

# EMERGENCY GIFT CARDS: COMMODITIZING SAVINGS WITH PREPAID CARDS

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## INTRODUCTION

Imagine you walk into a retail store to buy a birthday gift for a parent, friend or child. Knowing how difficult it is to choose a gift and uncertain of what to purchase you head straight to the gift card rack. Not only are you looking for a card that will be appreciated by your loved one but also something that you feel good about purchasing and gifting to them. As you scan the cards you come across a unique gift card, an “Emergency Gift Card” that allows you to give the gift of savings to help protect your loved one from financial emergencies. You think of all the times you have been called upon by a friend or family member when an unexpected expense hits and the difficulties you and your household have faced managing your own emergencies. You realize this can help both you and your loved one in the near future. You choose a \$50 card, purchase it and gift it to someone you care about who now has a bit of financial security tucked away in their wallet for their next emergency.

Can savings be commoditized in such a way to help consumers save for a rainy day? At D2D, we are exploring this idea to understand innovative ways to reduce the gap in access to savings and make savings a more engaging and impulsive decision that helps consumers build a cushion for themselves and their loved ones. If consumption is fun and immediately gratifying, why can't savings be too?

## WHAT IS AN EMERGENCY GIFT CARD?

D2D Fund has designed an emergency gift card to test a new way of reaching consumers with a short-term savings product by incorporating the following insights: a) consumers like to gift savings to their loved ones and as seen with paper savings bonds, like the tangibility of savings b) the need to meet a consumer where they are to influence behavior and c) savings can be commoditized and consumers are willing to pay for it.

By leveraging the popularity and pervasiveness of the gift card industry, D2D is attempting to transform the very act of savings into a more impulsive, purchase-like decision. Consumers would be able to purchase a physical gift card that represents actual savings, with a goal of holding onto it as a form of short-term savings. Given the diversity of emergencies faced by individuals and households, the product would be designed as an open-looped gift card to allow consumers to use and swipe it at various outlets when needed. The gift cards would be branded and marketed as an easy and accessible way to help consumers gift emergency savings for themselves or their loved ones, having savings tucked away safely and available when emergencies hit. The card would have some features that limit immediate usage, so individuals would have a tangible card that physically represents their emergency savings but without access to the savings until necessary.

## NEED FOR INNOVATION

In today's uncertain economy, consumers are not just struggling to build for the future but to manage day-to-day living, with income and expense shocks that can rock the very foundation they have worked so hard to build and sustain. Nearly half of American households are vulnerable to these financial shocks, with 46% lacking confidence in their ability to come up with \$2,000 in 30 days<sup>1</sup> and with 43% liquid asset poor<sup>2</sup>, lacking any or enough savings to cope with an emergency. While all households are vulnerable to financial shocks, low to moderate income households are even more vulnerable, with 51% lacking any emergency savings and 62% having experienced at least one shock in the last twelve months.<sup>3</sup>

These findings stress the importance of helping all consumers set a little bit aside, to protect their families from shocks and their negative impact on households' entire wellbeing and stability. However, it also sheds light on the need for innovation that engages consumers in the act of saving, taking out the heaviness associated with a need to save and making the act more gratifying and impulsive.

## OPPORTUNITY WITH PREPAID CARDS

To introduce a new product that helps change behavior, we often need to meet consumers where they are and tap into existing behaviors. Creating a product that taps into the growing popularity of the prepaid card industry and the familiarity of gift cards has the potential to do exactly that. Prepaid cards reach a diverse set of consumers, especially financially vulnerable consumers who lack access to more formal and traditional saving mechanisms. Approximately one

in four households are either unbanked or underbanked, with 17.5% of these households using a prepaid card in 2011.<sup>4</sup> The industry is also experiencing rapid growth in the amount of funds loaded, with the amount in 2012 estimated at \$522 billion.<sup>5</sup> With the right savings product on prepaid cards, we have the opportunity to not only reach consumers but capture some of these funds loaded into savings. If even a small percentage is in savings, it would result in a meaningful savings impact for many consumers.

At D2D, we recently designed and offered a savings pocket coined the "Rainy Day Reserve" on a prepaid card, in collaboration with prepaid card company Plastyc, Inc. Early findings from this work shows the strong demand for savings on a prepaid card, with more than 9% of consumers taking-up the savings pocket and \$5.5 million deposited in it. Seventy-nine percent of consumers surveyed believe that the savings featured helped them save, with main usage to manage short-term emergent needs such as covering monthly and weekly expenses and coping with household emergencies. Consumers surveyed also indicated that the savings pocket allowed them to rely less on social networks (43%), pay day loans (29%) and credit cards (24%) when funds were needed.<sup>6</sup> These findings show the demand for savings on a card platform as well as the potential for small dollars saved to help households better manage their short-term saving needs.

While consumers are using prepaid cards and with savings on prepaid cards becoming a more attractive feature, we also know that consumers are very engaged in the receipt, purchase and use of gift cards. The high usage by consumers and the prominence of

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<sup>1</sup> Lusardi et al. *Financially Fragile Households: Evidence and Implications*. NBER Working Paper No. 17072 (May 2011).

<sup>2</sup> *2012 Assets & Opportunity Scorecard: A Portrait of Financial Insecurity and Policies to Rebuild Prosperity in America*. Corporation for Enterprise Development (January 2012).

<sup>3</sup> *A Need for Product Innovation to Help LMI Consumers Manage Financial Emergencies*. D2D Fund (January 2012).

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<sup>4</sup> *2011 FDIC National Survey of Unbanked and Underbanked Households*. Federal Deposit Insurance Corporation (September 2012).

<sup>5</sup> *Eight Annual Prepaid Market Forecast 2011 to 2014*. Mercator Advisory Group (2011)

<sup>6</sup> D2D collaborated with Plastyc Inc. to design a savings pocket, called the "Rainy Day Reserve" on the Upside prepaid card, which launched in November 2011. A report of findings for this work is forthcoming.

gift cards on many special occasions, from birthdays to weddings, make a prepaid gift card a promising vehicle for savings. Consumers also like the tangibility of savings and the ability to gift savings to their loved ones<sup>7</sup>, strengthening the opportunity of savings gift cards.

## OUR TEST

To test the concept and its attractiveness to consumers, D2D will run a pilot study launching an emergency gift card that is non-reloadable. D2D's market research<sup>8</sup> indicates that consumers are interested in purchasing the card for themselves as well as gifting it to family and friends, and that correspondingly different images and messaging resonate with the purchase of a card for oneself versus a card purchased as a gift. As a result, D2D is exploring two different branding messages, a "safe" design where funds can be "unlocked" when an emergency hits and a "rainy day" design where consumers can "protect" loved ones from a rainy day.



In addition to testing consumer demand for savings as a commodity in the form of an emergency branded gift card, the pilot will also test willingness to pay which will be a crucial factor for the scalability and sustainability of savings cards. Each card would therefore have a one-time purchase fee in the range of \$2.95 - \$4.95<sup>9</sup>.

D2D is also interested in understanding consumer usage of the funds and the ability of features to help manage any self-control issues. D2D will explore features that create some barriers to usage, such as requiring consumers to "break the seal" to access an

activation code, call a 1-800 phone number before the funds can be activated, or allow the giver to unlock the funds for the receiver. Through the findings, we hope to learn if consumers activate, when they activate, and how they use their card.

Once we have proof of concept from this first pilot study, D2D will explore ways to expand the functionality and viability of the product, potentially exploring the use of a reloadable card, different features to deter activation, and collectible savings or goal-oriented saving cards.



## OUR VISION

Now, imagine you walk into a retail store or go online to purchase a savings gift card, and you come across collectible savings cards, savings cards with different images and amounts, goal-oriented savings cards, even prize-linked savings cards with chances to win for loading savings or reaching savings goals. You even have the ability to personalize and customize the card for your loved one, choosing the image, the amount and how the funds can be accessed (including adding a personal message when your loved one goes to activate the card). You pick one up for your loved one and one for yourself, feeling more confident that when an emergency hits you both have a little set aside to help you cope; and knowing that if you come across extra funds you can always load more onto your savings card to build that cushion for the future.

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<sup>7</sup> *2012 Savings Bond Report: Keep Bonds Easy, Preserving Universal Access Through Advocacy, Awareness and Action.* D2D Fund (September 2012).

<sup>8</sup> D2D conducted in-person focus groups with 25 consumers and surveyed over 2,000 consumers in 2012.

<sup>9</sup> Based on research of comparable gift card fees.

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For more information on this work, visit [www.d2dfund.org](http://www.d2dfund.org).



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