



Center for  
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# A Tool for Getting by or Getting Ahead?

Consumers' Views on Prepaid Cards

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## Executive Summary

Over the past decade, financial services companies have offered an increasing number of options to households who do not hold or regularly use conventional checking and savings accounts. Some options come from mainstream banks and companies, while others come from “fringe” financial services such as check-cashing or payday loan services. These “fringe” services have been criticized as profiting on unfortunate consumers without providing opportunities for them to build wealth through savings or access to credit. Now, new “market bridging” products, such as general-purpose reloadable prepaid cards, are emerging to fill the need between conventional checking and savings accounts and nonaccount services.

Introduced in the early 1990s, reloadable prepaid cards are among the most popular of these products. They function like electronic bank accounts without checks; consumers load funds on the card and can spend only what they load, limiting the risk of overdraft while providing immediate liquidity. Transaction costs are low, and many providers are adding features, including bill payment with credit reporting, money transfer, savings wallets, and small-dollar lines of credit.

To learn how consumers use prepaid cards and whether the cards help financially underserved consumers manage their money and start down a path toward financial prosperity, the Center for Financial Services Innovation (CFSI) selected two provider firms for study—AccountNow and NetSpend. Both are leaders and innovators in the prepaid card industry. AccountNow distributes cards primarily over the Internet, while NetSpend sells cards primarily through grocery and convenience stores and check-cashing outlets. In-depth interviews were conducted with 22 prepaid card users in the Chicago and Seattle metro areas.

## Findings

Our findings give evidence about the potential of prepaid cards to enhance families’ financial well-being. We present new data about prepaid card users’ day-to-day financial lives, including the nature and amount of income sources, family expenses, and use of different financial services. Our interviews show the roles that prepaid cards play in consumers’ lives, including roles that may be symbolic (having access to this product or using this service) or instrumental (accomplishing something for the consumer).

With some exceptions, customers in the study had low or moderate incomes and substantial personal debt. Few owned a home. Unpaid utility bills and fees were the most common sources of debt, and credit cards and medical bills the largest debts.

All but one interviewee had used conventional bank-based checking or savings accounts before starting to use prepaid cards, and a majority had opened banking accounts as adolescents. But by the time of the interview, 14 had no conventional

bank account. Most had either closed their accounts or had their accounts closed by the banks for reasons that included overdraft fees, unexpected or unanticipated fees, unauthorized account access, and being a victim of identity theft.

Overdraft fees were a common complaint. Some felt their bank chose to honor one big check in order to allow several smaller checks to bounce, each one incurring a costly overdraft fee. Unauthorized transactions (the term was often used interchangeably with identity theft), some of which put their accounts into the red, were another problem mentioned. Some consumers said they simply could not understand banks' fee structures. Customers did not hold themselves harmless in disputes with banks. One mentioned a gambling addiction; others considered themselves bad money managers. But the way their banks handled or ignored their problems left them mistrustful.

Interviewees saw the cards as a useful tool, a way to escape the high fees imposed by banks and check-cashing companies. Most AccountNow customers came across the product online, on their own, either through a deliberate search or inadvertently. All NetSpend customers noticed the product in retail locations, primarily check-cashing outlets.

All interviewees said they use their cards regularly to pay bills online and over the phone and to make point-of-sale purchases such as groceries and gas. The majority said they load funds through direct deposit.

Consumers gave several reasons for liking their cards:

**Convenience:** Cardholders do not have to run to different places to cash a check, buy money orders, and then deliver payments. The only inconvenience mentioned involved cash reloads.

**Accessibility:** Branded cards (with Visa, MasterCard, Discover, or American Express logos) are accepted almost universally. Moreover, the prepaid cards offer a feeling of inclusion, providing a way to pay that does not differentiate them from cardholders who have debit or credit cards.

**Immediate liquidity:** Especially with direct deposit, the money is available immediately. And account updates are available on demand—by phone, by text, by email, and online.

**Simplicity and transparency:** The fee structures of prepaid cards are easy to understand.

**Value:** Most customers felt the costs associated with prepaid are fair and lower than what they would incur if they used a check casher or checking account.

**Built-in discipline:** Prepaid cards provide much of the ease of a checking account with a major advantage—they cannot be overdrawn.

The research also considered consumers' short- and long-term financial goals and their experiences with two enhanced prepaid card features—AccountNow's bill pay with credit reporting and NetSpend's associated savings account. Eight of the 12 AccountNow customers had signed up for the bill pay program, yet at the time of the interviews, none of them were actively using it. The top reason cited for not using bill pay was that customers wanted to control how and when bills get paid and felt that they must forfeit control to use the feature.

All 10 NetSpend customers had enrolled in the savings program—that is, opened the linked savings account. All but one had deposited funds at some point and four customers had balances ranging from \$97 to \$500 at the time of the interviews. Some customers were using the account to build emergency savings, others to help with monthly budgeting. Those who elected to have funds automatically transferred upon every new load had more success amassing funds.

Prepaid cards are a helpful financial tool, and users appreciate their features. Prepaid cards may also help consumers achieve short-term financial goals, such as paying off debt and accumulating emergency savings. However, achieving longer-term financial goals will likely require more intensive and comprehensive services and products that extend beyond what prepaid currently offers.

### Introduction

The past decade has witnessed rapid transitions in the financial services available and marketed to households who do not hold or regularly use conventional checking and savings accounts. Banks and credit unions, retailers, nonprofits, technology companies, and others increasingly offer products that fall within the gap between mainstream bank accounts, which are inaccessible to or unused by some consumers, and “fringe” financial services such as check-cashing or payday loan services. Technological innovation and diffusion make possible new products such as reloadable prepaid debit cards, small-dollar secured and unsecured loans, and “Second Chance” or checkless checking accounts that are designed to better serve consumers’ needs while limiting firms’ exposure to financial risks (Herrmann, Schütte et al., 2007).

Fringe financial services have been criticized as profiting on unfortunate consumers without linking them to the type of wealth-building opportunities offered by mainstream institutions. One hope is that the newer “bridge” products can improve consumers’ financial well-being. By reducing transaction costs associated with high-fee products, bridge products may free up income for consumption or savings. New financial services may also encourage savings by creating relationships with savings vehicles. Finally, new financial services may improve access to credit either by directly creating alternative options for credit or by improving credit scores and hence access to mainstream credit sources.

This paper summarizes lessons from in-depth interviews conducted with 22 consumers who use prepaid cards, an emerging product that fills a market need between conventional checking and savings accounts and nonaccount services such as check cashing. Our findings give evidence about the potential of prepaid cards to enhance families’ financial well-being. We present new data about prepaid card users’ day-to-day financial lives, including the nature and amount of income sources, family expenses, and use of different services. Our interviews showed the roles that prepaid cards play in consumers’ lives, including symbolic (meaning of having access to this product or using this service) and instrumental (accomplishing something for the consumer). Prepaid cards are a helpful financial tool, and users appreciate their features. However, achieving individuals’ long-term financial goals will likely require more intensive and comprehensive services and products.

### Background

#### Underbanked consumers

For the millions of low- and moderate-income Americans without access to well-designed and reasonably priced financial services, meeting short-term and long-term financial needs can be difficult. An estimated 40 million American households—106 million individuals—are financially underserved (CFSI, 2008).<sup>1</sup> Roughly half—18.5 million—of these households are unbanked, meaning they have no checking or savings account with a bank or credit union. The others, 21.5 million, are underbanked. They may have an account, but they are not using it to its fullest, instead relying on a broad array of financial service providers to meet their short-term financial needs.

Households are underserved for several reasons (Caskey, 2005; Bucks, Kennickell and Moore, 2006). For some households it is a matter of choice. The most frequently cited reason for having no checking

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<sup>1</sup> See CFSI Underbanked Consumer Study Fact Sheet, June 2008, for more information.

account is that the household does not write enough checks to make it worthwhile (Bucks et al., 2006). For others banklessness is involuntary, as financial institutions have created barriers, both intentional and unintentional, that have restricted access to traditional checking and savings accounts. These products are primarily sold in locations that are intimidating and inconvenient in terms of both geography and operating hours for working families. In addition, the marketing messages around these products are poorly tailored and fail to resonate with underserved consumers. Many households may not have enough money to meet account minimum standards (the second most-cited reason in the Bucks et al., 2006, analysis of national consumer data). Other potential account holders may have bounced a check or had an account overdraft in the past, events that, if left unresolved, may get the person placed on the ChexSystems list that is used by many institutions to restrict access to accounts (Bordas, Kiss et al., 2006). Similarly, because many financial institutions pull credit reports as part of the account-opening process, the millions of potential account holders with thin and nonexistent credit histories are ineligible.

When consumers' short-term financial needs are not well met, their ability to save, access credit, and build assets in the long run is compromised. Without a safe place to store funds, underbanked consumers lack a financial cushion to weather crises. They are also more challenged to build a strong credit history, making it more difficult to access the credit they need at a reasonable price. This in turn makes it more likely that they will turn to products and providers that may cost more and potentially strip assets instead of helping to build them. The result is a two-tier financial system that is leaving a growing number of American families economically stagnant and vulnerable.

### Prepaid cards

Fortunately, financial institutions, government agencies, retailers, nonprofit organizations, technology companies, and others have started to recognize both the need and the opportunity presented by 40 million financially underserved households. Innovation is occurring rapidly throughout the financial services marketplace, and a growing number of organizations are working to increase and improve the supply of responsible financial products and services available to underbanked consumers. One such product innovation is the prepaid card or stored-value card, which was introduced in the early 1990s (Jacob, Su, et.al., 2005). The term "prepaid" refers to a broad category of products ranging from gift cards to payroll cards to general spending cards. For the purposes of this paper, "prepaid" will be taken to mean general purpose, branded (e.g., Visa, MasterCard, Discover, American Express), reloadable prepaid cards.

Prepaid cards function like electronic bank accounts without checks; consumers load funds on the card and can spend only what they load, limiting the risk of overdraft while providing immediate liquidity. Like debit cards, they can be used at ATMs and point of sale. Prepaid cards are sold in a variety of locations—retailers, bank and credit union branches, currency exchanges, online, nonprofit organizations, and more.

The nascent prepaid card industry has exploded in the last five years, with millions of cards in use today. The industry is still emerging and the landscape of service providers is fragmented and in flux. Typical product features and pricing can vary greatly from product to product. However, champions of prepaid argue that the cards in even their most basic form offer the following advantages for consumers:

1. **Safety and security:** Prepaid cards allow consumers to make purchases and pay bills without carrying large amounts of cash.
2. **Convenience:** Consumers appreciate the ability to make purchases and access funds at many locations and all hours of the day.

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3. Accessibility: Many underbanked consumers either do not have, or do not perceive themselves as having, sufficient identification or credit history to access traditional bank accounts. Prepaid cards do not require a credit check, but they do offer many features of conventional cards, including branded Visa or MasterCard logos and near-universal acceptability.
4. Immediate liquidity: Many low-income consumers use check cashers rather than checking accounts because they cannot afford to wait for a bank to clear a deposited check. Funds loaded on prepaid cards are available immediately.
5. Transparency and predictability: Prepaid cards are difficult to overdraw and tend to have fewer back-end charges than checking accounts.
6. Financial value: Prepaid cards are cheaper than cashing checks and purchasing money orders, and can be cheaper than checking account fees.
7. Budgeting Tool/Discipline: Prepaid cards help consumers limit spending and stay on budget.

Combining low-cost transaction services with opportunities for credit access and long-term savings is seen as a “best-practice” model for the financial services industry (Caskey, 2005). Providers have begun to add a broad range of features and functions—including bill payment, money transfer, saving, and credit building—that hold promise for linking transactions to assets.<sup>2</sup> This development begs the question—is prepaid a connection to mainstream products and services, a perfect substitute for a checking account, or a dead end? More generally, to what end is this innovative financial product with new features and functions a useful tool that helps put financially underserved consumers on a path toward financial prosperity? Does it help with money management? Will it help the un- and underbanked save and build credit? This research explores these questions.

### Study Design

This study investigated consumers' use of and views about prepaid cards. At this point, industry and policy decisions to create financial products for currently unbanked households rest largely on analysis of the sources of banklessness and faith in households' motivation and ability to use available services. There is a need for more information about how households use emerging services (Garasky, Nielsen et al., 2008). Although individual firms have conducted proprietary market studies of their own products, there is little public knowledge about how new services are used or whether they are making any difference in consumers' financial lives.

Our study was designed to create generalizable knowledge about how customers use innovative financial services and about whether these services can indeed serve as a gateway to long-term financial stability and prosperity. We found evidence to answer the following empirical questions:

- What are the financial circumstances or needs that lead people to select prepaid cards?
- How do customers use prepaid cards and other financial services?
- How do customers view the advantages and disadvantages of prepaid cards?

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<sup>2</sup> To learn more about prepaid debit cards, see Michael J. Herrmann and Rachel Schneider, “Nonprofit Distribution of Prepaid Cards,” Center for Financial Services Innovation, March 2008.

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By interpreting the findings from these questions, we aim to address the larger question of whether prepaid cards improve the short- and long-term financial well-being of underbanked households.

This study is guided by a belief that financial products will help individuals achieve greater financial success if the products fit the consumers' lives and goals. We conducted in-depth interviews to obtain evidence about consumers' use of products, belief about financial services, and short- and long-term goals. This section describes the sample selection and interview protocols. Research activities were conducted under approval of the University of Washington Human Subjects Division.

### Sample

Subjects were drawn from customer lists at two prepaid card companies—AccountNow and NetSpend. Both firms have worked with the Center for Financial Services Innovation (CFSI)<sup>3</sup> and both have been recognized as leaders and innovators in the prepaid card industry. AccountNow primarily distributes cards over the Internet. NetSpend, one of the largest providers of prepaid cards in the marketplace today, distributes cards through an extensive network of grocery and convenience stores and check-cashing outlets. Both cards offer direct deposit and cash reloading, phone or online bill pay, card-to-card money transfers, text alerts, and flexible fee plans. In addition, AccountNow gives customers the opportunity to build credit by reporting bill payment activity to an alternative credit bureau. NetSpend distinguishes itself with a free savings plan through which customers can earn interest on any money transferred into the associated savings account.

We purposively sampled to get clusters of customers with different card usage patterns, ranging from those who used services for only basic transactions to those who used advanced options such as online bill pay or the linked savings accounts. The full sample included 22 individuals, 12 AccountNow customers and 10 NetSpend customers.<sup>4</sup> All 12 AccountNow customers had been account holders for at least six months when the interviews took place. This group included eight customers who had signed up to use online bill pay and four who had not signed up for it. The AccountNow interviews took place in the Chicago metropolitan area (including northwestern Indiana and southeastern Wisconsin) during the summer of 2008. The 10 NetSpend customers had signed up for their savings program and carried a balance at some point. The NetSpend interviews occurred in the Seattle metropolitan area during the winter of 2008-2009.

### Interviews and analysis

The companies prescreened the customers for their use of focal products and their willingness to participate in the interviews. The researchers then recruited interviewees from the prescreened lists. Interviews were conducted in respondents' homes or at agreed-upon public locations such as coffee shops. The interviewer (Waithaka) is a masters-trained social worker with extensive experience working with low-income persons. Most interviews lasted about 90 minutes and were audio-recorded. Respondents received a \$75 account credit for their participation.

Our face-to-face interview protocol was intended to elicit a sense of respondents' lives and financial and nonfinancial goals. The protocol was designed based on the authors' experience in this area along with input from the partner firms. Respondents engaged topics in a variety of ways, including personal

<sup>3</sup> A nonprofit affiliate of the community development bank ShoreBank, CFSI offers a variety of programs to assist the financial services industry in better understanding and serving underbanked consumers.

<sup>4</sup> After 22 interviews we reached a point of data saturation at which additional interviews did not yield substantially more information (Miles and Huberman, 1994; Morse 1994).

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biography, product evaluation and reactions to agree/disagree statements. This protocol was designed to accommodate their varying degrees of comfort with talking about finances, speaking on abstract topics, reading, and responding to surveys. This approach also minimized the threat of response error in which respondents try to please the interviewers and attempt to deliver the “right answers” rather than responding honestly. The protocol was field tested and revised before use; the final template is summarized in Appendix A.

Recordings of the interviews were transcribed verbatim. Analytic summaries were created from each interview. These summaries contained systematic information about participants' background, financial history, current budget, use and views of prepaid cards, and financial goals. All three authors read summaries and created lists of common themes or hypotheses based both on summaries and prior information. Summaries and full transcripts were then reread to find evidence to support or negate these themes and hypotheses. Quotes were chosen to illustrate and support findings.

Table 1 summarizes the characteristics of the customers interviewed. These characteristics should not be interpreted as representative of the firms' customers more broadly. However, knowing basic demographic information is helpful for understanding the broad parameters of respondents' lives. Across both samples, most respondents were in their 30s, 40s, or 50s, were employed or temporarily unemployed, and earned less than \$30,000 annually. AccountNow customers were more likely than NetSpend customers to be married or cohabitating and more likely to have children. NetSpend customers were more likely to be single persons living without children.<sup>5</sup>

<b>TABLE 1: Sample information and demographics</b>		
	AccountNow customers (N=12)	NetSpend customers (N=10)
<i>Sample information</i>		
Geographic location	Chicago metropolitan area	Seattle metropolitan area
Selection criteria	Accountholder for 6+ months, 8 of 12 signed up for bill pay option	Had opened linked savings account
<i>Basic demographic information</i>		
Average age	45	40
Age range	25–65	25–56
Married or cohabitating	7 of 12 (58%)	1 of 10 (10%)
Male	5 of 12 (42%)	3 of 10 (30%)
Race / ethnicity	7 African-American	4 African-American
	5 Caucasian	5 Caucasian
		1 Mixed heritage
Any children in household	7 of 12 (58%)	3 of 10 (30%)
Average number of children (if any)	2	2.3

<sup>5</sup> We cannot say if these differences reflect underlying differences between those who use AccountNow versus NetSpend or if they reflect our sampling strategies or interview locations.

### Findings

Here we report findings from the interview transcriptions. We begin by describing interviewees' financial situations, their prior experiences with conventional account-based banking, and the experiences that led them to use prepaid cards. Next we describe their typical month-to-month card use and their experiences relative to hypothesized prepaid card advantages such as convenience, simplicity, and value. We then review the interviewees' financial goals and aspirations and comment on the extent to which prepaid has been and could be useful in achieving both short- and long-term financial goals. Finally, we explore consumers' experiences with the additional card features—AccountNow's bill pay and NetSpend's linked savings account—and whether these features provide additional value to consumers and help put them on a path toward financial well-being.

#### General financial situations

With some exceptions, AccountNow and NetSpend customers in this study had low or moderate incomes and substantial personal debt. Table 2 summarizes basic financial information about the interviewees.<sup>6</sup> We estimated income from reports of regular paychecks or transfers. The median annual individual post-tax income was \$17,550 for AccountNow customers and \$22,100 for NetSpend customers. Just over three-quarters of all sample members depended primarily on wages or salary. The remaining quarter subsisted primarily on disability income, most commonly SSI. Adding income from spouses, partners, or cohabitating relatives increased some households' totals, resulting in annual incomes ranging from below \$15,000 to above \$150,000. The lowest AccountNow and NetSpend earners were a woman on disability and a young man with a \$9 per hour part-time job, respectively; both of the highest-earning households contained two professionals. A quarter of AccountNow customers and slightly more NetSpend customers reported that they worked a second or side job. A few others reported additional income from commissions on a sales job or survivor's benefits for a child.

For households in general, the primary source of wealth is a home. However, homeownership was relatively rare among our respondents. One-quarter of AccountNow customers owned their home, and no NetSpend customers did. The majority reported having some personal debt, with median amounts reported of \$8,250 to \$10,000. Unpaid bills for utilities and fees (including old bank fees) were the most common sources of debt, although the largest sources were generally credit cards and medical bills.

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<sup>6</sup> As before, differences between the two customer groups may reflect either to differences in recruiting and geography or actual differences in the types of customers attracted by each firm.

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<b>TABLE 2: Basic financial information</b>		
	AccountNow customers (N=12)	NetSpend customers (N=10)
Median personal income (post-tax)	\$17,550	\$22,100
Estimated household income range	\$15,000–\$160,000	\$12,000–\$55,000
<i>Primary income source</i>		
Wages / salary	75%	80%
Disability (SSI or otherwise)	25%	20%
<i>Other income sources</i>		
Second / side jobs	25%	38%
Other	17%	13%
Rent (v. own) home	75%	100%
<i>Debt (excluding mortgages)</i>		
No debt	17%	13%
Median debt among reporting debtors*	\$10,000	\$8,250
Debt range among reporting debtors	\$5,000–\$45,000	\$4,500–\$175,000
<i>Percent reporting debts by source</i>		
Car loans	11%	22%
Credit cards	67%	44%
Student loans	22%	33%
Medical bills	56%	33%
Other bills (utilities, unpaid fees, etc)	78%	78%
*Four participants acknowledged holding debt but declined to report specific amounts.		

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### Prior banking experiences

Table 3 summarizes the experiences our interviewees reported with conventional banking transaction accounts. All except one of our interviewees had owned conventional bank-based checking or savings accounts before they started using prepaid cards. However, by the time of our interview, 16 of the 22 interviewees did not have a conventional bank account. Here we describe how these consumers entered and, by and large, exited the bank system.

TABLE 3: Use of bank-based transaction accounts and banking history				
	Used checking or savings in past (self)	Current checking or savings account (self or household member)	Past problems with checking or savings	Attempted to resolve past problems
<i>AccountNow customers</i>				
Jan	yes	no	overdraft	
Feb	yes	no	closed in bankruptcy	
March	yes	yes (with husband)	overdraft	yes, unsuccessfully
April	yes	yes	bad checks, victim of unauthorized access, unexpected fees	yes, unsuccessfully
May	yes	no	nonsufficient fund fees	yes, with collection agency
June	yes	no	nonsufficient fund fees, other fees, overdrafts	
July	no	no	n/a	
Auguste	yes	no	unexpected fees, nonsufficient fund fees, possibly victim of identity theft	yes, partially successfully
Tember	yes	yes	overdrafts, nonsufficient funds	
Tober	yes	yes (wife only)	nonsufficient funds	
Nova	yes	no	overdrafts, victim of identity theft	resolved overdrafts, partially resolved id theft
Decem	yes	no	overdrafts, victim of unauthorized account access	yes, overdrafts resolved through payment plan; theft partially resolved

**TABLE 3 Continued: Use of bank-based transaction accounts and banking history**

	Used checking or savings in past (self)	Current checking or savings account (self or household member)	Past problems with checking or savings	Attempted to resolve past problems
<i>NetSpend customers</i>				
Cances	yes	no	overdrafts, unauthorized access, unexpected fees	yes, partially successfully
Aries	yes	yes	unauthorized access, overdrafts	yes, fully
Libra	yes	yes (new account)	overdrafts	
Taurus	yes	no	overdrafts, disputes bank charges, unauthorized access	yes, paid overdraft fees
Gemini	yes	no	overdrafts	
Leo	yes	no	unexpected fees, overdrafts	yes, repayment in process
Scorpio	yes	no	overdrafts	
Pise	yes	no	overdrafts, unauthorized access	yes, partially successfully
Virginia	yes	no	no	n/a

A majority of our interviewees started interacting with the mainstream financial system at young ages. Most opened their first bank accounts as adolescents, soon after starting their first summer jobs. For others, bank accounts were established for them at an even younger age (between 9 and 11 years) by their parents or grandparents. For this latter group, all of the accounts were savings accounts and were controlled by their parents. Deposits consisted mainly of gifts from families and friends for birthdays, graduations, or important holidays. These accounts were turned over to the interviewees after they started working or demanded to control the savings accounts.

The interviewees gave a variety of reasons for no longer having conventional accounts. Most had either closed their accounts or had their accounts closed by the banks for various reasons. The four main reasons included overdraft fees, unexpected or unanticipated fees, unauthorized account access, and being a victim of identity theft. Interviewees also identified their own personal spending or money-management habits as contributing factors. In many cases, the consumers and banks attempted to reconcile the problems, with mixed results.

Interviewees recalled that they did not fully understand the banks' regulations and fee structures. As a result, they reported getting hit with unanticipated fees. For example, three of the interviewees (Mr. Auguste, Mr. Leo, and Ms. Libra—all names are pseudonyms) were frustrated that their banks would honor one big check and allow several small checks to bounce instead of allowing payments for the small checks and letting the big check bounce. Ms. Libra captured it as follows:

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*I know instead of bouncing the one big check they bounced a zillion other little ones. . . . Then they charged, it was \$30 for each of that, so next thing I know it's like negative \$600. Forget it! I mean, you guys are killing me here! That was just mean.*

Overdraft fees came to roughly \$35 for each of the small checks. Such unexpected fees led some customers to leave their accounts. For example, Ms. June noted that she left the mainstream financial institution because her bank hit her with \$400 in fees that she never understood. She said that although she had made several attempts to get an explanation from the bank, the bank failed to justify the fees or take them off.

Respondents identified unauthorized transactions as another problem in their banking histories. At least eight interviewees reported that some unauthorized transaction had taken place in their accounts and funds had been withdrawn or charged to their accounts. Most of these unauthorized transactions had put their accounts into the negative, resulting in disputes with their respective banks. It is important to note that respondents used unauthorized access and identity theft interchangeably.

Often several problems occurred simultaneously. For instance, Ms. April had a checking account for over 20 years, but ran into several problems right before she discontinued using it. First, someone debited a charge of \$159 that she had not authorized. She called the bank to complain. She recalled that the bank established that a theft had occurred and initially returned her money, but later reversed the decision and added \$161 in fees. She then got a "bogus" check of \$1,100 that she deposited into her account unaware that the check was not good. When the check bounced, the bank tried to recoup its loss. She recalled paying about \$800 back, but fees accumulated. When she tried to establish a payment plan for the final \$600, the bank refused. She walked away from that account but has maintained a savings account at another bank.

Mr. Auguste reported a series of encounters with three different banks that made him decide to switch to prepaid cards. He could not understand the first bank's fee structure, so he closed the account and moved to another bank. Then his checkbook from the second bank was stolen, and checks worth \$3,000 were written from his account. Even though the bank investigated and verified that it was not his signature on the checks, it closed his account. He felt that as a victim of a financial fraud the bank should not have closed his account, especially since the bank had verified that the signature was not his. At this point, he started using his wife's account at a third bank. He reported that somebody placed a device in one of this bank's ATMs that his wife used. Two thousand dollars were withdrawn from his wife's account. Bank number three soon reimbursed their account but failed to sufficiently inform them that they needed to file some paperwork. After some time, this third bank took out the \$2,000, stating that the wife had not filed the necessary paperwork. Unfortunately, this unprecedented withdrawal not only took their account into the negative but also caused several checks to bounce. Eventually, the bank returned the money and waived all fees, but Mr. Auguste said they still had to deal with the creditors. This led them to file for bankruptcy, and he and his wife resolved to stay away from the banks.

These were not unique or isolated incidents. Nearly all of the interviewees discussed incidents in which they had disputes with their banking institutions, and the manner in which the bank (and/or its officials) handled the incidents left them with a great mistrust of conventional checking and savings accounts.

Customers did not hold themselves harmless in disputes with banks; our respondents said their personal characteristics contributed to their financial troubles. Nearly all of the interviewees reported that at some point in their lives they had limited knowledge or misconception about how things worked in the financial system. While their mistakes were not limited to bank accounts, most mistakes resulted in overdrawing accounts or writing bad checks. For example, Ms. Aries reported that she wrote so many bad checks that

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the bank directed her into a check-writing class. Another respondent, Mr. Tober, said some of his financial troubles with the bank stemmed from his gambling addiction and that he had closed some accounts because of his gambling. Yet another, Mr. Tember, was trying to establish himself in business but was not receiving revenue as fast as he had expected. He found himself caught in the cycle of bank overdrafts and bounced checks.

Other interviewees reported that they were basically bad money managers. For instance, Ms. Decem ran into trouble with the banks because she liked financing certain purchases, such as video games, books, and magazines. She set up automatic debits with the various merchants but forgot to budget for the time her payments would come due. When the payments hit the account she did not have the money. Her account went into the negative, incurring subsequent fees. In another example, Ms. May reported that she had loans from two different institutions being paid from the same account. She had set up her loans so that payments would be due in different pay periods. At one time, however, both payments fell within the same period and she had not budgeted for it, so she incurred nonsufficient funds fees.

Although a theme seems to be emerging that negative past experiences have turned some consumers away from banks and toward prepaid cards, 6 of the 22 respondents said they had both a conventional checking account and a prepaid card. Reasons for having both varied widely. The most common explanation was to keep funds for a specific purpose separated. For example, Ms. April said she used her card for expenses related to her home-based business. Ms. March had a joint checking account with her husband, but used her prepaid card as her personal account. Two customers—Ms. Aries and Ms. Libra—reported having opened a checking account almost by accident. Both women previously had accounts that were closed because of overdrafts, so they purchased prepaid cards. Both later were at a bank branch conducting financial transactions when the tellers recommended that they open new accounts, so they did. But both still relied on prepaid as their primary financial account.

Our findings suggest that prepaid cards appeal to unbanked consumers (both never-banked and previously banked) as well as underbanked consumers.

### Prepaid card initiation

Before becoming AccountNow or NetSpend customers, our interviewees had similar experiences with banks, financial problems, and money management. However, the ways in which they came across the two firms differed markedly because of the distribution network through which AccountNow and NetSpend reach their target consumers. AccountNow advertises and distributes its cards online; it has no physical presence. NetSpend sells cards at many of the large nationwide check-cashing and supermarket chains and recruits most of its customers through these outlets.

Nine of the 12 AccountNow customers recalled coming across the product online either on their own or through a friend or a relative. To some it was an accidental but rather welcome encounter. For example, Mr. Feb was online searching for a job when he came across AccountNow. He reported that he signed up for the card because he was tired of paying \$13 per paycheck to cash his check. Ms. May said that she was online searching for something else when AccountNow came up. She read about it online, applied immediately, and received her card shortly thereafter. Ms. July said that her “sister-in-law downstairs . . . went online and she got her one . . . and me one.”

For others, the search was more purposeful. Ms. March actually went online to look for a card, she said, “because I wanted my own account. Just something for me . . . because any woman in her right mind should have account for herself.” In another example, Ms. Jan said,

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*Actually I was looking on the internet for a way to . . . for a prepaid card 'cause I got real tired of paying it cash 'cause you know I get my son's check and the currency exchange is charging through the nose to cash them. . . . So you know I went online and I started looking at ones and AccountNow just seemed the simplest and their fees were the lowest.*

All NetSpend customers remembered coming across the product in a retail location. A majority of the interviewees had gone into the store to cash a check, and they either noticed the prepaid card advertised or an attendant offered it to them. In many instances, NetSpend customers could not differentiate the card company from the check-cashing outlet. They often thought that NetSpend was an additional financial product of the check-cashing place.

Ms. Cances is one customer who came across NetSpend through a check-cashing outlet. She thought the check cashers had switched services to start offering prepaid cards. Ms. Sagith got her card when she started working at a checking-cashing outlet that sold the NetSpend product. Ms. Aries described her experience by saying,

*Well, I went in to cash the check at, um, what is the place called . . . [Name] Check Cashing . . . and I noticed the prepaid account and I said, oooh, you know, I asked questions about it. They told me how it works and I got it right then and there. . . . Deposited my money got the temporary card and that was it.*

Another customer, Ms. Gemini, said,

*I think I saw something, gosh probably at a [grocery store] or one of the stores, you know, I saw one the prepaid cards that you would load and . . . I remember thinking that that would probably be the way to go. . . . Uh, I really couldn't think of any other choices that I had, yeah.*

Customers signed up for cards because they thought the cards would be useful. In the next section, we describe how cardholders used their cards.

### Use of prepaid cards

Using a monthly calendar as a guide, we asked interview questions about income and expenses. For each income source or expense, we tracked details, including the typical timing, the transaction method, the labor involved, and the consumer's subjective experiences around the transaction. Table 4 summarizes how participants used their cards on a monthly basis. From this we can see that prepaid cards played an important role in interviewees' day-to-day financial lives.

All interviewees regularly used their cards for bill payment or retail transactions. All but one respondent used the card to pay at least one monthly bill, and the average number of bills paid was 2.4. The most common single bill-pay method was to call the payee and enter the prepaid card number as if one was paying by credit card, but most customers also used a mix of payment methods. For instance, Ms. July said she pays her rent using a money order, pays her phone bill and internet connection over the phone using her AccountNow number, and pays for groceries with a combination of her food assistance benefit card and cash. Nine participants had at least one bill automatically charged to their prepaid card, but most of these also reported using the phone or point-of-sale (POS) transactions as well. Groceries, gas, and entertainment costs were usually conducted as POS transactions, through swiping the card. Several customers also mentioned nonroutine expenses, such as online purchases or car rentals. In general, however, most of our respondents' budgets had little room for such discretionary spending.

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**TABLE 4: Routine prepaid card uses**

	Loading method/ s	Bills paid using card (N)	Methods of bill payment (N if more than one bill)	Other current payment methods
Jan	DD (direct deposit), cash	3	phone (3)	cash
Feb	DD	4	phone (3), auto	cash
March	DD, cash	2	phone (2)	cash, check
April	cash	3	online (2), POS	money order, cash
May	DD	3	phone (3)	cash
June	DD, cash	1	online	money order, cash
July	cash	2	phone (2)	cash, money order, EBT card
Auguste	DD, cash	5	phone, auto, online (3)	money orders
Tember	DD, cash	4	phone (4)	checks, MoneyGram
Tober	cash	0	na	account debit (wife's account)
Nova	cash	1	auto	money order
Dec	DD	2	phone, auto	
Sagith	DD	2	phone (2)	money order, cash
Cances	DD	1	auto	money order, cash
Aries	DD	5	phone (4), auto	money order, cash
Libra	cash	2	phone (2)	cash
Taurus	DD	2	auto (2)	cash
Gemini	DD	2	phone, POS	money order, cash
Leo	cash	2	auto (2)	cash
Scorpio	DD, cash	1	phone	money order, cash
Pise	DD	3	phone (3)	
Virginia	DD	4	auto (2), online(2)	

Note: Bills paid with prepaid cards include utilities (electricity, gas, water, sewer, trash), phones, internet, car payments, insurance, and other routine commitments such as debt repayments or tithing.

### Consumers' views on advantages and disadvantages

In this section we summarize interviewees' views on the advantages and disadvantages of prepaid cards. Overall, these consumers liked using their cards, and specific comments suggested that they appreciate the hypothesized benefits of prepaid cards—their convenience, simplicity, immediacy, and so on—as identified above.

*Convenience.* Nearly all of the interviewees said their cards had made their lives easier. For instance, Ms. Jan described the key attribute of AccountNow as, "It's just convenience. . . . That's very important to me. . . . I don't have to go to a bank. I don't have to [do anything else]. I mean, my money is direct deposited so I don't have to do anything there . . . and that I like." Ms. Sagith reported that she was impressed with how convenient it was to use her prepaid card. "I don't know where it's been all my life," she said. "It just keeps getting better."

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Commonly, respondents compared their experiences with prepaid cards to prior money management routines, noting that the card kept them from having to run multiple places to cash a check, buy money orders, and then deliver payments. Ms. Cancas reported that she found her NetSpend card easier to use than money orders, particularly to pay standing bills like her monthly rent for storage space. An AccountNow user, Mr. Feb, favorably compared his current money management with his prior steps: “[Now I] don’t have to go and get money orders and stamps and all that. It eliminates all that. No MoneyGrams, no Western Union.”

The only inconvenience mentioned involved loading cards for those who were not using direct deposit. Six of the 20 customers interviewed did not have direct deposit set up. For instance, as a freelancer and contract worker, NetSpend customer Ms. Libra found direct deposit unrealistic for much of her income. To load her card she has to physically take cash to a retail outlet. When outlets close or switch locations, routines are disrupted.

**Accessibility.** Because the Visa- or MasterCard- logoed cards are accepted almost universally, customers can buy whatever they want. This is useful, since customers can conduct transactions that are difficult with other means, such as buying online or renting cars. Ms Aries appreciated her NetSpend for this reason:

*[I like] the fact that it was a Visa and you can take it anywhere and use it anywhere. There are no limits on it on what it is . . . I rent a car with it . . . and that’s major, because lots of places are very particular . . . so I mean just the fact that you can do just whatever you want with the card as if it’s a Visa . . . just the fact that you can, like I said, use it anywhere.*

At a second level, having a card gives customers a way to pay that does not differentiate them from other consumers who may be more financially advantaged. Whereas using a money order is a visible sign of not having a checking account, the prepaid cards act and look just like conventional credit or debit cards. Ms. Libra talked about the symbolic value of being able to get a Visa-branded card despite “deplorable” credit caused by personal and medical problems:

*I could not qualify for a credit card mainstream. So I had to rely on . . . [NetSpend] so that I can rent a car, you know, so that I can use a Visa even though I don’t qualify for credit. So because of what I went through, the challenges I went through I’m deeply grateful to the presence of an institution like [NetSpend]. You know what I mean? I can buy online, I can do anything that a person with good credit can do.*

Ms Aries echoed this feeling of being included. As someone with bad credit, she used to just watch other people use cards. Now she can say, “I have it too, I have plastic too.”

The general acceptability of prepaid cards made one minor exception stand out. Both AccountNow and NetSpend customers complained that their cards could not be swiped at gas station pumps without a hold being placed on the available funds. When pressed for something he disliked about his AccountNow, Mr. October mentioned this: “You can’t swipe it . . . you have to go inside. . . . You know, like a regular credit card, you [can’t] just swipe it at the pump. I wish they’d make it so I didn’t have [to do this].<sup>7</sup>”

**Immediate liquidity.** Customers, particularly those who use direct deposit, said they like that their money is available immediately. Ms. Sagith explained how she gets paid: “We don’t get checks in the mail. I get

<sup>7</sup> Gas stations require in-person transactions instead of automated fuel dispenser (“at the pump”) transactions to avoid placing large holds on customers’ cards. <http://www.icba.org/files/ICBASites/NSPDFs/AFDbrochure.pdf>

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direct deposit on my NetSpend card. So I don't see my pay stub. I don't see a check. I just know that on Friday I can start spending money." She compared that with her understanding of depositing a paycheck at a bank account: "Because the bank holds your check down even if it's your regular payroll check, you know, they hold it for three days—you can have your funds in three days."

Another plus is that account updates are available on demand. Customers said they get and use information about their balances by phone, by text, by email, and via logging into their accounts online. Our interviewees appreciated these up-to-the-minute information sources. As Ms. Jan explained, "It works for me. And I like being able to, like, call and check my balance when I need to, that's always a nice thing. . . . Just call the 800 number, then I can know what my balance is [or] go online and do it and they send it." Mr. Taurus said he gets email alerts as well: "You see, I don't have to worry about it. You know, they send me emails any time I use the card. Every month they send me an email; they let me know what my balance is. So that makes it very convenient."

*Simplicity and transparency.* Customers said they appreciate the easy-to-understand fee structures of the prepaid cards. They know the fees for their transactions and know that there will not be unexpected fees. Several compared their experiences with prepaid to banks. Mr. Taurus's experience was typical:

*When I had the banks every time I was turning around I was being charged for this, I was being billed for that, and if I went into the bank too many times they would charge me for [that]. If I, you know, ask for a copy of my statements they would charge me for that. Any little thing that I needed they would charge me for. With NetSpend there is none of that. I know how much I spend a month to have them and that's all that is.*

Mr. Auguste called this feature "accuracy," describing how the fees are fitting for the transactions and all goes smoothly. "No glitches. I don't like glitches. I have had enough glitches in my life. Glitches cost you money."

*Value.* In addition to appreciating that the costs are clear, customers said they felt the price they paid for the service was fair. Mr. Taurus totaled up the predictable and unpredictable (described above) fees from his bank. He figured he pays far less per month with his NetSpend card. Others compared the prepaid card fees to banks as well. Mr. Feb estimated that "if I go to a bank I would just be paying whatever monthly fee, which is about the same." For cardholders who would otherwise be using nonaccount-based services such as check cashers, the card was an even better relative value. Describing her life pre-NetSpend, Ms. Libra explained, "I would have the physical check sent to me and then I would go to one of the Moneytree. And I would cash it and pay some huge ridiculous fee to cash it." She estimated spending \$40 to \$60 per month on check-cashing fees, far more than the fees associated with her prepaid card.

Others described another benefit of their cards. For instance, when Ms. April lost her card, she called AccountNow's customer service and was sent another card without any problem.

*OK, but I did call in and told them that, you know, I've lost that card. And they send me another one, you know. So I liked them for that you know so I would never change with them you know and so when I would pay the \$9.95 'cause they do honor with everybody I have paid, you know.*

She considered that positive experience one reason why a person really "can't beat" the monthly fee.

Customers were not quite unanimous, however. Mr. Auguste would like to see a lower fee structure:

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*I do have a problem this \$10 service fee that they got every month you know. It's like you charge me, what, 30 bucks almost to open the account, to set the account up. Now you wanna charge me a \$10 fee every month to maintain it.*

Part of Mr. Auguste's frustration was that there are lower cost ATMs available through AccountNow but he does not live near any of them. He admitted, however, that a prepaid card was still his best option.

**Built-in discipline.** For customers, prepaid cards provide much of the ease of a checking account with one major advantage: they cannot be overdrawn. If there are not sufficient funds to cover a POS transaction or requested debit, the transaction is turned down without a penalty to the cardholder. As Mr. August explained, "If the money is not there, can't nobody take it out. You know they don't pay it so I don't incur no fees."

This provides a check on spending that users found helpful, particularly those who have gotten into trouble with overspending and fraudulent (or merely over-optimistic) check writing in the past. Ms. Libra, who freely admitted that she has a lot of trouble managing money, said she appreciates this feature, noting, "The good thing about this though is that you can't write checks and have them bounced. It's like the funds are either there [or not]; the transaction either passes or doesn't. So it's a good discipline for me."

### Goals and advancement

Prepaid cards are definitely useful for these customers' day-to-day money management needs, but are the cards helping them achieve larger financial goals? As part of the interviews, we spoke with customers about their future financial plans and hopes. Table 5 below summarizes the most common types of goals mentioned.

<b>TABLE 5: Common Goals</b>
<i>Goal (number of respondents with this goal)</i>
Entrepreneurship or career change (7)
Buy house or save for home down payment (5)
Save up to \$5,000 for general or emergency use (5)
Save up for large purchase or experience (vacation, wedding) (4)
Inheritance or education for children or grandchildren (4)
Improve credit record or credit score (3)
Get or stay out of debt in general (3)
Get or stay current on bills (3)
New rental apartment (3)
Pay off particular bill or debt (2)
Further education (2)
Leisure time / retirement (2)
Qualify for credit card (1)

Twenty of the 22 respondents mentioned a financial-related goal, although their level of specificity and time horizons varied. Some specific goals that could be accomplished within a year or two included

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saving enough to move into a different apartment, paying off a particular debt, buying new furniture, or generating emergency savings. Ms. May had a larger goal in mind—buying a house—but she described concrete steps she and her husband had taken toward this end, including reviewing their credit reports and scores and paying down debt to qualify for a better interest rate.

Others mentioned goals that might take several years or more to achieve. Goals such as further education, career changes, or starting a business have longer timeframes and require effort beyond accumulating savings or improving credit. Sometimes such lifelong goals were mentioned as things that would be nice to achieve, but without much specificity. For instance, when asked about her financial future, Virginia replied, “I hope to be comfortable, you know. I hope to get back my future, get a job that I like, and be able to travel more . . . [maybe] move to San Francisco, get a job doing something I really like.” Without specificity, these types of future ruminations might be better thought of as aspirations.

Some parents in the sample spoke about goals involving their children. Again, plans varied in their specificity and time frame. One woman spoke of wanting a better apartment so it was easier for her grandchildren to visit. Mr. Auguste described wanting to build up his sideline company into a full-time business and an asset for his children: “My goal is to bring them into the company. You know, during school years and stuff like that, between school, between semesters, and, you know, grooming in the business . . . so I have something to leave to them.”

How well do the services and features of prepaid cards align with the respondents' goals? Prepaid cards may help customers achieve specific short-term goals that require a safe and secure way to transact or to save money. For instance, Mr. Feb would like to get his car paid off within a year. He said he currently pays his car payment over the phone with his AccountNow card. When funds are available, he can send more than the minimum to pay down the principal.

Longer-term goals such as buying a home or starting a business require combinations of savings, access to credit, and other preparation. Prepaid cards in their most basic transactional form are not sufficient in helping customers achieve these goals, and most of the interviewees acknowledged that products alone are not enough to help them realize their short- and long-term goals. Achieving any goals requires behavioral change or commitment that stretches beyond the features of a particular financial product or service.

However, both AccountNow and NetSpend offer enhanced features designed to better meet customers' financial needs for savings and credit building, and that could potentially help consumers achieve their goals and possibly improve their financial well-being. Certainly, users of NetSpend could use the linked savings feature for goals such as saving for a home down payment or emergency fund. Similarly, customers looking to improve their credit scores could use the AccountNow bill pay and credit-reporting service. The next section examines current customer use of these features.

### Special features

Consumers' use of and views of the AccountNow's bill pay with credit reporting and NetSpend's linked savings features provide insight into prepaid's potential for supporting customers' financial mobility.

*AccountNow's bill pay.* AccountNow offers a bill payment system in which customers can sign up online to have their bills automatically debited from their account. Bills paid in this way can then be reported to an

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alternative credit-reporting agency, Payment Reporting Builds Credit (PRBC)<sup>8</sup>, allowing households that pay their regular bills on time to establish a record that could be used for future credit or rental applications. Although we purposively sampled customers who had signed up for this feature, we found that a majority of the AccountNow customers were not actively using bill pay at the time of the interview. Specifically, of the eight customers identified by company records as having signed up for bill pay, only one customer currently used it, and that customer did not use it for all household bills. Two other customers recalled enrolling but were not using it.

Regardless of whether customers were using bill pay, we asked them for their thoughts on this feature. Over half of the interviewees cited the possible loss of control over their financial management as the major reason they did not use bill pay. Customers felt that there was not enough money coming into their households to comfortably cover all their bills, and they wanted control over the order in which bills were paid. Similarly, others reported that they were behind on their bills and were not in a position to make full payments. For example, Ms. Jan, a mother of three, reported that “I like to get my money, then I choose where it goes. . . . You know, I don’t like automatic things coming out of my account.” Similarly, another customer, June, said she preferred being in control of “how much gets paid where.”

A related concern was that a bill would post at a time when the account did not have enough funds to cover it. Even though most of customers knew they could not overdraw their accounts, some worried about the possibility of putting their account into the negative, while others worried about a bill bouncing. These uncertainties made customers like Mr. Feb and Ms. March turn off bill payment after initially setting it up. Similar uncertainty made another customer, Ms. May, refrain from signing up at all.

Customers saw no advantages to using bill pay over the more labor-intensive but controllable method of paying bills by phone using their card numbers. Some were not aware of how the bill payment feature worked. Others knew they could set up bills to be paid through the AccountNow website but were unaware of the additional benefit of having their payment history reported directly to credit bureaus if they used bill pay. While there was a general understanding that paying bills on time would eventually help improve a person’s credit, AccountNow customers did not realize the difference to their credit history between paying bills directly with the creditor and using the AccountNow bill pay feature.

*NetSpend’s linked savings.* NetSpend cardholders can open a savings account linked to their card. Six monthly transfers into and out of savings are free and instant online. At the time of our interviews, the NetSpend savings feature paid interest at a rate of 5 percent, far higher than rates available for conventional savings accounts. We interviewed only cardholders who had opened the linked savings feature.

All 10 knew that they had signed up for the linked savings feature, although not all knew about the interest rates. Nine of the 10 respondents transferred money into savings at some point. The 10th misunderstood the terms, believing that NetSpend was automatically rounding up every purchase and transferring the difference into savings. Six of the 10 account holders had no money in savings at the time of the interview. The four with savings had balances ranging from \$97 to around \$500.

Most had signed up for the account with plans or hopes to accumulate funds. Mr. Taurus was one who hoped the account would help him save. When asked if it worked, he laughed, “Does it work? No. It doesn’t work. The biggest thing is everything is so expensive now. You know . . . I put . . . money in the

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<sup>8</sup> PRBC (Payment Reporting Builds Credit) is a national consumer reporting agency and credit bureau. PRBC collects, stores, scores, and reports bill payment data for “permissible purposes” under the Fair Credit Reporting Act. It is the first credit bureau to give consumers and small businesses a way to build a credit file to demonstrate creditworthiness without the need to go into debt.

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savings with the intention of keeping it there. But then I spend what I had in my checking after going to the savings.”

The accounts proved useful for purposes other than savings. Some were able to save for a few months and then used the savings for an anticipated or unexpected expense. For instance, Ms. Aries, a mother of two, put money into savings over several months and then used the money to buy Christmas gifts. When we interviewed her, just after the winter holidays, she had no money left in savings but was happy with the service and planned to resume saving. Another customer, Ms. Gemini, regularly put away \$50 weekly, and then used her savings to pay for unexpected medical expenses not covered by her insurance.

Ms. Sagith explained how she used her savings account to help enforce her goal to save part of each bimonthly paycheck toward her rent of \$695:

*It's not always true to form, but on the first payday of the month I'll pay half of the rent or \$300 or put it into my savings on my card. . . . And then on the next payday I pull it out of the savings and pay the \$695. . . . Because I figured my check's only \$800 and I need \$695, that's \$700. [If I paid all out of one check] that leaves me \$100 to pay that \$50 bill plus gas and buy all my coffee, yeah, it don't work like that. So I do budget to some form. I mean, I like to think ahead a little bit. So I don't want it to be one big smack in the head on one payday.*

For this account holder and at least one other, the main advantage of the savings account was to shelter money from being available for spending so that it could not accidentally be drawn down.

At least three of the 10 respondents suggested that additional restrictions on the account would encourage saving. Consumers assessed their own savings behavior and concluded that more built-in discipline would help. This line of reasoning started with the observation that available funds often get depleted. As Ms. Cancas noted, “If I find that I have money in my pocket, I kind of spend it a little fast.”

Another customer who tried to save every month but almost always spent the funds completely suggested that the transfers between savings and debit were too easy. He would like it to be more difficult to withdraw funds from the savings account. Ms. Aries illustrated this point with her own experience in initially misunderstanding the savings account terms:

*I thought I was reading it wrong. But this had am glad I read wrong because I said, it said, you know, you can only transfer money from the savings to the other account six times? But I am just thinking it was out of a year. [Interviewer “Wow.” Both laugh]. So like for a long time I thought that I was. I said, oh man, I can't transfer nothing else on this account because it's my third time already and so I [laughs again] have had money in that account where am not touching it. I saved up quite a bit. And then I went back and read it and it said six times out of the month. Well, I wish I never read it because I probably would have still had that money in my account.*

Customers who set up defaults or automatic transfers into their savings accounts had more success accumulating savings. Thus, building features into the product structure that make it easy and automatic to save and more difficult to withdraw the funds should help consumers save.

### Conclusion

This analysis begins to address our overall research questions. What do consumers' experiences tell us about the usefulness of new financial products that are emerging across the financial services marketplace? Do the so-called bridge products provide a way for consumers to move toward greater financial well-being? In what ways could current products—and the current financial services market—be changed to better meet the needs of consumers not currently using conventional checking and savings accounts?

Prepaid cards are useful, particularly for users who have had problems with conventional bank-based accounts in the past. Using prepaid cards as a tool, consumers can and do receive direct deposits and use their funds to pay for routine living expenses. Customers who use these cards feel they offer a wide array of benefits among which are convenience, acceptability, and transparency, and that prepaid cards are cheaper and easier on the whole than other options.

As to whether prepaid cards can help cardholders advance financially, there are fewer fixed conclusions. Some goals, such as creating emergency savings, can be achieved with the current prepaid cards. Other goals, such as accessing mainstream credit for large purchases, will require products beyond prepaid. The bill payment reporting and savings products here represent a step toward that end but are not yet fully embraced by consumers. All goals will require effort and spending discipline on behalf of the customers in addition to well-designed financial products and services.

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### APPENDIX A

#### Interview Template Summary

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*Introduction.* The researcher reviews the purpose of the interviews and the protocol, including risks to confidentiality, the use of a pseudonym, the participants' honorarium, the voluntary nature of participation and permission to audio-record the discussion. Participant and researcher sign consent forms. The participant is shown a brief outline of the interview and shown that specific questions about the focal product will be asked after some background information.

*Personal financial background.* The interviewer asks the respondent to describe his or her financial background, current practices, and future goals. To elicit accurate and thoughtful responses, the interview moves from specific questions ("What was your first job? Do you remember your first paycheck? What did you do with it?") to more general requests for interpretation ("Has the way you view money and finances changed over time?").

*Current transactions.* Next the participant is asked to explain his or her regular expenses (rent, utility bills, car payments, work expenses, family costs, transfers to friends or families) and sources of income (regular earnings, occasional earnings, public transfers, support from kin, etc.). This section uses a blank monthly calendar to record all regular transactions. Again, by focusing on specifics and asking for interpretation as appropriate, this approach elicits responses that are true to the meaning of finances in the respondent's life.

*Financial services.* For a number of common financial products or services, participants are asked to indicate whether s/he has used each service in the past, uses it now, or is likely to use it in the future. This product list will include fringe, alternative, and mainstream financial products such as money orders, storefront payday loans, savings accounts, mortgages, and 401ks, as well as the focal product. The interviewer also prompts for particular details about the focal product.

*Reaction statements.* Participants are given a handout that lists statements about products or services ("Checking accounts are helpful" or "Paying bills on time will help build a credit record"). The interviewer reads statements one by one, asking whether the statements are true for most people they know, true for some and not for others, or not true for most people they know. Participants are asked to explain their views.

*Conclusion.* Participants are asked to give any final thoughts or suggestions on the focal product, other interview topics, or financial services more generally. The interviewer then thanks the participant.

## About CFSI:

The Center for Financial Services Innovation, a nonprofit affiliate of ShoreBank Corporation, facilitates financial services industry efforts to serve underbanked consumers across the economic, geographic, and cultural spectrum. It provides funding and resources, enables partnerships, and identifies, develops, and distributes authoritative information on how to respond to the needs of the underbanked profitably and responsibly. CFSI works with banks, credit unions, technology vendors, alternative service providers, consumer advocates, and policy makers to forge pioneering relationships, products, and strategies that will transform industry practice and the lives of underbanked consumers. For more on CFSI, go to [www.cfsinnovation.com](http://www.cfsinnovation.com).

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