



## Research Working Papers

# Driver of Choice? The Cost of Financial Products for Unbanked Consumers

by: Fumiko Hayashi, Josh Hanson and Jesse Leigh Maniff

December 30, 2015

Prepaid cards are significantly less costly than checking accounts for unbanked consumers who make overdrafts or need short-term loans, but prepaid cards are more costly for the other unbanked consumers.

---

RWP 15-15, November 2015

This paper examines whether some of the unbanked consumers' choice of general purpose reloadable (GPR) prepaid cards over checking accounts and alternative financial service (AFS) products can be explained by the cost incurred by those consumers. We compare the three types of products by constructing consumer models based on the actual behavior of GPR prepaid cardholders and applying those models to the fee schedules of actual products offered in the market. Overdrafts are a major factor affecting the cost rankings. For consumers who regularly or occasionally overdraw their accounts, checking accounts are more costly than GPR cards or AFS products. In contrast, for consumers who do not need overdraft capability and short-term credit, GPR cards are more costly than checking accounts. The cost difference across the products clearly explains the former type of consumers' choice of financial products, while it does not explain the latter type of consumers' choice.

JEL Classification: D12; E42; G21

## Article Citation

- Hayashi, Fumiko, Josh Hanson and Jesse Leigh Maniff. 2015. "Driver of Choice? The Cost of Financial Products for Unbanked Consumers," Federal Reserve Bank of Kansas City, working paper no. 15-15, November, available at <https://doi.org/10.18651/RWP2015-15>

## Related Research

- Hayashi, Fumiko and Emily Cuddy. 2015b. "Recurrent Overdrafts: A Deliberate Decision by Some Prepaid Cardholders?" Federal Reserve Bank of Kansas City working paper no. 14-08, October.

- Hayashi, Fumiko and Emily Cuddy. 2014a. “General Purpose Reloadable Prepaid Cards: Penetration, Use, Fees and Fraud Risks,” Federal Reserve Bank of Kansas City, working paper no. 14-01, February.
  - Pew Charitable Trusts. 2012. [Loaded With Uncertainty: Are Prepaid Cards a Smart Alternative to Checking Accounts?](#)
-

## Author



### Fumiko Hayashi

#### Senior Policy Advisor

Fumiko Hayashi is a Senior Policy Advisor specializing in payments in the Economic Research Department at the Federal Reserve Bank of Kansas City. Since joining the Federal Reserve in 2001, Ms. Hayashi published studies on the ATM and debit card industry, regulatory developments around interchange fees and card network rules, consumer payment choice, various types of payment methods (including credit, debit, and prepaid cards, mobile and QR code-based payments, instant payments, and central bank digital currency), payment fraud and security, nonbanks and fintechs in the payment system. She is currently conducting research on undeserved consumers in payments, fraud and scams involving instant payments, role of intermediaries in the payment system modernization, among others. Prior to joining the Federal Reserve Bank of Kansas City, Ms. Hayashi conducted research examining consumer savings and long-term care insurance, social security reform in Japan, and nursing home markets in the United States. She holds a B.A. and a M.A. in economics from Hitotsubashi University, and a Ph.D. in economics from the University of Minnesota.

---