



Statement in response to Consumers Union Report
Prepaid Cards: Second-Tier Bank Account Substitutes

Underbanked consumers have a variety of desires and needs from their financial service products, from transactional services to savings to small dollar loans. In some cases these needs are the same as consumers with active banking relationships, but in some cases not. For many of these consumers, prepaid cards are a solid option providing them with greater convenience and transparency. Our research of prepaid users indicates that they choose prepaid cards for six important reasons: convenience, acceptability/inclusion, immediacy, simplicity/transparency, value, and budgeting tool/discipline.

Our own research on prepaid consumers show that these consumers are financially savvy and are making the choice to use a prepaid account for a variety of reasons: it gives them access to the financial mainstream, they are difficult to overdraw, many of these cards provide innovative ways to access real-time account information rather than wait for statements, and because it meets their needs.

In many cases prepaid users were previously banked and chose a prepaid card because of past negative experiences with the financial mainstream. A prepaid card represents a means for these consumers to conduct electronic transactions and other everyday financial transactions on their own terms.

Like with any financial product or service, users of prepaid cards may incur fees. Our research has shown that prepaid card fees vary with not only the product, but how the consumer uses the card. For many underbanked consumers, if they choose the right prepaid product, the fee structure is a far better deal for them than fees from overdraft, check cashing fees, and more.

The Consumers Union report looks at a wide range of prepaid options and clearly there is a broad range of fees across the market place. An important question to ask in reading this report is: are the majority of prepaid card users actually choosing the higher priced cards offered from some providers studied? Our research suggests that the largest card providers are also some of the lower-cost providers.

The Center for Financial Services Innovation (CFSI) works with a variety of players in the prepaid space to help them improve their prepaid products to offer better customer satisfaction and better customer protection. Having the Consumers Union conduct this report is an important sign that the prepaid industry is getting traction and gaining momentum. We believe that many of the policy recommendations from the Consumers Union are important for making this product option safe, secure, and transparent for these consumers.

-- Center for Financial Services Innovation, August 13, 2009
See next page for related research from CFSI

About CFSI:

The Center for Financial Services Innovation is the nation's leading authority on financial services for underbanked consumers. Since 2004, its programs have focused on informing, connecting, and investing – gathering enhanced intelligence, brokering and supporting productive industry relationships, and fostering best-in-class products and strategies. A non-profit affiliate of ShoreBank Corporation, CFSI works with leaders and innovators in the business, government and non-profit sectors to transform the financial services landscape. For more on CFSI, go to www.cfsinnovation.com.

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Related CFSI Research

“One Size Does Not Fit All: A Comparison of Monthly Financial Services Spending,” Center for Financial Services Innovation, Rachel Schneider, June 2009

“A Tool for Getting by or Getting Ahead? Consumers’ Views on Prepaid Cards,” Center for Financial Services Innovation, Sarah Gordon, Jennifer Romich, Eric Waitthaka, April 2009

“Satisfaction with and Usage of Prepaid Cards,” Center for Financial Services Innovation and Network Branded Prepaid Card Association, April 2009

“The Industry Forecast for Prepaid Cards, 2009,” Center for Financial Services Innovation, Rachel Schneider, March 2009