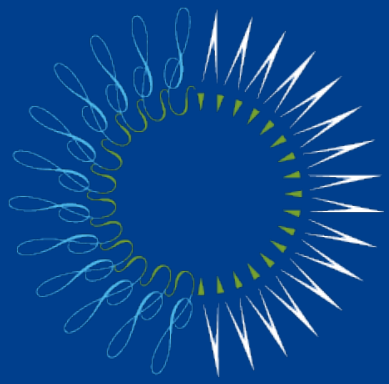

THE PEW CHARITABLE TRUSTS

Banking on Prepaid

Rachel Siegel, Senior Associate
Consumer Banking

PEW

A report from THE PEW CHARITABLE TRUSTS | June 2015

Banking On Prepaid

Survey of motivations and views of prepaid card users

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Background

What are general purpose reloadable (GPR) prepaid cards?

- Accounts that have many similarities to checking accounts
- Can be loaded by direct deposit or cash
- Prepaid cards can be used most places that a debit or credit card would be accepted
- CFPB has taken note of these accounts as important financial tools and have proposed new rules to regulate the industry

Previous work – www.pewtrusts.org/prepaid

REPORT

Banking on Prepaid

WHITE PAPER

Making Prepaid Safe for Consumers

ISSUE BRIEF

Features of a Safe Prepaid Card

REPORT

Consumers Continue to Load Up on Prepaid Cards

MEDIA CONTACT
Mark Wolff
Director, Communications
202.540.6390
mwolff@pewtrusts.org

TOPICS
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What do we know about the unbanked?

2013 FDIC National Survey of Unbanked and Underbanked Report

- 8 percent of U.S. households did not have a bank account (unbanked)
- 22 percent of unbanked used GPR prepaid cards
- Of the 92 percent of banked consumers, just 5 percent used GPR prepaid cards

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Background

- What is the benefit?
- Why do people want these cards?

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Prepaid survey

Goals of survey:

Compare unbanked and banked cardholders

- Who is using prepaid cards?
- Why are they are using them?
- How are they using them?
- What do they know about the features, terms, and conditions on their cards?

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Prepaid survey

Nationally representative telephone survey of regular users of GPR prepaid cards

- Dual-frame bilingual telephone survey
- Half of the telephone surveys are completed with respondents on cell phones

	Unbanked	Banked	All Prepaid Cardholders
Observations (N)	154	433	587

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Our survey

9 percent of U.S. population uses GPR prepaid cards regularly

- More than 50 percent increase between 2012 and 2014
- 23 million in the U.S.
- Of those, 27 percent are unbanked

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Key findings – unbanked

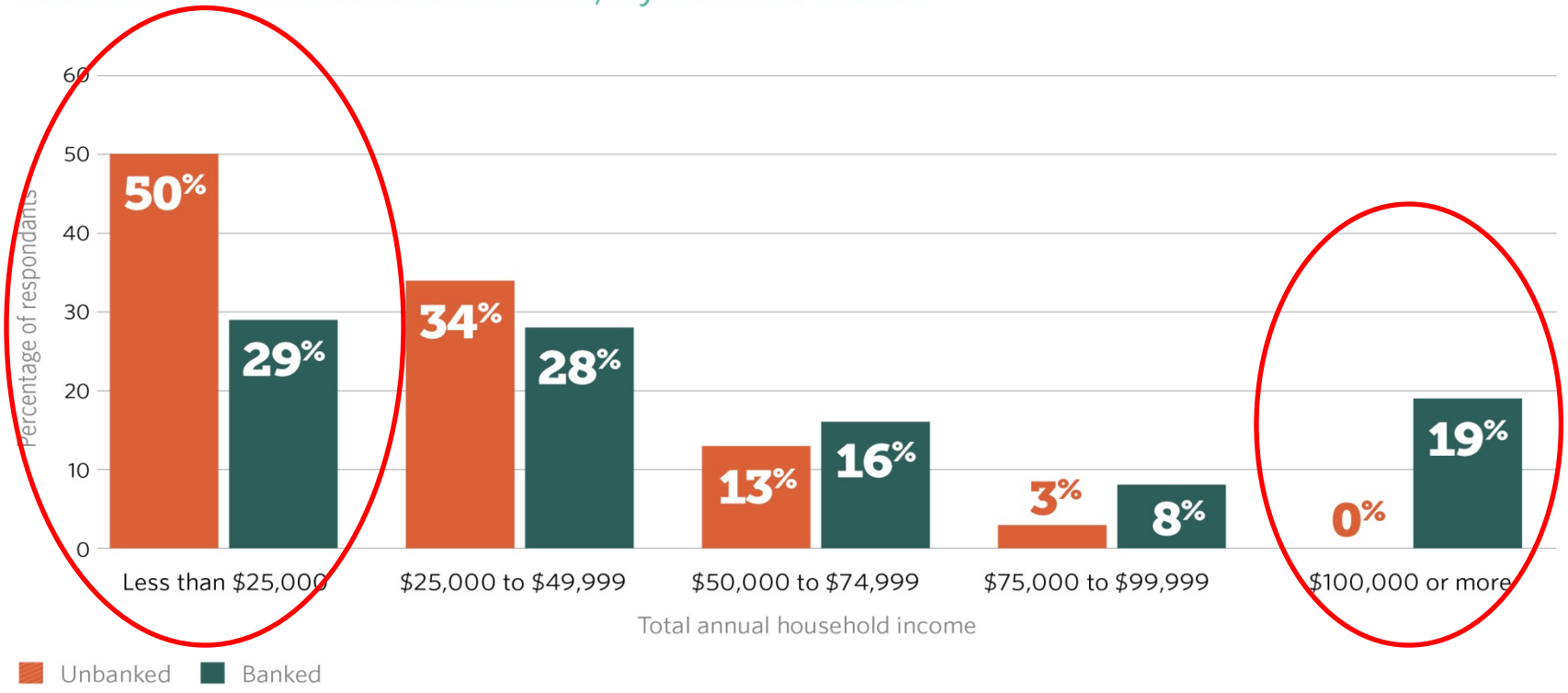
- Unbanked prepaid cardholders have lower incomes and are less financially secure

- Unbanked cardholders use their cards much like traditional checking accounts

Key finding: unbanked are lower income

Half of Unbanked Prepaid Cardholders Have Incomes Under $25,000 Annually

Total annual household income, by banked status



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Key finding: unbanked are less financially secure

Unbanked cardholders are also:

- More likely to be renters
- Less likely to be married
- More likely to be unemployed
- Less likely to have a college or postgraduate degree
- More likely to be African American

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Key finding: unbanked use card much like a checking account

Unbanked tend to:

- Reload their prepaid card regularly and many use direct deposit
- Check their card balance often
- Register their prepaid card

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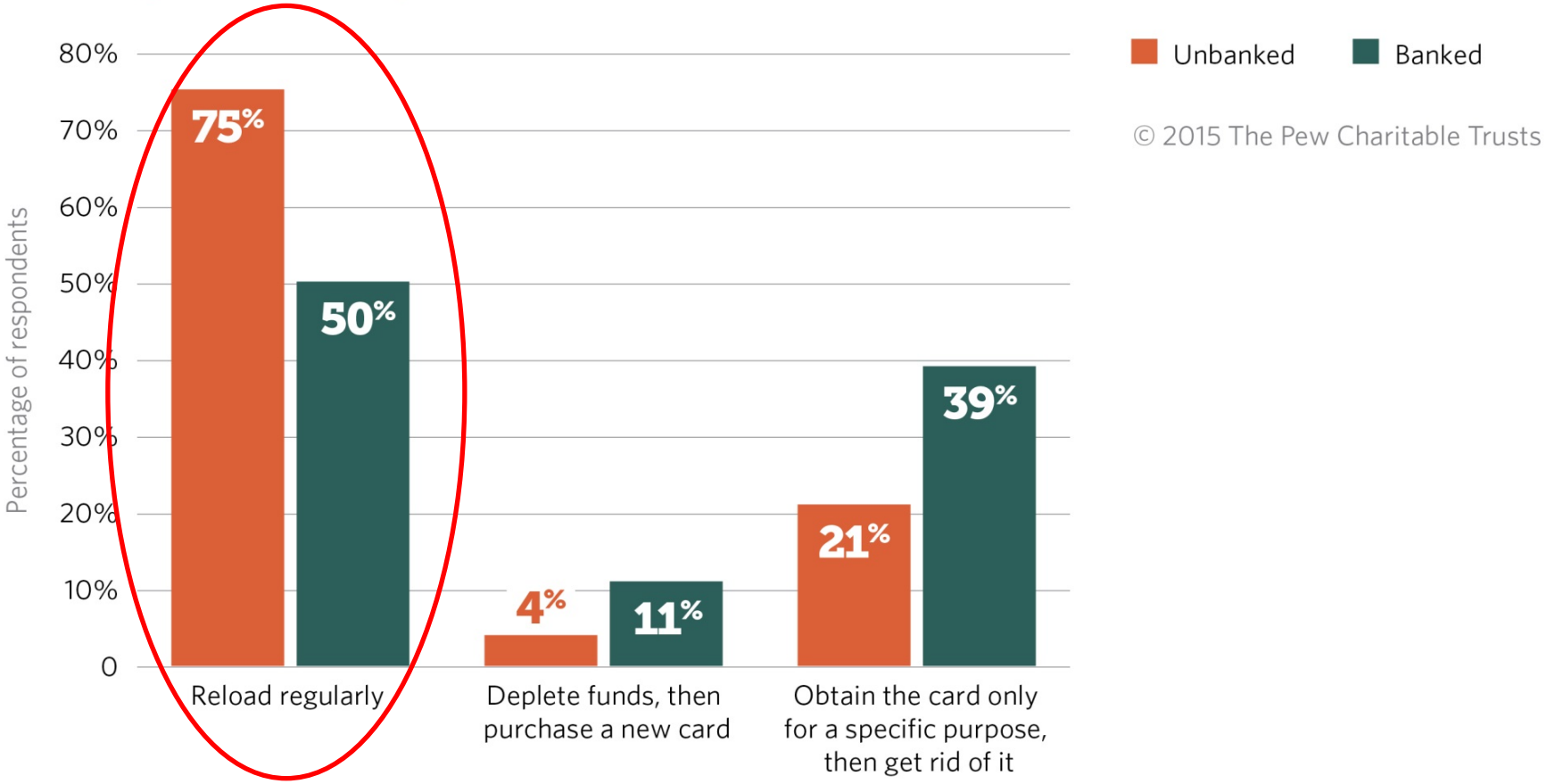
Key finding: unbanked use card much like a checking account

Most Prepaid Cardholders Reload Their Cards Regularly

Loading behavior, by banked status



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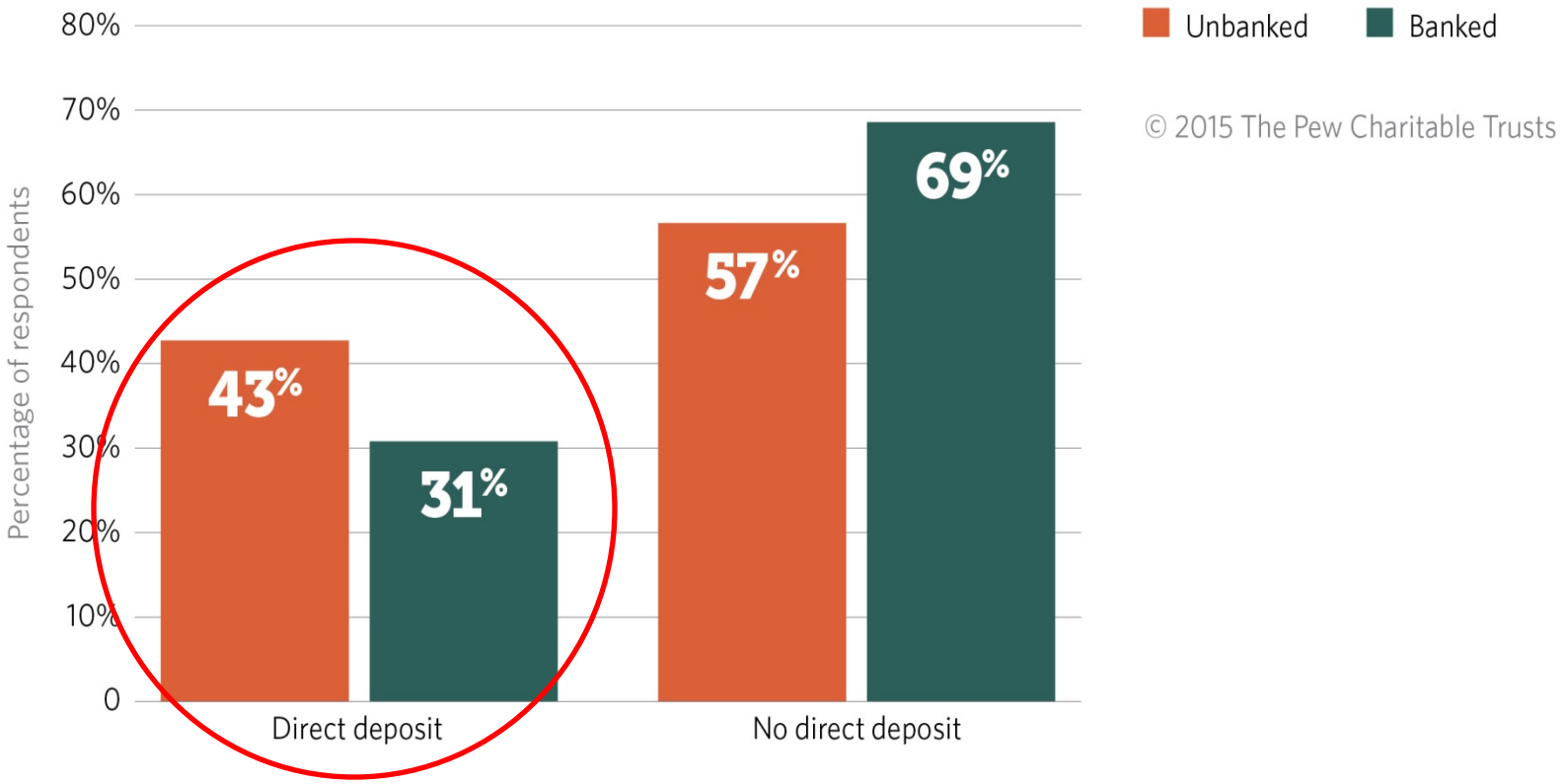
Key finding: unbanked use card much like a checking account

43% of Unbanked Customers Have Direct Deposit on Their Prepaid Cards

Use of direct deposit, by banked status



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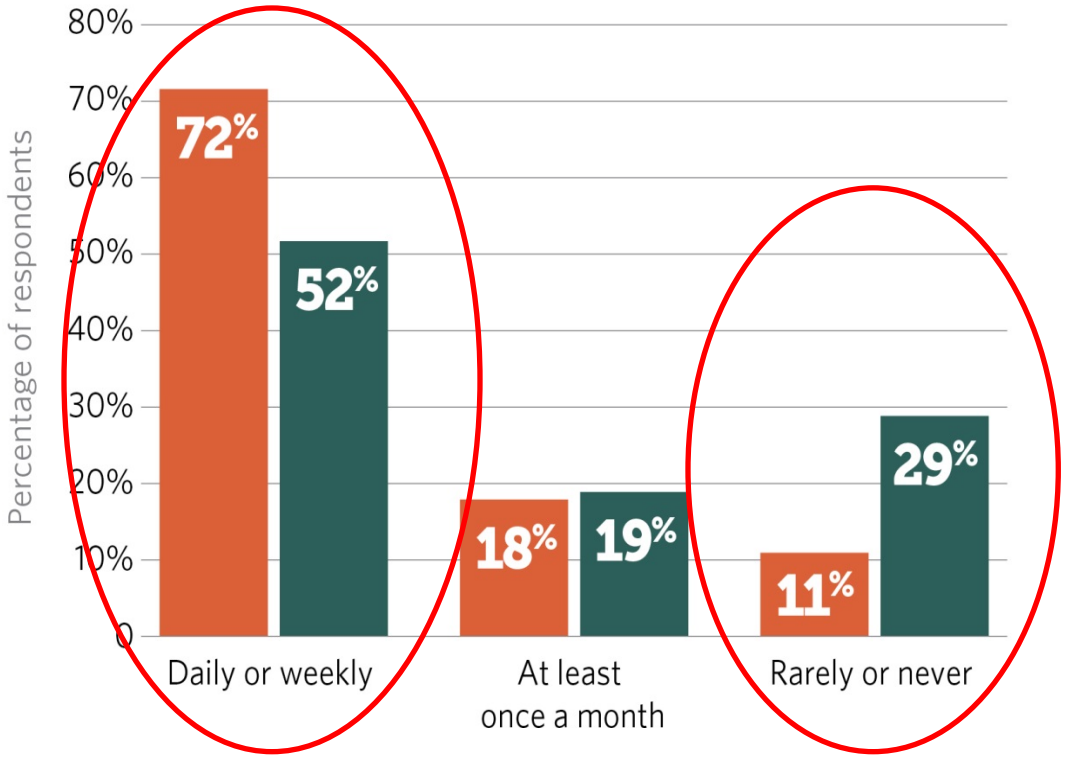
Key finding: unbanked use card much like a checking account

Unbanked Cardholders Check Their Balances More Regularly Than Banked Cardholders

How often prepaid cardholders check their balance, by banked status



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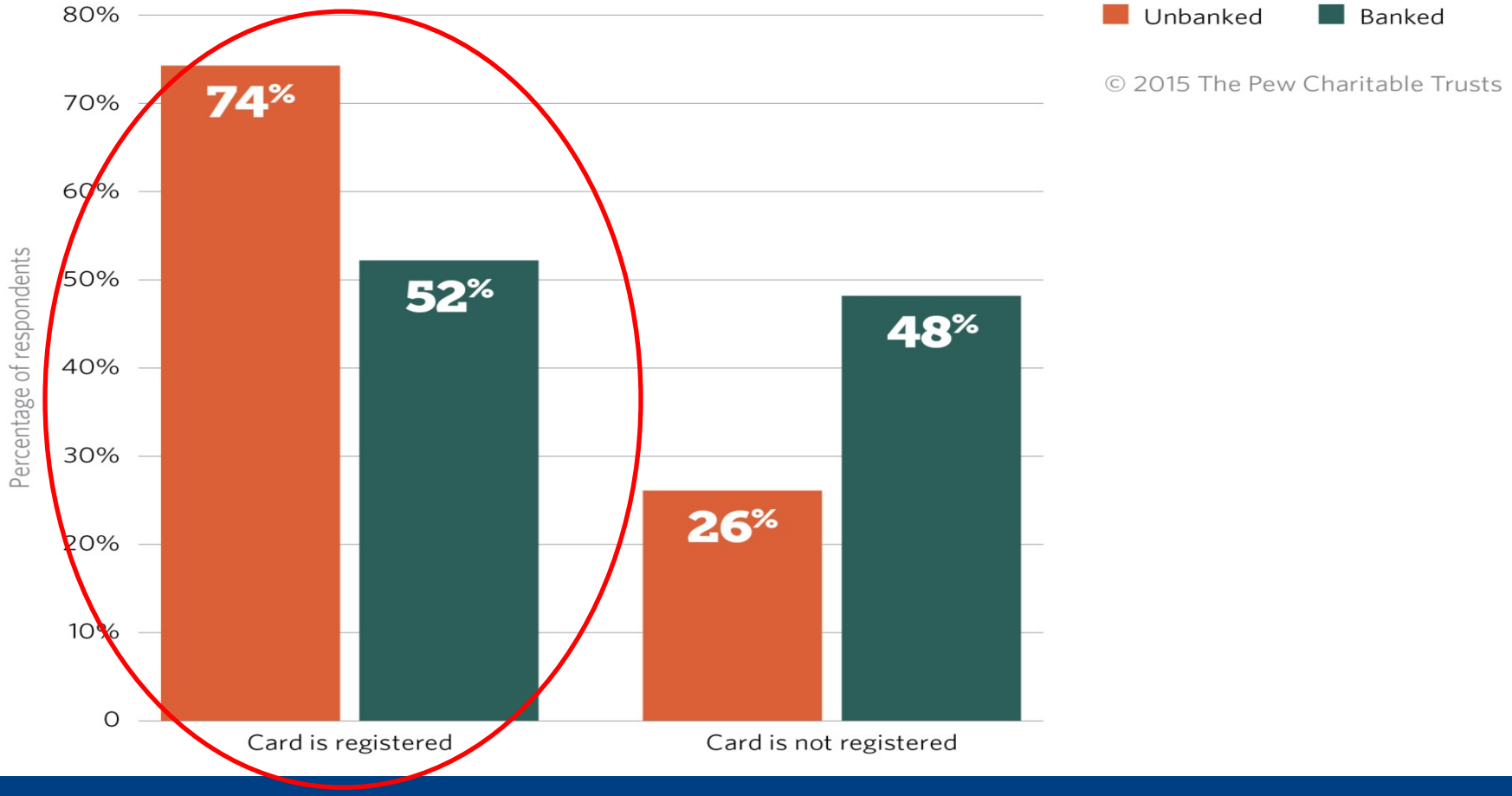
Key finding: unbanked use card much like a checking account

Nearly 3 in 4 Unbanked Prepaid Users Registered Their Card

Self-reported card registration rates, by banked status



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Key findings

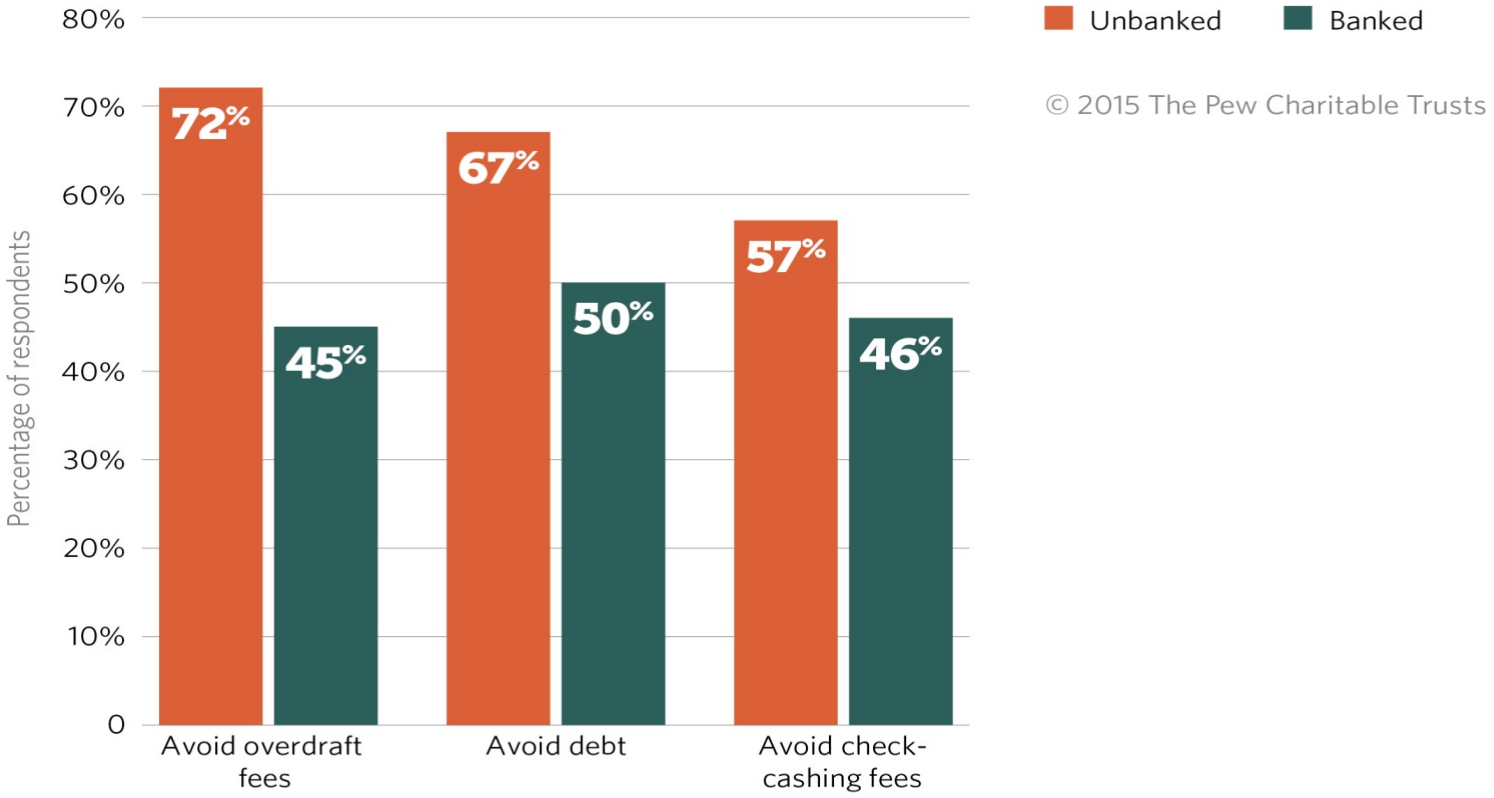
- Most use their prepaid cards—especially the unbanked—to help control spending and stay out of debt

- Most prepaid card users do not want the option to overdraw their accounts

Key finding: use card to avoid overdraft, debt, and fees

Most Unbanked Cardholders Use Cards to Avoid Check-Cashing and Overdraft Fees and Debt

Reasons for prepaid card use, by banked status



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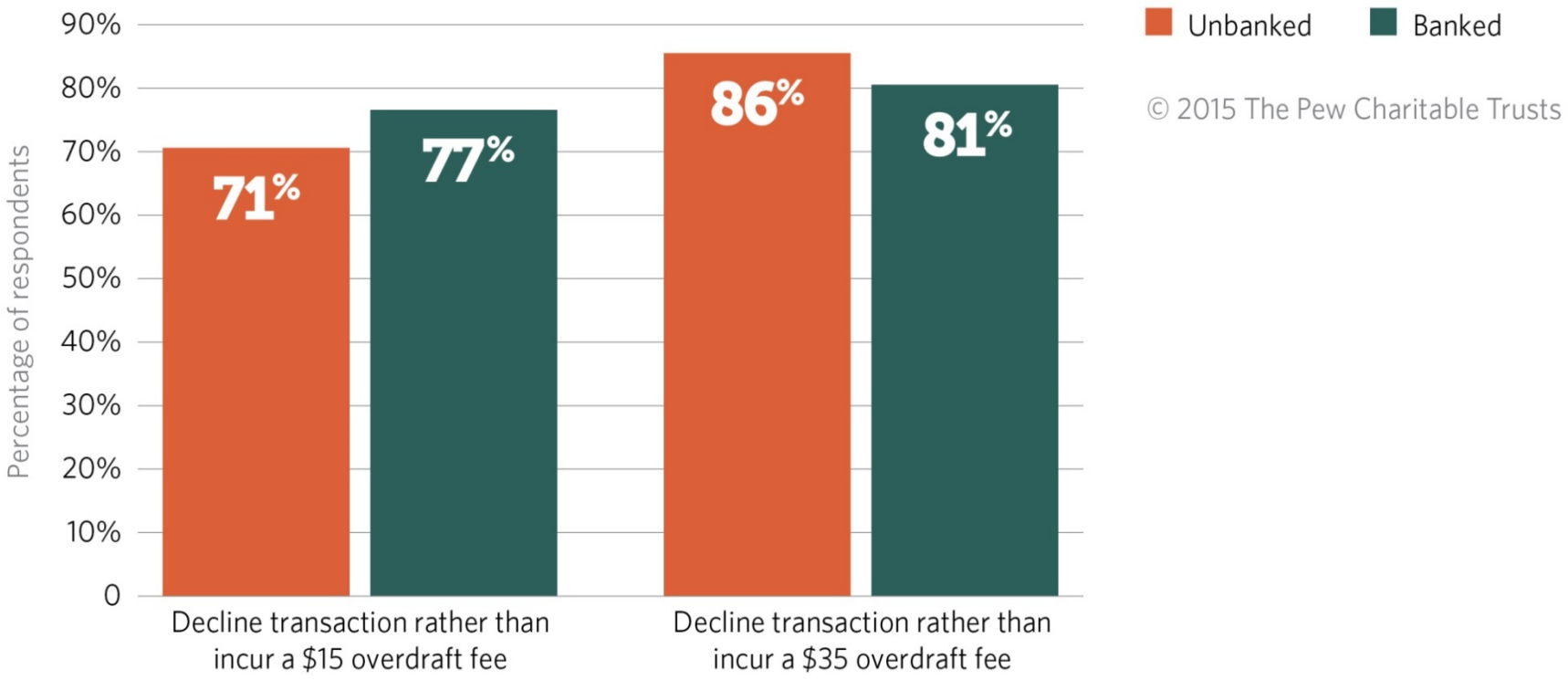
Key finding: do not want option to overdraw

Most Prepaid Card Users Would Rather Have a Transaction Declined Than Pay an Overdraft Fee

Point-of-sale overdraft preferences, by banked status



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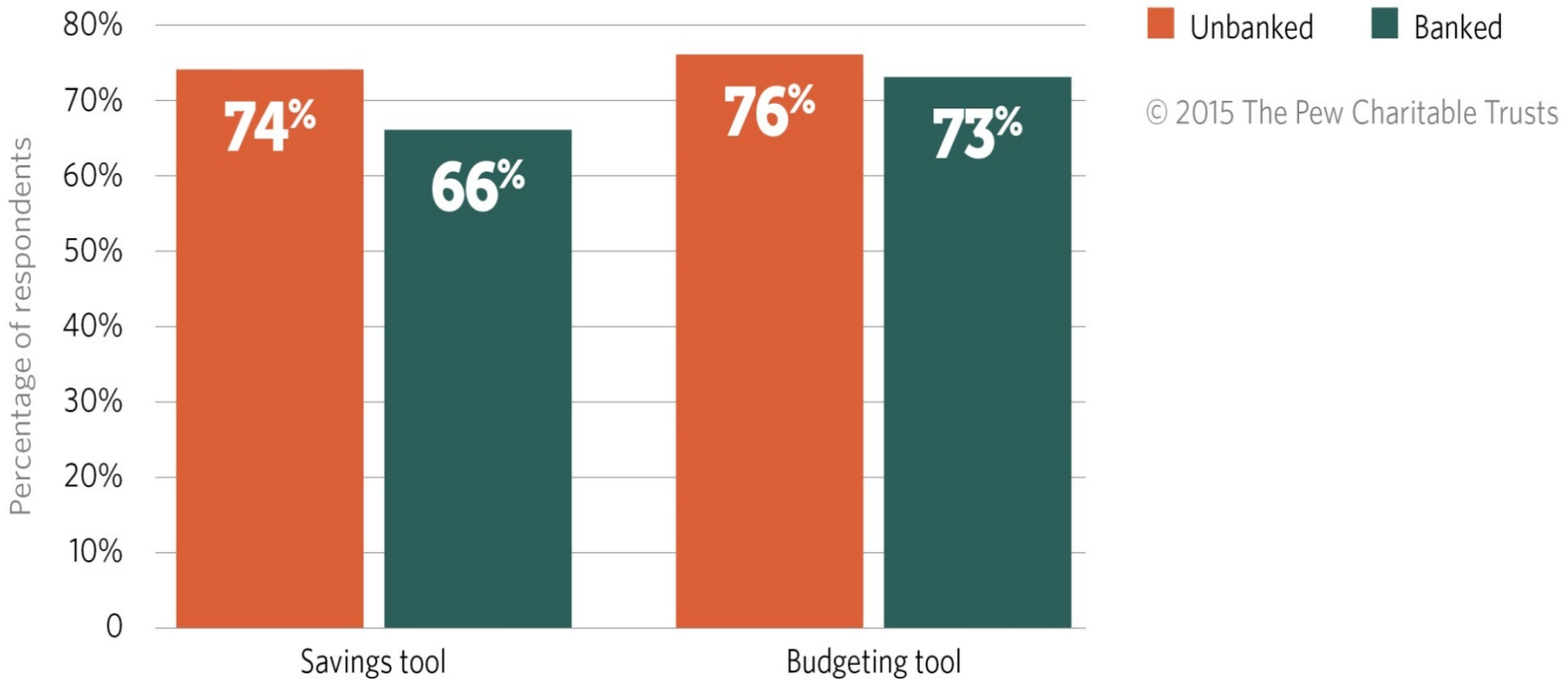
Use of prepaid cards - savings and budgeting tools

Both Unbanked and Banked Cardholders Would Like Savings and Budgeting Tools on Their Cards

Desired prepaid account features, by banked status



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Knowledge of prepaid cards

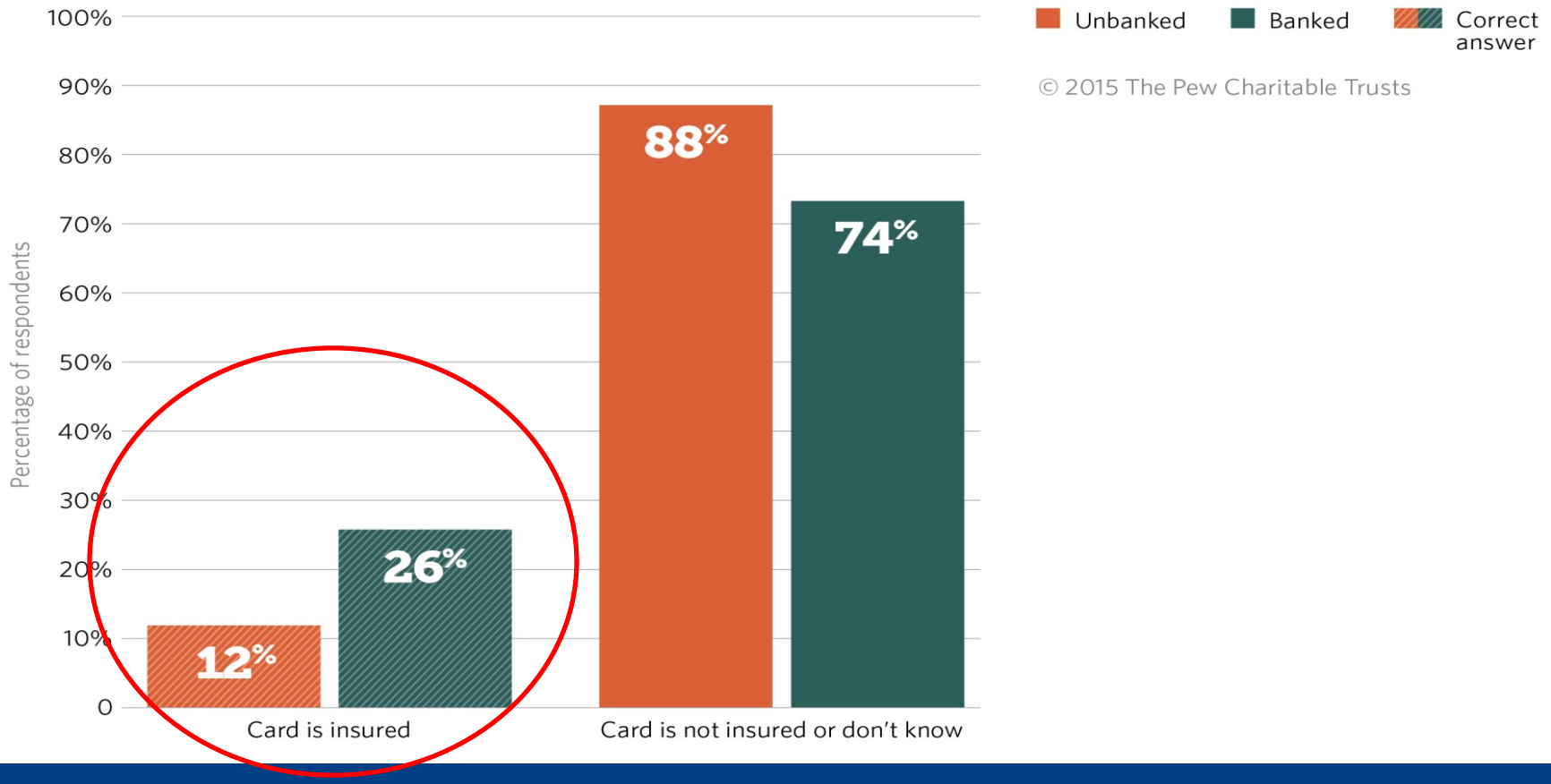
What do cardholders know about the policies of their prepaid cards?

- FDIC insurance
- Limited liability protection against fraud
- Arbitration clauses

Knowledge of prepaid cards – FDIC insurance

Nearly 9 in 10 Unbanked Prepaid Card Users Who Have FDIC Insurance Think They Are Not Protected or Don't Know

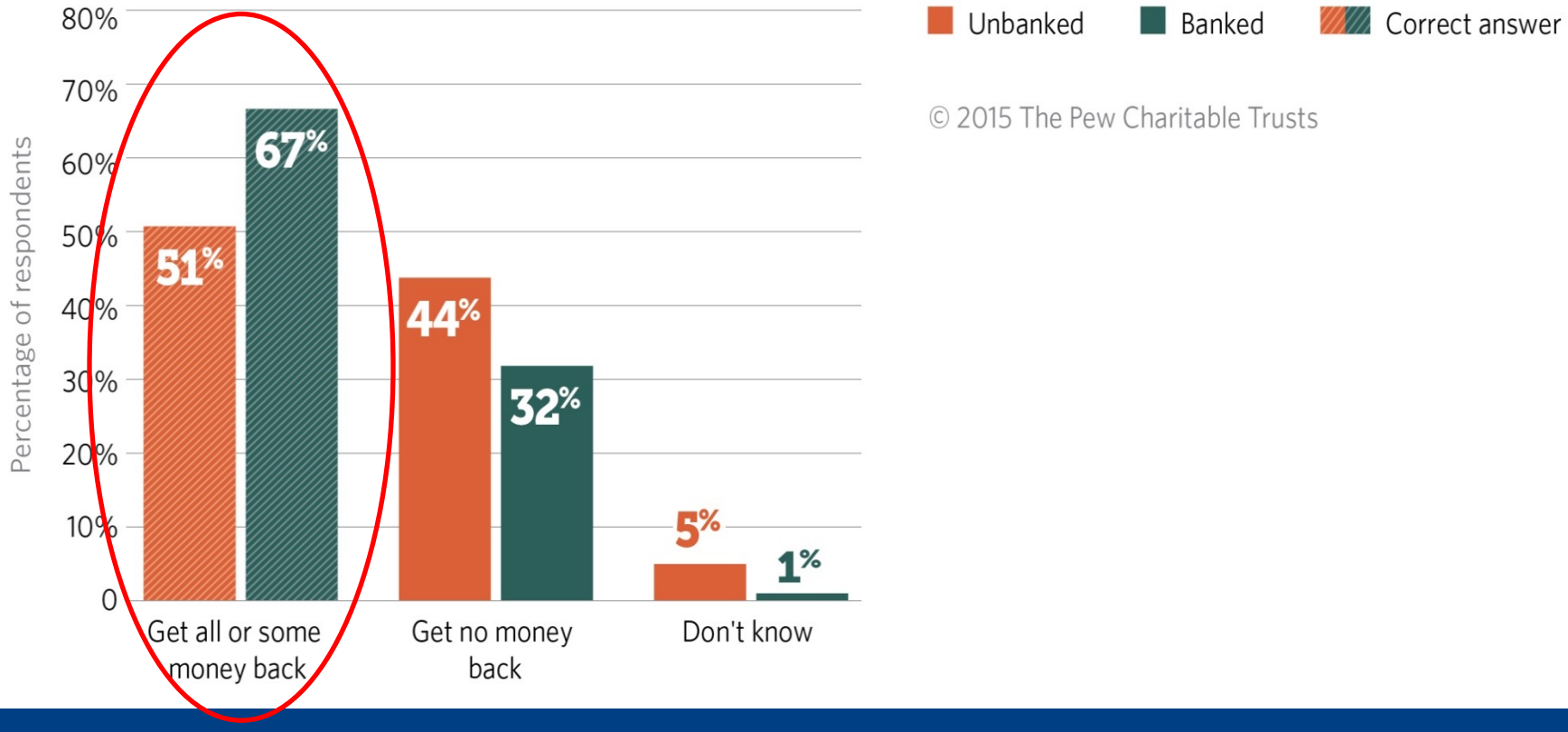
Cardholders' perception of their cards' FDIC coverage, by banked status



Knowledge of prepaid cards - limitations on liability

Nearly Half of Unbanked Users Do Not Know Their Prepaid Cards Have Liability Limits

Cardholder perception of loss or theft protections, by banked status



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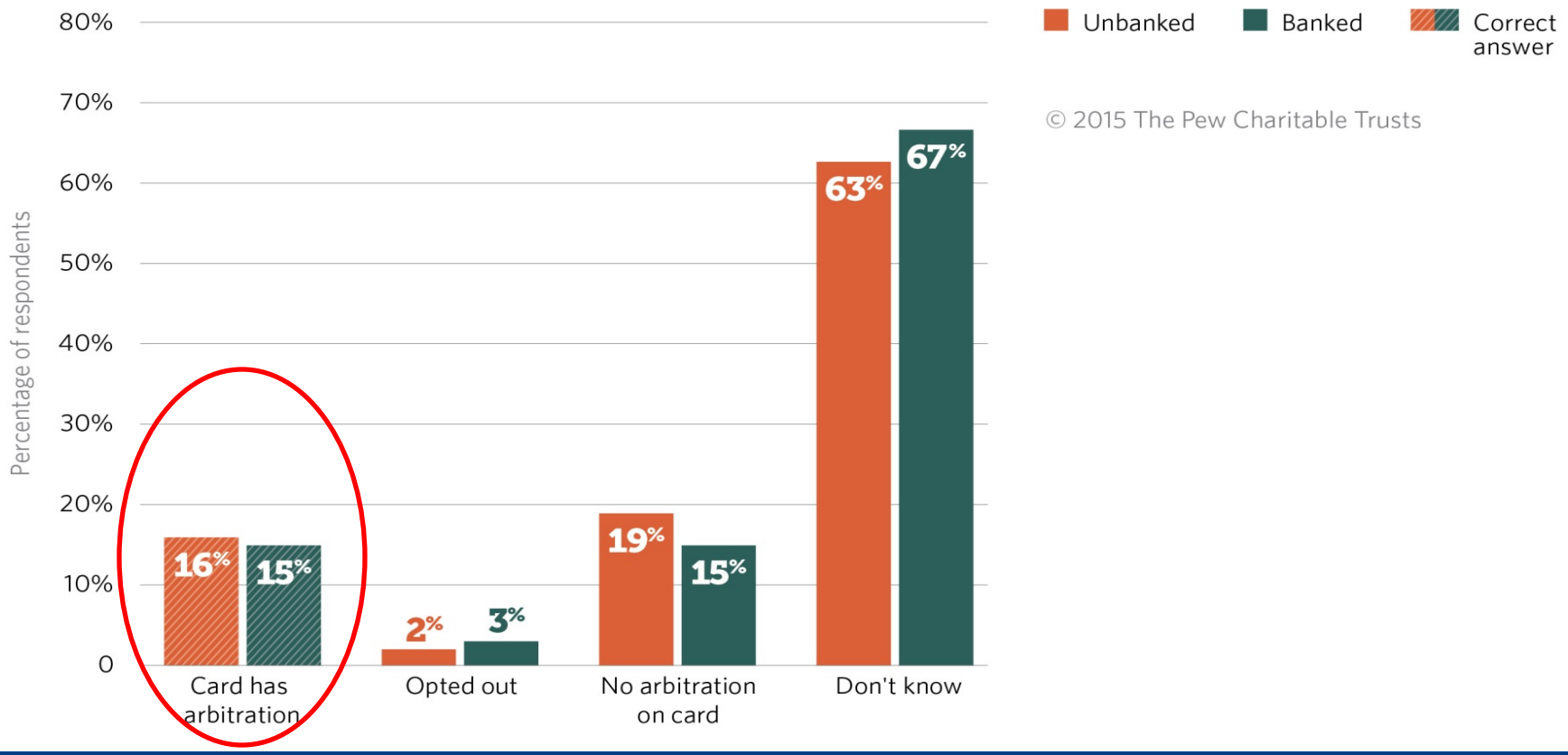
Knowledge of prepaid cards - dispute resolution

Most Consumers Do Not Know Whether Their Card Requires Arbitration

Cardholders' perception of arbitration requirements, by banked status



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CFPB proposed rule

The Consumer Financial Protection Bureau has put forth a proposed prepaid rule.

- Requires clear, concise, and uniform disclosure
- Prevents high-cost credit products and hidden overdraft fees
- Ensures protections that limit liability for unauthorized transactions
- Requires clear labeling if a card does not have FDIC protection

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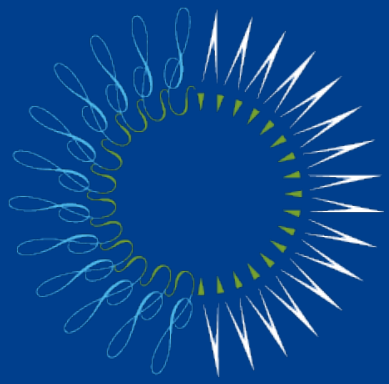
CFPB proposed rule

Pew applauds the CFPB for its proposed rule

We urge for speedy adoption of this rule in order to protect the 23 million in the U.S. who use these cards regularly



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