A Tool for Getting By or Getting Ahead? Consumers’ Views on Prepaid Cards

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Summary

The past decade has been marked by rapid transitions in the financial services available and marketed to households who do not hold or regularly use conventional checking and savings accounts. Understanding the impact of new financial services products requires knowing how people view and use these products. Toward that end, this paper summarizes lessons from interviews conducted with 24 consumers who use prepaid cards (PPCs), an emerging product that fills a market need between institution-based checking and savings accounts and non-account services such as check-cashing or payday advance loans.

Our findings give evidence about the potential of prepaid cards to enhance families’ financial well-being. We present new data about PPC users’ day-to-day financial lives, including the nature and amount of income sources, family expenses, and use of different services. Our interviews show the roles that PPCs play in consumers’ lives, including symbolic (meaning of having access to this product or using this service) and instrumental (what this accomplishes for consumer) roles. Prepaid cards are a helpful financial tool and their features are appreciated by users; however, achieving individuals’ long-term financial goals will likely require more intensive and comprehensive services and products.
A Tool for Getting By or Getting Ahead? Consumers’ Views on Prepaid Cards

The past decade has been marked by rapid transitions in the financial services available and marketed to households who do not hold or regularly use conventional checking and savings accounts. Mainstream banks and emerging companies 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 makes possible new “market bridging” products such as reloadable prepaid debit cards, small dollar secured and unsecured loans, and “Second Chance” or checkless-checking accounts.

Fringe financial services have been criticized as profiting on unfortunate consumers without providing systematic links to the type of wealth-building opportunities offered by mainstream financial service providers. 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 through creating relationships with savings vehicles. Finally, new financial services may improve access to credit either through directly creating alternative options for credit or by improving credit scores and hence access to mainstream credit.

This paper summarizes lessons from interviews conducted with 24 consumers who use prepaid cards (PPCs), an emerging product that fills a market need between conventional checking and savings accounts and non-account services such as check-cashing or payday advance loans. Our findings give evidence about the potential of prepaid cards to enhance families’ financial well-being. We present new data about PPC users’ day-to-day financial lives, including the nature and amount of income sources, family expenses, and use of different services. Our interviews show the roles that PPCs play in consumers’ lives, including symbolic (meaning of having access to this product or using this service) and instrumental (what this accomplishes for consumer) roles. Prepaid cards are a helpful financial tool and their features are appreciated by users; 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 adults — are financially underserved (CFSI, 2008). 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 money-service businesses to meet their short-term financial needs. Together, these financial underserved consumers are a large and varied group representing several different behavioral and attitudinal segments. Relative to the population at large, underserved consumers are more likely to have lower incomes, be ethnic minorities and have less education (CFSI, 2008).

1 See CFSI Underbanked Consumer Study Fact Sheet, June 2008, for more information.
This is a matter of public concern (Stegman, 1999) for both the well-being of underserved households and general economic growth. Un- and under-banked households face higher costs in conducting routine financial business, such as paying bills (Caskey, 1994; Stegman 1999). They also lack access to low-cost credit, which can help smooth consumption over time and promote investment in personal and physical capital (Stern, 2001). Having to process and issue paper checks relative to direct deposits poses additional transaction costs on businesses and government units that provide payments (such as wages or tax returns) to persons who do not use accounts.

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 lacking a checking 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 which – if left unresolved – result in the person being placed on the ChexSystems list which many institutions use to restrict access to accounts (Bordas, Kiss et al. 2006). Similarly, many financial institutions pull credit reports in the account-opening process which leaves the millions of potential account holders with thin and nonexistent credit histories 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 build them. The result is a two-tier financial system that is leaving a growing number of American families economically stagnant and vulnerable.

Financial service innovations

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 aimed specifically at the financially underserved. One strategy for connecting – or re-connecting – underbanked households with mainstream financial institutions is to create products that better serve such households’ needs. Recent changes in technology and industry structure have led to opportunities for innovative products that can provide access to modestly-priced transaction services while limiting firms’ exposure to financial risks (Herrmann, Schütte et al. 2007).

One such product innovation is the prepaid debit card or stored value card which was first 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, re-loadable prepaid cards.
Prepaid cards function like electronic bank accounts without checks; consumers load funds on the card and can only spend what they load, limiting the risk of overdraft while providing near immediate liquidity. Like debit cards, they can be used at ATMs and to make point-of-sale purchases. Prepaid cards are sold in a variety of locations—retailers, bank and credit union branches, current 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 a great deal 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.

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 overdraft 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. This development begs the question—is prepaid a “bridge” 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 towards financial prosperity? Does it help with money management? Will it

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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.
help the un- and underbanked save and build credit? This research was conceived to further explore the answers to these questions.

**STUDY DESIGN**

This study investigates consumers’ use of and views about innovative financial products intended to serve as “bridge” products between unavailable or unused conventional accounts and high-cost fringe banking products. 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.

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

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

Through 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.

**Focal Firm Innovations**

Two firms were selected for this client study. Both are firms that have worked with the Center for Financial Services Innovation (CFSI)³ and both offer prepaid cards. In order to protect firms’ privacy, pseudonyms are used for this paper and proprietary information is masked.

Both firms have been recognized as leaders and innovators in the prepaid card industry. The first firm, “NewCard,” primarily distributes cards over the internet. The second, firm, “CardPlus,” is one of the largest providers of prepaid cards in the marketplace today and 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, and flexible fee plans. In addition, NewCard provides customers with the opportunity to build credit by reporting bill payment activity. CardPlus distinguishes itself with free mobile alerts and a free savings plan though which customers can earn interest on any money transferred into the associated savings account.

**Research Design**

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³ A non-profit affiliate of the community development bank ShoreBank, CFSI offers a variety of programs to assist the financial services community in better understanding and serving underbanked consumers.
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 on consumers’ use of products, belief about financial services, and long-term goals. This section describes the sample selection and interview protocols. Research activities were conducted under approval by the University of Washington Human Subjects Division.

Sample

Subjects are drawn from customer lists at the two firms described above. We purposively sampled to get clusters of clients with different patterns of use, ranging from clients who used services for only basic transactions to those who used advanced options such as online bill pay or linked savings accounts? Our full sample will consist of 24 clients interviewed, but this analysis is based on a sample of 20. This includes 12 NewCard clients, all of whom have been account-holders for at least six months. This group is evenly split between customers who have signed up to use online bill pay and those who have not signed up to use this feature. The current analysis relies on interviews with eight CardPlus clients, all of whom have signed up for their savings program and carried a balance at some point.

Table 1 summarizes information about the sample. Across both samples, most respondents were in their 30s, 40s or 50s, were employed or temporarily unemployed, and earned less than $30,000. NewCard clients were interviewed in the Chicago metropolitan area (including north-western Indiana and south-eastern Wisconsin) during the summer of 2008. NewCard clients were more likely than CardPlus clients to be married or cohabitating and more likely to have children. CardPlus clients were interviewed in the Seattle metropolitan area in winter 2008-2009. CardPlus clients were more likely to be single persons living without children. CardPlus clients had a slightly higher median income although the average income between the two samples is not statistically distinguishable.

<table>
<thead>
<tr>
<th>TABLE 1: Sample information</th>
<th>NewCard clients (N=12)</th>
<th>CardPlus clients (N=8*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic location</td>
<td>Chicago metropolitan area</td>
<td>Seattle metropolitan area</td>
</tr>
<tr>
<td>Selection criteria</td>
<td>Accountholder for 6+ months, used or did not use bill pay option</td>
<td>Had opened linked savings account</td>
</tr>
<tr>
<td>Demographic characteristics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age range</td>
<td>25-65</td>
<td>25-56</td>
</tr>
<tr>
<td>Married or cohabitating</td>
<td>7 of 12 (58%)</td>
<td>1 of 8 (13%)</td>
</tr>
<tr>
<td>Male</td>
<td>5 of 12 (42%)</td>
<td>2 of 8 (25%)</td>
</tr>
<tr>
<td>Race / ethnicity</td>
<td>7 African-American</td>
<td>3 African-American</td>
</tr>
<tr>
<td></td>
<td>5 Caucasian</td>
<td>4 Caucasian</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 Mixed heritage</td>
</tr>
<tr>
<td>Any children in household</td>
<td>7 of 12 (58%)</td>
<td>3 of 8 (38%)</td>
</tr>
</tbody>
</table>
Interviews and analysis

Clients were prescreened by the companies for their use of focal products and their willingness to participate in the interview process. 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 is intended to elicit a sense of respondents’ lives and financial and non-financial goals. The protocol was designed based on the authors’ experience in this area along with input from the partner firms. Respondents engage topics in a variety of ways, including personal biography, product evaluation and reacting to agree/disagree statements. This protocol is designed to accommodate respondents with varying degrees of comfort with talking about finances, speaking on abstract topics, reading, and responding to surveys. This approach also minimizes the threat of response error in which respondents try to please the interviewers and attempt to deliver the “right answers” rather than honest responses. 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 PPCs, 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 re-read in order to find evidence to support or negate these themes and hypotheses. Quotes were chosen to illustrate and support findings.

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. We then discuss these clients’ experiences relative to hypothesized prepaid card advantages such as convenience, simplicity and value. In a subsequent draft will also describe use of the focal products – NewCard’s bill pay feature and CardPlus’s linked savings program – and discuss the usefulness of prepaid cards in helping improve underserved consumers’ financial well-being.

General financial situations

With some exceptions, NewCard and CardPlus customers in this study had low or moderate incomes and substantial personal debt. Table 2 summarizes basic financial information about the interviewees. We estimated income from reports of regular paychecks or transfers. The median annual individual income was $17,550 for NewCard clients and $22,100 for CardPlus clients (these figures are post-tax). Three quarters of all sample members depend primarily on wages or salary.
The remaining quarter subsisted primarily on disability income, most commonly SSI. Adding in income from spouses, partners or cohabitating relatives increases some households’ totals, and results in annual incomes ranging from below $15,000 to above $150,000. The lowest NewCard and CardPlus earners were a woman on disability and a young adult living with roommates, respectively; the highest earning households both contained two professionals. A quarter of NewCard clients and slightly more CardPlus clients 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 most households, the primary source of wealth is a home. Homeownership was relatively rare among our respondents, however. One quarter of NewCard clients owned their home, and no CardPlus clients did. The majority reported having some personal debt, with median amounts reported of $8,250 - $10,000. Unpaid bills for utilities and fees (including old bank fees) were the most common source of debt, although the largest sources were generally credit cards and medical bills.

TABLE 2: Basic financial information

<table>
<thead>
<tr>
<th></th>
<th>NewCard clients (N = 12)</th>
<th>CardPlus clients (N = 8*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median personal income (post-tax)</td>
<td>$17,550</td>
<td>$22,100</td>
</tr>
<tr>
<td>Estimated household income range</td>
<td>$15,000 - $160,000</td>
<td>$14,280 - $55,000</td>
</tr>
<tr>
<td>Primary income source</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages / salary</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>Disability (SSI or otherwise)</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Other income sources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second / side jobs</td>
<td>25%</td>
<td>38%</td>
</tr>
<tr>
<td>Other</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Rent (v. own) home</td>
<td>75%</td>
<td>100%</td>
</tr>
<tr>
<td>Debt (excluding mortgages)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No debt</td>
<td>17%</td>
<td>13%</td>
</tr>
<tr>
<td>Median debt among reporting debtors*</td>
<td>$10,000</td>
<td>$8,250</td>
</tr>
<tr>
<td>Debt range among reporting debtors</td>
<td>$5,000 - $45,000</td>
<td>$4,500 - $175,000</td>
</tr>
<tr>
<td>Debt sources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Car loans</td>
<td>11%</td>
<td>29%</td>
</tr>
<tr>
<td>Credit cards</td>
<td>67%</td>
<td>57%</td>
</tr>
<tr>
<td>Student loans</td>
<td>22%</td>
<td>29%</td>
</tr>
<tr>
<td>Medical bills</td>
<td>56%</td>
<td>29%</td>
</tr>
<tr>
<td>Other bills (utilities, unpaid fees, etc)</td>
<td>78%</td>
<td>86%</td>
</tr>
</tbody>
</table>

*Three participants acknowledged holding debt but declined to report specific amounts.
Prior banking experiences

Table 3 summarizes the experiences our interviewees reported with conventional banking transaction accounts. All except one of our interviewees had operated conventional bank-based checking or savings accounts before they started using the PPCs. However, by the time of our interview, 14 of the 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

<table>
<thead>
<tr>
<th>New Card customers</th>
<th>Used checking or savings in past (self)</th>
<th>Current checking or savings account (self or household member)</th>
<th>Past problems with checking or savings</th>
<th>Attempted to resolve past problems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>yes</td>
<td>no</td>
<td>overdraft</td>
<td>closed in bankruptcy</td>
</tr>
<tr>
<td>Feb</td>
<td>yes</td>
<td>no</td>
<td>overdraft</td>
<td>yes, unsuccessfully</td>
</tr>
<tr>
<td>March</td>
<td>yes</td>
<td>yes (with husband)</td>
<td>overdraft, bad checks, victim of unauthorized access, unexpected fees</td>
<td>yes, unsuccessfully</td>
</tr>
<tr>
<td>April</td>
<td>yes</td>
<td>yes</td>
<td>unauthorized access, unexpected fees</td>
<td>yes, unsuccessfully</td>
</tr>
<tr>
<td>May</td>
<td>yes</td>
<td>no</td>
<td>non-sufficient fund fees</td>
<td>yes, with collection agency</td>
</tr>
<tr>
<td>June</td>
<td>yes</td>
<td>no</td>
<td>non-sufficient fund fees, other fees, overdrafts</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>no</td>
<td>no</td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>Auguste</td>
<td>yes</td>
<td>no</td>
<td>identity theft</td>
<td>yes, partially successfully</td>
</tr>
<tr>
<td>Tember</td>
<td>yes</td>
<td>yes</td>
<td>overdrafts, non-sufficient funds</td>
<td>resolved overdrafts, partially resolved id theft</td>
</tr>
<tr>
<td>Tober</td>
<td>yes</td>
<td>yes (wife only)</td>
<td>non-sufficient funds</td>
<td>resolved overdrafts resolved through payment plan; theft partially resolved</td>
</tr>
<tr>
<td>Nova</td>
<td>yes</td>
<td>no</td>
<td>overdrafts, victim of identity theft</td>
<td>resolved overdrafts, partially resolved id theft</td>
</tr>
<tr>
<td>Decem</td>
<td>yes</td>
<td>no</td>
<td>overdrafts, victim of unauthorized account access</td>
<td></td>
</tr>
</tbody>
</table>

CardPlus customers

| Sagith             | yes                                    | no                                                            | overdrafts, unauthorized access, dispute with ex-husband |                         |
| Canes              | 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                                           |                         |
A majority of our interviewees started interacting with the mainstream financial system at young ages. Most of them opened their first bank accounts soon after they started their first summer jobs as adolescents. For others, bank accounts were established for them by their parents or grandparents at a much younger age (between 9-11 years). For this latter group, all of the accounts were savings accounts. These accounts were controlled by their parents and deposits mainly consisted of gifts from families and friends during birthdays, graduations or important holidays. These accounts were later turned over to the interviewees after they started working or demanded greater control of the savings accounts.

The interviewees gave a variety of reasons regarding why they no longer had conventional accounts. Most had either closed their accounts or had their accounts closed by the banks for various reasons. The four reasons that figured largely included having overdraft fees, unexpected or unanticipated fees, unauthorized account access and being a victim of identity theft. Interviewees also identify 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 having incomplete understanding of the regulations and fees structure under which some of the banks operated. As a result, they reported to 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 allowing the big check to bounce. Ms. Libra captured it as follows:

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

According to them, it seemed that the banks intentionally paid out the one big check so that they could charge overdraft fees (roughly $35) for each of the small checks. Such unexpected fees caused some customers to leave their accounts. For example, Ms. June noted that she left the mainstream financial institution because her bank hit her with a $400 fees which she never understood. She felt that even with several attempts to get an explanation from the bank the bank failed to justify the fees or take them off.

Unauthorized transactions are another problem in respondents’ 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 accesses had put their accounts in 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 co-occur. For instance, Ms. April had a checking account for over 20 years, but ran into several problems right before she discontinued using her account. First, someone debited a charge of $159 that she had not authorized. She called the bank to complain. She recalls
that the bank established that a theft had occurred and initially returned her money, but later reversed the decision and added an additional $161 in fees. She then got a “bogus” check of $1100 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 recalls 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 continued to maintain a savings account at another bank.

Mr. Auguste reported a series of encounters with three different banks that made him decide to switch to PPCs. In the first bank, he could not understand the fee structure so he closed the account and moved to another bank. In the second bank, his check book was stolen and checks worth $3000 were written up from his account. Even though the bank investigated and verified that it was not his signature on the checks, they closed his account. He felt that as a victim of a financial fraud and after the bank had verified that it was not his activities, it was not right for them to close his account. 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 ATM which 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 paper work. After some time, this third bank took out the $2000 stating that the wife had not filed necessary paper work. Unfortunately, this unprecedented withdrawal not only took their account into the negative, it caused several checks to bounce due to lack of funds. Eventually, the bank gave them back the money and waived all fees, but Mr. Auguste says they had the creditors they had to deal with. This led them to file for bankruptcy and together with his wife they resolved to stay away from the banks.

The above narrations are 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 incident was handled by the bank (and/or its officials) left them with a great mistrust of conventional checking and savings accounts.

Customers do not hold themselves harmless in disputes with banks; our respondents report that their personal characteristics contribute 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 mistakes are not limited to holding bank accounts only, most mistakes resulted in the overdrawing of accounts or writing bad checks. For example, Ms. Aries reported that she wrote so many bad checks to just shop from the checking account that the bank directed her into a check-writing class. For another respondent, Mr. October, some of his financial troubles with the bank stemmed from his gambling addiction and he revealed that he had closed some accounts due to his gambling. For yet another, Mr. Tember, he was trying to establish himself in business and revenue was not coming in as fast as he would have wanted. 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. Dec got in trouble with the banks because she liked buying things on financing such as video games, books and magazines. She would set up automatic debits with the various merchants but forgot to budget for the time her payments would be due. The creditors hit the account and she did not have the money. Her account went into the negative attracting subsequence fees. In another example Ms. May reported that she had loans from two different institutions getting paid from the same account. She had set up her loans in such a way that payments would be due on different periods. At one time both payments fell within the same period and she had not budgeted for it.
Personal mistakes also include miscalculations about the working of the financial system even with the best of intention. For example, Mr. Taurus recalled that in his late teens when he had just started living independently, his boss told him that he would be paid as soon as she returned from her overseas trips, so he wrote checks in anticipation of the direct deposit arriving. He explains,

[My boss said] ‘Go and pay your bills; pay what you need to.’ ‘Cause this is back when you could write a check and it took, you know, a week and a half to clear. … So I wrote, you know, check and then I went out [of town] for a while and saw some friends and she never came back into the country so check started bouncing left and right.

Like most of the interviewees, Mr. Taurus’s experience turned him off of banks. He continued, “So after that I paid those off and closed [the account] and said if I can’t pay with cash then, no [I won’t buy it].”

Prepaid card initiation

Before they became NewCard or CardPlus customers our interviewees had similar experiences with banks, financial problems and money management. However, the ways in which they came across the two firms differs markedly as a function of the distribution network through which NewCard and CardPlus reaches their target consumers. NewCard advertises and distributes its cards online; it has no physical presence. CardPlus has business collaborations with many of the large nationwide check cashing outlets and recruits most of its potential customers through these check cashing stores.

Nine of the 12 NewCard 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 a rather welcome encounter. For example, Mr. Feb was actually online searching for a job when he came across NewCard. He reported that he signed up for the card because he was tired of paying $13 per paycheck to cash his check. Ms. May says that she was not even sure what she was looking for but she was online doing an internet search and NewCard came up. She read about it online and applied immediately and she received her card shortly thereafter. Ms. July said that “sister-in-law down stairs … 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,

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 on them ….. So you know I went online and I started looking at ones and NewCard just seemed the simplest and their fees were the lowest.

All CardPlus 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 PPC advertised or an attendant offered it to them. Actually, in many instances, CardPlus customers could not differentiate the card company from the check cashing outlet. They often thought that CardPlus was an additional financial product of the check cashing place.
Ms. Cance is one customer who came across CardPlus through a check cashing place. 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 which is one of the CardPlus distribution outlets. Ms. Aries described it all by saying,

Well, I went in to cash the check at, um, what is the place called ……. [Name] Check Cashing … …. and I noticed the 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 ….Uuh, I really couldn't think of any other choices that I had, yeah.

Customers signed up for cards because they thought that the cards would be a useful tool. 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 funds that enter and exit the respondents’ households. For each income source or expense, we track 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 use their cards on a monthly basis. From this we can see that prepaid cards play an important role in interviewees’ regular financial lives.

All interviewees regularly use their cards. The middle column of Table 4 shows the number of different kinds of expenses regularly paid for with the prepaid card. Cardholders use their cards for an average of 3.9 different uses during a month. This includes both bills and categories of other purchases, such as groceries. Groceries, gas and entertainment costs are usually conducted as point of sale (POS) transactions, through swiping the card. All but one respondent uses the card to pay at least one monthly bill. The most common single bill-pay method is to call the payee and enter the AN account number as if one was paying by credit card, but most customers also use a mix of payment methods. For instance, Ms. July pays her rent using a money order, pays her phone bill and internet connection over the phone using her NewCard number, and pays for groceries with a combination of her food assistance benefit card and cash. Eight participants have at least one bill that is automatically charged to their PPC, but all of these also use the phone or POS transactions as well.

**TABLE 4. Routine prepaid card uses**

<table>
<thead>
<tr>
<th>Loading method/s (DD=direct deposit)</th>
<th>Expenses categories on card</th>
<th>Method of payment</th>
<th>Other current payment methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>DD, Cash</td>
<td>4</td>
<td>phone, point of sale (POS) swipe</td>
</tr>
<tr>
<td>Feb</td>
<td>DD</td>
<td>6</td>
<td>phone, POS, auto debit</td>
</tr>
</tbody>
</table>
Consumers’ views on advantages and disadvantages

In this section we summarize interviewees’ views on the advantages and disadvantages of prepaid cards. Overall, consumers like using their cards, and specific comments suggest that they appreciate the hypothesized benefits of prepaid cards – their convenience, simplicity, immediacy, etc. – identified above.

Convenience. Nearly all of the interviewees commented about the ease that their cards brought to their lives. For instance, Ms. Jan described the key attribute of her NewCard 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 reports that she was impressed with how convenient it was to use her PPC. She commented that “I don’t know where its been all my life. It just keeps getting better.”

Commonly, respondents compare their experiences with PPCs to prior money management routines, noting that the card keeps them from having to run multiple places to cash a check, buy money orders, and then deliver payments. Ms. Cances reports that she found her CardPlus card easier to use than money orders, particularly to pay standing bills like her monthly storage rent. A NewCard user, Mr. Feb, favorably compares 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 money grams, no western union.”

The only inconvenience mentioned involved loading cards for those who do not use direct deposit. Six of the 20 customers interviewed do not have direct deposit set up. For instance, CardPlus customer Ms. Libra works as a freelancer and contract worker, making 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, this can disrupt regular routines.

**Accessibility.** Because the Visa- or Master-card logoed cards are accepted almost universally, customers can buy whatever they want. This is useful practically, since customers can conduct transactions that are difficult with other means, such as buying things online or renting cars. Ms Aries appreciates her CardPlus for that,

[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 symbol of not having a checking account, the prepaid cards act and look just like conventional credit or debit accounts. Ms. Libra talks about the symbolic value of her 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 …[CardPlus] 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 [CardPlus]. You know what I mean? I can buy online, I can do anything that a person with good credit can do

Ms Aries echoes 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 PPCs makes one minor exception stand out. Both NewCard and CardPlus customers complained that their cards cannot be swiped at gas station pumps. When pressed for something he disliked about his NewCard, Mr. October mentioned this, “You can’t swipe it ….you have to go inside…… You know, like regular credit card you [can’t ] just swipe it at the pump. I wish they’d make it so I didn’t have.”

**Immediate liquidity.** Customers, particularly those who use the direct deposit feature, like that their money available immediately. Ms. Sagith explains how she gets paid, “We don’t checks in the mail. I get direct deposit on my CardPlus 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 compares that with her understanding of depositing a paycheck at a bank account, “Because the bank holds your check down even if its your regular pay roll check you know they hold it for three days you can have your funds for three days.”

Another aspect is that account updates are available on demand. Customers get and use information about their balances by phone, by text, by email and via logging into their accounts online. Our interviewees appreciate these up-to-the-minute information sources. As Ms. Jan explains, “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 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 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 is 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 CardPlus there is none of that. I know how much I spend a month to have them and that’s all that is.

Mr. Auguste calls 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, clients feel as if they are getting a fair service for the cost. Mr. Taurus totaled up the predictable and unpredictable (described above) fees from him bank. He figures he is paying far less per month with his CardPlus. Others compare the prepaid card fees to banks as well, Mr. Feb estimates 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 non-account based services such as check cashers, the card is an even better relative value. Describing her life pre CardPlus, Ms. Libra explains, “I would have the physical check sent to me and then I would go to one of the money tree And I would cash it and pay some huge ridiculous fee to cash it.” She estimated spending $40-$60 per month on check cashing fees. Clearly, prepaid fees are lower.

Others describe the other value that they get from their cards. For instance, Ms. April had an experience with losing her card. She called NewCard’s customer service and was sent another card without any problem.

Ok but I did call in and have 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 figures in that positive experience as part of why one really “can’t beat” the monthly fee.

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

I do have a problem this 10 dollar service fee that they got every month you know. Its 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 is that there are lower cost ATMs available through NewCard but he does not live near any of them. He admits, however, that a PPC is still his best option.
**Built-in discipline.** For customers, PPCs 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 the card company penalizing the cardholder. As Mr. August explains, “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 find helpful, particularly for those who have gotten into trouble with overspending and fraudulent (or merely over-optimistic) check-writing in the past. Ms. Libra, who freely admits that she has a lot of trouble managing money, appreciates this feature noting, “the good thing about this though is that you can’t write checks and have them bounced. Its like the funds are either there [or not]; the transactions either passes or doesn’t. So it’s a good discipline for me.”

**Special features**

One question about prepaid cards is whether they can serve as entrées to other financial services that could help customers build financial well-being. Future analyses will focus on features of the two firms that go beyond the basic transaction features. Here we briefly preview these findings.

**NewCard’s bill pay.** NewCard 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 would then be reported to an alternative credit reporting agency, allowing households who pay their regular bills on time to establish a record that could be used for future credit or rental applications. Although we purposively sampled some clients who had signed up for this feature, we found that most did not use it regularly. Clients preferred to call the creditor (usually a utility company) themselves, feeling that allowing an automatic debit would reduce their control over which bills get paid. People did not distinguish that paying bills directly with the creditor would not be reported in the same way that bills paid through the NewCard “bill pay” feature would be.

**CardPlus’s linked savings.** CardPlus card holders can open a savings account linked to their card. Six monthly transfers into and out of savings are free and instant online. As of the time of our interviews, the CardPlus savings feature paid interest at a rate of 5%, far higher than rates available for conventional savings accounts. We interviewed only card holders who had opted into opening this linked savings feature. Despite this sample selection and the favorable rate, no one reported savings in excess of a few hundred dollars. Many account-holders had no money in savings. Future analysis and discussion will explore reasons for these low savings balances.

**Goals and advancement**

Future analyses will also examine interviewees’ financial goals and the roles that prepaid cards can and cannot play in helping them achieve these goals. In interviews, cardholders listed goals for the future including paying off debt, saving for emergencies, restoring credit ratings, and obtaining credit for investments in houses and businesses.

**CONCLUSION**

This preliminary analysis begins to address our overall research questions. What do consumers’ experiences tell us about the usefulness of these new financial products? 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 PPCs 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 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 additional products. All goals will require spending discipline alongside supportive products.


Katy Jacob, Sabrina Su, Sherrie L. W. Rhine, and Jennifer Tescher “Stored Value Cards: Challenges and Opportunities for Reaching Emerging Markets” Chicago, Center for Financial Services Innovation, April 2005


APPENDIX A

Interview Template Summary

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 that finances play 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 products. 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.
APPENDIX B

Authors

Jennifer Romich, PhD leads the research design and analysis. A faculty member in the School of Social Work at the University of Washington, Dr. Romich brings both research expertise and a robust knowledge of low-income families’ finances to the project. Romich has ten years of experience in anti-poverty research using methodologies including in-depth ethnographic field work, one-time interviews and focus groups, and statistical analyses including work with data from agency management information systems. Her research on low-income working families’ financial well-being has been presented at national research and practitioner conferences and published in scholarly books and journals including the National Tax Journal and the Journal of Consumer Affairs. Dr. Romich earned a Masters in Economics and a PhD in Human Development and Social Policy from Northwestern University.

Eric Waithaka, MSW, manages and carries out data collection and analysis. Waithaka is a PhD student in the School of Social Work with a research focus on young adults’ economic independence. A previous credit officer for a micro-finance project in Kenya, Waithaka is also interested in financial asset-building policies, social welfare and public policies for economic development in the U.S. and in developing countries. Before starting his doctoral education, Mr. Waithaka worked for two and a half years with the Institute of Applied Research in St. Louis, Missouri as a program evaluator of social programs and services in the areas of child maltreatment, juvenile delinquency, substance abuse treatment and jail diversion initiatives. Waithaka has extensive experience in research planning and design; interviewing and survey administration; and data management and statistical analysis.

Sarah E. Gordon is the Nonprofit Relationship Manager at the Center for Financial Services Innovation. In this position, Ms. Gordon establishes relationships with the nonprofit community, particularly organizations working with low and moderate income families on financial development and asset-building strategies. Through relationships with financial services innovators, policy-makers, consumer advocates and others, Ms. Gordon creates a business and a regulatory environment, which supports development of new products and services for the underbanked. Ms. Gordon brings nonprofit organizations into CFSI’s existing networking program and establishes new ways to reach, learn from, educate, and innovate with this community. She also manages CFSI’s new grant pool for nonprofit innovations and brokers relationships between the for-profit financial services sector and nonprofits. Prior to joining CFSI, Ms. Gordon was the Associate Director at Jane Addams Resource Corporation (JARC). Sarah completed a B.A. and two years of graduate study in sociology at Northwestern University.