

A TOOL FOR GETTING BY OR GETTING AHEAD? CONSUMERS' VIEWS ON PREPAID CARDS

Improving Financial Literacy and Reshaping Financial Behavior
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Innovations in financial services:

❖ **Effects of banklessness**

- Higher cost (\$/time) in routine transactions
- Lack of access to low-cost credit opportunities

❖ **Prepaid Cards**

General purpose, branded (Mastercard, Visa, Discover, AMEX)
re-loadable cards

❖ **Debate**

- ✓ Proponents
- ✓ Opponents
- ✓ Middle ground

Research 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?

Methods:

➤ **Focal firms**

- Newcard: distributes over internet, offers bill reporting
- Cardplus: distributes through retailers, offers linked-savings option

➤ **Sample:** Non probabilistic purposive sampling

➤ **Selection criterion**

- Newcard: 6 months, direct deposit, bill pay
- Cardplus: 3 months in linked savings, active savers

➤ **22 customers from both firms**

- 12 Newcard customers - Chicago Metro, Summer 08
- 10 Cardplus customers – Seattle Metro, Winter 08-09

*pseudonyms used for firms and customer information is disguised

Methods (cont'd):

- **Instrument - five broad topics**
 - Participants' background, financial history, current budget, use and views of PPCs, and financial goals
- **Study approved by University of Washington Human Subjects Committee**
- **In-depth face-to-face qualitative interviews**
- **All interviews transcribed verbatim**
 - Analytic summaries made from broad topic
 - Themes developed from summaries
 - Themes used to re-read transcribed files for evidence

Sample Description (N=22):

- ✓ Age range: 25-65years
 - Average=43
- ✓ Married/cohabiting: 36% (8 of 22)
- ✓ Median Household income: \$18,000
 - Income range= \$12,000 to over \$100,000K
- ✓ Females: 64% (14 of 22)
- ✓ Race/ethnicity
 - 11 African Americans
 - 10 Caucasian
 - 1 Mixed heritage
- ✓ Any children in household: 45% (10 of 22)
 - Average number of children=3

Why do consumers use prepaid:

- ❖ Almost all have had bank-based transaction accounts in past
- ❖ Then experienced problems with account fees
 - Major factors: Overdraft fees, unexpected fees, unauthorized account access and identity theft
- Prepaid seemed like a good choice

“I went in to cash the check ... and I noticed 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.”

How consumers use prepaid:

- ❖ Load using direct deposit and cash
- ❖ Use to pay bills and make point-of-sale purchases
 - ✓ Average customer pays 2-3 bills with card, most commonly by phone
 - ✓ 71% use for groceries or gas
- ❖ Also use cash, money order, checks

Views on PPCs (1 of 4):

❖ Convenience

“It’s just [the] 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...”

❖ Accessibility

“[I like] the fact that it was a Visa and you can take it anywhere and use it anywhere. There are no limits on what it is.”

Views on PPCs (2 of 4):

❖ Immediate liquidity:

“We [referring to place of work] don’t [do] 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.”

❖ Immediate account information:

“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.”

Views on PPCs (3 of 4):

❖ **Simplicity & transparency**

“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.”

Views on PPCs (4 of 4):

❖ Built-in discipline

“The good thing about this, though, is that you can’t write checks and have them bounce. It’s like the... funds are either there [or not], the transaction either passes or it doesn’t. So, it’s a good discipline for me.”

Special features:

- ✓ **Bill Payment:** Consumers preferred to call creditors directly rather than use NewCard's bill payment
 - Credit-reporting feature not well understood
- ✓ **Linked savings:** CardPlus customers liked the opportunity to store money in storage
 - Most held small amounts (<\$200) or used it temporarily
 - A few were accumulating larger sums or wanted to
 - More restriction on savings withdrawals would help

“I thought I was reading it wrong. But this had... am glad I read wrong because I said, it said you know you can only transfer money from the savings to the other account six times? But I am just thinking it was out of a year [laugh]. So like for a long time I thought that I [wasn't able]. I said, oh men, I can't transfer nothing else on this account because its my third time already and so I [laughs again] have had money in that account where am not touching it. I saved up quite a bit. And then I went back and read it and it said six times out of the month. Well, I wish I never read it because I probably would have still had that money in my account.”

Conclusion & Implications:

- ❖ Consumers use and value prepaid cards
- ❖ Cards serve as useful financial tools, particularly for users who have had past problems with bank-based accounts
- ❖ Fewer fixed conclusions on whether cards help consumers advance financially
- ❖ Industry still evolving

Thank You!

Research report:
http://www.cfsinnovation.com/research-paper-detail.php?article_id=330566