Emerging Payment Alternatives for the Unbanked and Underbanked

Dave Beck, SVP and Regional Executive
December 8, 2014
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
Disclaimer

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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

Prepaid is fastest growing channel
### Distribution of General Purpose Reloadable (GPR) Cards and Transaction Share by Income Group

<table>
<thead>
<tr>
<th>GPR Card Owners: % Share</th>
<th>Highest Share of Cards: 31% of GPR Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$25K per Year</td>
<td></td>
</tr>
<tr>
<td>$25k - $49.9k per Year</td>
<td></td>
</tr>
<tr>
<td>$50k - $99.9k per Year</td>
<td></td>
</tr>
<tr>
<td>$100k+ per Year</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GPR Use: % of Total Transactions</th>
<th>Most Transactions: 33.5% of all transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$25K per Year</td>
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<td></td>
</tr>
</tbody>
</table>

Source: FRB Philadelphia
Why are Consumers Unbanked?

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

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t need or want an account</td>
<td>23%</td>
</tr>
<tr>
<td>Don’t have enough money</td>
<td>17%</td>
</tr>
<tr>
<td>I don’t write enough checks to make it worthwhile</td>
<td>16%</td>
</tr>
<tr>
<td>I don’t like dealing with banks</td>
<td>11%</td>
</tr>
<tr>
<td>Refused to answer</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
<tr>
<td>The fees and service charges are too high</td>
<td>6%</td>
</tr>
<tr>
<td>Credit problems</td>
<td>5%</td>
</tr>
<tr>
<td>Cannot manage/balance an account</td>
<td>4%</td>
</tr>
<tr>
<td>The minimum balance is too high</td>
<td>2%</td>
</tr>
</tbody>
</table>
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

Source: Javelin Strategy & Research, October 2013
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

<table>
<thead>
<tr>
<th>Prepaid Card</th>
<th>Score</th>
<th>Value</th>
<th>Fee Accessibility &amp; Clarity</th>
<th>Convenience</th>
<th>Safety</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bluebird (American Express and Walmart)</td>
<td>88</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chase Liquid (Visa)</td>
<td>86</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American Express Serve</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid Visa RushCard, RushUnlimited Plan (issued by The Bancorp Bank)</td>
<td>83</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Green Dot Prepaid Visa (issued by Green Dot Bank)</td>
<td>83</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Government Use of Prepaid Cards

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

- **Moneyhawks**: 74%
- **Emergent**: 42%
- **Mobile app purchasers past 90 days**: 57%
- **FDIC underbanked**: 56%
- **Mobile bankers past 90 days**: 51%
- **All consumers**: 37%

Source: “Mobile Wallets & Strategy: How the Game Changes with Apple Pay” ~Javelin Study & Research
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
"Remember that time you won the lottery? I don’t either."

~ GoBank’s Fortune Teller
Questions?