



## Defining Quality in the Prepaid Market

Ten years ago, a fledgling financial product entered the scene, promising to transform the way traditionally underserved consumers engaged with the financial services industry. The prepaid debit card would allow customers to spend only what they had, and it was available to nearly anyone. It promised control, convenience, and a gateway to the exploding world of digital commerce.

CFSI believed prepaid debit cards represented an important opportunity for underserved consumers, filling a longstanding need for those caught between traditional checking or savings accounts and the cash economy. As providers rushed into the market, CFSI recognized the opportunity to work with industry leaders to shape the quality of prepaid product offerings. Prepaid cards could be more than just basic transactional tools. We asked:

### What if prepaid debit cards became a bridge to financial stability?

Today, 13% of the U.S. adult population uses prepaid cards, according to Javelin's "Checking vs. Prepaid: Threat or Opportunity." CFSI provided insights and guidance to ensure that prepaid products are high-quality and designed to responsibly meet the needs of consumers.

Today, millions of consumers use prepaid cards to spend, manage, and save their money.

### Exploring the New Marketplace

In its early years, the prepaid card industry was faced with big questions: What is prepaid? Is it a high-quality alternative to a checking account? Can it be more than a basic transactional product for underserved consumers?



To answer these questions, CFSI set out to better understand the prepaid market and consumer need. In 2007, CFSI worked with the Federal Reserve Bank of New York to get a clearer picture of consumers' transaction behavior. The resulting report, "[Cardholder Use of General Spending Prepaid Cards: A Closer Look at the Market](#)," demonstrated that cardholders used prepaid cards as an electronic payment instrument and substitute for cash and pointed to the potential of prepaid as a full-fledged financial product. Our later ethnographic research, "[A Tool for Getting By or Getting Ahead: Consumers' Views on Prepaid Card](#)," showed how consumers viewed prepaid products, the financial circumstances that led consumers to use them, and how they could enhance families' financial well-being. When the industry became more established, CFSI partnered with the Payment Cards Center of the Federal Reserve Bank of Philadelphia to conduct a first-of-its-kind, large-scale quantitative study of prepaid transactions. With analysis of more than 280 million transactions made on more than 3 million prepaid cards issued by Meta Payment Systems, the report, called "[Consumers' Use of Prepaid Cards: A Transaction-Based Analysis](#)," offered insights into the longevity of prepaid cards and the intensity of their use across varying distribution channels. The findings showed that prepaid cards were typically short-lived products that exhibited modest but considerably varied use, demonstrating the variation in revenue and costs for issuers.

### Championing Best Practices

As our understanding of the product potential and consumer need grew, so did the market. In fact, according to the Mercator Advisory Group's "Tenth Annual U.S. Open-Loop Prepaid Cards Market Assessment and Prepaid Market Overview," the total prepaid market, including the total amount loaded on both open- and closed-loop cards, grew from \$124 billion in 2003 to just over \$500 billion in 2012.<sup>1</sup> In the face of this tremendous growth, CFSI saw the need to identify best practices—standards of quality that would align profitability for the provider with success for the consumer.

So, in 2011, CFSI convened a collaborative group of leading industry stakeholders representing a cross-section of the prepaid market supply chain. This Advisory Council on the Prepaid market worked over several months to define quality in prepaid. Out of this work, CFSI developed [the Compass Guide to Prepaid](#), which established standards of quality for the design and delivery of prepaid products.



That same year, CFSI released a model fee disclosure box for prepaid cards. Since then eight cards, including Bluebird by American Express, the H&R Block Emerald Card, and the Western Union MoneyWise card, have adopted CFSI's model fee box. And, today, the Consumer Financial Protection Bureau is developing a model disclosure form to include in a forthcoming prepaid rule.

As a result of this work, there has been a dramatic improvement in the quality of prepaid. In early 2014, CFSI produced the Prepaid Industry Scorecard to assess the level of quality in the marketplace. The industry received an A- for the adoption of basic practices necessary to meet consumers' transactional needs. Prepaid cards have come a long way, but there remains an opportunity for providers to go beyond the basics. Innovative providers are building on the foundational practices of today's cards and developing prepaid products that serve as robust financial platforms.

XYZ Prepaid Card Co.		
Prepaid Card Fee Summary		
Fee Category	Fee Type	Amount
Total Cost of Setup:	Monthly Fee	\$ X.00
	Activation	\$ X.00
Add Money:	Direct Deposit	Free
	Cash (at a Store)*	\$ X.00
Get Cash:	ATM*	\$ X.00
	Store Cash Back	Free
Spend Money:	Signature	Free
	PIN	\$ X.00
Information:	Call Customer Service	\$ X.00
	Online/Mobile Information*	Free
	ATM Balance Inquiry*	\$ X.00
Caution:	Replacement Card	\$ X.00
	Inactivity	\$ X.00
	ATM Decline	\$ X.00
Other fees may apply, see terms and conditions for details. *Third-party fees may apply.		
www.XYZPrepaidCard.com		(202) XXX-XXXX

**The Compass Guide to Prepaid articulates three levels of practices – Core, Stretch, and Next Generation. CFSI's assessment awards the prepaid card industry the following grades at each practice level:**

**CORE**

A-

Standards for a high-quality prepaid account

**STRETCH**

B

Best practices for providers to stretch beyond the basics

**NEXT GEN**

C-

Additional services that improve consumers' lives

## Driving towards the Next Generation of Prepaid Cards

As technology evolves and the regulatory landscape shifts, CFSI envisions a future where consumers have a greater variety of next generation features at their fingertips. Features like:

- **Budgeting tools** that allow cardholders to set goals and track their spending in different categories
- **Customizable alerts** that let cardholders determine when and how they would like to receive important account information
- **Savings platforms** that allow cardholders to save and store funds for a rainy day
- **Sub-accounts tied to companion cards** that can be given to a child or another family member for budgeting purposes
- Access to **high-quality, safe, and affordable credit**
- Proactive **customer service systems** that provide targeted, individualized, and ongoing guidance to cardholders

With innovations like these, prepaid debit cards can become sophisticated, multi-functional money management tools. Prepaid cards can play a more active role in improving the financial health of millions of consumers. Together, we can raise the bar on quality.

CFSI is looking towards the next decade, committed to finding the answer to the question:

What if prepaid cards became robust financial platforms that supported the full financial lives of American consumers?

Join the conversation:

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