

Distributing Prepaid Debit Cards through Worker Centers: A Gateway to Asset Building for Low-Income Households

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Introduction

In today's financial services marketplace, there is a dramatic mismatch between the consumer needs of low wage immigrant unbanked and underbanked populations and existing financial products and vendor strategies. Drawing upon both consumer and vendor data, this paper will explore the mismatch and detail the promise and challenges of a new strategy for delivering financial services on a prepaid debit card platform.

Despite their low incomes, immigrant workers in the United States today are managing to save and send money home at remarkable rates. In a survey of 480 workers recently conducted by the Center for Community Change and Community Financial Resources, while we found the median annual income to be just \$15,600, the median monthly remittance was \$293, and savings (after paying bills and sending money home) was \$289. In effect, low wage immigrant workers are managing to set aside more than a third of their annual income. Yet, close to half of respondents were unbanked entirely, despite many being in possession of identification (birth certificates and matriculas) that could qualify them to open some type of bank account. In addition, many of those with bank accounts still regularly used check-cashing services and money orders. Clearly, mainstream financial institutions are not meeting the needs of low wage immigrants: they are not offering the right type of products, their services are perceived as too expensive, they are not convenient, and they are not culturally attuned.

It would seem that prepaid debit cards, with the right features and product program tie-ins, marketed through trusted community institutions and coupled with financial education would be a powerful tool for unbanked and underbanked immigrant workers. They can be loaded through payroll direct deposit, government benefits or tax refunds, or over-the-counter at designated locations. Although up until now they have been viewed largely as a payment transaction tool, a prepaid debit card could act as a virtual checking account, a purchase card, a remittance tool, a front-end to other payment mechanisms such as on-line financial services, as well as, a savings instrument and an introduction for low wage immigrant workers to asset-building strategies.

Given such a powerful product value proposition and the myriad of vendor offers in the marketplace today, why haven't we seen greater product utilization of prepaid debit cards in low income communities? First, existing prepaid debit products have not offered a good value: they are too expensive and lack the right product configurations. Second, the marketing approach, rather than tapping into social networks, utilizing word of mouth

strategies and working through trusted community organizations has been overly broad and impersonal.

In addition, existing financial literacy approaches have reified the education from the actual financial needs and desires of low wage consumers: they won't use banks until banks offer appropriate products and deliver them in ways that maximize consumer comfort and convenience and they won't respond to over-general consumer education classes that simply detail existing programs. Traditional social service models of offering financial literacy training and passive acceptance of existing market products is not sufficient.

To initiate this project, we have joined with eight worker centers around the country, and the three national networks of worker centers: Enlace, Interfaith Worker Justice, and the National Day Laborer Organizing Network. Worker Centers have emerged in recent years to be an important voice of low wage workers. We believe that they offer fertile ground to begin the process of developing a marketing and distribution network for a new, premium pre-paid debit card. Centers directly provide some key services such as legal advice and intervention on unpaid wage claims, ESL, workers' rights and computer classes, and act as match-makers to an even broader array of services such as health care.

In a national study of these worker centers just completed by one of the project principals, 140 organizations across 31 states, in over 80 cities, suburbs, and rural areas were identified.¹ The worker centers involved in the project offer information and training for employment, legal assistance in labor and immigration matters, and advocacy with employers. Like the mutual aid societies, labor unions and settlement houses of the last century, worker centers are emerging as essential components of local immigrant communities. When it comes to delivering financial services, our view is that community-based organizations, if properly incentivized, have the potential to solve important market failures for low wage workers.

Our project has three stages: market research, pilot programs at eight sites, benchmarking and evaluation. The first stage, extensive consumer and vendor research, and the resulting structure of the pilot program is the subject of this paper. This paper begins with some history of the prepaid card industry and a discussion of the market potential of prepaid debit cards. We will then summarize the intensive market research on worker centers' constituents financial practices and needs conducted by the Center for Community Change and Community Financial Resources in conjunction with eight local worker centers in Austin, Los Angeles (3-sites), Denver, Long Island, New Jersey and Chicago. Next the paper will provide an overview of the product/vendor research conducted by Community Financial Resources during the 4th quarter of 2005 through May of 2006.

CFR utilized data from the consumer research to prioritize consumer aspirations, product configuration requirements and pricing structures in its vendor due diligence. Through this process of comparing the data to current market offerings, CFR identified three areas

¹ Janice Fine, *Worker Centers: Organizing Communities at the Edge of the Dream*, Ithaca: Cornell University Press and Washington D.C.: Economic Policy Institute, 2006.

that generate consumer adoption obstacles: pricing structures, product delivery strategies, and consumer education. Finally, we will outline the structure of the pilot product roll-out, that will be executed by 8 worker centers starting September, 2006, that is designed to address and overcome existing market obstacles.

History and definition of prepaid cards

Introduced in the 1990s with the advent of gift cards, and, later, government benefits cards, the prepaid card industry has exploded in recent years. In the early years of prepaid card exploration, analysts focused in on chip-based technology that was popular in other parts of the world. However, due to a confluence of many factors, including legacy systems most prepaid cards in the U.S. use magnetic stripe technology to link to networks when consumers conduct transactions. While market size estimates vary, today there are literally hundreds of prepaid card providers offering various types of prepaid products, from gift cards for merchants such as Target or Wal-Mart, to cards that provide access to government and employer benefits to reloadable general spend cards.

Prepaid cards, especially open-loop, branded payroll and general spend cards,² have the potential to be a valuable financial tool for underbanked consumers for several reasons:

- Prepaid cards generally lack the identification and credit requirements that effectively bar millions of individuals from opening traditional bank accounts.
- Prepaid cards can be purchased and reloaded at a growing number of locations other than bank branches, such as check cashers, convenience stores, and other retailers.
- Prepaid cards can provide immediate availability of funds at a cost that is, in some cases, lower than some other alternatives for underbanked consumers.
- Prepaid cards are difficult to overdraw, reducing the likelihood of unexpected fees.

Prepaid cards offer one solution to the direct deposit conundrum of unbanked employees. They combine the cost savings of electronic delivery without the constraints of opening a bank account. In the broad space of prepaid cards, while gift cards still dominate the market, they do not serve as a substitute for other financial services. The following types of prepaid cards offer the closest resemblance to bank accounts for underbanked consumers:³

² Prepaid systems operate in two ways. One is the “closed-loop” system, which can only be used for the issuers’ products or for limited purposes. “Open-loop” systems offer consumers the ability to utilize their cards for multiple purposes, such as making purchases at a variety of stores or paying bills. “Non-branded cards” use PIN-based technology through one or more point of sale (POS) or ATM networks. “Branded” cards have a MasterCard, Visa, American Express, or Discover logo and utilize signature-based technology to allow consumers to make purchases virtually anywhere that the brand is accepted, in addition to allowing PIN-based purchases.

³ For more on prepaid cards and the underbanked, see Jacob 2004. *Stored Value Cards: A Scan of Current Trends and Future Opportunities*. Chicago, IL: The Center for Financial Services Innovation. Also see Jacob, Su, Rhine and Tescher 2005. *Stored Value Cards: Challenges and Opportunities for Reaching Emerging Markets*. Chicago, IL: The Center for Financial Services Innovation.

- 1.) payroll-only cards, which can only be used for direct deposit of paychecks and other automated clearinghouse (ACH) deposits, such as Social Security or disability payments;
- 2.) reloadable payroll cards, which serve primarily as direct deposit cards but also offer the option of loading other deposits onto the cards; and
- 3.) reloadable general spending cards, which can be reloaded in a variety of ways at a range of locations.

Size of the Market

It is difficult to size the prepaid card market in a way that segregates open-loop and general spend cards from other types of products. Because the market is so new, there is a dearth of publicly available data on prepaid cards, and analysts that have released data and projections on the industry often utilize different metrics, making comparisons difficult. Nonetheless, it is clear that the potential prepaid market is quite significant, and new players are entering the space constantly.

Though the market is large, particularly for general spend and payroll cards, which might appeal to the 44 million un- and under-banked U.S. households, usage is by no means saturated at this point. Analysts estimate that 35 percent of the projected 34 million prepaid cards were general spending cards in 2004, while in the same year employers issued 2.2 million payroll cards worth \$29 billion; the majority of the remaining card issued were closed-loop gift cards. But general spend and payroll cards represent only a small share of the potential market.⁴ The overall market opportunity for prepaid is huge, estimated to be \$555 billion for business to employee cards, \$350 billion for consumer to consumer products, and \$775 billion for government to consumer prepaid cards.⁵

However, several challenges to card usage remain, which can help explain the relatively small take-up of cards to date. The prepaid industry faces significant hurdles related to marketing and distribution. There is no single reload network or distribution channel that is common in the marketplace, making it difficult for some consumers to fully utilize their cards. Moreover, anecdotal evidence and focus groups relate that consumers who buy cards online, at retail locations, or through alternative financial services providers such as check cashers (the most common avenues for accessing cards) often believe that the cards are in fact credit instruments. With the exception of gift cards, prepaid cards are still not “household names” and the average consumer on the street, whether banked or not, would probably have a difficult time explaining exactly what prepaid cards are and how different products function. This is in part due to the young nature of the industry but is also partly due to ineffective marketing channels and techniques that rely on consumers to be very proactive in accessing and reloading cards. As the industry matures,

⁴Visa cited in All, A. 2004. *The Channel Shuffle*. ATMmarketplace.com. Retrieved February 1, 2005, from http://www.atmmarketplace.com/futurearticles.htm?article_id=18820&pavilion=112&step=story; Mercator Advisory Group. 2005. “A Special Report for Attendees of SourceMedia’s CardForum 2005,”

⁵ Visa 2002. “Visa Prepaid Product [brochure].” Consumer to consumer statistic includes closed-loop cards. Also see Mizejeski 2004. *Stored Value: The Perfect Storm*. Pelorus Group Conference Proceedings.

card providers will focus more on these issues, and best practices related to marketing and distribution will be realized. One particularly promising distribution channel for prepaid cards is described below.

The workplace as a distribution channel for financial services

One reason that prepaid cards are potentially valuable for the underbanked segment is the promise of the workplace as a distribution mechanism for financial services. The workplace is where most people acquire their financial resources and engage in financial planning related to retirement. As employees are being oriented into other benefits programs or are choosing paycheck delivery mechanisms, the workplace provides a way to act on that crucial timing and provide access to other services. It also provides an opportunity to achieve ease of facilitation and adequate scale related to financial services.

The very infrastructure of the workplace helps to facilitate the distribution of financial services. Advances in IT infrastructure and technologies, such as direct deposit, have made it easier to administer company benefit programs. And the timing of the paycheck allows for employees to make decisions about saving and spending in the context of when and how they are paid. Moreover, the unique relationship that employers have with employees can allow for regular communication and incentives for participating in financial services programs.

While financial services offered through the workplace hold value for all workers, for low-wage and unbanked workers they can be especially helpful in stabilizing their financial lives and building personal wealth. A nationwide survey conducted by Stanford University found that 77% of workers access workplace financial services, and that participating employees—especially those with lower-incomes-- report improved financial outcomes and changed financial behavior such as higher saving balances and increased participation in savings plans in general and in 401(k) plans in particular.⁶

The challenge is how to address workers in the non-standard labor force that don't have access to a traditional workplace structure. Low-wage workers often have multiple employers at multiple worksites that may change frequently as in the case of day laborers, domestic workers, or agricultural workers. Here is where the worker centers become the alternative to a workplace centered model for accessing financial services.

There is definitely a need for alternative paycheck delivery mechanisms for the unbanked and underbanked populations of the U.S. workforce. While over 22 million U.S. households have no bank account at all, another 20 million are estimated to be underbanked, with limited financial relationships. The effects of the high number of underbanked households is not specific to the households themselves; employers are interested in finding ways to automate payroll as well. Indeed, 60 million Americans receive paper paychecks; over 40% of this population has no bank account and needs a

⁶ The sample for this study was 2,500 households taken from a Merrill Lynch, Inc. dataset. The sample represented a distribution of income level similar to that of the national population, with a slight over-sampling on the variable of homeownership.

direct deposit vehicle. Moreover, \$500 billion in payroll checks are issued annually to unbanked employees.⁷

Prepaid cards and the workplace: challenges and opportunities

While both payroll and general spend products offer similar benefits to underbanked workers who lack direct deposit vehicles, the main difference in the cards is the way that they are marketed and distributed, in addition to reload options. Typically, card providers market payroll cards directly to employers, who then distribute the cards to their employees, while general spend cards are marketed directly to consumers outside of the workplace. Unfortunately, for the most part, these products are offered in a “silo” style. In other words, most prepaid products do not currently work in a way that allows a single card to contain all levels of functionality—payroll, general spend, etc. Consumers who have payroll cards, for example, may not be able to or may not be aware that they are able to load other deposits besides payroll deposits onto their cards. One issue is that many cards are only set up to accept streams of direct deposits; manual reloads might not be available.

This is a significant issue for underbanked workers who need a vehicle on which to place a variety of deposits, especially if they work several jobs and the payroll card product offered is not portable among employers or usable for non-payroll deposits. While this current silo system is a significant challenge in the prepaid industry, card models are beginning to converge, and card providers are figuring out ways to provide multiple levels of functionality and load options for consumers.

Recently, prepaid cards have begun to incorporate additional functionality that can increase their value to underbanked workers. Some providers have incorporated savings features onto their cards, while others have explored ways to link customers into the credit system. Prepaid card programs can also incorporate additional financial services, such as remittances and short-term loans, or provide rewards or incentives to long-term customers.⁸ However, most significant innovations in the prepaid space, such as savings vehicles, have not occurred in payroll card platforms, but rather from the general spend side. It is imperative that such features be added onto products that are holding employees’ paychecks, whether those products are payroll-only cards or others, so that households are offered additional incentives to use the products. So here again, the strength of the worker center distribution model is that it focuses on offering these multi-function capabilities on a general spend card that can be loaded through direct deposit or cash and is portable to any employer relationship.

Indeed, unbanked workers need to see prepaid cards as holding value over cash, while underbanked workers need to see the value over basic checking or savings accounts. Key

⁷ JPMorgan Chase cited in “Conference Summary: Payment Cards and the Unbanked: Prospects and Challenges,” Federal Reserve Bank of Philadelphia, 2005; Visa estimate cited in Kuykendall, L. “Users and Uses of Payroll Cards Proliferate,” *American Banker*, July 2, 2002.

⁸ See Jacob et al 2005 for more on these trends. Currently, purchases and payments made on prepaid cards do not get incorporated into consumers’ credit histories, though the major credit bureaus and other players in the industry are experimenting with ways to link prepaid payments to the credit system to help consumers build credit files.

customer preferences among the underbanked segment for prepaid cards include: convenience and comfort, fee transparency, liquidity, privacy, and native language capability.⁹ Because the product set is so new, many consumers require a certain level of education, or at least sophisticated marketing techniques, to explain the multiple uses of the cards and enable customers to take advantage of the various features.

Finally, despite the attractiveness of prepaid products for underbanked consumers, there are fees associated with the cards, and depending on the program, these can be more expensive for workers than direct deposit to a checking account or cashing checks at a check casher. Fees may be charged for opening or maintaining an account, withdrawing money from an ATM, balance inquiries, adding money or making a purchase. In the payroll card arena, many employers recognize the expense advantages of payroll cards and pay for some or all of the maintenance fees. Moreover, for some customers, the immediate availability of funds and difficulty in overdrafting can make prepaid debit cards more attractive than other options and those consumers might view card fees more positively.

Demographic Snapshot of Low Wage Immigrant Workers at Worker Centers¹⁰

Our survey had 481 respondents (331 men and 150 women) drawn from the following regions and countries:

⁹ Steve Kutner/Market Innovations, Inc., “Designing the Underbanked Customer Experience [PowerPoint],” Underbanked Financial Services Forum, 2006. Also see Jacob et al 2005.

¹⁰ Our survey was conducted through eight worker centers:

Korean Immigrant Worker Advocates, Los Angeles
Instituto de Educacion Popular del Sur, (IDEPSCA) Los Angeles
Pilipino Worker Center, Los Angeles
Chicago Worker Rights Center, Chicago
Proyecto Defensa Laboral, Austin, Texas
New Labor, New Brunswick, New Jersey
Workplace Project, Long Island
El Centro Humanitario, Denver

The questions aimed to establish strong demographic profiles of the population, determine current patterns of financial services utilization, probe for what people wanted to be able to access in the future, understand how they make their decisions about financial services and measure the strength of their affinity to worker centers. We structured the surveys to take approximately 30 minutes.

To design the survey instrument we consulted extensively with the 3 national networks of worker centers and the 8 pilot worker centers who in turn consulted with their own leaders and members. Over a period of several months we revised, refined and added questions. Staff and volunteer interviewers at each of the eight worker centers were trained in standard interview methodology, including how to probe without leading and each worker center was given about three weeks to collect 60 surveys.

Once surveys were collected and analyzed, we began designing the focus group script. The focus groups aimed to draw out participants with the goal of reinforcing, elaborating upon or challenging findings from the interview-surveys. Major sections of the script probed current financial practices and their costs; introduced the SVC product to gauge interest and price sensitivity; and explored perceptions of the worker centers and dues collection.

Worker centers invited 8-12 participants representing members and people from the community. The sessions were conducted in the early evening and lasted two hours. CFR and CCC staff observed each focus group session and provided real-time feedback to the moderators to clarify responses or delve deeper into particular discussion items. The sessions were conducted in Spanish with simultaneous translation for observers.

Respondents' Countries of Origin

Mexico	60%
Central America and the Caribbean	20%
Philippines	11%
South America	3%
United States and Puerto Rico	5% ¹¹

The median age was 33 and average number of years of residency in the U.S. was 9.2. However, our respondents were evenly distributed between new immigrants (those with less than five years in the U.S.) immigrants beginning to set down roots (five to ten years in the U.S.) and long-term immigrants who had been here for ten years or more. Forty-seven percent were single, 41% were married and 12% were divorced. Of those who are married, 65% of them said that they were in the United States with their spouses. The average number of children was 2; one was likely to have been born in the U.S. and the other in the home country. Close to half had children under the age of 18 and at least one child living with them in the U.S.

Median individual income is \$15,600 and household income is \$31,200, which we estimate to be about 30% of area median income. Most have very little debt and only 28% have credit cards. Only 26% had health insurance. The vast majority could read Spanish, while only 18% could read English. Fifty-nine percent had cell phones and 47% had access to a computer.

To explore some of the main contributing factors to unbanked status, we asked about the forms of identification respondents possessed.¹²

Respondents' Forms of Identification

Birth Certificate	80%
Passport	47%
Social Security Card	40%
Driver's License	39%
Green Card or Work Visa	38%
Individual Taxpayer Identification Number (ITIN)	26%
Matricula Consular	36%

As the above table demonstrates, a significant percentage of workers lack forms of identification required for accessing traditional financial services.

¹¹ The majority of these respondents were Latino.

¹² Our findings indicate that Mexicans in particular tend to have relatively fewer government issued ID's, with fewer possessing drivers licenses, passports and social security cards, in particular.

Current Financial Practices

Overall, the workers surveyed had a low level of participation in mainstream financial practices and a high reliance on fringe banking services. In fact, thirty-two percent of respondents told us they had been robbed since coming to the United States, 27% reported being cheated on a transaction and 9% told us they had sent a remittance that had not arrived back home.

Slightly fewer than half, forty-seven percent of our respondents reported that they did not have bank accounts. The following table ranks the reasons cited for their lack of an account:

Reasons for Not Having a Bank Account

Identification Requirements	56%
Trust	12%
Language	10%
Location	7%

Interestingly, although identification requirements were cited by respondents as the number one reason they did not have a bank account, we found that respondents who had birth certificates and *matricula consulars* were less likely to use them as a form of identification for banking purposes. In other words, possession of these forms of identification was independent of being banked or unbanked.¹³ There was a clear correlation however, between likelihood of having a bank account with number of years in the United States and age: we found that the more recently one had arrived in the country and the younger one was, the less likely he or she was to be banked.¹⁴ In general, Mexicans were more likely to be unbanked than the average across all other country groups in our survey; this does not seem to be due to years in the country so much as age and level of education.¹⁵ Occupationally, we found that day laborers in particular were least likely to be banked.

Fifty-one percent of our survey respondents told us that they had an account with a bank, credit union or other financial service institution¹⁶:

Financial Institutions where respondents keep their money

Local or Regional Bank	39%
Bank of America	27%
Wells Fargo	14%
Washington Mutual	12%
Citibank	6%
Credit Union	2%

¹³ Cross tabs: banked\passport, banked\drivers license, banked\birth certificate, banked\green card, banked\work visa, banked\matricula, banked\social security card.

¹⁴ Cross-tab: age\banked\years in U.S,

¹⁵ Cross-tab: country of origin\banked. Pearson Chi-Square: 52.211.

¹⁶ About the same percentage, 52% told us they had a bank account in their home countries.

Of those respondents with bank accounts, 71% had ATM cards, 68% checking accounts, 55% savings accounts, 33% credit cards and 31% used on-line bill paying services. Only 12% used the financial institution where they had their bank accounts to transfer money.

The table below ranks the importance of various factors in the decision of the banked about choosing a financial institution:

Factors in Choosing a Financial Institution:

Location	48%
Cost and Minimum Balance Requirements	26%
Trust	20%
Language	19%
Referral by a Friend	16%

Forty-six percent of our respondents told us that they regularly used check-cashing vendors and once again, Mexicans relied on check-cashing more heavily than any other national group. In addition, significant percentages of workers who told us they had bank accounts were still using check-cashing vendors:

Percentage of banked respondents still using check-cashing vendors at 4 worker centers:

New Jersey	38%
Chicago	37%
Los Angeles (KIWA)	36%
Denver	17%

Similarly, 36% of our respondents told us they regularly used money orders, with the heavily Mexican groups being in the 40% and 50% ranges. Once again, many of the banked were still using money orders:

Percentage of the Banked Using Money Orders

Los Angeles (KIWA)	29%
Austin	26%
Chicago	23%
Denver	25%

Respondents were most likely to choose both their check-cashing (45%) and money order vendors (62%) on the basis of location. Seventy-five percent of our respondents told us that, in addition to money orders, they also pay some of their bills in cash and 30% told us they pay some bills with checks. Very few of our survey respondents said that they were taking out payday loans.

Eighty-one percent of respondents said they remitted money home, with half remitting on a monthly basis. Monthly savings, after paying bills and sending money home, is \$289. The average monthly remittance is \$293. Interestingly, although they earn less on average, Mexicans saved and remitted comparatively higher amounts.

Frequency of Remittances

Remit Monthly	50%
Remit Bi-weekly	24%
Remit four times a year	13%

As the table below illustrates, location was the most important reason for choosing a remittance company but price also emerged as a significant factor:

Reasons for Choosing a Remittance Company

Location	38%
Price	33%
Product Features	29%
Trust	25%

The focus groups reinforced our survey findings: participants told us their current financial practices are costly and inconvenient and that vendors are unreliable, especially with regard to remittances. Several participants mentioned fraud, theft or loss of large amounts of funds as reasons they no longer trusted certain vendors. If a problem occurred with a bank, participants did not seem to have the knowledge or resources to work through bank bureaucracy. Informal remittance methods, such as sending money with an individual, were acknowledged as risky but cost-effective¹⁷. Participants also mentioned how much time they take to pay bills. Some respondents described taking a day off from work to run around the city and pay bills. Immediate access to funds was also very important. Even respondents who had bank accounts would use check-cashers if they needed the cash right away and could not wait for a check hold to clear.

The greatest concerns about costs and service surrounded remittances. Participants were particularly vocal about reliability, security and speed of delivery. Participants across worker centers cited instances where money never arrived, arrived after unusually long delays, or created inconveniences or security risks for families in the home country. There was much criticism of Western Union and other remitters who hold onto money for unexpected periods of time. Participants were also very sensitive about exchange rates and tried to find remittance vendors with the best rates.

Participants showed themselves to be savvy shoppers who look for good deals and often learn about them through people they know. They tended to know about most services marketed in their communities. A variety of vendors were mentioned, from large companies like Western Union or Ace Express to smaller foreign-owned companies like Costamar and still smaller, neighborhood outlets such as grocers and video stores. They knew which vendors would cut special deals “if they know you.” Still, despite their efforts, participants found they were paying substantial sums for the variety of services they use.

Financial Needs and Aspirations

The surveys demonstrate there is a strong need on the part of respondents for a regular means of conducting financial transactions. Specifically, we were able to identify five basic financial needs among worker center constituents:

- First and foremost, workers need a place to keep their money: the lack of a banking relationship demonstrates workers’ need for a regular transaction account

¹⁷ Worker Center Focus Groups indicated that established practice was to compensate private individuals 4% of the total amount delivered.

that allows them to move away from fringe financial services and avoid carrying large sums of cash.

- Second, they need a means to conduct transactions. Seventy-eight percent of survey respondents told us that they would prefer to pay for their purchases with a card instead of cash and 56% would like to be able to make internet purchases.
- Third, the vast majority send money to their families abroad and want a convenient, reliable and inexpensive means for doing so.
- Fourth, respondents expressed a strong desire to find ways to establish and use credit.
- Fifth they had an interest in financial education. The strongest interest was expressed in workshops on how to find low cost financial services including remittances, how to open a bank account, build credit and obtain a loan.

In particular, workers across all levels of acculturation expressed an interest in obtaining savings accounts. Thirty-five percent of our over-all survey sample expressed an interest in obtaining savings accounts. Among the unbanked overall, 53% said they wanted savings accounts and among the unbanked at certain centers it was much higher than that. For example at the Workplace Project in Long Island, which had a large number of respondents who had been in the country less than five years, 82% of the unbanked expressed an interest in obtaining savings accounts. Unexpectedly, even workers with existing banking relationships expressed an interest in obtaining savings accounts. This could indicate the specific services they need are unavailable, they are not aware of what services are available or they are dissatisfied with their current banks. During focus groups as well, workers strongly emphasized their desire to save and their frustration accessing savings tools.

In general, thirty-one percent expressed an interest in obtaining a credit card, 26% a checking account, and 23% an ATM card. Twenty-six percent said they were interested in obtaining a home loan.

Our hunch about the significance of word of mouth and of a positive referral from a trusted community institution was borne out by survey responses—seventy-eight percent told us that they would or would probably use financial services referred by their worker center and 90% told us that they would be likely to tell others about a financial service they liked.

Based upon their responses in the surveys and focus groups, CFR/CCC has been able to clearly identify a set of product features that are important to workers. First, workers need flexible or minimal identification requirements when opening financial accounts and an option for opening them outside of bank walls. Not having sufficient legal identification prevents many workers from opening bank accounts. Not having a social security card or individual taxpayer identification number prevents many from opening a

savings account (due to interest and tax reporting.) Many workers also rely on non-U.S. issued identification cards. There is an undeniably strong sense of fear on the part of many workers that may be holding them back from walking through the doors of a bank to open an account.

Second, as described above, accessible locations were one of the most important reasons survey respondents gave for selecting a financial services provider. Workers in focus groups gave several reasons for needing a service near their work, home or along their travel routes (mostly on public transportation). They emphasized the need to work as much as possible in order to provide for their families, leaving little time to make long trips. They also said the cost and time required to travel long distances would offset the savings they might receive from particular financial service providers. (To explore the feasibility of the use of prepaid debit cards to transfer money to family back home, we asked respondents what the average travel time was to an ATM in their home country and found that it was about an hour.)

Third, transaction speed is very important. Workers with bank accounts said they used check cashers because they often needed the cash immediately. Check cashers, despite charging high fees, would cash the check right away whereas banks would often place a hold on the funds. Many workers also stressed the importance of immediate availability of remittance funds to their families back home.

Fourth, workers need to trust and have confidence in their service providers. Focus group respondents spoke at length about trust and service reliability problems. The issue came up frequently as participants talked about money being lost, mishandled, stolen or arriving late. Most frustrating to them was the inability to get answers when problems arose.

Fifth, workers need low cost financial services—current methods of financial transactions are quite costly for worker center constituents. The Office of the Comptroller of the Currency (OCC) estimates that the typical consumer that monthly cashes two \$400 checks and buys five money order to pay bills would incur \$270 in costs not including any additional expense for remittances¹⁸. In our research, we found that a typical unbanked individual at a worker center who sends money home twice a month is spending anywhere from \$22.45 to \$39.20 each month on financial transactions, including remittances. The average across the 8 sites was \$29.30 for biweekly remitters.

Research participants, particularly in the focus groups, expressed a strong interest in the prepaid debit card and how it works. When the prepaid debit card product was described to each focus group, the questions generated by participants indicated their interest, understanding and reservations about the card. Participants immediately recognized the benefits of the card. Several said, "If I don't have money in my pocket, I will spend less." Several respondents also mentioned the security risk of carrying cash. Participants

¹⁸ Franklin, S., Reeves, R. and Wides, B. October 2003. "Payroll Cards: An Innovative Product for Reaching the Unbanked and Underbanked," *Office of the Comptroller of the Currency Community Development Newsletter*.

mentioned they wanted ways to better “manage my money” and this tool would be helpful. Participants said they would use the card to buy gas, groceries, tools, and clothes. Participants said they would load their entire paychecks onto the card, usually about two times a month. Finally, the most appealing features of the card were sending money, bill paying, and the savings account feature. Even participants who had bank accounts said they would get the card for remittance purposes.

To explore the use of the prepaid debit card for payroll purposes, we asked workers about their employers’ method of payment and found an even split among employers, 40%, paying either in cash or payroll check.

Employers’ Methods of Payment

Cash	40%
Payroll Check	40%
Personal Check	14%
Automatic Deposit	6%

Most reservations about prepaid debit cards seemed to stem from inexperience, bad experiences with banking or the instability of their income and status in the US. They asked about minimum balances and how long they could be inactive before the card would be deactivated. One participant asked what would happen to the money on his account if he were deported and was pleased to learn that his money would be secure. Others expressed concern around fraud protection and access to their accounts by third parties, such as for automatic deductions. Some asked whether family members could access the whole amount in the account and were pleased to learn that they could not. They asked about the availability and dispersion of loading locations and whether they could earn interest on the accounts.¹⁹

Vendor Research Process

Even though prepaid debit cards are a fairly new market offering, there are a myriad of existing vendors and card offers. As technical advisor, Community Financial Resources’s task was to find vendor partners that could supply a product configuration with a cost-effective pricing structure that met the financial services needs of the worker center constituency base. Re-capping our market research we knew we needed to find a program that offered:

- Identification flexibility,
- Pricing that would provide a material cost savings over current fringe banking alternatives,
- Pricing that had no hidden fees, was easy to understand and to track, i.e. transparency,

¹⁹ Interest-bearing accounts and the potential for loan and credit products were of particular interest to participants, though at least one participant cautioned that interest rates on credit cards can be detrimental.

- Money transfer capability that allowed for separation of funds between the sender and receiver²⁰,
- Savings account functionality—with interest accumulation for cardholders that had a social security or taxpayer identification number,
- Value loading options that were cost-effective and could accommodate over-the-counter cash loading, as well as, direct deposit,
- Bill payment capabilities that could support billers that only accept checks or ACH credits, in addition, to merchants that accept payments through existing card networks, e.g. VISA or MasterCard,
- Multi-lingual customer support via the phone and the Web.

Furthermore, we needed to find partners that would be willing to agree to a revenue share plan in order to compensate the worker centers for providing the distribution channel for the product.

CFR had to address other considerations in searching for vendor partners that went beyond expressed consumer needs or aspirations. Other important aspects of any card program include: card association and network relationships, fraud protection tools utilized, card liability limits, and card dispute processes. Additional program benefits such as reward programs or special card features, e.g. photo ID also had to be identified and negotiated. Finally, the experience, reputation, financial stability, and social responsibility profile of potential partners had to be researched and assessed.

Card programs are often made up of several different organizational entities. The following functions can be provided by one or many different companies:

- Bank settlement
- Card association relationship
- Transaction processing
- Marketing
- Customer Support
- Call Center Support
- Card Production
- Fulfillment

It is important to understand exactly with whom you are working in order to understand how much flexibility may exist to change or adapt the program, as well as, planning contingencies for all possible points of failure. It is also important to understand how card-related vendors generate card revenue in order to identify revenue sharing opportunities. Revenue sources include account opening fees, transaction fees, penalty fees, ad hoc service fees, interchange, funds float, and cross-sell opportunities. Though vendors don't readily share proprietary information such as average annual revenue per active card account, such information can be inputted from discussing average transaction activity per account compared to existing pricing schedules. Then the open question is

²⁰ Multiple cards accessing the same account balance would be difficult to control and could create serious misunderstandings between family members.

who gets what share of what revenue among all the entities that make up the card program.

CFR decided to look at several different permutations of organizational relationships during its Request for Information process. CFR asked for referrals from VISA, Mastercard and industry contacts. We reviewed industry publications, general business press, and potential provider websites. After eliminating dubious programs, e.g. account opening fees of \$49.95 or obvious multi-level marketing schemes, CFR noted the distinction between Bank and Non-bank programs and narrowed its review to 7 different bank programs and 26 non-bank programs. We then augmented that preliminary research with in-depth company profiles culled from on-line databases and categorized the providers targeted for an in-depth Request for Information as:

- Vertically Integrated (4)—most functions performed by one company,
- Middle-marketers (21)—focused on card distribution and customer support,
- Processors (6)—transaction services, or
- Integrators (2)--- consultants who would pull together a set of providers for a customized program.

Each vendor was asked to complete, either by written submission or interview, a Request for Information outline provided by CFR that addressed Organizational Information, Product Features and Capabilities, the Customer Experience, an Operational Assessment, current Portfolio Performance, and Partnership Potential. (See Appendix A, Request for Information Outline.)

In this initial RFI process, we found some interesting patterns. First, bank programs seemed to be limited by regulatory concerns, e.g. the ability to accept alternative identification documents or support cash loading of cards. Revenue sharing partnerships seemed to be outside of banks' operating model. Banks also have a very specific financial literacy approach they like to follow, e.g. community development officers leading a workshop talking about how to open up a bank account.

Many of the middle-marketers seem to have limited knowledge of the overall debit/credit card industry and how card transaction platforms worked or could be modified to provide new capabilities. Most middle-marketers seemed to rely upon a handful of card issuing banks that specialized in stored value card platforms, e.g. Metabank, and they chose the issuing bank based upon the recommendation of the transaction processing company with which they partnered. Among these transaction processors, the established large-scale credit card processors based on legacy mainframe systems seem to run the risk of being outflanked by newer companies with more flexible systems architectures. However, any business risk assessment must consider the trade-offs of experience, sustainability, service levels, versus innovativeness.

Examining the card programs themselves we identified several issues with the existing offers. First the pricing structures were confusing and expensive. Account opening fees ranged from \$0 - \$19.95. Some cards utilized per transaction fees (\$0.50 - \$5.00) while

others had a monthly fee for a limited set of transactions (\$7.95 -\$9.95). Additional fees for customer service calls or account dormancy could also apply. An average set of monthly transactions could quickly add up to \$30 offering no savings compared to our constituents' current practices.

Secondly, the product configuration themselves were not customer friendly. Point-of-sale purchases were lower cost if the consumer knew to choose the "credit" option on the merchant terminal and signed for the purchase. This non-intuitive procedure also would prompt store clerks to ask for additional identification from the customer. Money transfer functionality often involved dual card accounts where either card could have full access to the account funds – a recipe for disputes. Bill payment was limited to card association merchants. Cash loading was a multi-step process that varied by location, seemed unfamiliar to the clerks that were suppose to execute the process, and involved fees (\$2.95 - \$4.95) in addition to any check-cashing fees the consumer may incur.

During these RFI discussions, card providers were the first to admit that they were not happy with their current marketing channels. Most vendors used the Web as their main outreach tool to a target market that has limited access to the Internet. J-hook displays at retail stores were of marginal value for a product that is still building market awareness. If a consumer did not already know about prepaid debit cards, they were not going to spend the time standing at a kiosk trying to figure out how the displayed card packages work. Prepaid debit cards were also supposed to be cross-sold over-the-counter at mobile phone storefronts, convenience stores, and check cashing outlets. But not of the personnel at these establishments were adequately trained nor incentivized to truly cross-sell. Most vendors also recognized that even once a card account is opened, it takes follow-up and consumer education to ensure card loading and continued usage. Loading rates were below 50% for most general spend card vendors and card account life averaged around 7 months.

Of the 30+ vendors analyzed, CFR conducted in-depth interviews with 13. During the interview process, CFR carefully explained how a partnership with CFR, CCC, the worker centers, and the national coordinating networks would offer vendors access to a hard to reach market leveraging the outreach and grassroots organizing practices of organizations already embedded within and trusted by their communities. Moreover, given the service base of the identified 140 worker centers and the density of the community social networks, the potential market reach of such a distribution network would be approximately 3 million households.

Out of the 13 in-depth interviews, 8 companies expressed an interest in working with CFR to adjust or redesign their card programs to better meet the needs of CFR's constituent base. CFR asked these 8 vendors to respond to a formal Request for Proposal that specified requirements for the structure of product pricing, product functionality, identification flexibility, value loading, revenue sharing for the worker centers, customer support, marketing support and incentive programs. Responses were also asked to include a discussion of the program implementation plan, project management support, staff training, and the availability of portfolio and activity reporting tools.

Five out of the 8 vendors submitted formal responses to the RFP and a series of negotiations ensued with the vendors to craft the “best offer” from each. Each vendor acknowledged the value of the strong worker center affinity relationship. If this model is effective, it can significantly lower the cost per account booked. Furthermore, worker centers’ existing membership development and community outreach programs offer the perfect vehicle to follow-up with new cardholders to generate a higher percentage of active accounts. In the end, the primary vendor selected was awarded the relationship based on a combination of most optimal end-user pricing, product features, the revenue sharing plan, and a willingness to truly partner and continually adapt the card program to our constituents evolving needs.

Pilot Set-up

The worker centers’ interest in distributing prepaid debit cards goes beyond providing a useful product or service to their community or even the revenue share that will help defray card distribution costs. The card program is about membership development and financial empowerment of the organization and its constituency. The worker centers know that a card program will deepen community ties through first-line customer support activities and consumer education workshops. Moreover, worker centers hope to use the prepaid debit cards as a tool to formalize membership dues collection to support the organization. What is motivating the worker centers to ensure card program success is their recognition of the card program as an organizing tool to mobilize their constituent base for greater community action.

Marketing and Outreach. Preparation for the pilot has been focusing on integrating a card marketing plan to bolster existing community outreach and membership development strategies. Immigrant communities are characterized by dense social networks. Leveraging these closely knit relationships, the centers are identifying all potential consumer points of contacts available to them, be they mailings, leafleting, tabling, special events, media or work with partner organizations. They are designing communication vehicles, e.g. brochures, business cards, signage, newsletters, presentations---and have established a consistent set of messages about the worker center and card functionality that are to be presented to the target audience. All of these activities and marketing pieces are being calendared to drive the program.

The worker centers have also re-examined their membership policies and are creating special membership dues packages that include card benefits, e.g. card opening fee waived with membership sign-up. Each worker center wants to increase pedestrian traffic to the center by providing account opening, basic customer support, and free Internet access to use the card website. At least two of the worker centers will provide card loading services

Technical Assistance. The worker centers are receiving technical assistance on three fronts. The vendor is supplying product and process training and basic marketing materials—brochure lay-outs, graphics, point-of-sale signage and customer giveaways. CFR is assisting with marketing plans, cash handling procedures, and banking services

required to support the program. CCC is advising the centers on membership development strategies, database tracking tools, and operational procedures. Finally, peer-to-peer communication ensures the sharing of best practices and provides general guidance.

Consumer Education. The development of an effective consumer education program to support efficient card usage and encourage asset building behaviors is tied to the power of popular/ political education programs. The orientation of the card consumer education program is that the community's financial well-being is a collective endeavor. We have collective consumer power which translates into collective bargaining power that can be wielded across many venues. Building financial stability in our lives allows us to address bigger issues. Harnessing the power of our remittance dollars can influence home governments and improve the economic infrastructure of our home communities so that others will not have to leave their countries to support their families. This is the type of information that will resonate with worker center constituents and help them understand how card usage is indeed about empowerment.

Goals and benchmarks: Since pilots are all about learning what does and does not work, we have established some benchmarks against which we want to monitor our progress. First, we want to measure our conversion ration—how many people do we have to contact before we get a sale. Our goal is to attain an overall 20% lead conversion rate. We are working on tracking response rates to particular marketing pieces to assess the effectiveness of our messaging and communication vehicles. Secondly, our account acquisition goals are to open 250 accounts in the first 6 months and another 250 accounts in the second 6 months. On the card utilization side, we want to see if we can exceed a 50% active account rate and we want to monitor account attrition. We also want to measure the % of accounts active for more than 6 months. Finally, we want to assess card cost savings by sampling actual monthly card usage costs and end-to-end money transfer costs.

The over-arching goal of the pilot is to have enough information at the end of 2Q-07 to be able to assess the product and the distribution model's performance. We expect to have to make adjustments as we go along; but if our evaluation against our benchmarks is positive, we will use this roll-out template to expand the program on a wide scale.

Conclusions

The 12 months invested in this project to-date have yielded many lessons that continue to shape the worker centers' prepaid debit card distribution program.

A key learning from the consumer market research, was that underbanked consumers from low-income and immigrant households are very familiar with the culture of oppression and the experience of exploitation. They depend upon trusted sources for their information and they are wary of who is trying to sell them what. Given that the research also shows a strong affinity between the worker centers and their constituents, we are optimistic that financial products recommended and delivered by the worker centers

would have a competitive edge over products offered through other channels.

From the perspective of non-profit or community-based organizations that may be considering replicating this product delivery model, it is important to note that organizations do not have to build new core competencies---market research, product design, vendor management--- to implement this program if they are willing to partner with technical advisors or use an intermediary. However, it is important not to underestimate the work that is required to integrate product or service delivery into mission fulfilling organizational development strategies. Additionally, community-based organizations who undertake such an endeavor must view themselves as business partners entitled to appropriate compensation (not donations) for the work they perform.

Finally, card vendors need to take a step back and re-evaluate their approach to the prepaid debit card market. They need to find the partners that already have strong affinity relationships within their target markets. With partners, vendors can leverage affinities to update the market research from the inside, i.e. community based participatory research, to build delivery channels around a trusted source of information, and to develop marketing messages that will resonate with the community. Building strong partnerships means investing in building the capacity of the delivery channel, allocating marketing dollars to support outreach, and a willingness to adapt products or services in response to partner input. In turn, the market will gravitate to a responsive supplier.

Closing the Gap

The comparison of the consumer market research to the vendor product offerings pointed out that even though prepaid debit cards could fulfill many of the financial service needs of the worker center constituents, there were adoption obstacles:

- Perceived value at existing prices—card usage costs were comparable to current financial practices obviating any motivation for behavior change.
- Distribution channels did not engender trust in a new product.
- Mechanisms to build consumer competency in product usage were lacking—the need to raise the relevance of any offered financial education to engage the consumer.

Recognition of these obstacles suggested the strategies for success that had to be designed into the worker center card distribution program pilot to meet the goal of closing the gap created by the mismatch between low-income consumer financial needs and current card product offerings.

Appendix A-Request for Information Outline

Organizational Information

- Legal structure
- Primary corporate officers
- Asset size
- Last year's revenue and current year projection
- Issuing bank relationship
- Card associations
- Pending legal actions

Product Features/Capabilities

- Money Transfer structure
- ATM and POS networks
- Loading Options
- Linked savings accounts or pursuing
- Bill Payment service
- Text message alerts
- Add-on features

Customer Experience

- Current solicitation and distribution channels
- Account opening process and ID requirements
- Customer support language capabilities
- Terms and Conditions
- Fulfillment materials
- Website functionality
- Transaction initiation
- Card activity tracking and on-line statements
- Card utilization and cross-sell programs
- Dispute process
- Lost/stolen liability limitations
- Overdraft risk

Operational Assessment

- Transaction platform, contingency plan, and uptime performance
- Location of Operations
- # of employees
- Other 3rd -party providers, e.g. card production
- Fraud detection tools
- Credit bureau reporting

Portfolio Performance

- Average cost per account booked
- Expected annual revenue per active card
- Average % of portfolio active
- Average balance per active card
- Average annual losses through charge-off or fraud

Partnership Potential

- Pricing structure and flexibility
- Marketing support
- Revenue share plan
- Program and product development flexibility