid used online
- Prepaid is durable

Similarities

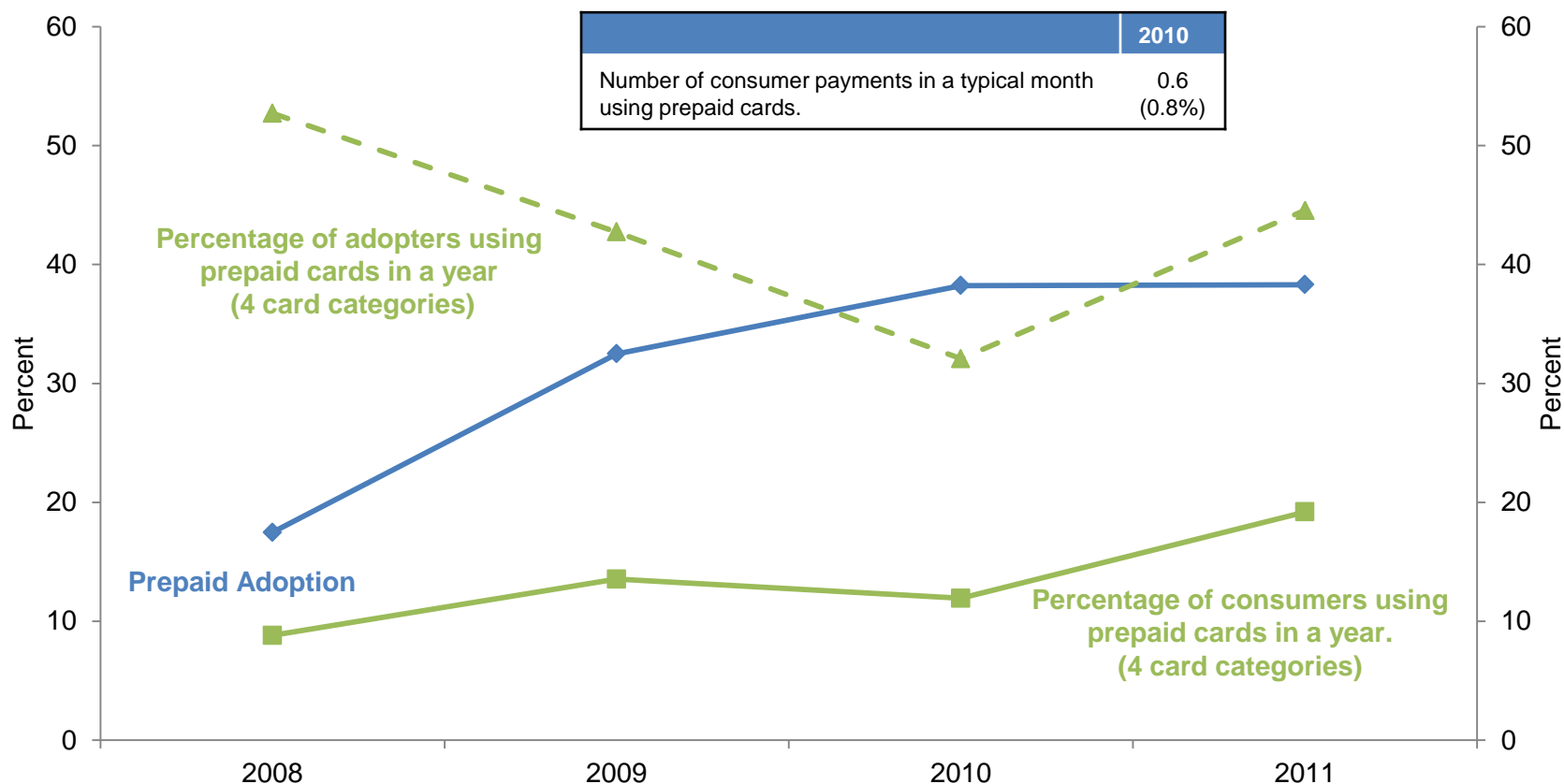
- Easy to lose
- Prepaid funds \approx “cash”
- Earn no interest/returns
- “Envelope budgeting”
- No credit check

Consumers have better choices than prepaid

Economic Theory High \leftrightarrow Low						
Opportunity Cost	Cash, Prepaid , TC, MO [Negative]	<	OBBP, BANP [Zero]	<	DC, Check	< CC, Mobile Text/SMS
Transaction Cost	Prepaid	<	Cash	<	All Other Instruments	

Consumer Assessments, Survey Data Worse $\leftarrow \rightarrow$ Better					
Acceptance	BANP	<	Check, Prepaid , OBBP	<	DC, CC, Cash
Cost	Cash	<	Debit, Check, BANP, OBBP, Prepaid	<	Credit
Records	Cash, Prepaid	<	BANP	<	DC, Check, Credit, OBBP
Security	BANP, Cash, Check, Prepaid			<	OBBP, DC, CC
Convenience	BANP	<	Cash, Check, OBBP, Prepaid	<	DC, CC
Get/set up	Prepaid , OBBP, BANP	<	DC, CC, Check	<	Cash

Consumers report prepaid growing moderately

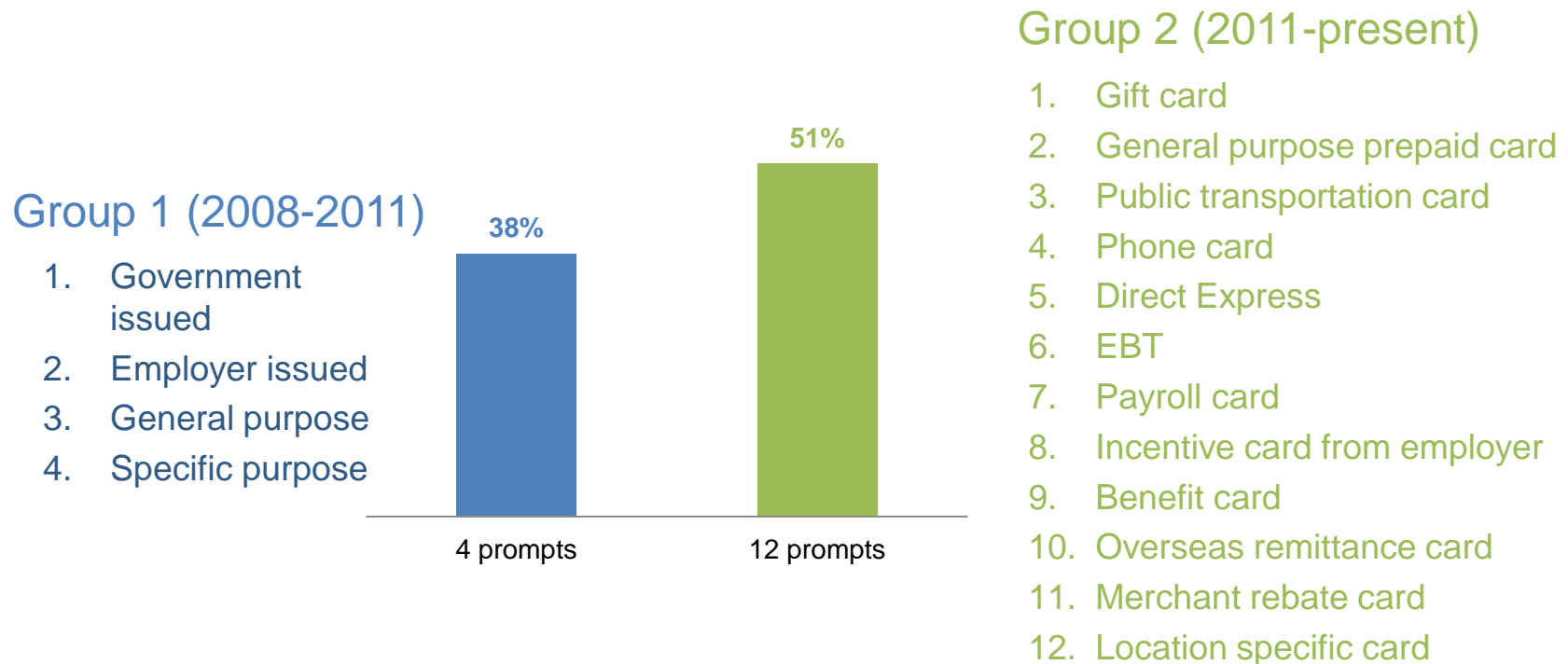


Notes: Prepaid use is defined as the share of consumers or adopters using a prepaid card in a given year.

Source: 2010 and 2011 Survey of Consumer Payment Choice **unofficial and preliminary**.

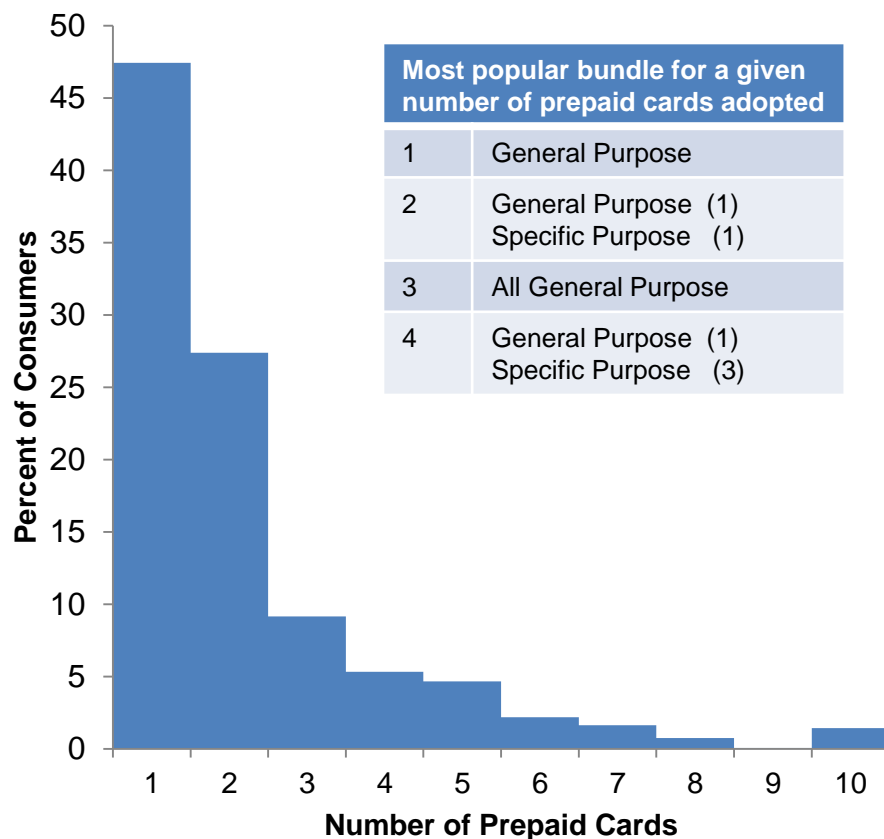
Consumers unfamiliar with prepaid cards

Survey experiment shows questionnaire design and prepaid card definitions can influence estimates of rates of adoption...



Source: 2011 Survey of Consumer Payment Choice **unofficial and preliminary**.

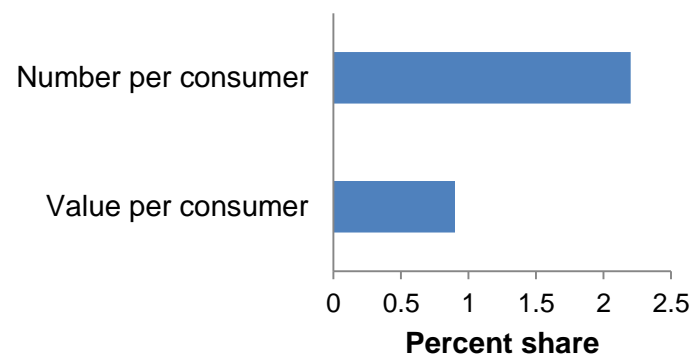
Fun facts about prepaid cards



Source: 2010 Survey of Consumer Payment Choice.

	2009	2010
Percent of Consumers Reloading Prepaid Card	15.2 %	14.1 %
Median Amount per Reloading (reloaders only)	\$47	\$49
Median Number of Reloads per Month (reloaders only)	0.8	0.9
Discard Rate	28.8 %	27.0 %

Source: 2010 Survey of Consumer Payment Choice



Note: Percent share of dollar value and transactions per consumer.

Source: 2012 Diary of Consumer Payment Choice; **unofficial and preliminary.**