

## **Who is the Prepaid Consumer?**

Innovation and a challenging economy redefine the prepaid consumer.

*by Lori Breitzke*

As prepaid products and services have developed from simple calling cards to stored value cards with payment mechanisms, the profile of the prepaid consumer has changed. If you thought you knew the prepaid market, think again. Innovation in technology in tandem with a difficult economy has redefined the prepaid consumer. Read on to learn more about why consumers of all ages and ethnicity are gravitating to prepaid cards.

First, let's take a look at prepaid in the early days. Prepaid services in the US actually got started in the early 1990s with calling cards sold directly to consumers in local grocery stores and bodegas. The original card market was comprised largely of immigrants who needed to call friends and family outside of the US, at low cost per minute. Prepaid phone cards provide telecommunications at a fraction of what international long distance cost. "What's the best card to call Mexico, or the Philippines?" is a typical question from a prepaid consumer.

In the 2000s, prepaid payment functions expanded, driven by the needs of the unbanked population. Approximately 25 percent of US households are unbanked or underbanked, according to a survey by the Federal Deposit Insurance Corporation (FDIC). It was an easy transition for phone card consumers to pay their bills where they bought their calling cards and transferred money back home. Grocery stores became friendly banking centers by installing remittance stations for their customers.

Millions of migrants in the US send money home to Latin America. According to the Inter-American Development Bank, remittances to Latin America and the Caribbean were \$58.8 billion in 2009.

Prepaid distributors marketed to the unbanked consumer by developing brands for specific ethnic groups. Gradually, prepaid wireless and financial services were expanded to target not only immigrants, but teen and college students and low-income consumers as well. Members of these groups, which include Blacks and Hispanics, characterized the typical prepaid consumer (in the last decade), according to Atlantic-ACM, an independent research firm.

As the array of prepaid financial services grew, interest and demand for products followed. Forward-thinking calling card companies got into the gift card business and took distribution from the corner bodega to the efficiency of large retailers with thousands of locations. So began the explosion of prepaid products. Then, in 2008, the collapse of financial markets and hard times began to transform the identity of the prepaid consumer.

## **Why Consumers Noticed and Started to Choose Prepaid: 3 B's – Budgeting, Brand, and Bill Pay**

The financial crisis, which the US is still grappling with, marked the beginning of the end to free-spending and the excessive use of credit cards. As banks tightened access to credit and home equity lines of credit dried up, frugal became fashionable. The impetus for prepaid went mainstream.

People had to learn how to live within their means. Financial pundits and credit counselors (not to mention bankruptcy lawyers) began to preach debit cards. At check-out counters, the question became: "Debit or credit?"

Plastic powered by cash edged onto center stage at the point-of-sale (POS). Debit cards became the path to solvency. In fact, Debit card usage has increased by 40% in the last decade, according to the General Accounting Office (GAO).

The average American worker, with earnings of about \$40,000 (according to the Social Security Administration), is learning to follow the "3 B's: Budgeting, Brand, and Bill Pay. Prepaid cards give consumers everything they need to live within their means.

**Budgeting** – Budgeting requires controlled spending. Consumers have learned to like debit cards because they can only spend the cash loaded on the card. Users can reload the card online or at a remittance station. If they are employed, they have direct deposit privileges.

Consumers prefer no overdraft or penalty fees. Many general purpose reloadable cards (GPR) are available with no activation fee if money is directly deposited from a check, direct deposited from an employer, or when more than \$1000 is loaded.

**Brands** – Consumers feel empowered by a branded card. Branded cards give them the freedom to purchase goods or services anywhere at any time. The shiny logo on the debit card allows the user to select credit as a form of payment, as long as there is sufficient stored value (cash). Promotions and rewards satisfy the consumer, while building loyalty.

**Bill Pay** – One of the best advancements in banking in the last 15 years has been online and recurring bill pay. Both prepaid and post-paid consumers enjoy the bill pay banking feature because they can quickly and easily make their bills go away. As each bill is paid, the slate is clean for another month. Many prepaid cards enable bill pay online or a neighborhood remittance pay station. The process is convenient, secure, and low-cost.

*Find out more about the services Lori can provide by visiting her consulting page (<http://atmia.com/consultingtrainingportal/loribreizke/index.cfm>).*