

## PRIZE-LINKED SAVINGS

### INNOVATION BLUEPRINT: SCALING SAVINGS ON PREPAID CARDS

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#### Savings at Scale – An Opportunity

Doorways to Dreams (D2D) Fund believes that the prepaid industry is uniquely well-positioned to help financially vulnerable households build financial capability through savings. In collaboration with prepaid card providers, D2D is building a variety of creative solutions that (1) create business value for General Purpose Reloadable (GPR) card programs and (2) help financially vulnerable Americans build financial security.

The prepaid market is one of the fastest growing segments in the payments space. Reaching 9.2 billion transactions in 2012, prepaid usage increased 15.8% annually from 2009 to 2012, rising faster than either credit or debit payments.<sup>1</sup> Notably, unbanked households had the highest rate of growth in prepaid card use, experiencing a nearly 15% jump since 2009. More than 27% of unbanked households have used prepaid cards, and the unbanked appear to be among the most active, engaged card users. While 23.4% of banked users reloaded their cards in the last 12 months, 42.9% of underbanked households and 57.8% of unbanked households reloaded their cards.<sup>2</sup> With the median income of the unbanked population at \$17,000, innovation in this segment has real potential to help financially vulnerable Americans.<sup>3</sup>

Although GPR cards have been successful at helping cardholders manage tight budgets and fluctuating cash flows, by offering savings options and other engaging features, prepaid cards can become more holistic and useful tools. More full-featured products promise more benefits for consumers and the possibility of richer profits for providers. With an eye towards scalable innovation and our mission to improve the lives of the financially vulnerable, D2D is exploring a number of strategies, including:

- Re-framing and branding a savings pocket for financial emergencies
- Offering a prize-linked savings feature
- Gamifying the savings pocket

#### Prize-Linked Savings and Savings on Prepaid

Prize-linked savings (PLS) adds the element of fun and excitement to traditional savings. In a prize-linked savings account, savers earn opportunities to win prizes by putting aside money. The more accountholders save, the more chances they have to win a prize. Savers can also be rewarded for opening a savings account or for frequency of deposits.

This model provides the thrill of a lottery-style game with no risk. Even if participants “lose” they still keep all of the savings they have accumulated. PLS products have shown great success in credit unions in engaging non-savers and low-to-moderate income clients, fostering savings habits and building increased customer loyalty. Prepaid cards that offer a PLS feature should realize these same benefits. In order to test the potential of pairing elements of PLS with savings pockets on prepaid cards, D2D partnered with Advent Financial to design the Get(it), Keep(it) Promotion with Advent’s Get It Prepaid MasterCard.

#### The Get(it), Keep(it) Promotion—Features and Priorities

In collaboration with D2D, Advent Financial recently offered a first test of a prize-linked savings pocket through their Get It card. The Get(it), Keep(it) PLS sweepstakes featured a \$35,000 prize pool which users were entered into after a one-time deposit of \$50 into the Keep(it) savings pocket on their Get It card. The

sweepstakes, designed to encourage cardholders to save a portion of their tax refund, ran during the tax season in 2014. The timing allowed Advent to put the



1. *The 2013 Federal Reserve Payments Study*. Rep. Federal Reserve System, Dec. 2013.

2. *2013 FDIC National Survey of Unbanked and Underbanked Households*. Rep. Federal Deposit Insurance Corporation, Oct. 2014.

3. Fellowes, Matt and Mia Mabanta. 2008. *Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential*. Washington, DC: Brookings Institution Metropolitan Policy Program.

savings pocket offer in front of a large volume of consumers at a time when they have more money to save. Working with D2D, Advent offered a PLS experience that gave chances to win for initial deposit, additional deposits, and frequency of deposits. Through the design and test work with Advent, D2D gained an understanding of several key considerations when building a prize-linked savings feature that is usable, understandable, and supports positive financial behavior on the GPR card platform. PLS pocket design should consider:

- **Prize and Entry Design.** The prize and entry design should support key consumer behaviors (trying a savings pocket, building a reserve in a savings pocket, and engaging with the savings feature) and reward consumers frequently enough to support these behaviors.
- **Ease of Use.** The savings product must be easy and intuitive to use. When card use begins, users should be able to easily choose to use a PLS pocket and should have the ability to transfer savings into the pocket through a simple, one-step process.
- **Fun and Informative Marketing.** Prize-linked savings pockets require marketing and a clear explanation. Consumers may need several touch points to understand what a prize-linked savings pocket is, what the entry requirements are, and how they can save in the pocket.
- **Consumer Access and Communication.** All websites and communications must be consumer-focused with an eye towards their needs. User interfaces should be clean and easily accessible to all users.

#### **Business Value of PLS for GPR Cards**

Like traditional savings pockets, prize-linked savings pockets have the ability to increase the longevity of card use through establishing consumer relationships and deliver several other benefits for providers:

- **Differentiation in Channel.** In a crowded market, marketing and explaining differences between cards can be difficult. Prize-linked savings pockets provide an accessible way to talk about card features, innovation, and the value of helping consumers move towards financial security, giving card providers distinction in the marketplace.
- **Customer Acquisition.** Prize-linked savings products have shown promise in their ability to attract new members to offering institutions.<sup>4</sup>
- **Savings Habit Development.** Research has shown that prize-linked savings products can

engage non-savers with savings products and sustain saving behavior over time. Active engagement with prize-linked savings pockets could transform light-users of prepaid cards to heavy users through savings habit creation.

These benefits can result in increased engagement of less active card users and increase the lifespan of card relationships. Standing out in a crowded marketplace attracts customers, and actively engaging cardholders is a natural hedge against churn, which leads to greater profitability.

#### **Conclusion**

The opportunities for innovation with prepaid prize-linked savings features are plentiful. Although questions remain about how to best implement prize-linked saving pockets, the potential impact on the financial lives of consumers, and card providers' bottom lines, is huge. Innovations that build the financial security of consumers, while also introducing layers of fun, can foster more loyal customers with deeper relationships with their card providers.

**Doorways to Dreams (D2D) Fund** is a national nonprofit that strengthens the financial opportunity and security of low-to-moderate income (LMI) consumers by discovering ideas, designing solutions, pilot testing and evaluating designs, and driving innovations to scale. To do this, D2D works with the financial services industry, government agencies, national nonprofit groups, state and local community groups, and public policy organizations. D2D's innovation process has twice impacted the federal tax code and spawned new financial products and public policies responsible for helping 750,000 Americans to save \$175 million.

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4. In Save to Win, a prize-linked savings product offered through credit unions, 10% of account holders reported joining their credit union to access the Save to Win account in member surveys.