Emerging Payment Alternatives for the Unbanked and Underbanked

Dave Beck, SVP and Regional Executive
September 24, 2015
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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

Source: 2000 and 2012 Federal Reserve Payments Studies
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.

<table>
<thead>
<tr>
<th>Time</th>
<th>Amount Spent</th>
<th>Payment Method</th>
<th>Location</th>
<th>Device</th>
<th>Merchant Type</th>
<th>Merchant name</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 pm</td>
<td>$10.00</td>
<td>P1 Debit</td>
<td>L1 In-Person</td>
<td>D6 None</td>
<td>M17 Movie</td>
<td>Multiplex</td>
</tr>
<tr>
<td>8 pm</td>
<td>$15</td>
<td>P1 Cash</td>
<td>L1 In-Person</td>
<td>D6 None</td>
<td>M2 Grocery</td>
<td>Falletti Foods</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Time</th>
<th>Cash Amount</th>
<th>Cash Location</th>
<th>Cash Source</th>
<th>Did you pay a fee?</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 pm</td>
<td>$10.00</td>
<td>C2</td>
<td>S1</td>
<td>Y/N</td>
</tr>
</tbody>
</table>
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

Source: FRB Boston 2012 Diary of Consumer Payment Choice
Low income consumers use cash for high value payments

Percent of Cash Spending by Household Income

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

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

Source: Federal Reserve System Board of Governors – 2013 Consumers and Mobile Financial Services Report
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?

Mercator’s Insight Summary Report, based on the Payments survey in the CustomerMonitor Survey Series, conducted in June 2015
Use of Alternative Financial Services (AFS) by Unbanked Households That Have Used Alternative Financial Services in Previous 12 Months

2013 FDIC Unbanked and Underbanked Household Survey Results
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

The Independence Card® is a registered trademark of Comerica Inc., registered in the U.S. and other countries.
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

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

<table>
<thead>
<tr>
<th>GPR Use: % of Total Transactions</th>
<th>&lt;$25K per Year</th>
<th>Most Transactions: 33.5% of all transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$25k - $49.9k per Year</td>
<td></td>
</tr>
<tr>
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<tr>
<td></td>
<td>$100k+ per Year</td>
<td></td>
</tr>
</tbody>
</table>

### Incidence and Type of Fees Paid on GPR Cards

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

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>90</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
</tr>
<tr>
<td>H&amp;R Block Emerald Prepaid MasterCard</td>
<td>86</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>Fifth Third Bank Access 360° (MasterCard)</td>
<td>81</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
<td>🔴</td>
</tr>
</tbody>
</table>

Consumer Reports®, December 2014
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

Visa®, Visa Prepaid Card® and BlazePays® are registered trademarks of Visa Inc., registered in the U.S. and other countries.
Prepaid Debit Issuers Continue to Add Features

American Express Serve Cash Back® targets the unbanked.
- Earns account holders 1% cash back on purchases.
- Using data from the Department of Labor, American Express® 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.

American Express Serve Cash Back® is a registered trademarks of American Express Inc., registered in the U.S. and other countries.
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

VISA® is a registered Trademark of Visa in the United States and other countries.
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

PayNearMe® is a registered Trademark of PayNearMe Inc. in the United States and other countries.
Alternative Payment Choices Include Budgeting Tools and Spending Advice

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

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