

# Prepaid Cards: An Inadequate Solution for Digital Payments Inclusion

*By Ying Lei Toh*

**A**lthough the share of households without bank accounts has declined over time, about 7.1 million households remained unbanked in 2019. Unbanked households are less likely to be able to access digital or electronic payment methods, as owning a financial account—most commonly, a bank account—is a prerequisite for using credit and debit cards, receiving direct deposits through the Automated Clearing House (ACH), and making wire transfers. Although these households can still participate in many in-person transactions using cash or money orders, they are largely unable to participate in online and mobile transactions, which have become increasingly prevalent. Furthermore, digital payments exclusion may prevent unbanked households from participating in even in-person commerce as more businesses become cashless.

Digital payments exclusion—the inability to make or receive digital payments—is a form of financial exclusion that may threaten not only households’ ability to participate in the digital economy but also their economic well-being. For instance, households excluded from digital payments received their COVID-19 Economic Impact Payments (EIP) via paper check at least six days later than households who received their EIP via direct deposit (Murphy 2021). Digital payments exclusion may

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*Ying Lei Toh is an economist at the Federal Reserve Bank of Kansas City. This article is on the bank’s website at [www.KansasCityFed.org](http://www.KansasCityFed.org)*

also prevent unbanked households from benefitting from new payment services such as faster payments, which can help alleviate cash flow constraints (Greene, Hayashi, and Stavins 2020).

Payments researchers and industry advocates have proposed prepaid cards as a potential solution for addressing digital payments exclusion and improving unbanked households' access to financial services more generally (see, for example, Keitel 2010 and Hayashi 2016). Using prepaid cards, unbanked households can shop (both in person and online), receive their paychecks, pay bills, and make peer-to-peer (P2P) transfers. Moreover, prepaid cards are arguably the most accessible non-bank financial account option available to unbanked households because their use does not require internet access or other technologies.

In this article, I use data from the 2019 Federal Deposit Insurance Corporation (FDIC) Survey of Household Use of Banking and Financial Services to assess whether prepaid cards might improve digital payments inclusion among unbanked households. I find that unbanked households have low adoption rates of prepaid cards overall, though those who are age 25 to 44, white, employed, or have income between \$30,000 and \$75,000 are more likely to use prepaid cards. Given this low adoption rate, I assess the effectiveness of prepaid cards in addressing the barriers to bank account ownership commonly cited among unbanked households. I find that prepaid cards are more effective at addressing the barriers of high or unpredictable account fees and personal identification, credit, or former account problems, but less effective at overcoming the barriers of liquidity constraints, privacy concerns, and poor accessibility. My results suggest that prepaid cards are not a comprehensive solution to overcoming digital payments exclusion or common barriers to financial account ownership.

Section I provides a brief introduction to prepaid cards and discusses how they may offer a path to financial inclusion. Section II examines prepaid card adoption among unbanked households and shows that prepaid cards are unlikely to materially alter the financial exclusion rate. Section III identifies barriers to financial account ownership and shows that prepaid cards may not be able to adequately address some of these barriers.

## I. Can Prepaid Cards Provide a Path to Financial Inclusion?

To make and receive digital payments, households must first have a financial transaction account. Most households use bank accounts for this purpose and can thus readily participate in digital payments. Unbanked households, in contrast, may be excluded from digital payments unless they have some alternative type of financial account, such as a neobank account, a prepaid card, or a cash balance or transaction account with a financial technology (“fintech”) service provider (for example, a PayPal Cash account).<sup>1</sup>

Of these alternative financial accounts, prepaid cards are arguably the most accessible to unbanked households. To use accounts provided by fintech service providers and neobanks, unbanked households need access to an internet-capable device such as a mobile phone as well as an internet connection. In contrast, unbanked households do not need to own any technological devices to obtain and use prepaid cards for making in-person transactions and receiving digital payments. Thus, prepaid cards may be the easiest path to financial account ownership for unbanked households.

Prepaid cards, also known as prepaid debit cards or stored value cards, are preloaded with funds and can be used to conduct in-person, online, or mobile transactions. Common types of prepaid cards include general purpose reloadable (GPR) cards, which consumers may purchase for general use; payroll cards, which some employers offer to their workers as an option for receiving pay; government benefit cards, which government agencies use to pay out benefits (for example, unemployment insurance and the recent EIP); and gift cards, which consumers can buy for use at a specific retailer or set of retailers.<sup>2</sup> The features of prepaid cards vary by type, and some types are more suitable to function as transaction accounts than others. For example, some types of prepaid cards, such as gift cards, are closed-loop cards, meaning they can only be used at a specific retailer or set of retailers.<sup>3</sup> Moreover, gift cards are typically non-reloadable, and their funds cannot be transferred or withdrawn at an ATM. These usage requirements make gift cards less likely to foster digital payments inclusion among unbanked households.

In contrast, other types of prepaid cards, such as GPR, payroll, and government benefit cards, are typically open-loop cards, meaning they can be used at any location that accepts the card brand. In addition, GPR and payroll cards are typically reloadable by cardholders (and, in the case of payroll cards, their employers) and can be used to transfer funds and withdraw cash at ATMs. Although government benefit cards cannot be reloaded by cardholders, they may be reloaded by the issuing government agency. In addition, most government benefit cards allow for funds to be transferred or withdrawn at ATMs, though some, such as Electronic Benefit Transfer (EBT) cards, do not.<sup>4</sup>

Of these card types, GPR cards are arguably the most suited to serve as a transaction account for unbanked households. They are versatile and can be used to transfer funds and withdraw cash at ATMs. Although payroll cards offer similar features to GPR cards, unbanked households only have access to these cards if their employers offer them. In contrast, GPR cards are available for purchase at many retailers.

## **II. Prepaid Card Adoption among Unbanked Households**

Prepaid cards have several features that appear to make them a strong candidate for promoting digital payments inclusion among unbanked households. However, the efficacy of prepaid cards in fostering digital payments inclusion will ultimately depend on whether unbanked households adopt and use them. The higher the share of prepaid card users among unbanked households, the larger the reduction in digital payments exclusion.

To examine unbanked households' adoption of prepaid cards, I use data from the 2019 FDIC Survey of Household Use of Banking and Financial Services. The first row of Table 1 shows that, according to the survey, only 27.7 percent of unbanked households use any type of prepaid card (excluding gift cards), implying that up to 3.9 percent (72.3 percent  $\times$  5.4 percent) of U.S. households may still lack a financial account.<sup>5</sup> Moreover, prepaid card adoption does not appear to have risen in recent years. Chart 1 shows that the share of prepaid card users has been relatively stagnant since 2015, even though the benefits of using prepaid cards have likely grown due to the expansion of digital commerce.

Table 1

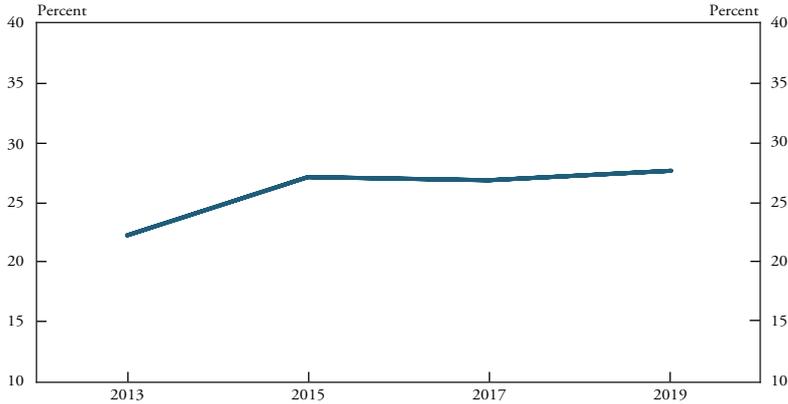
## Unbanked Prepaid Card Adoption Rate, Unbanked Rate, and Digital Payments Exclusion Rate by Household Characteristic

Household characteristic	Unbanked prepaid card adoption rate (percent)	Unbanked rate (percent)	Digital payments exclusion rate (percent)
All	27.7	5.4	3.9
Income			
Under \$30,000	26.6	15.9	11.7
\$30,000 to \$75,000	32.7	3.2	2.2
\$75,000 and over	22.3	0.6	0.5
Education			
No high school diploma	22.3	21.4	16.6
High school diploma	31.8	6.0	4.1
College degree	17.7	0.8	0.7
Age			
15 to 24 years	29.7	8.8	6.2
25 to 44 years	34.6	6.6	4.3
45 to 64 years	26.9	5.3	3.9
65 years or more	11.2	3.3	2.9
Race and ethnicity			
Black	31.1	13.6	9.4
Hispanic	15.8	12.0	10.1
White	35.2	2.5	1.6
Other	28.0	3.6	2.6
Employment status			
Employed	34.0	3.6	2.4
Unemployed	30.2	13.2	9.2
Not in labor force	22.6	8.0	6.2
Metropolitan status			
Metropolitan area	26.1	5.4	4.0
Non-metropolitan area	28.6	6.2	4.4
Citizenship and place of birth			
U.S.-born	31.8	4.8	3.3
Foreign-born	14.5	8.4	7.2

Sources: FDIC and author's calculations.

*Chart 1*

## Share of Prepaid Card Users among Unbanked Households, 2013–19



Source: FDIC.

Nonetheless, unbanked households were more than three times as likely to have used prepaid cards than banked households in the 2019 survey. The higher prepaid card adoption rate among unbanked households indicates that these households have more to gain from using prepaid cards than banked households, suggesting prepaid cards may still provide a modest benefit to digital payments inclusion.<sup>6</sup>

Moreover, although the adoption rate of prepaid cards is relatively low among unbanked households in the aggregate, some unbanked households may be more likely to use prepaid cards than others. Whether unbanked households find prepaid cards a feasible and desirable option may partly depend on their demographic and socioeconomic characteristics. Different types of households may prefer different types of payment methods—for example, older households may prefer cash or checks over payment cards—or different types of financial service providers. Additionally, some household types may have greater access to prepaid cards than others. For example, employed and unemployed households may be more likely to use prepaid cards than those who are neither working nor actively looking for work, as the former two groups may receive payroll cards and government benefit cards, respectively.

The first column of Table 1 shows that unbanked households' prepaid card adoption rates ranged from 11.2 percent to 35.2 percent

based on characteristic. The prepaid card adoption rate was relatively high (5 percentage points or more above the average of 22.7 percent) for unbanked households who were white (35.2 percent), from 25 to 44 years old (34.6 percent), employed (34 percent), or had annual income between \$30,000 and \$75,000 (32.7 percent). In contrast, the adoption rate was relatively low (5 percentage points or more below average) for unbanked households who were not in the labor force (22.6 percent), had an annual income of \$75,000 and above (22.3 percent), had no high school diploma (22.3 percent), had a college degree (17.7 percent), were Hispanic (15.8 percent), were foreign-born (14.5 percent), or were 65 years or older (11.2 percent).<sup>7</sup>

Interestingly, many of the household types who were most likely to use prepaid cards conditional on being unbanked were also less likely to be unbanked (and hence excluded from digital payments) in the first place. The second column of Table 1 shows the unbanked rate by household characteristic. Among the four household types with relatively high prepaid card adoption rates, three types—white, income between \$30,000 and \$75,000, and employed—had unbanked rates of 3.6 percent or less. Conversely, some household types with relatively low prepaid card adoption rates had high or moderately high unbanked rates: for example, households without a high school diploma or that were Hispanic had unbanked rates of at least 12 percent, and households who were not in the labor force or were foreign-born had unbanked rates of at least 8 percent. In other words, many of the household types who were more likely to be unbanked were less likely to adopt them; consequently, the overall effect of prepaid cards on digital payments inclusion was small.<sup>8</sup>

The third column of Table 1 presents the proxy rates for digital payments exclusion (arising from a lack of financial account). In calculating these exclusion rates, I assume that households who lacked both bank and prepaid card accounts did not own other types of financial accounts; thus, these proxy rates provide the upper bounds of the true digital payments exclusion rates. The first row of the third column shows that prepaid card adoption reduced the overall digital payments exclusion rate by 1.5 percentage points, from 5.4 percent to 3.9 percent. The percentage point decline in digital payments exclusion by household type was the largest for household types with higher unbanked rates, despite some of

these households' lower tendency to use prepaid cards. In particular, prepaid card adoption reduced the digital payments exclusion rate by more than 4 percentage points for households who were Black, unemployed, did not have a high school diploma, or had income below \$30,000.

Although household types with higher unbanked rates tended to experience larger reductions in their digital payments exclusion rate from prepaid card use, they continued to have the highest digital payments exclusion rates.<sup>9</sup> Furthermore, because of the “positive association” between unbanked rates and unbanked households' prepaid card adoption rates, prepaid card adoption widened many of the existing disparities in digital payments exclusion between households from different demographic or socioeconomic groups. Understanding why prepaid card adoption rates tend to be lower for households who were also more likely to be unbanked can help guide policies aimed at addressing these inequalities and improving access to digital payments.

### **III. Why Have Prepaid Cards Had a Limited Effect on Digital Payments Inclusion?**

Although prepaid cards may benefit digital payments inclusion in theory, the previous section shows they provided a limited boost to financial account ownership among unbanked households in practice. One possible explanation for this limited boost is that unbanked households are simply not interested in having financial accounts. Another possible explanation is that the same barriers or concerns that prevent unbanked households from obtaining bank accounts also affect their adoption of prepaid cards.

Although the FDIC survey does not provide us with data on households' general interest in financial account ownership, it does offer information on the barriers to bank account ownership that unbanked households face. Specifically, the 2019 FDIC survey asked unbanked households to select one “main reason” for being unbanked from a list of possible reasons. These data allow me to calculate the prepaid card adoption rates among unbanked households facing each barrier. If unbanked households facing a certain barrier to bank account ownership have higher prepaid card adoption rates, then prepaid cards are likely to be effective in overcoming that barrier. However, if unbanked households facing a certain barrier have lower prepaid card adoption rates,

then prepaid cards may present the same barriers to account ownership as bank accounts.

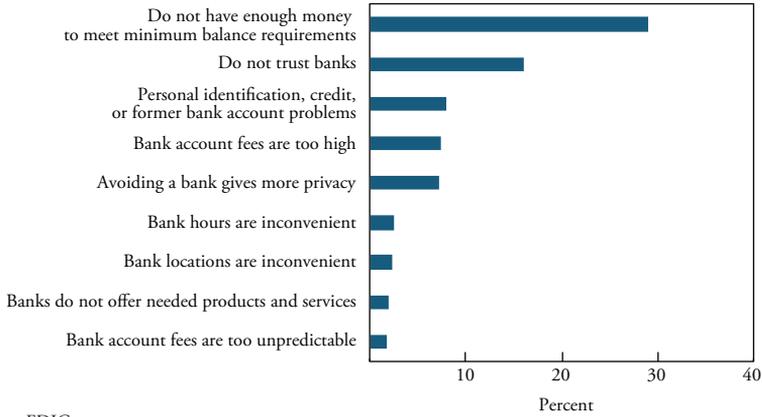
As a first step, Chart 2 shows the share of unbanked households who cited each of the reasons provided in the FDIC survey as their main reason for being unbanked. “Do not have enough money to meet minimum balance requirements” (29 percent) and “Do not trust banks” (16.1 percent) were the top two most-cited main reasons for being unbanked. Unbanked households were also considerably more likely to have cited “Personal identification, credit, or former bank account problems,” “Bank account fees are too high,” and “Avoiding a bank gives more privacy” as their main reason for being unbanked, relative to the other reasons provided.

To understand whether prepaid cards can overcome certain barriers to or concerns over bank account ownership, I next examine prepaid card adoption rates among households grouped by their main reason for being unbanked in the 2019 FDIC survey. Chart 3 shows the share of prepaid card users among unbanked households by the main reason they cited for being unbanked. The reasons are presented in descending order: the most cited reason appears at the top of the chart, while the least cited reason appears at the bottom. Comparing each bar with the bar labeled “All” highlights whether households struggling with a particular barrier were more or less likely to adopt prepaid cards than the average of all households. In this way, the chart highlights the relative strength of prepaid cards in overcoming common barriers to account ownership.

The most common main reason for being unbanked—an inability to meet minimum balance requirements—is associated with a lower rate of prepaid card use, suggesting prepaid cards may not be an effective method of digital payments inclusion for households facing liquidity constraints. This result may seem unintuitive, as prepaid cards, unlike many bank accounts, do not require users to hold a minimum balance on their cards. However, liquidity-constrained households may lack the incentives to adopt prepaid cards for a few reasons. First, liquidity-constrained unbanked households may prefer to receive their funds as soon as possible to cover bills and other liabilities; having funds direct-deposited onto a prepaid card may incur a delay relative to cash payments. Second, liquidity-constrained cardholders may be more likely to incur fees from prepaid cards. Many prepaid cards charge cardholders

Chart 2

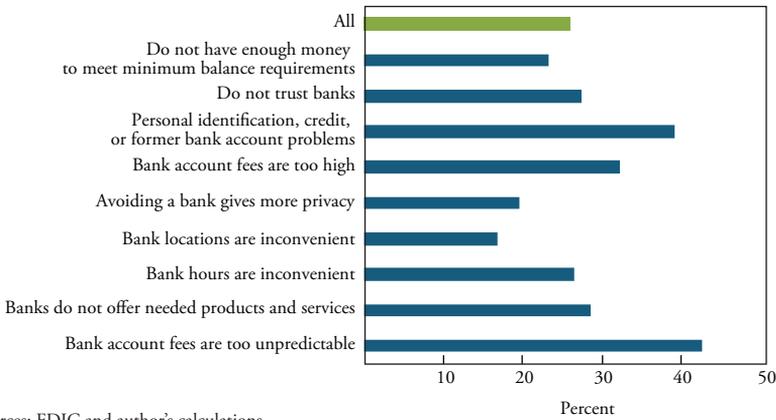
Main Reason for Being Unbanked (2019 FDIC Survey)



Source: FDIC.

Chart 3

Prepaid Card Adoption Rate of Unbanked Households by Main Reason for Being Unbanked



Sources: FDIC and author's calculations.

a monthly fee, which may be reduced or waived if the cardholders receive a sufficient value of direct deposits onto their cards each month. However, as liquidity-constrained households tend to prefer receiving payments in cash, they are less likely to be able to meet the minimum value of direct deposits. Third, liquidity-constrained unbanked households may not benefit from using a prepaid card as a cash storage tool. Liquidity-constrained households are likely to use up any cash they receive quickly, making the convenience of prepaid cards for cash storage less salient. For these households, the costs (both the hassle and fees) of using a prepaid card likely outweigh the benefits.

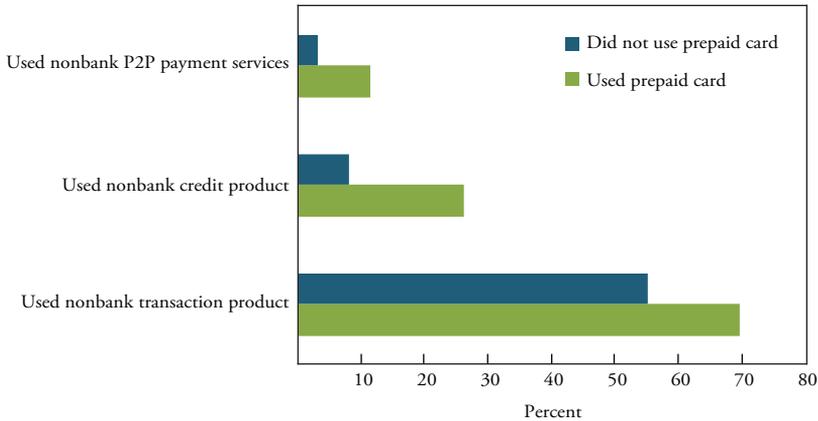
Households who cited the second most-common reason for being unbanked—“do not trust banks”—had a prepaid card adoption rate of 27.5 percent, which is close to the average rate for all unbanked households. This suggests that prepaid cards were not particularly effective at addressing the barrier of a lack of trust relative to other barriers. The limited boost in prepaid card adoption relative to the average rate may reflect that households distrust financial service providers more broadly—not just banks. Although some households who distrusted banks for specific reasons, such as past discriminatory practices, may consider prepaid card issuers to be more trustworthy, households whose distrust in banks is rooted in a deeper distrust of financial service providers in general are unlikely to place trust in prepaid card issuers, either.

To gain insight into whether households who do not use prepaid cards are also unlikely to use other types of financial services, I examine the use of nonbank transaction and credit financial services (for example, check cashing, nonbank money orders, payday loans, and title loans) and nonbank P2P payment services among households who cited a lack of trust in banks as their main reason for being unbanked. Chart 4 shows that among these households, those who did not use prepaid cards were also substantially less likely to have used other nonbank financial services and P2P payment services, suggesting they may distrust financial service providers in general.

The third most-cited main reason for being unbanked, “personal identification, credit, or former bank account problems,” is associated with an above-average rate of prepaid card usage. Over 40 percent of households citing this reason used prepaid cards, suggesting prepaid cards were relatively effective at addressing these barriers to financial

## Chart 4

### Use of Nonbank Financial and P2P Payment Services among Unbanked Households Who Cited Lack of Trust in Banks as Main Reason for being Unbanked, by Prepaid Card Use



Note: Nonbank P2P payment services are conditional on having a smartphone or home internet.  
Sources: FDIC and author's calculations.

account ownership. Prepaid cards were not equally effective at addressing all of the underlying barriers encompassed in this reason, however. In particular, prepaid cards were likely to have mostly helped with credit problems and former (bank) account problems rather than personal identification issues. Because prepaid card issuers do not require users to undergo credit checks or provide banking histories before obtaining a card, prepaid cards are likely to be a viable and desirable option for those who wish to obtain a bank account but were unable to do so because of credit or former bank account problems. But prepaid cards are unlikely to be a viable option for those with personal identification issues. The Customer Identification Program (CIP) rule, which applies the requirements of Section 326 of the Patriot Act to prepaid cards, mandates GPR prepaid card issuers to verify the identity of cardholders if their cards are reloadable or offer credit or overdraft features (Board of Governors of the Federal Reserve and others 2016). The CIP rule also requires payroll card issuers and government benefits card issuers to verify the identity of cardholders if they are able to deposit money onto their cards; issuers are not required to verify cardholders' identities if the employer and the government, respectively, are the only entities able to load money onto the cards. As a result, only gift cards, government

benefit cards, and payroll cards that do not allow employees to load funds onto them would be accessible for unbanked households with personal identification issues. Moreover, among these cards, only gift cards are available to all households regardless of employment or income status—and gift cards offer few of the benefits of general use prepaid cards.

The fourth most-cited reason for not adopting a bank account, “bank fees are too high,” is associated with a slightly above-average rate of prepaid card adoption. About one-third of households who cited this as their main reason for not owning a bank account used prepaid cards, suggesting prepaid cards were only marginally more effective in addressing this barrier relative to others. Whether or not prepaid cards are a cheaper alternative to bank accounts depends on the card type and how these households use their prepaid cards. Different types of prepaid cards charge different fees. For example, the EIP card only charges users for out-of-network and international withdrawals, whereas a typical GPR card also charges fees monthly or per transaction, and for ATM balance inquiry, customer service, and inactivity. Most reloadable prepaid cards also charge cash reload fees. The total cost of using a prepaid card may also vary depending on a household’s ability to avoid the prepaid card fees and how they use their cards. For instance, households who receive their pay via direct deposit onto their prepaid cards may be able to avoid paying the monthly card fee, thereby incurring lower fees. Households who reload cash or withdraw cash from ATMs more frequently will tend to incur higher fees. On average, the cost of obtaining and using a prepaid card may be higher than that of a bank account. Hayashi and Cuddy (2014) estimate that GPR cardholders paid around \$14 in card fees per month on average, which is higher than the monthly maintenance fees (for not meeting the minimum balance requirements) that some banks charge. A related study by Hayashi, Hanson, and Maniff (2015) finds that for consumers who do not use the overdraft or short-term credit facilities of checking accounts, GPR cards can be more costly than checking accounts.

Privacy concerns—the fifth most-cited main reason for being unbanked—are associated with a considerably below-average rate of prepaid card adoption. Less than 20 percent of households who cited privacy concerns as their main reason for being unbanked used prepaid cards. This result is not necessarily surprising: although some types of prepaid cards, particularly gift cards, may offer users greater anonymity

than bank cards, most types of prepaid cards are not anonymous. Payroll and government benefit cards, for example, are tied to the identity of the card recipients. And even though cardholders do not necessarily have to register their GPR cards and can use them anonymously, not registering their cards will likely restrict access to many features and protections offered by their prepaid card provider. For instance, GPR cardholders who do not register their cards may not be able to make ATM withdrawals or use their cards for online transactions; moreover, they may not be offered protection against errors, loss, or theft (Consumer Financial Protection Bureau 2019). The prepaid cards that do offer households the ability to transact anonymously may provide little to no advantage over cash for households who highly value the privacy of their transactions.

The last four reasons were cited by relatively small shares of unbanked households—under 2.5 percent each. Households who cited inconvenient bank locations or bank hours as their main reason for being unbanked were not more likely to use prepaid cards than the average unbanked household. This result is somewhat surprising, as it suggests that these unbanked households did not find using prepaid cards to be more convenient. Households who cited inconvenient bank locations as their main reason for being unbanked were particularly unlikely to use prepaid cards, despite the widespread availability of prepaid cards at retail stores. One possible explanation is that the results are driven by idiosyncratic household preferences and may not be representative, as the shares of households who cited inconvenient bank hours and locations were relatively small. Households who cited a mismatch between the products offered by banks and those they desired were slightly more likely than the average household to use prepaid cards, suggesting that prepaid cards may be somewhat more effective at addressing this mismatch relative to other barriers. Finally, households who were unbanked mainly because they found bank account fees to be unpredictable were substantially more likely than average to use prepaid cards. The Consumer Financial Protection Bureau prepaid card rule, which requires clear, upfront disclosures of card fees, likely helps to explain why prepaid cards are relatively effective at addressing the barrier of unpredictable fees (Consumer Financial Protection Bureau 2016).

In sum, unbanked households who cited “bank account fees are too unpredictable,” “personal identification, credit, or former bank account

problems,” or “bank account fees are too high” as their main reason for being unbanked had substantially higher adoption rates of prepaid cards than the average for all unbanked households, suggesting that these households perceived prepaid cards to be more viable or desirable than bank accounts. Those who cited “banks do not offer needed products and services,” “bank hours are inconvenient,” or “do not trust banks” also adopted prepaid cards at slightly higher rates than the average of all unbanked households. Finally, those who cited “do not have enough money to meet minimum balance requirements,” “avoiding banks gives more privacy,” or “bank locations are inconvenient” adopted prepaid cards at a lower-than-average rate, suggesting prepaid cards were unable to overcome these barriers to account ownership.

The above analysis provides insights into why prepaid cards have had a limited effect on increasing financial account ownership—and thus improving digital payments inclusion—among the unbanked. Although prepaid cards have helped some unbanked households overcome barriers to financial account ownership, they were largely inadequate for doing so for a majority of unbanked households. Notably, prepaid cards were relatively ineffective at addressing liquidity-constraint issues, the barrier affecting the largest share of unbanked households.

The case of prepaid cards illustrates how promoting digital payments inclusion among unbanked households is challenging. Unbanked households are not a monolith, and they may face an array of barriers to financial account ownership, ranging from the lack of liquidity to personal identification and credit problems to lack of trust in financial institutions and privacy concerns. Many of these barriers are likely to also affect households’ adoption of other types of financial accounts, such as fintech and neobank accounts.

## Conclusion

Although prepaid cards can offer unbanked households a path to digital payments inclusion, their adoption rate has been low among unbanked households thus far. Moreover, the household types that were more likely to be unbanked (in 2019) also tended to have lower prepaid card adoption rates conditional on being unbanked, suggesting that many of the same factors that discouraged these households from opening bank accounts—including liquidity constraints, privacy concerns,

a lack of trust in financial institutions, and personal identification issues—may also prevent or discourage households from adopting prepaid cards.

The adoption rates presented in this article were collected in 2019, and more recent developments may have made prepaid cards more attractive to unbanked households. For example, regulations aimed at increasing the transparency of prepaid card fees may help increase prepaid card adoption among the unbanked. The COVID-19 pandemic may also encourage prepaid card adoption. Many households likely used prepaid cards for the first time when receiving their EIPs; if these households had a positive experience with the cards, they may choose to start using them more broadly in the future. The potential availability of faster payments via prepaid cards may also boost prepaid card adoption by helping to alleviate liquidity constraints.

However, high prepaid card fees may present an ongoing challenge to prepaid card adoption, and if the fees and features of prepaid cards remain unchanged, the role of prepaid cards as a means for achieving digital payments inclusion will likely diminish. Balance accounts offered by fintechs (such as PayPal and Square) and neobanks (notably Chime) are quickly gaining popularity among U.S. consumers, particularly younger consumers (Shevlin 2021). In addition, the Infrastructure Investment and Jobs Act currently under consideration in Congress seeks to provide \$65 billion of investment in broadband infrastructure to improve households' broadband internet access, particularly among those in lower-income groups. If implemented, this infrastructure plan will likely further boost the adoption of fintech alternatives. Policy-makers are also considering public banking options, including digital currency accounts with the Federal Reserve and postal banking, as alternative means of reaching the unbanked. These fintech alternatives and potential public banking options are likely to appeal to a wider population of unbanked households as they come with lower fees and do not have minimum balance requirements. Moreover, competition from fintech firms and, potentially, the government may spur banks to better cater their products and services to the needs of the unbanked, further reducing the appeal of prepaid cards.

## Endnotes

<sup>1</sup>Neobanks are fintechs that partner with a bank to offer bank-like services to consumers via digital interfaces such as mobile apps (Bradford 2020). Typically, accounts offered by neobanks are FDIC-insured.

<sup>2</sup>Data published by the Treasury show that over 16 million EIP prepaid cards were distributed across the three EIPs.

<sup>3</sup>Open-loop prepaid gift cards exist but are less common.

<sup>4</sup>EBT cards are open-loop in the sense that they do not restrict where cardholders can shop; however, they restrict the categories of purchases that the cards can be used for.

<sup>5</sup>The FDIC survey excludes gift cards from its definition of prepaid cards. Although it is possible that unbanked households without prepaid cards may own other types of financial accounts, this is unlikely, as the alternatives typically require unbanked households to have an internet connection and a device for using the internet, which most unbanked households did not have.

<sup>6</sup>Banked households already have access to these benefits via their bank account and thus have less to gain from using prepaid cards.

<sup>7</sup>An attentive reader may notice that prepaid card adoption rates do not exhibit a straight-line relationship with many of the demographic and social economic variables, including age, income, and education. For instance, households with the highest and lowest levels of formal educational attainment had lower prepaid card adoption rates than those with educational attainment between. These non-straight-line relationships suggest that unbanked households' decisions to adopt prepaid cards were affected by multiple, possibly opposing factors.

<sup>8</sup>For instance, a 20 percent prepaid card adoption rate would lower households' digital payments exclusion rate by 2 percentage points if the unbanked rate were 10 percent but only 1 percentage point if the unbanked rate were 5 percent.

<sup>9</sup>The main reason for the relatively large percentage point declines in digital payments exclusion rates for these households was their substantially higher unbanked rates, which overcompensated for their relatively low prepaid card adoption rates.

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