

Promoting Better Understanding of Prepaid Card Use

Though prepaid card use is gaining in prevalence—there were 6 billion prepaid card transactions valued at more than \$140 billion in 2009—few studies have examined how consumers really use prepaid cards. In an effort to help the industry improve its prepaid business model and assist policy makers in understanding the marketplace to better protect consumers, the Payment Cards Center of the Federal Reserve Bank of Philadelphia and the Center for Financial Services Innovation (CFSI) set out to conduct research analyzing consumers' transaction behavior, as well as the issuer revenue and cardholder costs generated by those transactions.

The Payment Cards Center and CFSI teamed up with Meta Payment Systems, which provided real, anonymous data on more than 280 million transactions made on more than 3 million prepaid cards over a six-year period in over a dozen prepaid card programs. Released in August 2012, the data-rich study's key findings include:

- Prepaid cards and checking accounts offer consumers similar functionality, but the underlying economics are very different. Prepaid cards are typically short-lived products; the average life of a prepaid card is 1/14th that of a checking account. Therefore account acquisition strategies and fee structures for the two products will not be the same.
- Direct deposit is an important factor in the economics of prepaid cards. "Regularly scheduled value loads" (typically direct deposit) are associated with a longer life of the card (two to five times) and more purchases (10 to 15 times). Thus, cards with direct deposit typically generate four times the revenue for issuers than those without direct deposit.
- The median cardholder fees earned by issuers over the life of a prepaid card range from about \$4 to \$42, depending on the type of card. Typically, the most significant fees incurred by cardholders are maintenance fees and ATM withdrawal fees.
- The number and value of loads on a prepaid card tend to be modest. For example, the median number of loads over the life of a general purpose reloadable prepaid card distributed via the web is 3, with the median value of each load being \$170.

Thanks to the real data from Meta Payment Systems, and the efforts of the Philadelphia Fed and CFSI, those working in the prepaid market now have a more comprehensive understanding of prepaid users to better serve them. As Mick Conlin, senior vice president at Meta, said, "Innovation will come out of understanding the consumer better."



One of my goals in life has been to help provide opportunities for millions of people who do not have access to the kinds of financial products and services that many of us take for granted. That's why Meta's mission is to promote financial inclusion for everyone. Meta is committed to supporting products that help move people toward financial freedom. The prepaid industry provides a critical platform for us to accomplish that purpose.

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