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From Coins to Big Bucks: The Evolution of General-Purpose Reloadable Prepaid Cards

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“ All ideas grow out of other ideas. ”

—Anish Kapoor, Sculptor

What are some of the first things you see when you walk into most large retail stores? Chances are large racks of prepaid cards will be something you notice. Sometimes there's even more than one rack—all displayed to grab your attention. This trend in marketing prepaid cards can be traced back to the prepaid phone card.

Before cell phones were invented, pay phones were used for communication when people were away from home. Telephone booths with pay phones were common fixtures on street corners and in public places. Using a pay phone required the caller to insert coins in certain amounts. Local calls cost a set amount, but the cost of long-distance calls was determined by an operator according to the duration and destination of the call. If the caller didn't have the correct amount of change, the call was ended. In addition, vandalism of pay phones was frequent because the coins were physically inside the phone.

As an alternative to using coins, the prepaid phone card was invented in Europe in the 1970s and was introduced in the United States by the late 1980s.¹ The prepaid card idea quickly expanded to include merchant-specific cards (**private-label prepaid cards**). These cards are widely called “gift cards” and can be used only at the stores named on the cards. In the early 1990s, the government began replacing paper-based food stamps with **electronic benefit transfer (EBT)** prepaid cards. These cards could be used at a wide variety of merchants. Within only a few years, the prepaid phone card idea had inspired an even bigger idea: the prepaid card market.

The General-Purpose Prepaid Card Evolves

Today there are a number of different types of prepaid cards, including **reloadable cards**. And in recent years, changes in consumer spending habits have particularly increased the popularity of the **general-purpose reloadable (GPR) prepaid card**. The GPR prepaid card is the fastest-



GLOSSARY

Direct deposit—An electronic transaction in which money is deposited directly into a payee's bank account from a payer's bank account.

Electronic benefit transfer (EBT)—An electronic system that allows a recipient to receive financial benefits from the government via a debit card. The recipient uses the EBT card to make purchases from retailers.

General-purpose reloadable (GPR) prepaid card—A prepaid card that is branded as a “general-purpose” reloadable (GPR) card. A prepaid GPR card allows consumers to reload the card with additional funds and even set up direct deposits to the card.

Private-label prepaid card—A merchant-specific card that can be used only at a particular merchant or chain of merchants (e.g., Sears or JC Penney); a card issued by and used for purchases at a retailer. Private-label cards cannot be used on a general-purpose card network.

Reloadable card—A prepaid card that allows the cardholder to add more funds (money) to the card.

Underbanked—Consumers or businesses that have limited or poor access to primary financial services provided by banks and rely on alternative financial services.

Unbanked—Consumers who have no account at a bank or a financial institution.

Common Fees for GPR Prepaid Cards

- Initial activation
- Monthly maintenance
- ATM withdrawals
- Balance inquiries
- Reloading (either by cash payment or direct deposit)
- Card replacement
- Calls to customer service
- Monthly statements
- Replacement card
- Inactivity

growing noncash form of payment: The number of transactions increased at an annual rate of 33.5 percent from 2009 to 2012. A total of 3.1 billion GPR prepaid card transactions were made in 2012, which is 1.8 billion more transactions than in 2009.²

A GPR prepaid card looks like a debit or credit card, carries the logo of a major payment card network brand—American Express, Discover, MasterCard, Visa—and can be used like a debit card. The card can be used to make purchases anywhere the card brand is accepted and to obtain cash at any ATM that connects to the card's network.

A GPR prepaid card can be purchased at a retailer or online and has no value until it is purchased and “loaded” with an amount of money. The card is not linked to a bank account, and transactions are made on a “pay-as-you-go” basis. Whenever a purchase or cash withdrawal is made, the amount is subtracted from the card's balance. The card can be activated either online or by telephone. Only activated cards can be reloaded with additional funds. After the card is activated, a new personalized card is sent to the purchaser and this registered GPR card can be reloaded with additional funds at retail locations, online, or by **direct deposit**.³ Consumers can use activated GPR cards as substitutes for checking accounts by directly depositing their earnings, withdrawing funds at ATMs, and purchasing goods and services.

The popularity of the GPR prepaid card has increased despite costs incurred with its usage. Although competition among prepaid card issuers and increased volume

have helped lower card fees, usage can be costly.⁴ Fees, terms, and conditions of usage vary among cards, and fees may be determined according to individual spending habits. For example, some cards have different fees according to the number of transactions each month and whether the card is reloaded using direct deposit or with cash (see the boxed insert).

Additionally, the fee disclosure can be confusing and difficult to understand. Currently, the style, format, and content are determined by each card company. This makes it hard to determine the card's cost or to compare the costs of different cards. To address this concern, in 2014 the Consumer Financial Protection Bureau began the task of creating a new, standardized disclosure requirement for prepaid cards to assist consumers in comparing the fee structure among cards so fees can be further minimized.

Who Uses the GPR Prepaid Card?

The GPR prepaid card quickly became widely used as an important product for lower-income, **underbanked**, and **unbanked** consumers. In some instances, prepaid cards have become necessities for these consumers. For example, prepaid cards are now an alternative for government payments such as Social Security payments, veterans and military benefits, unemployment benefits, and wages for federal employees. Unbanked and underbanked recipients of such benefits can use the prepaid cards to pay for purchases and routine expenses such as bills. In 2013, the Federal Reserve System reported that about one in five U.S. consumers conduct financial transactions outside the mainstream banking system and are considered either unbanked or underbanked.⁵ Based on these data, it is estimated that 17 percent of unbanked and 22 percent of underbanked consumers held GPR prepaid cards in 2012 compared with 6 percent of banked consumers.⁶

In 2013, Phoenix Marketing International (Phoenix) conducted a survey of consumers to collect information on GPR prepaid card usage.⁷ This research verifies that lower-income consumers continue to use GPR prepaid cards (Table 1). However, the survey finds that other consumer groups have adopted the GPR prepaid cards by choice.

The Phoenix study shows the greatest increase in GPR card ownership and use occurred among Millennials.⁸

Table 1

Ownership of GPR Prepaid Cards by Income

Income group	Percent owning cards (August 2013)	Percent owning cards (August 2012)
Total all income groups	25	21
<\$25,000 per year	28	26
\$25,000-\$49,999 per year	21	22
\$50,000-\$99,999 per year	26	16
\$100,000+ per year	27	18

SOURCE: Modified from Herbst-Murphy and Weed, p. 5 (see note 7).

Table 2

Ownership of GPR Prepaid Cards by Age

Age group (years)	Percent owning cards (August 2013)	Percent owning cards (August 2012)
Total consumers	25	21
Millennials (18-32)	45	34
Generation X (33-48)	35	27
Baby Boomers (49-67)	18	16
Greatest Generation (68+)	4	4

SOURCE: Modified from Herbst-Murphy and Weed, p. 7 (see note 7).

Table 3

Reload Value and Frequency by Income within Age Group

Cardholder income by group	Average reload amount (\$)	Percent reloading at least once a month
Total	78	59
<i>Income within age groups (\$)</i>		
Millennials		
<\$50,000	56	60
\$50,000-\$99,999	84	74
\$100,000+	117	81
Generation X		
<\$50,000	67	60
\$50,000-\$99,999	89	62
\$100,000+	90	61
Baby Boomers		
<\$50,000	80	49
\$50,000-\$99,999	83	42
\$100,000+	92	42
Greatest Generation		
All incomes*	81	56

NOTE: *This sample size is too small to divide by income group.

SOURCE: Modified from Herbst-Murphy and Weed, p. 17 (see note 7).

Table 4

Distribution of Heavy GPR Prepaid Card Spenders by Age*

Cardholder age group (years)	Percent heavy spenders
Millennials (18-32)	44.0
Generation X (33-48)	33.1
Baby Boomers (49-67)	21.7
Greatest Generation (68+)	1.2

NOTE: *"Heavy spending" is defined as more than \$200 in the previous month.

SOURCE: Modified from Herbst-Murphy and Weed, p. 35 (see note 7).

Forty-five percent of Millennials owned a GPR card in 2013—an 11 percent increase over 2012 (Table 2). And Millennials use their GPR prepaid cards more frequently for purchases and reload their cards more often and with a higher average value than card users in other age groups (Table 3).

New Perspective for GPR Prepaid Cards

The Phoenix research confirms the expansion of the GPR prepaid market into younger and higher-income populations and identifies the Millennials as a primary age group for continued growth in the GPR prepaid market. With an estimated 77 million Millennials,⁹ the sheer size of this generation can potentially ensure continued growth in the market. Combining the original target market groups—low-income, unbanked, and underbanked consumers—with the Millennials adds a new perspective to the GPR card market: a larger target

market with more spending power (Table 4). This expansion changes the GPR prepaid card market substantially.

Conclusion

Prepaid cards were invented as a solution to a problem: replacing coin usage in pay telephones. This invention has been improved upon and has evolved into a huge competitive market. There are many brands: Green Dot, Bluebird, MoneyPak, and MoneyCard, to name just a few. A walk through almost any store (e.g., Wal-Mart, Walgreens, 7-Eleven, Family Dollar) provides just a snapshot of how the original phone card idea grew into a mega-market netting big bucks. Consumers loaded \$28.6 billion on GRP prepaid cards in 2009, and the load value increased to \$64.5 billion in 2012.¹⁰ As competitive marketing of the GPR prepaid cards targets younger and more affluent consumers with substantial buying power, it is logical that the total load value will potentially grow even more. From coins to big bucks—that's a lot of growth! ■

Related Readings

"General Purpose Reloadable Prepaid Cards: Penetration, Use, Fees, and Fraud Risks" by Fumiko Hayashi and Emily Cuddy. Research Working Paper No. RWP 14-01, Federal Reserve Bank of Kansas City, February 2014; <http://www.kansascityfed.org/publicat/reswkpap/pdf/rwp14-01.pdf>.

"Prepaid Products: New Disclosures to Help You Compare Options" by Eric Goldberg. Consumer Financial Protection Bureau, November 13, 2014; <http://www.consumerfinance.gov/blog/prepaid-products-new-disclosures-to-help-you-compare-options/>.

NOTES

¹ "Phone Cards 101—Phone Cards History"; <http://phonecards101.weebly.com/>.

² Federal Reserve System. "The 2013 Federal Reserve Payments Study: Recent and Long-Term Payment Trends in the United States: 2003–2012. Summary Report and Initial Data Release." December 19, 2013; p. 21; https://www.frbservices.org/files/communications/pdf/research/2013_payments_study_summary.pdf.

³ Bennett, Jeannette. "Cards, Cards, and More Cards: The Evolution to Prepaid Cards." Federal Reserve Bank of St. Louis *Inside the Vault*, Fall 2011, pp. 1-6; <https://www.stlouisfed.org/publications/inside-the-vault/fall-2011/cards-cards-and-more-cards-the-evolution-to-prepaid-cards>.

⁴ Bennett (2011).

⁵ Federal Reserve System (2013).

⁶ Hitczenko, Marcin and Tai, Mingzhu. "Measuring Unfamiliar Economic Concepts: The Case of Prepaid Card Adoption." Working Paper No. 14-9, Federal Reserve Bank of Boston Consumer Payments Research Center, June 18, 2014, p. 2; <http://www.bostonfed.org/economic/wp/wp2014/wp1409.pdf>.

⁷ Herbst-Murphy, Susan and Weed, Greg. "Millennials with Money: A New Look at Who Uses GPR Prepaid Cards." Discussion paper, Federal Reserve Bank of Philadelphia Payment Cards Center, September 2014; <http://www.phil.frb.org/consumer-credit-and-payments/payment-cards-center/publications/discussion-papers/2014/D-2014-Millennials.pdf>.

⁸ Millennials can be defined as consumers between 18 and 32 years of age.

⁹ Pew Research Center. "The Millennial Count." March 22, 2010; <http://www.pewresearch.org/daily-number/the-millennial-count/>.

¹⁰ Pew Charitable Trusts. "The Need for Improved Disclosures for General Purpose Reloadable Prepaid Cards." February 26, 2014; <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2014/02/26/the-need-for-improved-disclosures-for-general-purpose-reloadable-prepaid-cards>.

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