



KEY FOCUS GROUP FINDINGS ON PREPAID DEBIT CARDS

The market for prepaid debit cards¹ is large and growing fast. In 2009, \$28.6 billion was placed onto reloadable prepaid cards in the United States.² By 2013, that figure is expected to reach \$201.9 billion.³ While users without bank accounts may see these cards as a safe repository for their money, many purchasers may not be aware of both the myriad fees that deplete card balances and the overall lack of consumer protections for these products. In November 2011, the Pew Health Group's Financial Security Portfolio conducted focus groups with consumers who purchase and use prepaid debit cards to understand the motivation behind this practice.⁴

THE DESIRE TO AVOID INCURRING HIDDEN BANK FEES IS A FACTOR IN THE ADOPTION OF PREPAID CARDS.

Most participants in the focus groups have a checking account. Of these, many have previously incurred unanticipated fees on their account and are not happy about such an outcome. They prefer the \$2 and \$3 fees from prepaid cards over the potential of a \$35 overdraft fee on their checking accounts.

- "I don't like the fees on prepaid debit cards. ... It costs to load (them). It costs \$3.95. I don't like that I pay the \$3.95, but I'd prefer to pay the \$3.95 than have to deal with the things that I know that people go through with their checking accounts. I'm good with my checking account. Nobody wants to pay extra fees. If we had to, I'd take the \$3.95 any day over the \$35 overdrafting or for some other fees." —Female participant, Chicago
- "I think (prepaid card fees) are fair because they're upfront. I'm thinking in contrast to a checking account. I think the ambiance and the idea of the marketing behind a checking account is they're your friend; they're your hometown bank. You can depend on them. You can count on them and, really, they're just lulling you into the sense of comfort because they're going to whammy you with fees on the backside. Whereas prepaid debit cards, they're very upfront. This is the cost of the card; this is the cost for the services. It's up to you at that point." —Female participant, Houston
- "Compared to my situation, I went through a lot of late fees with the credit cards, extra fees with the checking accounts. I was paying monthly between \$35 to \$50 in fees compared to \$3.99 that I pay for a maintenance fee to get a card." —Male participant, Houston

PARTICIPANTS USE PREPAID DEBIT CARDS AS TOOLS TO HELP THEM BUDGET AND CONTROL THEIR SPENDING.

Prepaid cards allow these consumers to limit their spending and avoid incurring unwanted debt.

- “(The card) is \$9.95 per month for unlimited charges on it or a dollar per charge on the card. I know exactly how much I’m going to have to pay in fees upfront. I know exactly how much money is available on the card because I put it on the card. ... It’s just easier to track and manage.” —Female participant regarding her prepaid card, Houston
- “You’re not overdrafting, and what’s on there is what’s actually on there. If you have a prepaid card with \$500, it’s a \$500 limit. There’s \$500 on it. If you have a credit card with \$500, one, you don’t actually have \$500. You just have this imaginary \$500 that you have to pay back. Even though you say, ‘Oh, it’s fine. I’ll just put X amount on each month and it will be gone.’ That might have happened, and also now, you’re into the interest rates and all these things, and you’re not paying it, and they’re mad at you. Now, your credit would be down. If you have money on your prepaid card, you’re not going to not pay it off because it’s already paid.” —Female participant, Chicago
- “One of the things that I did was I got one of those debit cards, and I know that whatever is on it is the only thing that I can spend. I’m not using my real credit card where I can spend and pay a little bit a month. I know I’m only allowed to use what is on that card, and that actually limits me as well.” —Female participant, Houston

THE FEES ASSOCIATED WITH PREPAID CARDS ARE A DRAWBACK.

While participants in the focus groups do not complain about the dollar amounts of the fees, they are concerned about the fees associated with every aspect of the cards: an initial fee to purchase, subsequent fees for reloading funds, monthly fees, a replacement fee for lost cards, a fee to use ATMs, and a fee to call customer service. Participants are unhappy with both the number of fees and their cost.

- “Yes, you call customer service on a certain card and they charge you. Getting ready to reload my card and they took \$2 off because I had called customer service, and I didn’t know that they were going to charge me for that.” —Female participant, Chicago
- “It was like, ‘Ma’am, you get charged for calling customer service.’ ‘I’m getting charged now for calling you all about the money that I got charged?’ She was like, ‘Yes, I’m sorry.’ I was like, ‘The next time I load my card, I have to pay for the fees that you charge me for talking to you right now?’ ‘Yes.’ ‘Okay, ‘bye.’” —Description of phone call by a female participant, Chicago

PARTICIPANTS GENERALLY OPPOSE THE IDEA OF ADDING A CREDIT LINE AND OVERDRAFT FEATURES TO PREPAID CARDS.

Credit line: When asked, many are uneasy with the idea of including credit options with prepaid cards. While some say credit could be useful in an emergency, most express concern that it would undermine the perceived value of having a prepaid card—to budget and avoid overspending.

- “It defeats the purpose of a prepaid debit card because it is, like, it’s a credit card. You can use money that you really don’t have to pay back, and I wouldn’t want to do that because I know I’m just going to get myself in some trouble.” —Female participant, Chicago

Overdraft: The vast majority of participants reject the idea of including overdraft options on prepaid cards. Many envision getting into the same spiral of trouble with overdraft fees on their prepaid cards that they have had with their checking accounts.

- “For me, anyway, the reason I use a prepaid card and encourage my daughter to do that as well (is) you can’t get into credit trouble.” —Female participant, Houston

PARTICIPANTS WELCOME THE IDEA OF ADDITIONAL PRODUCT FEATURES SUCH AS A SAVINGS OPTION, DIRECT DEPOSIT, AND CREDIT-BUILDING TOOLS.

Savings: The overwhelming majority of participants want this feature.

- “It would help me to save more. It would, really, because if I just have just my checking, it will be hard for me to just take money out and physically go put money in my savings or do it myself. If I have a feature to do it for me, I will save more.” —Female participant, Chicago

Direct deposit: Most want this feature.

- “It’s good if you don’t have a checking account. What that can do, you can actually have money on the card where you don’t have to go to the bank and actually cash a check.” —Male participant, Chicago

Credit building: About half of the participants support using prepaid cards to build credit history or repair damaged credit. Others strongly oppose it and have concerns about protecting their privacy.

- “(I am) rebuilding and rebounding from the devastation of a divorce. ... I have one line of credit and it’s minimal. I’m penalized in my purchasing of large items because I don’t have an active credit history now, even though I feel like I’m being very, very prudent with my spending and I’m a good credit risk. I have no proof of that because I operate on a cash basis or (with a) prepaid debit card.” —Female participant, Houston

MOST ASSUME THAT THE FEDERAL GOVERNMENT PROVIDES OVERSIGHT OF PREPAID CARDS. THEY ARE ALSO UNAWARE OF CONSUMER PROTECTION GAPS—SUCH AS THE LACK OF FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) INSURANCE COVERAGE ON SOME CARDS AND NO REQUIREMENTS FOR FEE DISCLOSURE—AND ARE TROUBLED UPON LEARNING OF THEM.

Lack of federal government oversight: Some participants are “very concerned”⁵ that there is no recourse if they experience a problem with their card. A few say that more regulation will likely result in higher prepaid card fees.

- “There has to be some sort of regulation of fees associated with these cards. Otherwise, I could see companies, just like with the bank, charging these ridiculous fees for everything.” —Female participant, Houston
- “Somebody has got to pay for this federal government oversight, and that’s going to come out of tax money, which is going to bite into my money that I’m trying to save.” —Female participant, Houston
- “I feel like if you are going to take someone’s money, there has to be some regulation. If there wasn’t a regulation, I could open up a business and say, ‘Hey, give me your money because it’s a prepaid card,’ and then I could just disappear, and then all these prepaid cards don’t work. There has to be a regulation at all times for doing that.” —Female participant, Chicago

Lack of FDIC insurance coverage: Most participants are “very concerned” that not all cards have FDIC insurance.

- “Because I want my money back. Give me my money. It’s my money, and if I put it on your card, I deserve to get it back. I think they should be regulated by the FDIC.” —Male participant, Chicago

Lack of requirements for fee disclosure: Most participants are “very concerned” that prepaid card companies do not have the same obligation to disclose fees that banks have.

- “That just highlights my point: most folks aren’t going to read the fine print. I think the card company should take the responsibility to make sure that their customers are informed.” —Male participant, Houston

YET THE LACK OF A REQUIREMENT FOR AN ITEMIZED BALANCE STATEMENT DOES NOT TROUBLE MOST OF THE PARTICIPANTS.

Many regularly check their balance online or over the telephone, so they do not feel that information is being withheld from them.

- “For my day to day, it is definitely my prepaid debit card. One of the features that I love is that it gives you instant balance updates on your cell phone. That gives me much better control.” —Female participant, Houston

THE PERCEIVED ANONYMITY OF USING A PREPAID CARD IS SEEN AS A BENEFIT.

Some believe that prepaid cards offer better protection from identity theft, fraud, and privacy intrusion compared with options such as credit and bank debit cards. Others use prepaid cards to pay particular bills (such as utilities) for which they do not want to give the company information about their checking accounts.

- “If you have a credit card, you have a credit application somewhere. They have a lot of personal information about the person who’s holding that card. Whereas if you have a prepaid debit card, all they know is that somebody at some point bought that card and paid that much money for it.” —Female participant, Houston
- “The majority of the prepaid debit cards that are out there, you do not have to register, and that’s actually your choice to do so. I could have just stuck with my little one that says ‘preferred customer’ and I could have kept loading it. No, I chose to do it the other way. You actually have an option. When you have a checking account with the bank-issued credit card, you don’t have the option. You can’t say, ‘Put me down as John Doe number three.’” —Female participant, Chicago

FEW PARTICIPANTS COMPARISON SHOP FOR A PREPAID DEBIT CARD.

Most picked whichever one was convenient or recommended to them.

- “My cousin actually picked it. I don’t know why, but that’s the one that she chose and told me to buy.” —Male participant, Chicago
- “One of my friends had one. He was telling me about it. It’s probably a good way to manage your finances, so I bought one.” —Male participant, Houston

The Financial Security Portfolio of The Pew Health Group works to ensure that the financial products many consumers use every day, including checking accounts, credit cards, and small-dollar loans, are safe, fair, and transparent for all consumers.

ENDNOTES

1. Prepaid debit cards are preloaded with funds and allow consumers to access funds at an ATM or make purchases, but they are not attached to actual bank checking accounts. These cards are branded with a Visa, MasterCard, American Express, or Discover logo.
2. Mercator Advisory Group, *Prepaid Market Forecasts 2011-2014*, November 2011.
3. Ibid.
4. The two-hour sessions took place on November 14, 2011, in Houston, Texas, and on November 17, 2011, in Chicago, Illinois. Two sessions were held in each city; a total of 40 participants were included in the four discussions. Information in this fact sheet was taken from “Memorandum—Findings from Focus Groups with Prepaid Debit Card Users,” Hart Research Associates/Public Opinion Strategies, November 28, 2011.
5. Participants chose from the options “very concerned,” “somewhat concerned,” “not that concerned,” or “not concerned at all.”