



# 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

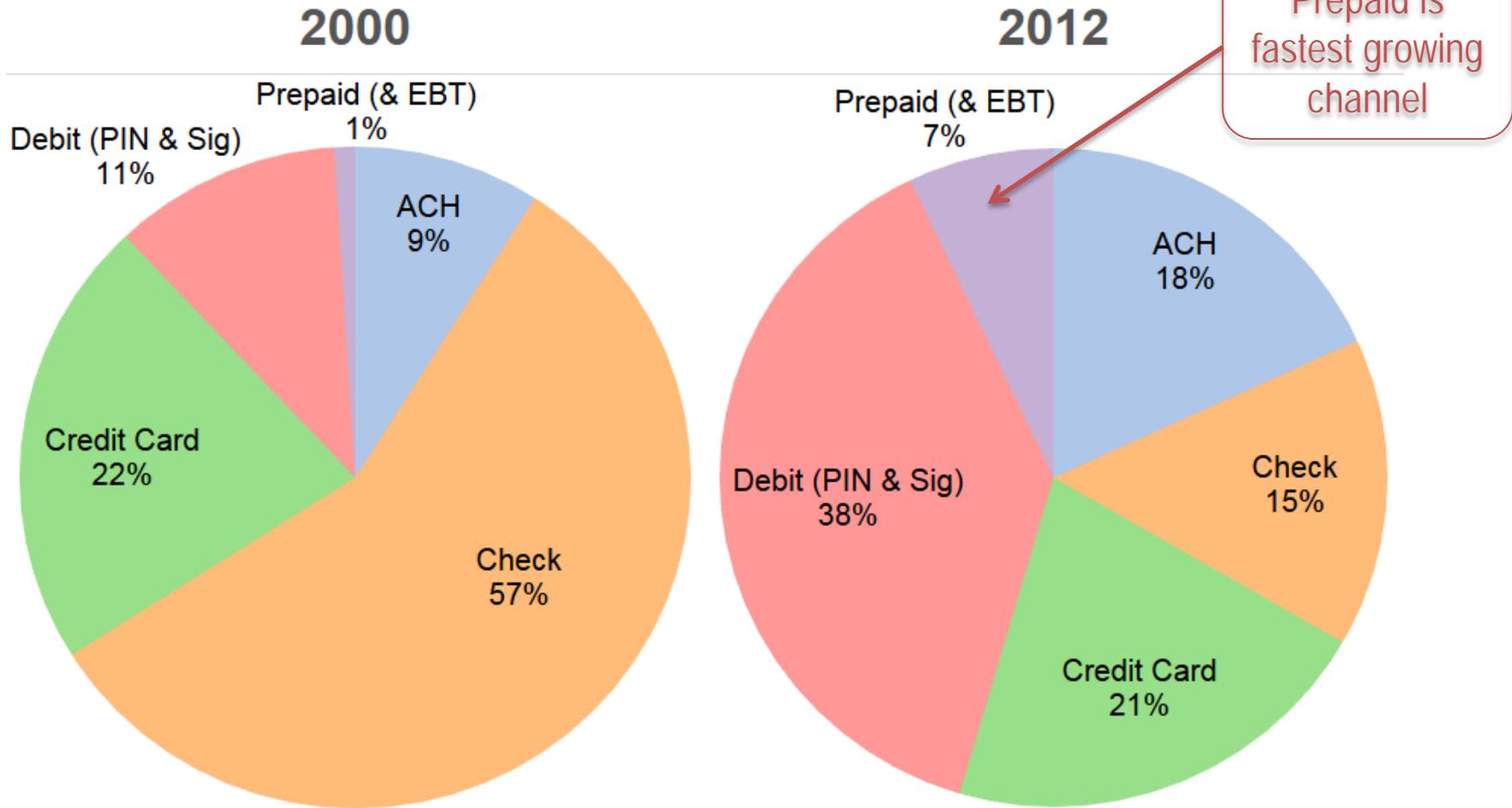
# U.S. Payment Landscape and the Fed's Role

# 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



# The Diary of Consumer Payment Choice

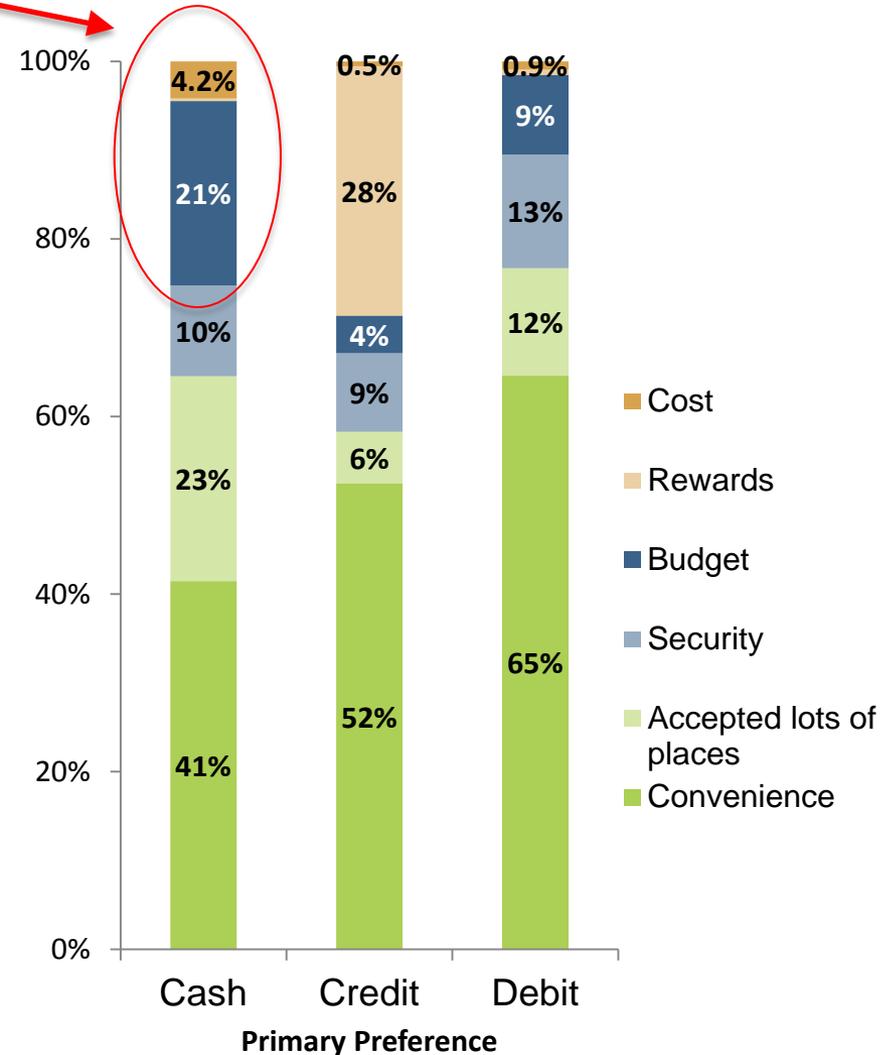
- Nationally representative sample of 2500 individuals
  - Recorded all financial transactions for a 3 day period
  - Throughout the month of October in 2012
- Individuals were asked to record
  - Purchases
  - Bill payments
  - Cash deposits, withdrawals, etc.

Time	Amount Spent	Payment Method	Location	Device	Merchant Type	Merchant name
5pm	\$60	P4 Debit	L1 In-person	D6 None	M2 Grocery	Falsetti Foods
8pm	\$15	P1 Cash	L1 In-person	D6 None	M17 Movie	Multiplex

Time	Cash Amount	Cash Location	Cash Source	Did you pay a fee?
5pm	\$40.00	C2	S1	Y/N <input type="checkbox"/>

# Those most influenced by cost & budget prefer cash

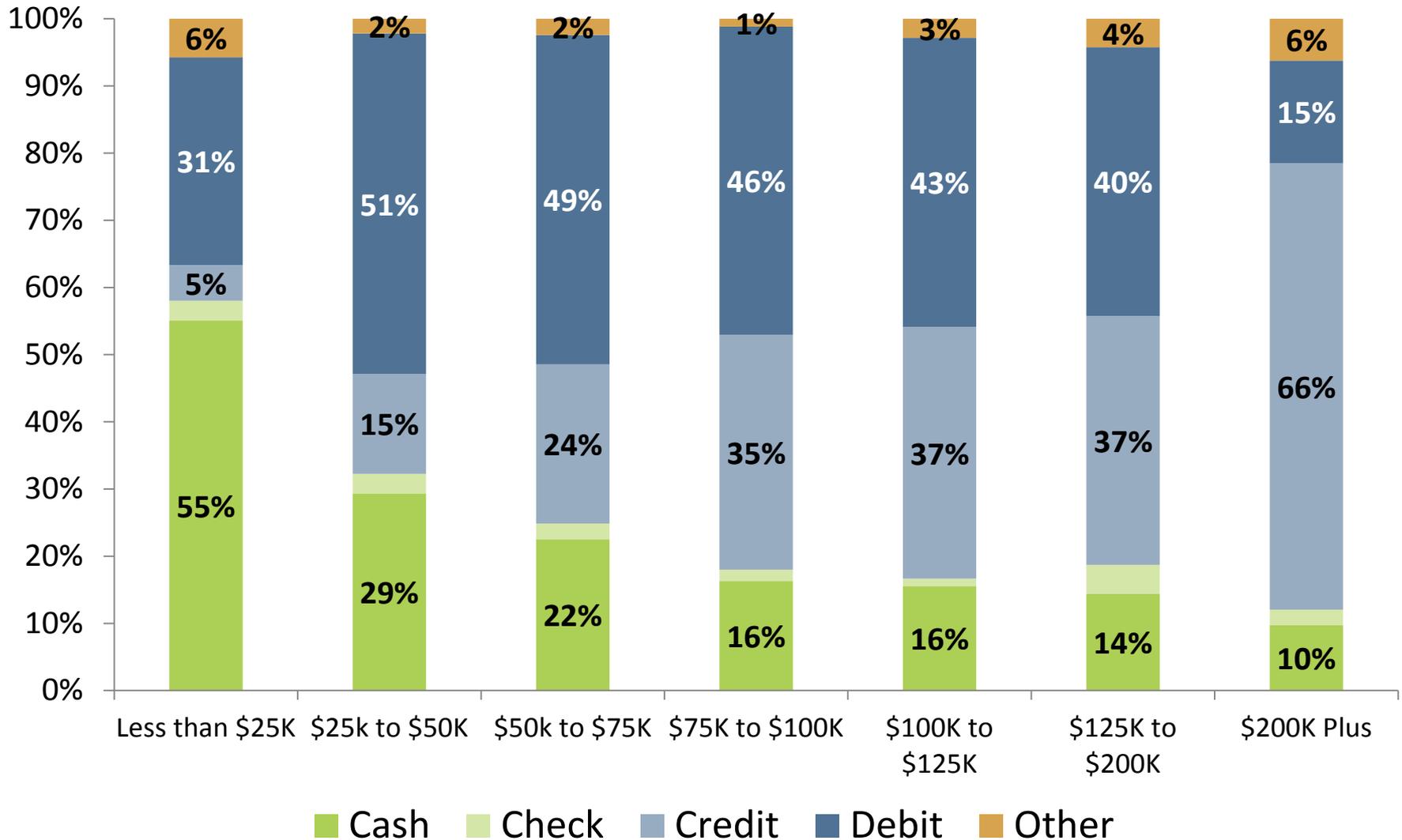
- Low income
  - Budget
  - Cost
  - Acceptance
- Higher incomes
  - Convenience
  - Rewards
  - Acceptance



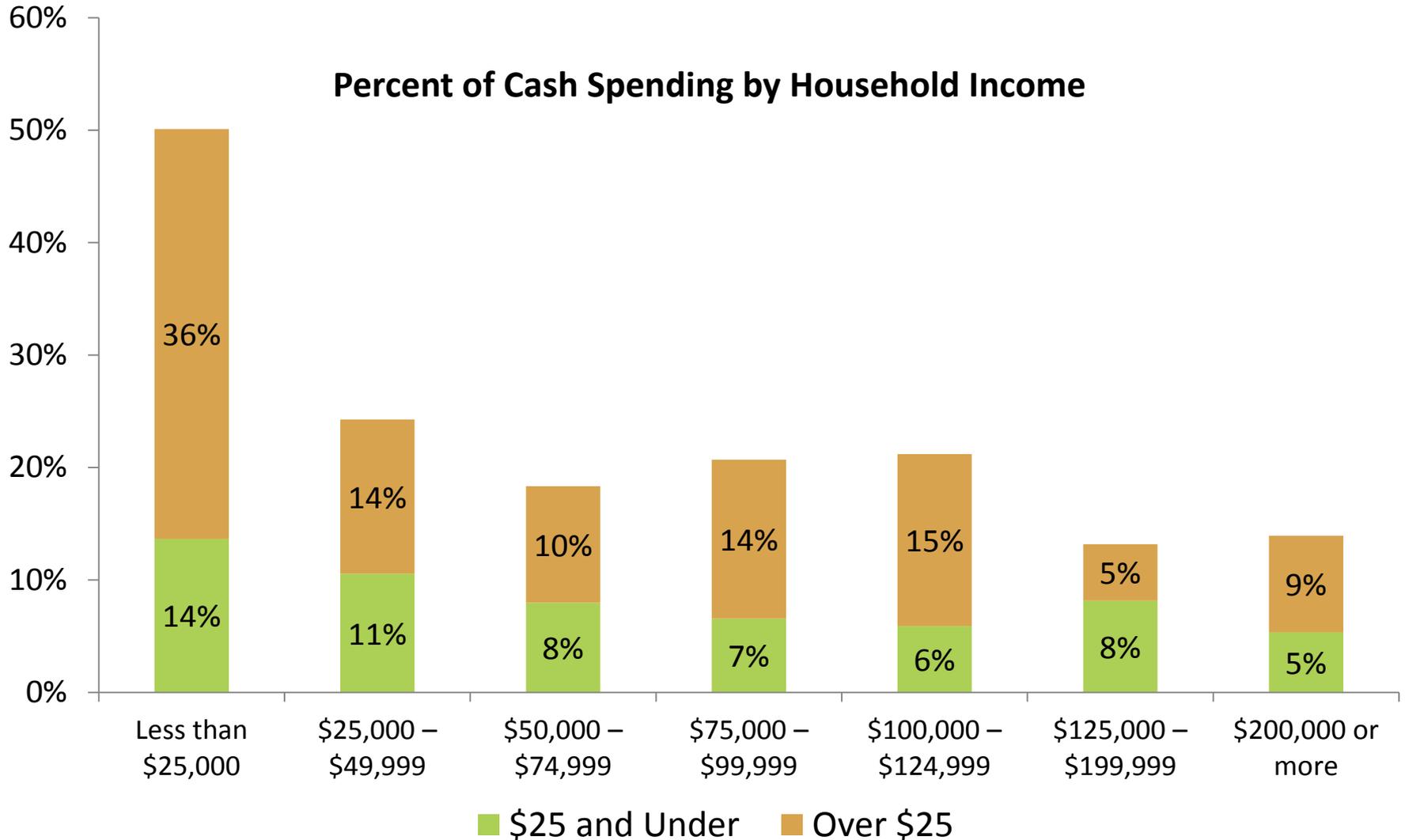
Source: FRB Boston 2012 Diary of Consumer Payment Choice

# Low income consumers more likely to prefer cash

## Payment Preference by Household Income



# Low income consumers use cash for high value payments



Source: FRB Boston 2012 Diary of Consumer Payment Choice

# Who are the Unbanked and Underbanked and Why?

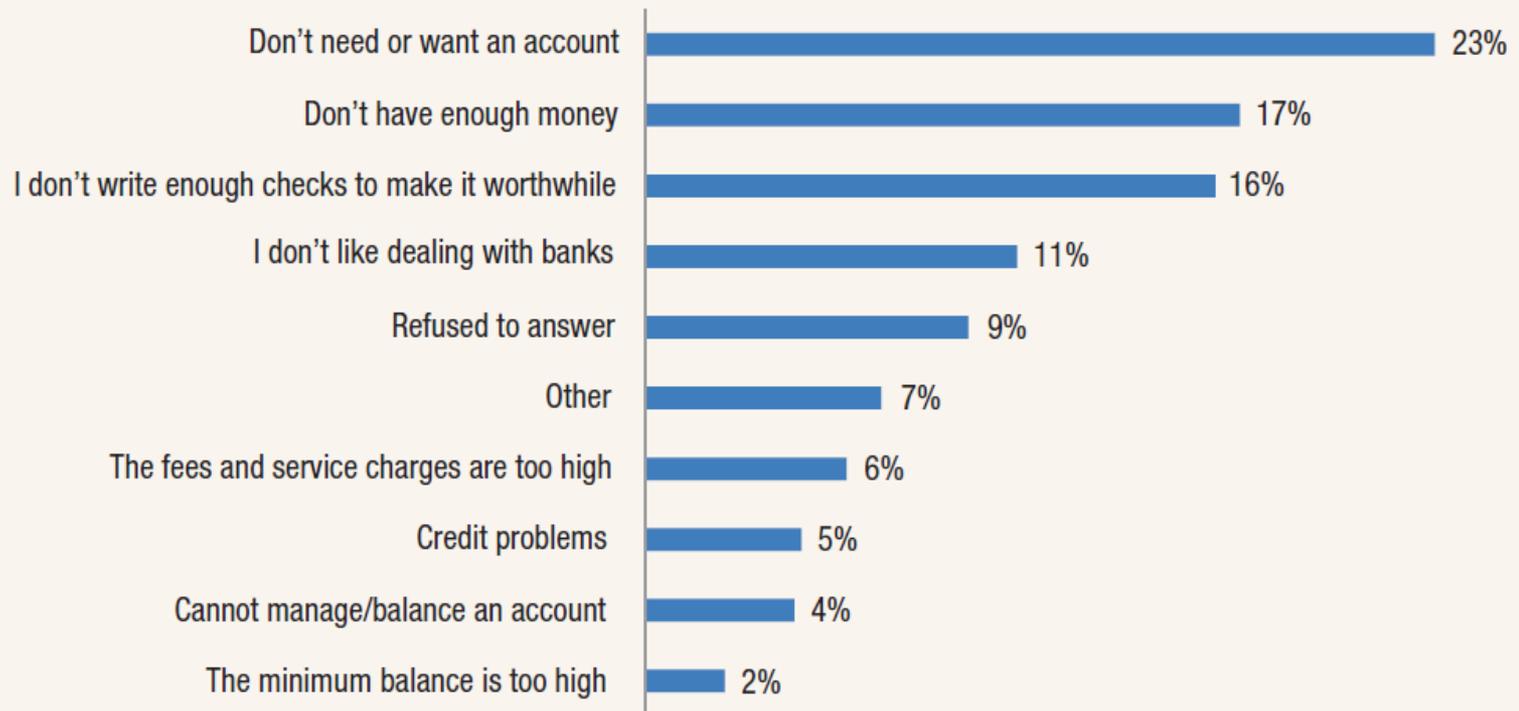
# Who are the Underbanked?

## **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

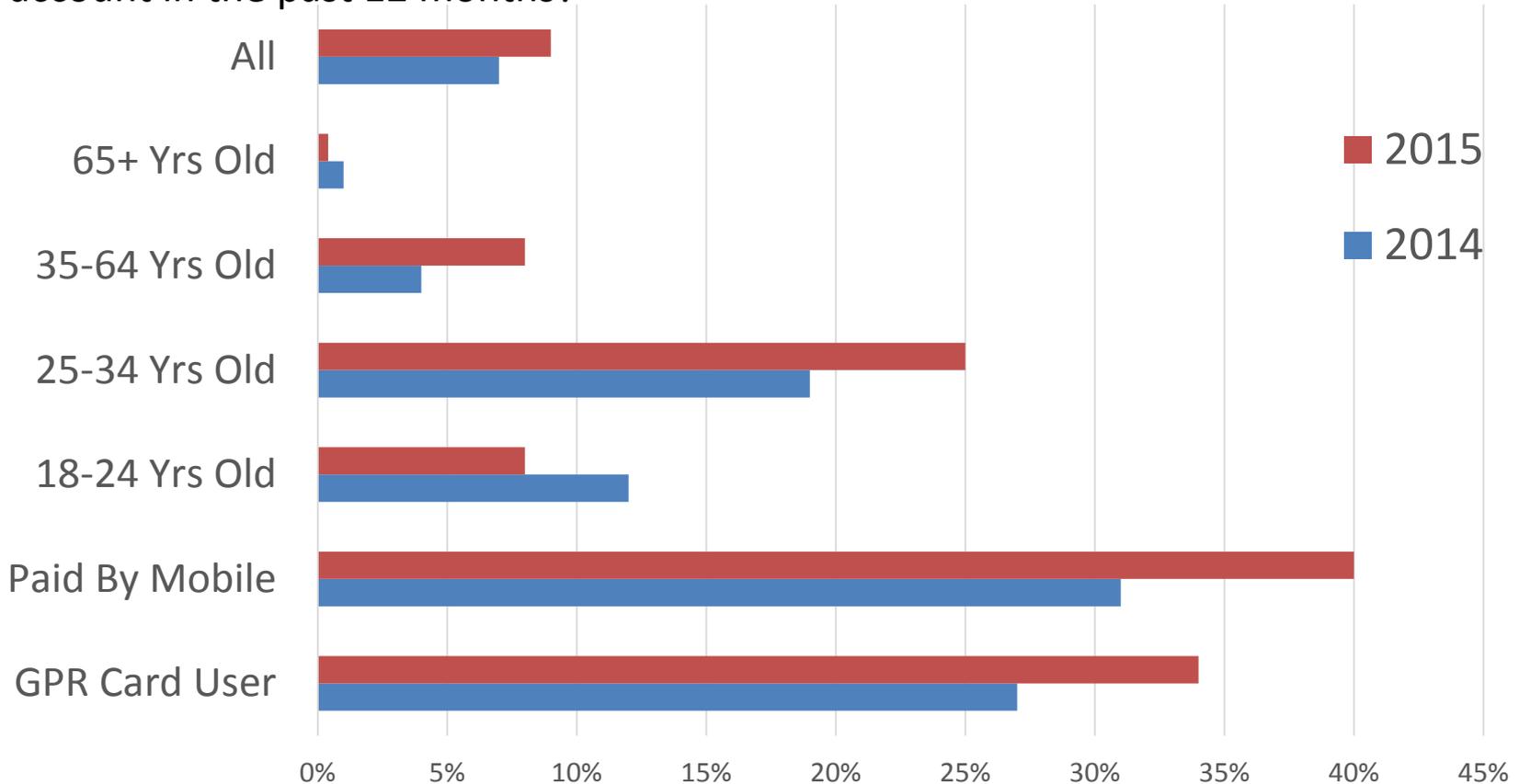
# Why are Consumers Unbanked?

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

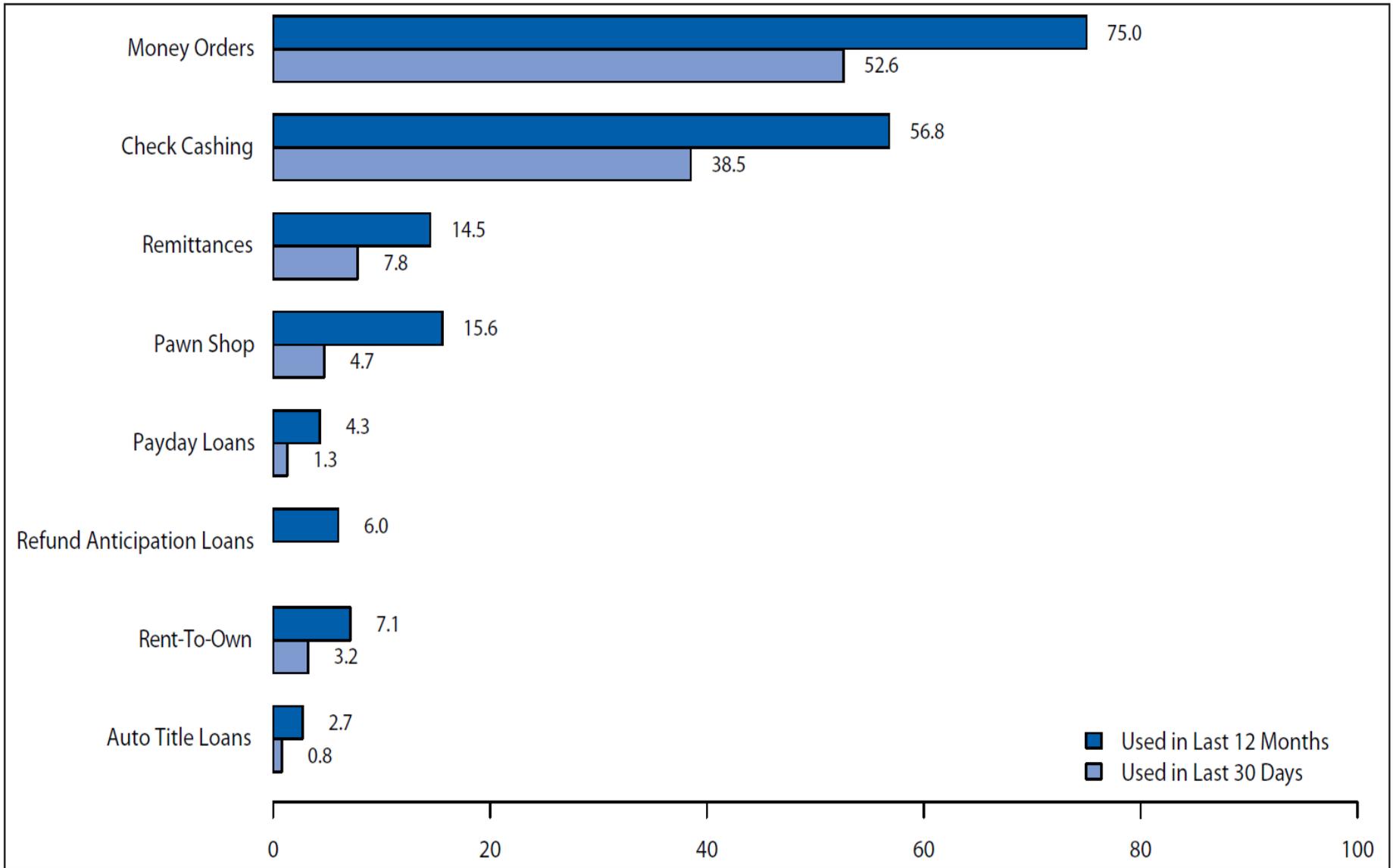


# Over a Third of GPR Card Users & Mobile Payers Turned Down for New Bank Account in Previous 12 Mos.

Survey Question: Have you been turned down for a new checking or savings account in the past 12 months?



# Use of Alternative Financial Services (AFS) by Unbanked Households That Have Used Alternative Financial Services in Previous 12 Months



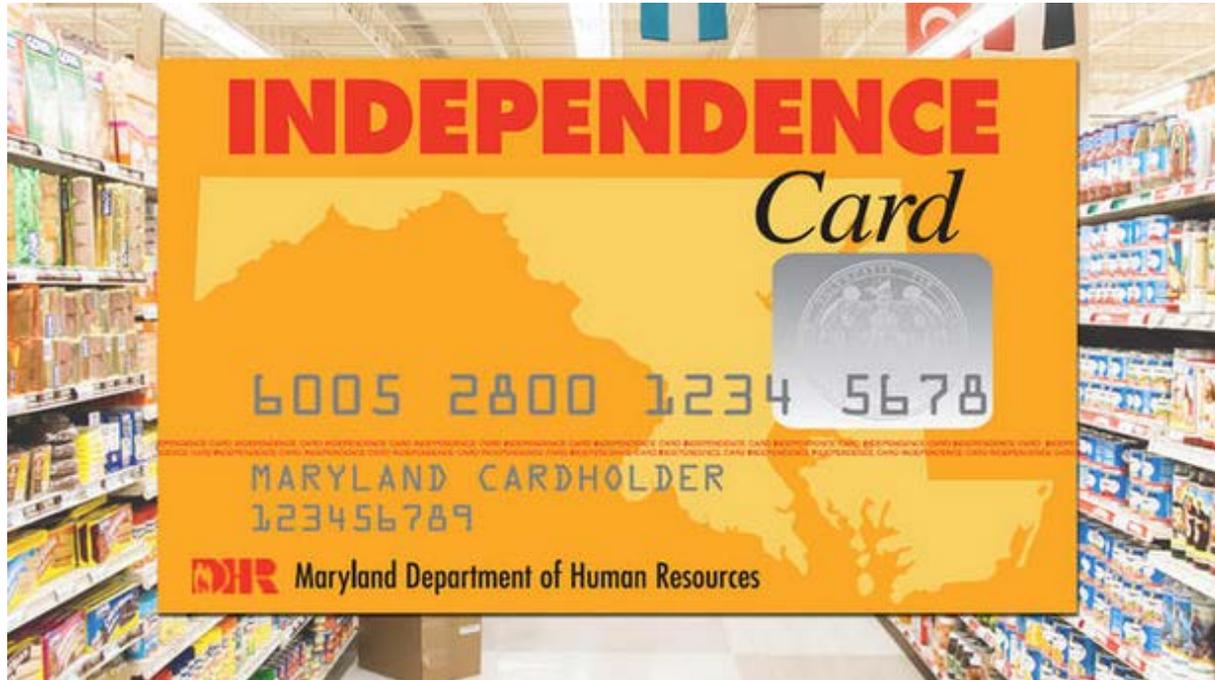
# Prepaid Cards as an Alternative to Traditional Bank Accounts

# Unbanked and Underbanked Use of Prepaid Cards

## According to the FDIC in 2014:

- In the previous 12 months:
  - 22.3 % of unbanked households used a prepaid card
  - 13.1 % of underbanked used a prepaid card
  - 5.3 % of fully banked households

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



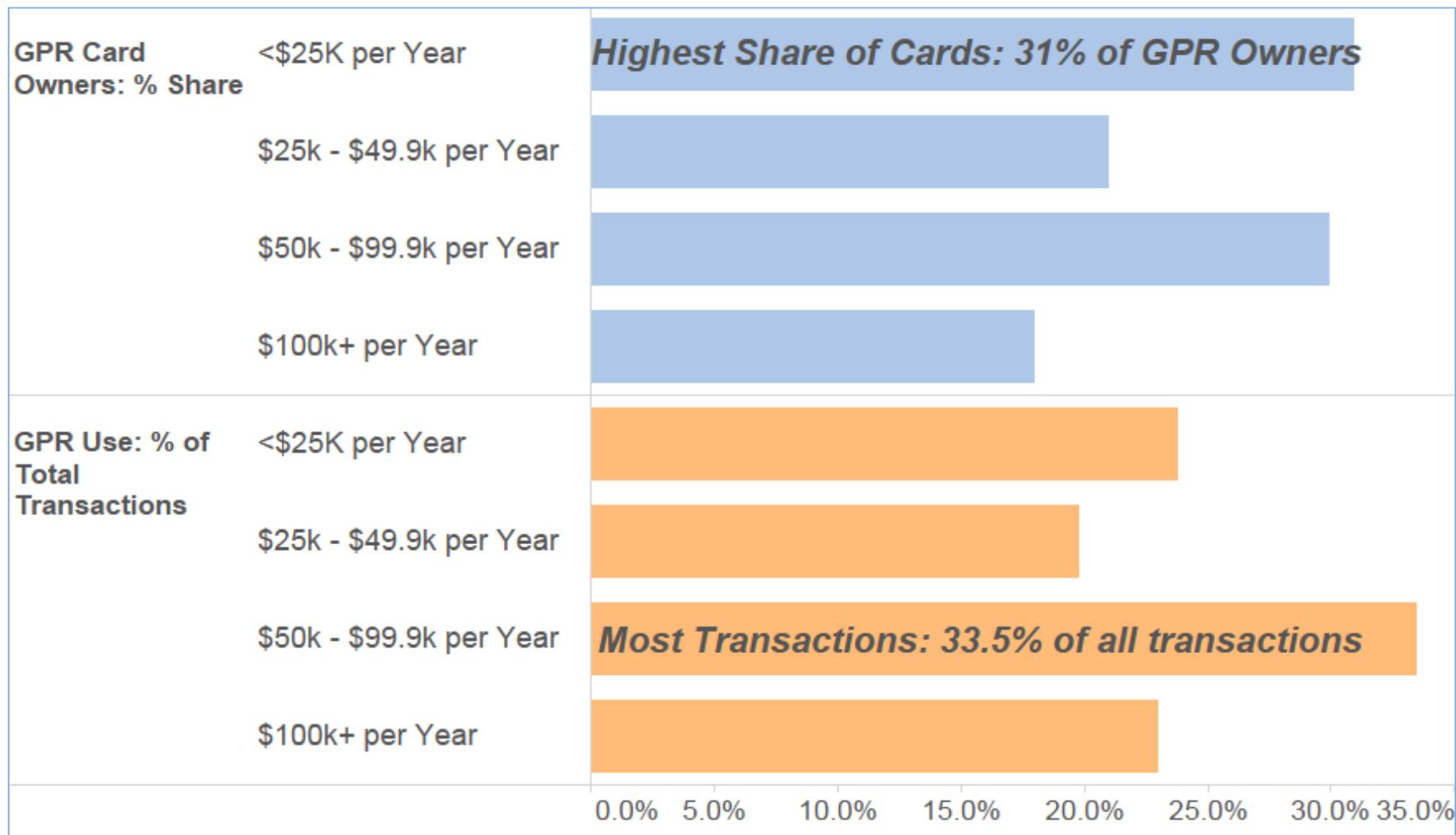
- Functions like prepaid debit cards
- Govt. mandate for EBT will continue to influence growth; WIC will use EBT in 2020

# Government Use of Prepaid Cards



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

# General Purpose Reloadable Prepaid Cards aren't Just Popular with Lower Income Consumers



## Incidence and Type of Fees Paid on GPR Cards

	<b>% Paying Fee Type (August 2013)</b>	<b>% Paying Fee Type (August 2012)</b>	<b>Significant Difference at the 95% Confidence Level</b>
<b>Pay Any Fee (Net)</b>	<b>68%</b>	<b>64%</b>	<b>No</b>
<b>Reload Fee</b>	<b>38%</b>	<b>38%</b>	<b>No</b>
<b>Activation Fee</b>	<b>27%</b>	<b>27%</b>	<b>No</b>
<b>Monthly Fee</b>	<b>27%</b>	<b>29%</b>	<b>No</b>
<b>Money Transfer Fee</b>	<b>18%</b>	<b>9%</b>	<b>Yes</b>
<b>Transaction Fee</b>	<b>17%</b>	<b>12%</b>	<b>Yes</b>
<b>Customer Service Contact Fee</b>	<b>7%</b>	<b>4%</b>	<b>Yes</b>
<b>Typical Month Average Monthly Fee Among Fee Payers</b>	<b>\$5.80</b>	<b>\$5.40</b>	<b>No</b>

Source: Millennials with Money: A New Look at Who Uses GPR Prepaid Cards, Susan Herbst-Murphy, FRB Philadelphia, Greg Weed, Phoenix Marketing International, September 2014

# 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*

Recommended

Excellent  Very Good  Good  Fair  Poor

	PREPAID CARD	SCORE				
Rec.			Value	Fee Accessibility & Clarity	Convenience	Safety
<input checked="" type="checkbox"/>	<b>Bluebird</b> (American Express and Walmart)	<b>90</b>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
<input checked="" type="checkbox"/>	<b>H&amp;R Block Emerald Prepaid MasterCard</b>	<b>86</b>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
<input checked="" type="checkbox"/>	<b>Chase Liquid</b> (Visa)	<b>86</b>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
<input checked="" type="checkbox"/>	<b>American Express Serve</b>	<b>85</b>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
<input checked="" type="checkbox"/>	<b>Fifth Third Bank Access 360°</b> (MasterCard)	<b>81</b>	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>

# Prepaid Debit Issuers Continue to Add Features

- ❑ Allows cardholders to deposit checks directly to using a smartphone
  - instantly funds their card for a fee (1% – 4% or \$5 min.)
  - No charge if availability is delayed 10 days
- ❑ Marketed as a budgeting tool that can be used as a substitute for a checking account or credit card



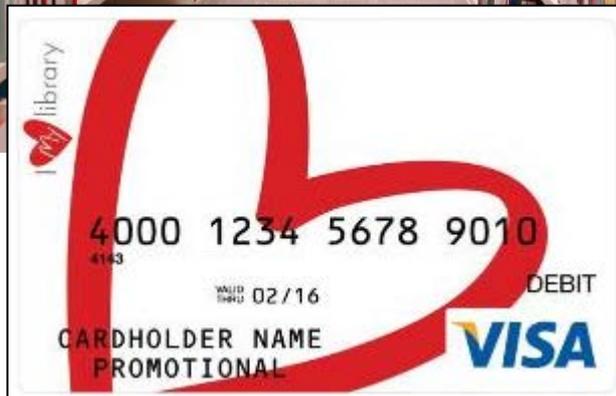
# Prepaid Debit Issuers Continue to Add Features

American Express Serve Cash Back<sup>®</sup> targets the unbanked.

- Earns account holders 1% cash back on purchases.
- Using data from the Department of Labor, American Express<sup>®</sup> estimates that consumers who spend the national averages for groceries, gas, clothing, etc. could “earn” back as much as \$400 annually.
- Eligible for free direct deposit, online bill pay, and ATM withdrawals at select locations.
- Monthly fee of \$5.95 and requires no credit check or minimum balance.



# Frederick County Library Pilots New Library/Debit Cards Then Cancels Program



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

“I Love My Library” Prepaid Visa Debit Card

# Emerging Mobile Payments

# PayNearMe® (PNM): How it Works



Get a paycode from the Merchant payee (available online)

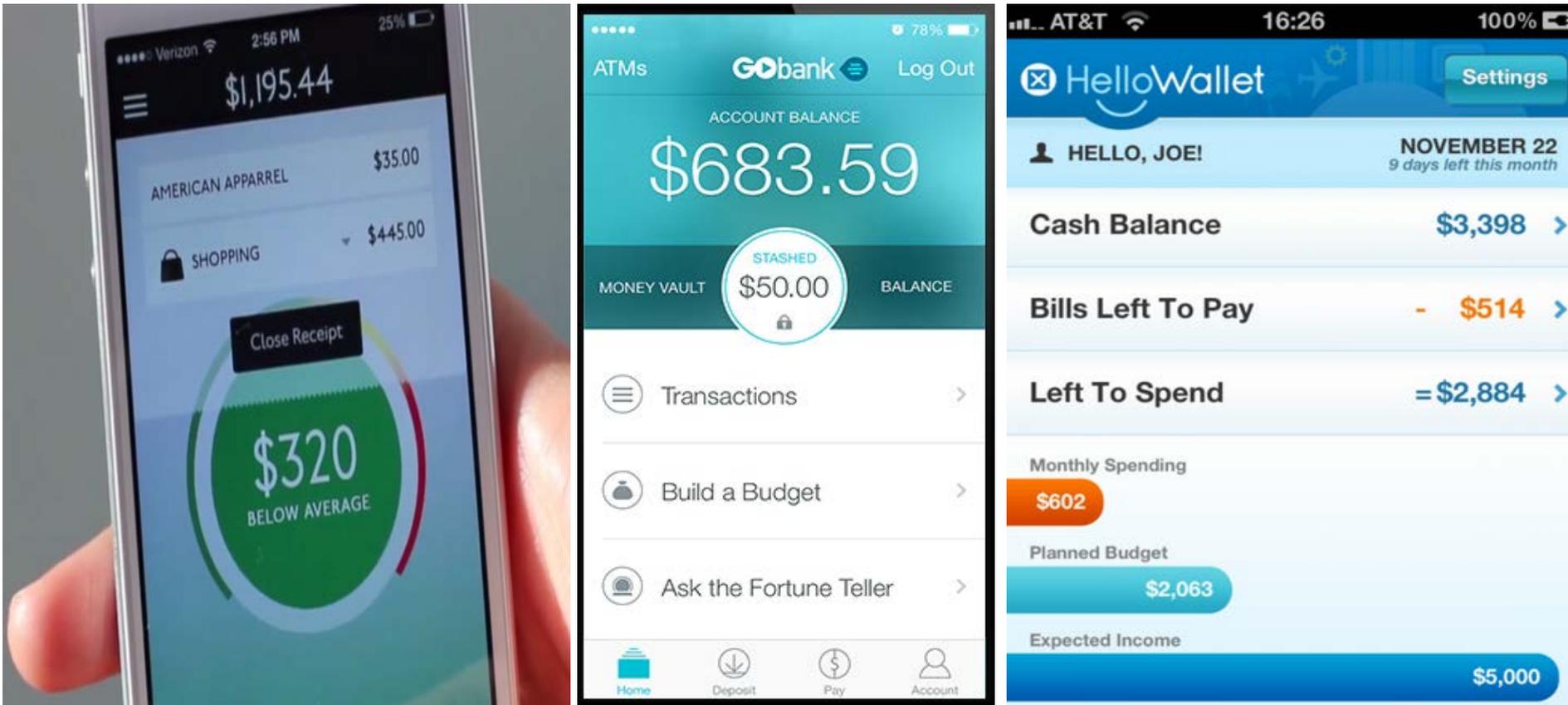


Present paycode & make cash payment at POS; receive receipt

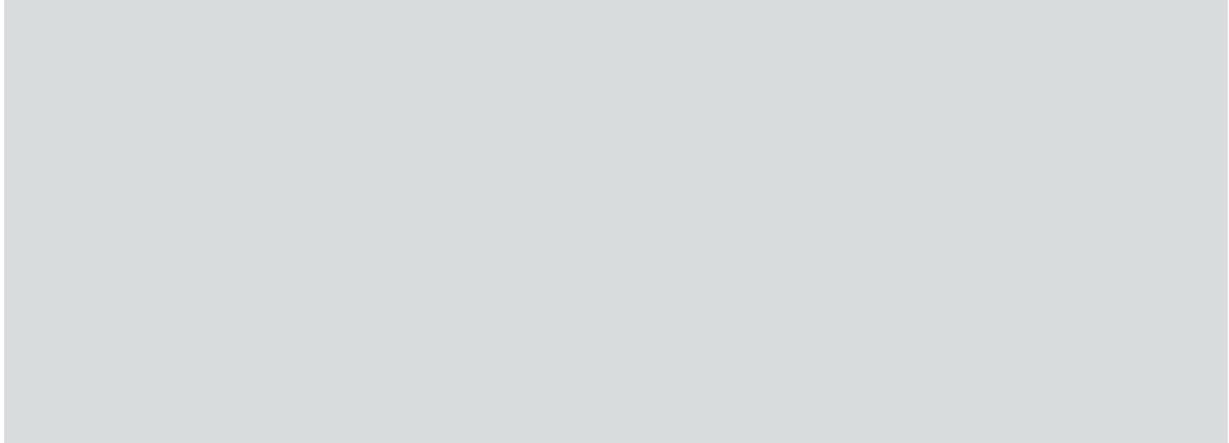


PNM transfers funds to payee via ACH

# 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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