



The Need for Improved Disclosures for General Purpose Reloadable Prepaid Cards

Overview

General purpose reloadable prepaid cards are a relatively new but increasingly popular financial product. According to data provided to The Pew Charitable Trusts by the Mercator Advisory Group, consumers loaded \$64.5 billion onto these cards in 2012, up sharply from \$28.6 billion in 2009. Consumers can purchase the cards online or in retail stores and use them as substitutes for checking accounts by direct depositing their earnings, withdrawing funds at ATMs, and purchasing goods and services. The cards also can supplement checking accounts by helping consumers control their spending, because most cards do not allow consumers to spend more than the balance on the card.

However, the rising popularity of prepaid cards has not been matched by increased protection for consumers that would, for example, require uniform disclosures that clearly lay out fees, terms, and conditions. A 2014 Pew survey, "Why Americans Use Prepaid Cards," found that only 32 percent of consumers compared terms before choosing a card. Rather, most simply selected a card while in a store without doing any comparison shopping, or they used a card recommended by family or friends.

Pew's research also documents the lack of uniformity in the disclosure information that accompanies prepaid cards, making it difficult for consumers to comparison shop. Prepaid card issuers disclose information in a wide variety of ways. Some cards do not disclose the fees for particular services, leaving consumers unsure about the service and its cost, if any. Nearly every prepaid card failed to disclose at least one type of fee, service, or consumer protection.

In "Consumers Continue to Load Up on Prepaid Cards" (February 2014), Pew examined 66 of the most popular prepaid cards and found the following median fees to be most common: Monthly fee: \$5.95; Acquisition fee: \$9.95; Out-of-network or in-network ATM withdrawal: \$2; ATM transaction declined: \$1; Point-of-sale signature or PIN transaction: \$1; Point-of-sale transaction declined: \$.50; Live customer service call: \$1.95; Automated customer service call: \$.50.

In an effort to improve prepaid card disclosures, Pew developed a model summary disclosure box that provides information on the key fees, terms, and conditions of the cards in a concise, easy-to-read manner. This box is based on our checking account disclosure box, which has been adopted by 26 banks and credit unions and currently covers almost 50 percent of domestic deposit volume. Pew developed the prepaid card disclosure box to help consumers compare the terms and conditions among prepaid products, and between those products and checking accounts. This is important, because the features offered on prepaid cards are similar to those on checking accounts.

To develop the box, Pew sponsored focus groups in Baltimore, Denver, and Austin, TX, in September 2013. We brought together two groups in each city, one consisting of prepaid card users who had checking accounts and another with consumers who did not. Participants reviewed and commented on three disclosure box prototypes. The final box, included at the end of this issue brief, incorporates the feedback from the focus group participants, detailed below.

Focus group findings

A prepaid card disclosure box that is concise, easy to read, and understandable would be useful to prepaid card users

Most members of the focus groups said they compare only the abbreviated disclosure information that is online or printed on the prepaid card's packaging. They said they skip the detailed disclosure information online and throw away the lengthy, difficult-to-read information included with the prepaid card. When participants were presented with the proposed disclosure box information, they indicated that it was something they would read and use for reference.

“ In that fold-up paper they have when you buy it, all this [disclosure information] is there, but ... it's got three paragraphs of tiny print you can't read.”

—Austin participant

“ They have a little pack that's sealed together with wax or glue or whatever, and it folds out like the Dead Sea Scrolls and you never read it.”

—Baltimore participant

“ I want to be able to go back and review it.”

—Austin participant

Greater transparency is needed for fees and terms associated with prepaid cards

Although participants were aware of some basic activation and usage fees when they purchased their cards, they said they learned about other fees (such as charges for loading more money onto the cards or for nonuse) through their use of the cards. In general, those without checking accounts were less familiar with the various fees they were paying. Among all three focus groups, participants responded negatively when they were told about the number of potential fees they could be charged with their prepaid cards. They said they wanted to know about any and all fees rather than unexpectedly encountering them. (See Figure 1.) The information in the disclosure box enables consumers to identify fees easily, making it possible for individuals to make more informed decisions.

Figure 1

Fees and Information Important to Purchasers of General Purpose Reloadable Prepaid Cards

- Issuance/activation fee
- Monthly fee
- ATM fee
- Reload fee
- Direct deposit fee
- Cash back fee
- Electronic bill pay fee
- Point-of-sale signature fee
- Point-of-sale personal identification number fee
- ATM balance inquiry decline fee
- Inactivity fee
- Calling live customer service fee
- Balance inquiry fee
- Replacement card fee
- Account closing fee

“ Like everybody said, there were, like, a lot of hidden fees I didn’t know about.”

—Baltimore participant

“ The only thing is, I didn’t read any of [the fee disclosures]. I just [used] trial and error, you know?”

—Austin participant

“ They should have a paper just like this [summary disclosure box] actually packaged with the card that’s not written as big as a pinpoint where you need a magnifying glass to try and figure out how much you’re going to be charged.”

—Baltimore participant

“ By having the summary, at least you have an idea how you’ll be spending your money on those cards.”

—Baltimore participant

A disclosure box would help consumers avoid unanticipated charges

In all six groups, participants said they were charged unexpected fees, and most of them called customer service to determine why they incurred the fees. Participants gave examples of instances in which they encountered unexpected fees. A few experienced immediate deductions for outstanding fees when they reloaded their cards, and several said they discovered that fees were taken out of their accounts but were not certain of the cause. Participants stated that the disclosure box could help individuals avoid unexpected fees by identifying potential issues and charges before they are incurred.

“ I know they take money off of it, because I put money on there and it’s just not on there. I know stuff is missing off of there a lot of times. I’ll think there’s 100 bucks on there and there’s 90 something or 80, right below it.”

—Baltimore participant

A disclosure box would aid in comparison of prepaid cards

Participants said a disclosure box would be useful for comparing the fees and features of prepaid cards and help them make more informed decisions so that they can avoid fees and purchase the cards that best meet their needs. The disclosure box also could serve as a useful reference as questions and problems arise, in many cases eliminating the need to call customer service and generate yet another fee.

“ If [the disclosures] were uniform through all of the companies, it would be easier.”

—Austin participant

“ This [the disclosure box] is easier to read.”

—Denver participant

“ It is, then, like, the tiny little pamphlet. ... I probably would have paid way more attention.”

—Denver participant

“ So [with] this [disclosure box] you could at least know what you’re going to get charged for.”

—Denver participant

Prepaid card selection criteria

Most participants did not comparison shop when purchasing their prepaid cards. They purchased cards that they heard about in the media, or that were recommended by friends or relatives, or that they saw in retail establishments or online. Many of the purchases were described as spur-of-the-moment decisions made at the point of sale. Only two or three members of each group said they compared cards. Those with checking accounts tended to comparison shop slightly more than those without.

Those who compared cards used a number of methods. Most of those who chose the cards at a point of purchase said they compared them at the store just before purchase. Participants said they primarily compared the activation and monthly fees that were printed on the back of the packaging. The small minority of consumers who compared prepaid cards online said they examined relevant terms and fees across a number of distributor websites and selected the cards with the lowest fees. Some said they typed the term “prepaid card” into a search engine and compared different cards before selecting one. One or two mentioned using a table they found online to compare the fees of various prepaid cards.

“ [A disclosure box] should probably be available before you purchase it, so [it should be] outside of the package.”

—Austin participant

Prepaid card usage

Participants in our three focus groups have been using prepaid cards for one to 10 years, with the majority reporting usage for the past three to five years. They typically reload their cards every two to four weeks, usually after each pay period. There were differences between the groups in how frequently participants used their cards. Specifically:

- Those with checking accounts used their prepaid cards less frequently (several times a month). They used their cards as disposable income to make miscellaneous purchases. Several reported using the cards as tools to control spending.
- Those without checking accounts reported using their cards very frequently (several times a day or week). Only a few said they used them less frequently (several times a month). They used their cards as they would checking accounts—for all of their basic needs, including rent, groceries, bills, child support, and online purchases.

“ I use [prepaid cards] to budget myself. I’ll put money on the cards, that’s my fun money or for, you know, [responsibilities,] anything in that kind of area, and then credit cards and everything else for emergencies. I did have a problem with overdrawing once in a while, so that definitely helps.”

—Austin participant

“ I purchased mine because I’m kind of bad with money and sometimes, like, I might go places and I might say I have \$100 in my pocket and it only ends up being like \$80 or something because I dropped \$20 somewhere. I basically use it to manage my money, and now, like, whenever I have to pay a bill, I just put it on the card. Even if it’s not due, I just put it on the card and it’s ready for me to pay whenever the bill is due.”

—Austin participant

Participants regularly used multiple prepaid cards, ranging from two to eight. The majority of those with multiple cards used each for a specific purpose. These uses are as follows:

Direct deposit

Those without checking accounts often had a particular prepaid card exclusively for direct deposits from their employers. Some paid their monthly bills from the prepaid cards, and others transferred money to alternative cards. Said one focus group participant in Baltimore: “My paycheck goes right to it, and I get it two days early. Payday is on Friday, so my paycheck is on there on Wednesday.”

Bill pay

Some participants said that they had additional cards specifically used for paying bills and that they transferred or loaded a particular amount to cover their biweekly and monthly obligations. When using cards for this purpose, they would typically register them, which requires submission of some personal contact information. “[I use the card] to pay bills over the phone, instead of just sending out money orders,” explained one Baltimore participant.

Online purchases

Those with checking accounts used prepaid cards to make online purchases for security reasons, because the cards were not tied directly to their checking accounts. Those without checking accounts needed prepaid cards to make any purchases that required credit or debit cards. Said one Baltimore participant: "For privacy, like if you're buying something online and... you're not sure of the website, that way they can take whatever money's left on that card but nothing else."

Spending control and overdraft avoidance

An overwhelming majority of focus group participants did not want overdraft options associated with their prepaid cards. Those without checking accounts had experienced problems in the past with overdraft penalties, causing them not to qualify for checking accounts. Those with checking accounts said they were using prepaid cards to avoid overdrawing their checking accounts and did not want those same concerns with prepaid cards. Some in both categories allocated fixed dollar amounts to prepaid cards for miscellaneous purchases as a budgeting tool to curtail overspending and avoid overdrafts. "I don't even want overdraft [service] on my checking account. Me personally, I don't want it [overdraft on a prepaid card]. I want to stop when it's not enough. I want it to stop," said one Austin participant.

Video rental services

A number of participants purchased prepaid cards specifically for video rental services such as Netflix and Redbox. Some did not want Netflix accounts tied directly to their checking accounts; others wanted to use the cards to pay for rentals in order to manage spending. For those without checking accounts or credit cards, having a prepaid card was necessary to rent movies and games. An Austin focus group participant commented, "I have one loaded for Netflix, and the other for [paying bills]."

Managing fees

Some participants purchased more than one card to avoid fees, which vary depending on the cards, with some charging more for reloading and others less for withdrawals, or vice versa. Participants would choose a card with fewer fees where appropriate. "I've got a couple of accounts," said one Austin participant. "So, it's like if I'm going to get charged a \$3 fee over here when I don't have to have that fee over here, then that's an option."

Pew's model disclosure box for general purpose reloadable prepaid cards

Input from focus groups of prepaid card users, Pew's previous research on general purpose reloadable prepaid cards and work in providing disclosure for checking accounts informed the development of the following disclosure box. (See Figure 2.) Adoption of the box would increase uniformity in the market and allow consumers to easily identify and purchase the product that best meets their needs.

Additionally, it is important for customers purchasing a prepaid card at a retail store to have access to the disclosure box prior to purchase so that they are fully aware of all applicable fees and have the ability to comparison shop. The vast majority of GPR prepaid card packaging uses a folded, hinge design which opens prior to purchase, providing additional marketing materials. Working within the constraints of this common existing packaging, Pew has illustrated how prepaid card companies can include the complete summary disclosure box within their existing packaging without losing any space on the box currently devoted to marketing or other customer information. (See Figure 3.)

Figure 2
Pew’s Model Disclosure Box for Prepaid Cards

	Fee Type	Description	Amount
3 Card Opening and Usage	1 Account Setup	Card Purchase	\$ _____
		Monthly Service	\$ _____
		Requirement to Waive / Reduce Monthly Service	\$ _____ <i>load volume, direct deposit, or other conditions</i>
		Inactivity	\$ _____ per month, charged after X months of inactivity
		Savings Account Option	Yes/No
	2 Purchasing	Purchased with Customer PIN	\$ _____ per transaction
		Purchased without Customer PIN	\$ _____ per transaction
	3 Getting Cash	ATM—In-Network	\$ _____ per transaction
		ATM—Out-of-Network	\$ _____ per transaction (plus fees charged by ATM owner)
		Bank Teller	\$ _____ per transaction
	Account Information	Online Balance Inquiry	\$ _____ per inquiry
		ATM Balance Inquiry - In-Network	\$ _____ per inquiry
		ATM Balance Inquiry—Out-of-Network	\$ _____ per inquiry
		Calling Automated Customer Service / Automated Balance Inquiry	\$ _____ per call
		Calling Live Customer Service	\$ _____ per call
	Loading	Direct Deposit	\$ _____ per direct deposit load
		Cash	\$ _____ per cash load (plus fees charged by RELOAD NETWORK COMPANY)
	Paying Bills	Electronic Bill Pay	\$ _____ per item
Paper Check Bill Pay / Money Order		\$ _____ per item	
Penalty Fees	4 Declined Transactions	ATM Transaction Decline	\$ _____ per transaction
		Point of Sale Transaction Decline	\$ _____ per transaction
Other Fees	5	Account Closing / Returned Funds	\$ _____
		Lost / Stolen Replacement Card	\$ _____ per card
		Additional Card	\$ _____ per extra card
		International ATM	\$ _____ per transaction
		Stop Payment for Preauthorized Transfer	\$ _____ per item
		<i>Other Fees Listed Here</i>	\$ _____
Processing Policies	Deposit Hold Policy <i>When funds deposited to your card are available</i>	<ul style="list-style-type: none"> Direct deposit: X business day Cash reload at retail store: X business day Other loading option holds 	
		A "business day" is a non-holiday weekday.	
Dispute Resolution	6	Summary of agreement	

After you register your card and your funds are received by the bank, your funds are FDIC insured through ISSUING BANK, Member FDIC.



- The look and feel of Pew’s Prepaid Card Disclosure Box mirrors that of Pew’s Checking Account Disclosure Box—enabling more consumers to comparison shop.
- Consumers expressed a preference for simple and straightforward language. For instance, “with” or “without Customer PIN”—as opposed to “Signature” or “Credit”.
- All of the fees presented on this template should be disclosed. Even if a particular prepaid card does not charge one of these common fees, consumers should be made aware that such transactions would be free.
- Overdraft Penalty Fees are not usually offered with prepaid debit cards but would need to be included in this section.
- Other Fees charged but not listed in this template should be listed in the Other Fees section, as this disclosure box should provide a comprehensive summary of all possible fees.
- Summary of a Dispute Resolution Agreement would contain, for instance, a description of a card’s mandatory binding arbitration clause.

For further information, please visit:

pewtrusts.org/prepaid

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