Prepaid Cards and Surcharge-Free ATMs: Achieving Differentiation in a Market Poised for Growth

Introduction

Since their emergence in the mid-1990s, prepaid cards – best known for gifting – have quickly been adopted for such diverse purposes as payroll, government-sponsored benefit disbursement, college student expenses, and even as a budgeting tool for consumers. Growth in the overall market has been steady over the years – until 2017 when 56 percent of U.S. consumers (as shown in Figure 1) bought cards, down from the 63 percent who bought cards in 2016.²

Figure 1: % of Consumers Who Recall Buying Any Prepaid Card in Past Year

![Prepaid Cards Purchased in the last Year](chart)

While some specific segments in today’s prepaid card market in the U.S. are growing, others are stagnant or have seen recent declines. Regardless, industry-wide there is still slow and steady growth.

¹Cards, Cards and More Cards: The Evolution of Prepaid Cards, Federal Reserve Bank of St. Louis, 2011
²“Consumers and Prepaid: Caution Ahead,” Mercator Advisory Group, September 2017
In addition to fluctuations in usage, the general purpose prepaid card market has also faced heightened regulatory scrutiny, adding greater complexity to the industry. After more than 12 months of uncertainty as to what and when, the new Prepaid Rule was published in October 2017 by the Consumer Financial Protection Board (CFPB) with an implementation deadline of April 1, 2019.

As prepaid card issuers and program managers maneuver the vacillating nature of today’s market, the last thing they need to worry about is whether their cardholders have convenient and easy access to their funds.

The Current State of the U.S.-based General Purpose Prepaid and Electronic Benefit Transfer (EBT) Card Industry

General purpose prepaid, campus prepaid and EBT cards have enjoyed growth in usage, albeit slow in recent years. Transactions using a general purpose prepaid card had a compound annual growth rate (CAGR) of 11.3 percent from 2012-2015 and then dropped to a CAGR of 2.7 percent in 2015-2016\(^3\) (shown in Figure 2).

Figure 2: General Purpose Prepaid Card Growth Rates 2015-2016 and 2012-2015

<table>
<thead>
<tr>
<th></th>
<th>2015 Totals</th>
<th>CAGR (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Value</td>
</tr>
<tr>
<td>Number</td>
<td>4.3</td>
<td>0.15</td>
</tr>
<tr>
<td>Value</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The Federal Reserve Payments Study: 2017 Annual Supplement

Though the market saw an additional dip in usage from 2016-2017, unbanked and underbanked consumers are still a prime market for general purpose (GP) prepaid cards – particularly those that can be reloaded. These cards are being used as a way to supplement or even take the place of bank accounts as the unbanked strive to join the banked population.

The general purpose reloadable (GPR) card segment has experienced less fluctuation in usage than other prepaid card segments, proving its overall viability. In 2016, 20 percent of the prepaid cards consumers recall purchasing were of the GPR variety. Whereas in 2017\(^2\), GPR cards made up 17 percent of the prepaid cards consumers recall purchasing. This difference of only three percentage points between 2016 and 2017 was less significant of a decline as that seen in other prepaid card segments (shown in Figure 3).

GPR cards also had the highest average load of all card types which reflects the usage of these cards as substitutes for a demand deposit/checking account or budgeting tool, as well as for direct deposit of payroll.

\(^3\) “The Federal Reserve Payments Study: 2017 Supplement,” December 2017
Still, other prepaid card segments saw greater declines. Between 2012 and 2015, Electronic Benefit Transfer (EBT) cards increased 1.7 percent in number and 0.2 percent in value. Then in 2016, EBT volume dropped -4.4%, with value falling -7.3 percent. The decline in the number and value of EBT card payments was most likely due to a decrease in federal and state disbursements of $1 billion and $3 billion, respectively, as the number of individuals collecting unemployment insurance has declined.

But this increases opportunity for other segments in the market as higher employment should enhance spending on other types of prepaid cards and boost the entire industry.

In addition to the up-and-down nature of the market, there was uncertainty due to a lengthy postponement in the publishing of the new Prepaid Rule by the Consumer Financial Protection Bureau. The rule was finally published in early October 2017 for implementation by April 1, 2019.

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4 Consumers and Prepaid: Caution Ahead, Mercator Advisory Group, September 2017
5 “Report to the Congress on Government-Administered, General Purpose Prepaid Cards,” Federal Reserve, July 2017
6 2018 Outlook: U.S. Payments, Mercator Advisory Group, January 2018
Achieving Differentiation in the Prepaid Card Market

Consumers are using GPR cards differently than they used to, and issuers need to take advantage of that. According to Mercator Advisory Group, “Open-loop prepaid cards are increasingly used by US consumers to supplement spending on their credit and debit cards. Prepaid cards deliver a budgeting tool and a shield that protects the cardholder’s other accounts.”

This is corroborated by the FDIC which found that prepaid card usage by fully banked households increased from 5.3 percent in 2013 to 6.9 percent in 2015 and usage by underbanked households grew from 13.1 percent in 2013 to 15.5 percent in 2015.

Furthermore, Mercator Advisory Group found that 20 percent of GPR card users keep their cards at least a year. If prepaid card program managers improve the process for reloading, they can then market the reloadable feature and possibly increase card extension rates and stimulate greater use. Prepaid card program managers and issuers could also expand their customer base by repackaging cards and changing their marketing to appeal to banked customers looking for ways to control their spending.

Though the prepaid card business has had mercurial usage rates in recent years, it is still considered a viable industry, especially for general purpose reloadable cards used for supplementing bank accounts; benefits payment cards, such as those for Social Security; and campus cards for student expenses. In fact, Mercator predicts that there will be a 5 percent growth in funds loaded onto open-loop prepaid cards through 2020 (see Figure 4).

Figure 4: Amount Loaded Onto Cards

Source: Mercator Advisory Group

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7 Faithful Companion: Prepaid Supports Credit and Debit Cards, Mercator Advisory Group “Viewpoint,” September 2017
8 2015 FDIC National Survey of Unbanked and Underbanked Households, Federal Deposit Insurance Corporation, October 2016
However, the slowing of the market’s growth is likely to cause some contraction and consolidation, with some issuers leaving the market. Fewer competitors can work to issuers’ benefit, particularly for those who capitalize on the consumer trend toward the use of money/financial services cards to supplement traditional bank accounts. But growth remains key to success - issuers still need to enhance the features of GP prepaid cards, such as offering a linked savings account, a mobile app, and an easy reloading process.

Issuers and program managers will also need the right partners to ensure that cardholders have a user experience that is as friction-free as possible. That includes removing a chief source of friction for cardholders: ATM surcharge fees. Several major prepaid programs charge for ATM withdrawals both in and out of network (see Figure 5). And, surcharge fees assessed by ATM operators – both financial institutions and ISOs – continue to rise in the U.S.

### Figure 5: ATM Withdrawal Fees (US$)

<table>
<thead>
<tr>
<th>Fees</th>
<th>PayPal Prepaid MasterCard®</th>
<th>Fifth Third 360® Reloadable Prepaid Card</th>
<th>MOVO Virtual Prepaid Visa Card</th>
<th>Western Union® NetSpend® Prepaid Mastercard®</th>
<th>Netspend® Visa® Prepaid Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-Network</td>
<td>$1.95</td>
<td>$0</td>
<td>$0</td>
<td>$2.50</td>
<td>$2.50</td>
</tr>
<tr>
<td>Out-of-Network</td>
<td>$1.95</td>
<td>$2.75</td>
<td>$2.00</td>
<td>$2.50</td>
<td>$2.50</td>
</tr>
</tbody>
</table>

*Source: The Simple Dollar*

By partnering with a surcharge-free ATM network, prepaid card issuers can gain a competitive advantage in the market while delivering a valuable and unique customer experience. When that surcharge-free ATM access is through a high-volume, well-distributed network of conveniently located ATMs, it becomes more valuable and attractive to issuers, particularly to those within the government benefit and payroll card space who are under intense pressure to keep their programs accessible and low cost for users.
Surcharge-Free Network Features

In addition to providing consumers easy access to their money, surcharge-free ATM networks offer consumers features that enhance and grow prepaid card relationships through the terminal.

**Account balances:** Up-to-date funds availability, balance information and most-recent transactions data is a fast and convenient means to keep customers in the know.

**Fund transfers:** The ability to move money between linked accounts via the ATM helps customers manage their finances easily.

**Reloads:** Card reloads at a convenient ATM location can be instrumental in lengthening card usage.

**Custom branding and on-screen messaging:** These tools provide issuers with the ability to reach and connect with cardholders through an extended brand presence, providing the opportunity for in-the-moment advertising and informational messaging.

**Easy to locate:** Easy access to an ATM location finder is essential and ideally available via mobile phone or device as well as online.

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Key Takeaways

- Though prepaid card usage has fluctuated in recent years, the industry continues to be on a consistent, profitable growth trajectory.

- Dependable partners in the operations of prepaid card programs will help issuers and program managers focus on strategic and regulatory issues.

- Issuers that provide cardholders with easy and low-to-no-cost access to funds will have a competitive edge.

- For a prepaid card program to be a top-of-wallet choice, selecting a surcharge-free ATM network is more than a pricing or check-the-box decision. Program managers and issuers should consider such factors as network set-up, access, and types of locations that best fit their cardholders’ lifestyles.
About Allpoint

Allpoint Network is the largest surcharge-free ATM network with more than 55,000 ATMs in leading national and regional merchant locations across the United States, Canada, Mexico, United Kingdom and Australia. Allpoint provides greater access, convenience and savings to customers of financial institutions while providing institutions the tools to compete more effectively for customers. For more information or to find the nearest Allpoint surcharge-free ATM, please visit allpointnetwork.com, like us on Facebook and follow @Allpoint on Twitter. Allpoint Network is a wholly owned subsidiary of Cardtronics plc.

About Cardtronics

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