



Economic Review

Prepaid Cards: An Inadequate Solution for Digital Payments Inclusion

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Although prepaid cards have the potential to address digital payments exclusion, their use among unbanked households remains low.

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. Prepaid cards, which do not require internet access to use, can allow unbanked households to shop, receive paychecks, pay bills, and make peer-to-peer transfers.

Ying Lei Toh uses data from the FDIC's 2019 Survey of Household Use of Banking and Financial Services to assess whether prepaid cards might improve digital payments inclusion among unbanked households. She finds 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. She also finds that prepaid cards have limited success in addressing commonly cited barriers to bank account ownership. Specifically, she finds 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. Her results suggest that prepaid cards are not a comprehensive solution to overcoming digital payments exclusion or common barriers to financial account ownership.

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