



# Emerging Payment Alternatives for the Unbanked and Underbanked

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# Agenda

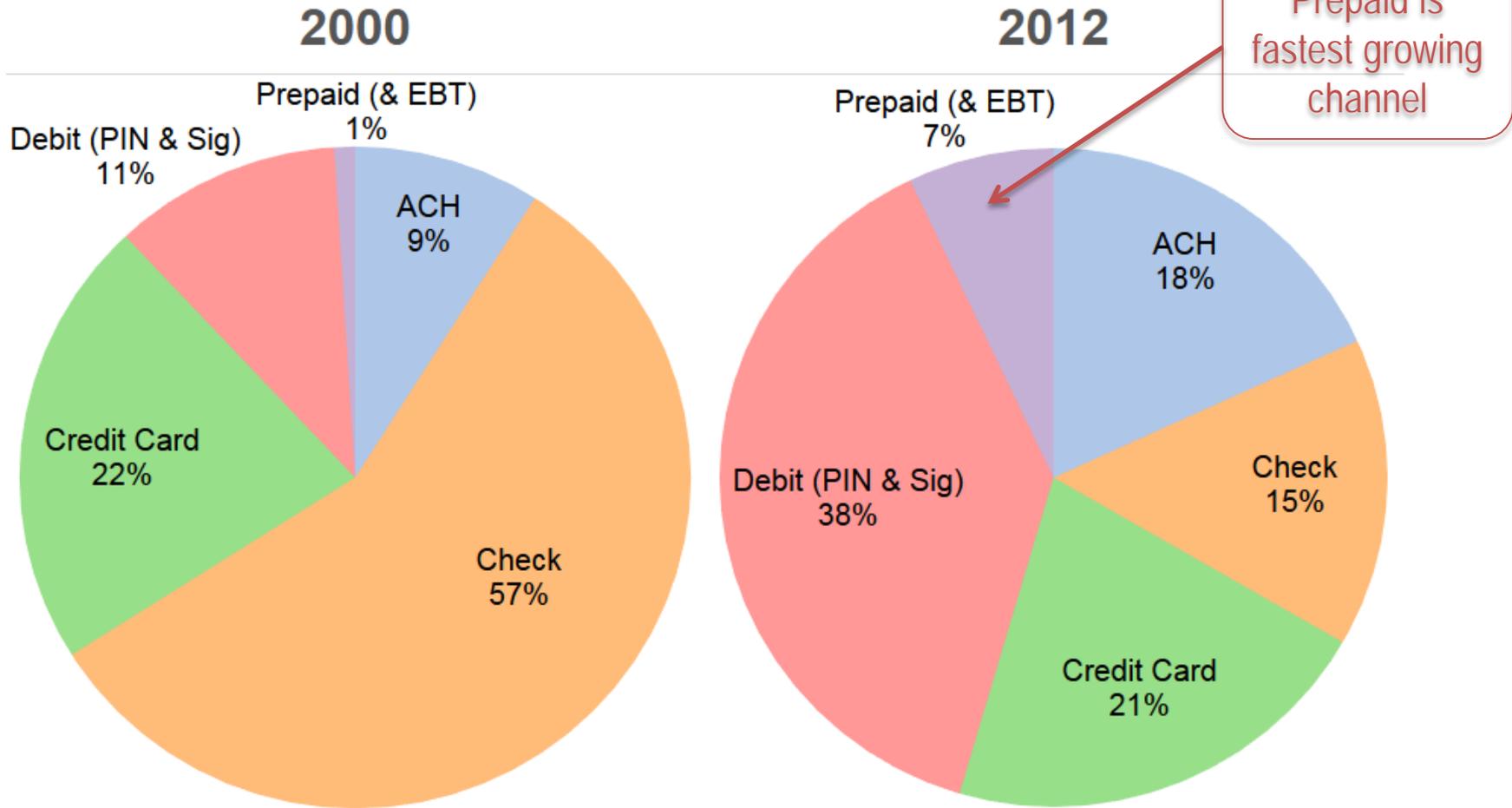
- ✓ Payments Landscape and the Fed's Role
- ✓ Who are the unbanked and underbanked and why?
- ✓ Prepaid cards as an alternative for low and moderate income consumers
- ✓ Emerging Mobile Payments
- ✓ Questions and Answers

# Why is the FED at the table?



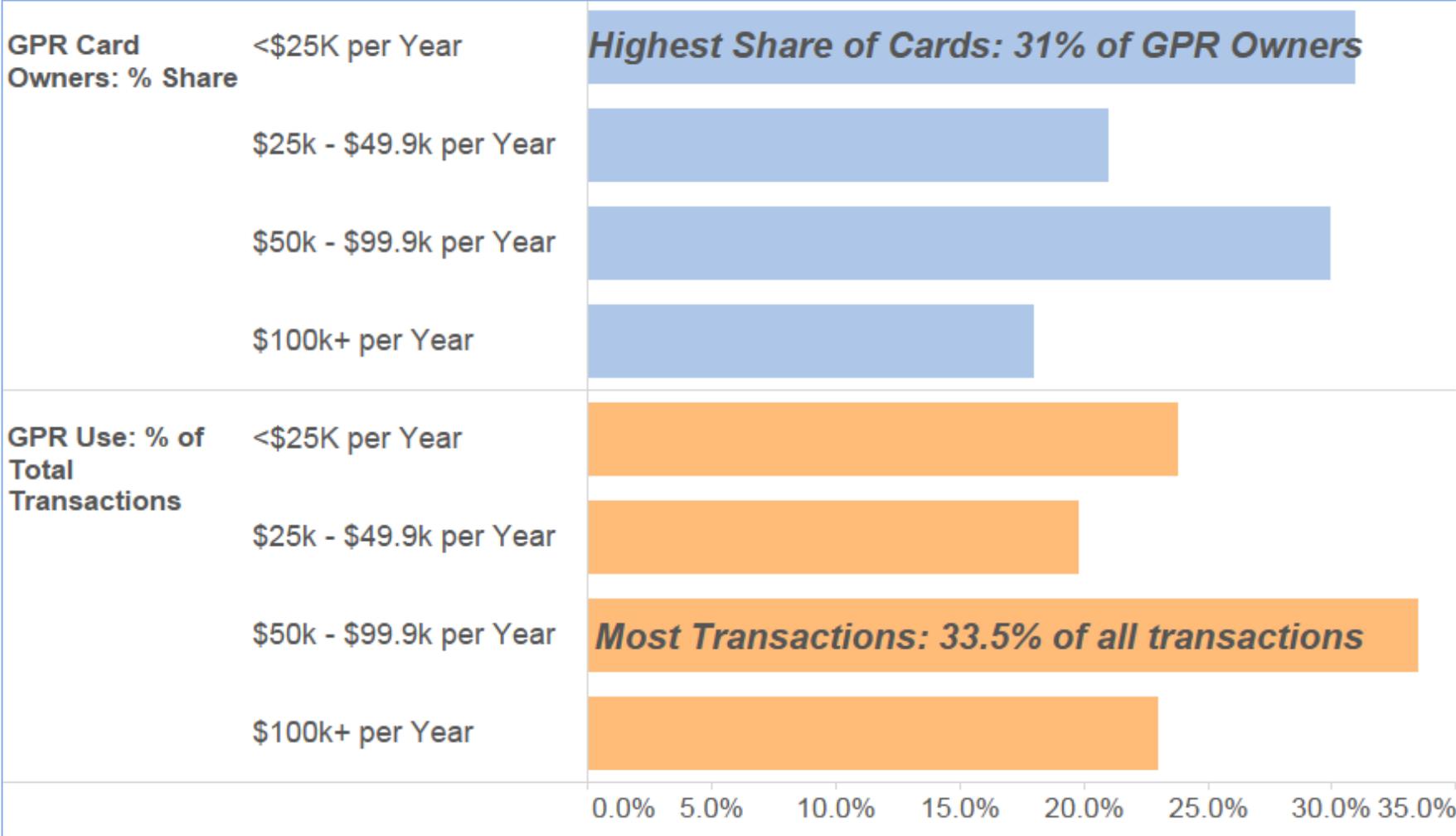
We're executing on the financial services mission to foster the **integrity, efficiency and accessibility** of the U.S. payment system.

# Card Payments are 66% of Non Cash Payments



Source: 2000 and 2012 Federal Reserve Payments Studies

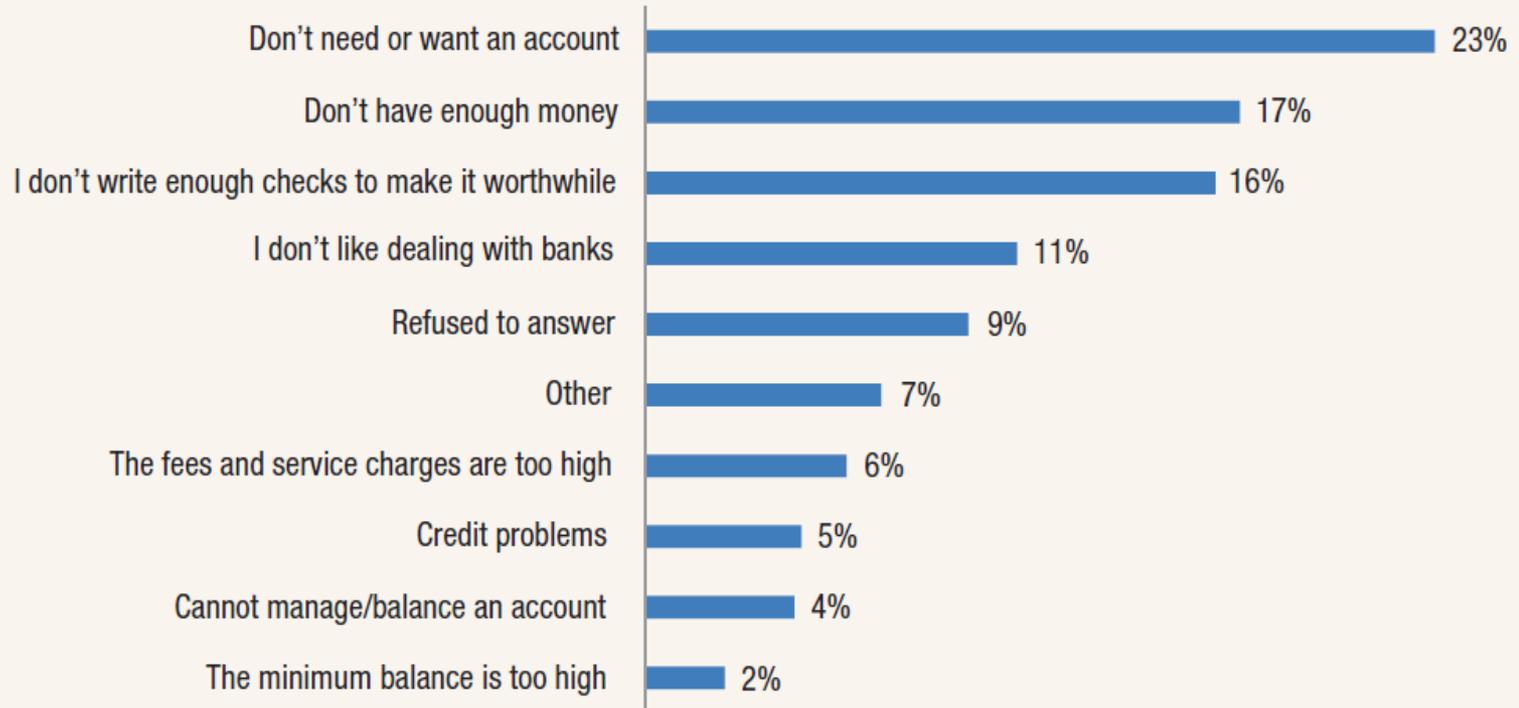
# Distribution of General Purpose Reloadable (GPR) Cards and Transaction Share by Income Group



Source: FRB Philadelphia

# Why are Consumers Unbanked?

Figure A. Most important reason for not having a checking, savings, or money market account



# Who are the Underbanked?

## **According to Javelin Strategy & Research:**

- Are younger
- Are more likely to be Latino or Black than is common in the total population
- Have higher rates of unemployment
- Are more likely to live in cities (42% vs. 34% of all consumers)
- Have lower incomes
- Have a greater number of early adopters

# Unbanked and Underbanked Use of Prepaid Cards

## According to the FDIC:

- In the last 12 months:
  - 22.3 % of unbanked households used a prepaid card
  - 13.1 % of under banked
  - 5.3 % of fully banked households
- In 2013, more than a quarter (27.1 %) of unbanked households reported prepaid card use, up from 17.8% in 2011 and 12.2% in 2009.

# CFPB Proposes New Rules for Prepaid Debit Cards to Facilitate Comparison Shopping

- Two “Know Before You Owe” disclosures:
  1. Brief features statement using standardized, plain-language format.
  2. In depth statement including potential fees.



- Regulation:
  - Improves consumers’ free access to account balance information
  - Requires issuers to post their account agreements online
  - Creates error-resolution procedures
  - Provides protections when cards are lost or used fraudulently
  - Strictly controls credit products linked to prepaid card accounts

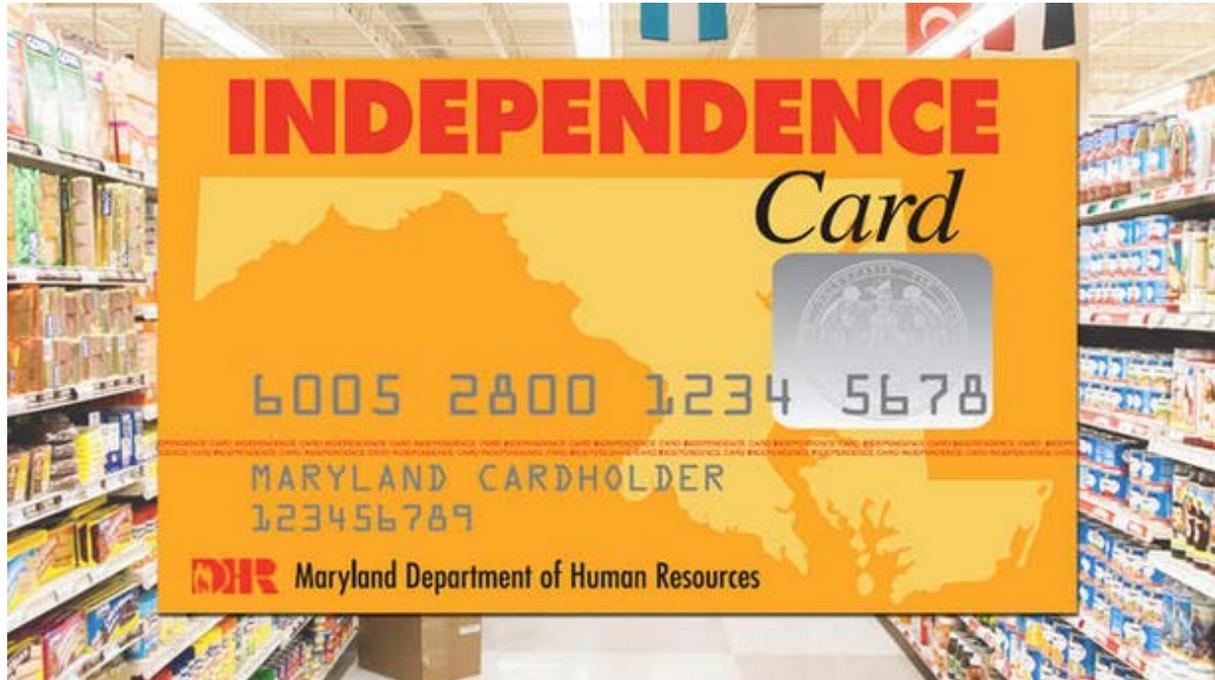
# 2014 Consumer Reports: Prepaid Cards Used as a Bank Account Substitute

*Evaluating on Value, Fee Accessibility & Clarity, Convenience and Safety*

● Excellent ● Very Good ○ Good ◐ Fair ● Poor

|      | PREPAID CARD  | SCORE     |       |                             |             |        |
|------|---|-----------|-------|-----------------------------|-------------|--------|
| Rec. |   |           | Value | Fee Accessibility & Clarity | Convenience | Safety |
| ✓    | <b>Bluebird</b> (American Express and Walmart)                                | <b>88</b> | ●     | ●                           | ●           | ●      |
| ✓    | <b>Chase Liquid</b> (Visa)  | <b>86</b> | ○     | ●                           | ●           | ●      |
| ✓    | <b>American Express Serve</b>   | <b>85</b> | ●     | ●                           | ●           | ●      |
| ✓    | <b>Prepaid Visa RushCard, RushUnlimited Plan</b> (issued by The Bancorp Bank) | <b>83</b> | ◐     | ●                           | ●           | ●      |
| ✓    | <b>Green Dot Prepaid Visa</b> (issued by Green Dot Bank)                      | <b>83</b> | ○     | ●                           | ●           | ●      |

# EBT Cards Issued by USDA to Over 23 Million Low Income Households (2013)



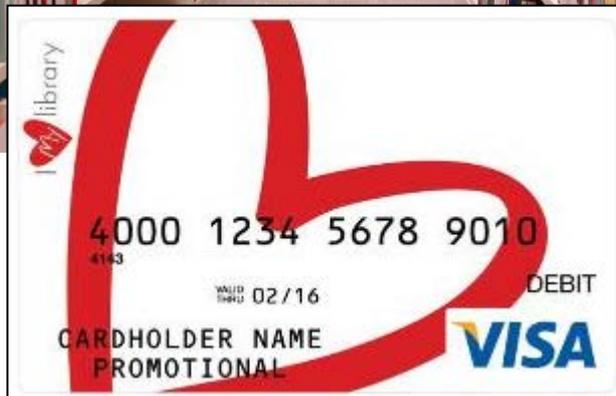
- Functions like prepaid debit cards
- Govt. mandate for EBT will continue to influence growth; WIC will use EBT in 2020

# Government Use of Prepaid Cards



- Provided to Social Security and Supplemental Security income check recipients who have not signed up for direct deposit.

# Frederick County Library Pilots New Library/Debit Cards



- Functions as a library card
- Can be activated as a prepaid debit card
- Transparent fee structure tied to library's financial literacy programming
- Provides fee revenues to the library

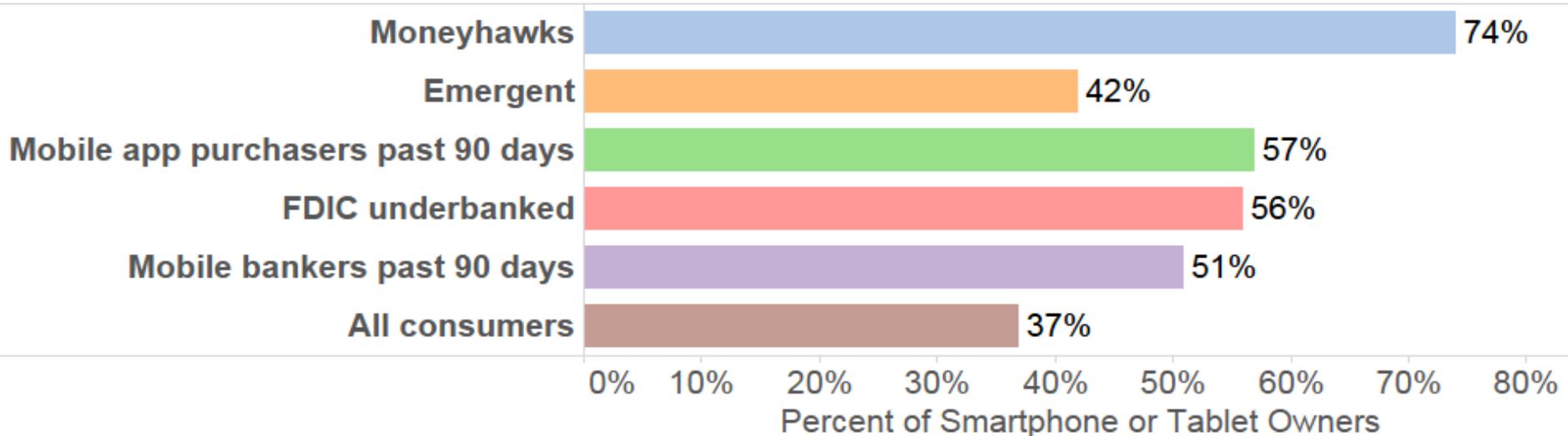
“I Love My Library” Prepaid Visa Debit Card

# Underbanked Use of Mobile

According to FDIC,

- Underbanked are more likely to use mobile banking than the fully banked population
- Almost 2/3 of underbanked households with mobile phones are likely to have smartphones.

*Likelihood of Using Mobile Contactless Payments (Next 12 Mos.) by Consumer Type*



# PayNearMe (PNM): How it Works



Get a paycode from the Merchant payee (available online)

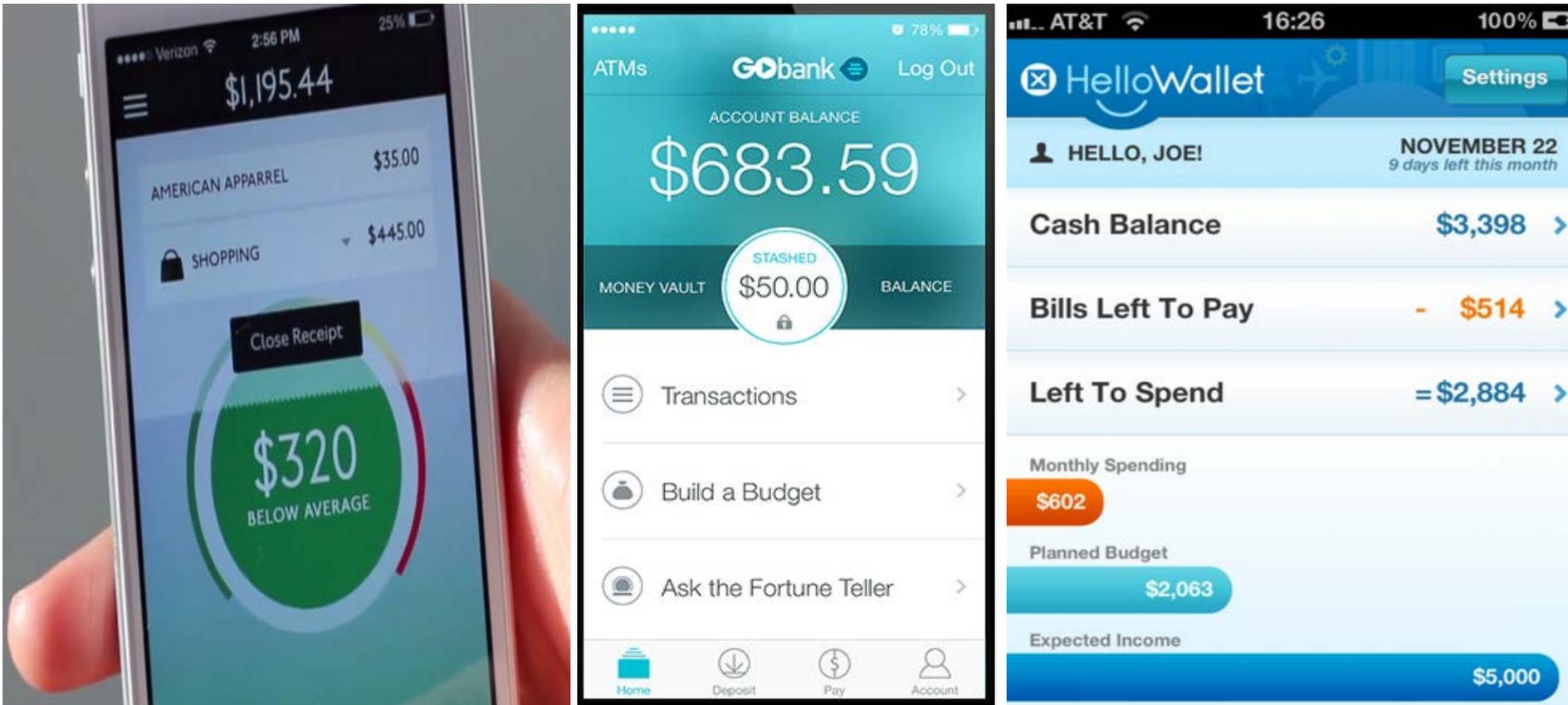


Present paycode & make cash payment at POS; receive receipt

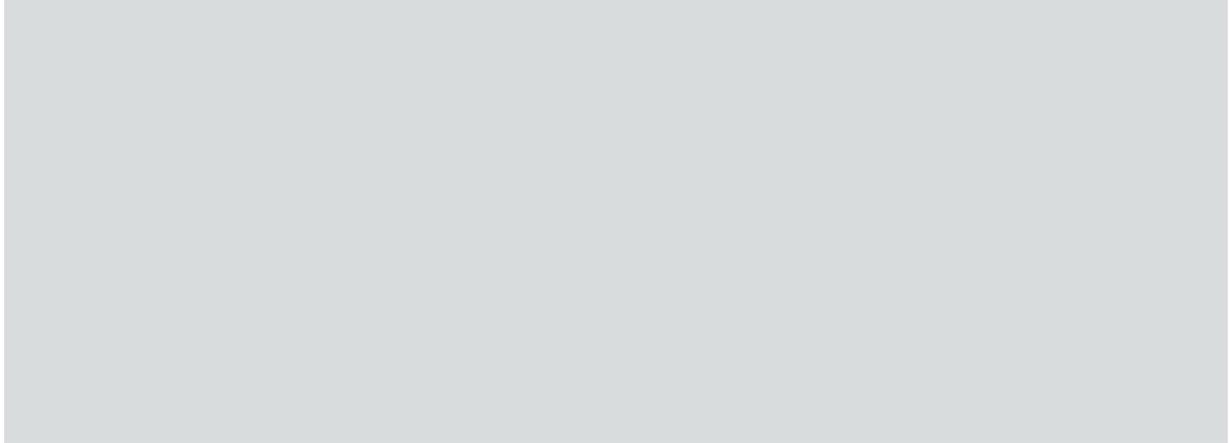


PNM transfers funds to payee via ACH

# Alternative Payment Choices Include Budgeting Tools and Spending Advice



*“Remember that time you won the lottery? I don’t either.” ~ GoBank’s Fortune Teller*



# Questions?



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