

Navigating Prepaid Card Waters: Finding Opportunities in a Sea of Challenges

09 March 2017 By: Michael Moeser

The prepaid card market has yielded a mixed opportunity over the past decade for many of its participants: holding strong potential, experiencing good payment volume growth while under competitive pressure and regulatory scrutiny. The ability to profitably serve this market has proven elusive for some while presenting a bounty for others. Strong adoption, particularly among certain demographic groups, has led to strong growth in overall purchase volume but few repeat, registering customers. The ease of customer acquisition, with few qualifications required of applicants, has created a product with high customer churn and low issuer loyalty: Prepaid card lifespans are often measured in months, compared to credit cards and bank accounts, which are measured in years.

The Consumer Financial Protection Bureau's (CFPB's) finalization of rules for the market in October 2016 places additional requirements on the issuers and program managers for disclosures, marketing, and management of prepaid cards in order to provide additional consumer protections. The net result of these rules will be increased operating costs, lower yields, and new compliance requirements for the issuers. As the market participants weigh the increased costs and potential limits on revenue, some may decide to exit the market or at least reduce their exposure, as evidenced by the recent sale of RushCard to Green Dot. This report examines the remaining opportunities for prepaid card issuers, as well as the final rules and their impact on issuers and companies that are considering entering the market. Unless otherwise stated, this report uses the term prepaid only in reference to general purpose reloadable (GPR) prepaid cards that carry a card network logo, e.g., Visa, which can be used at any merchant, and can be reloaded with additional funds.

Key questions discussed in this report:

- How do different demographic factors affect prepaid card ownership levels?
- How does mobile banking usage correlate with prepaid card ownership and why?
- What level of threat do mobile payments, person-to-person (P2P) payments, and online credit services pose to the prepaid market?
- Among prepaid owners, which group has the highest activation and usage rates?
- What are the untapped opportunities for prepaid issuers?
- What challenges do the new CFPB rules pose for prepaid card issuers, program managers, and the new companies now covered?

Companies Mentioned: Affirm, American Express, Apple, CFPB, Chase, Facebook, FDIC, Green Dot, H&R Block, Mastercard, Open Table, Square, Starbucks, UniRush, LLC (RushCard), Venmo / PayPal, Visa, Walmart

The consumer data in this report were primarily collected from the following:

- A random-sample survey of 3,200 respondents conducted online in October 2016. The overall margin of error is ± 1.74 at the 95% confidence level. The margin of error is larger for subsets.

Data on the industry participants were derived from interviews with industry leaders. Supplementary data were provided by secondary sources such as the Consumer Financial Protection Bureau (CFPB), the Federal Reserve Bank, the U.S. Treasury, and public websites.

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