

INNOVATION BLUEPRINTS: SCALING AN “EMERGENCY” FRAME AND SAVINGS ON PREPAID

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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.¹ 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.² With the median income of the unbanked population at \$17,000, innovation in this segment has real potential to help financially vulnerable Americans.³

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

“Emergency” Frame and Savings on Prepaid

The features of a prepaid cards position them to serve as tool in which consumers can easily and promptly access their savings, especially in times of an emergency. An unexpected medical expense or home repair can leave families vulnerable and unable to stay on top of their planned or predictable expenses. Without the right tools to manage these emergencies, families may turn to expensive alternative financial solutions, such as payday lenders, which can lead these families to increased levels of debt that continue to damage their financial futures. This reality creates an opportunity for innovation that can help all consumers better manage financial emergencies through savings, particularly through products they are comfortable with such as prepaid cards.

In 2011, D2D partnered with Banking Up (formerly Plastyc), to test and design a savings feature on their UPside Visa Prepaid Card. D2D was specifically interested in offering and testing design features to help households (1) begin saving, (2) continue to build savings and/or (3) maintain savings for emergency purposes.

Rainy Day Reserve – Features and Priorities

The Rainy Day Reserve (“RDR”), a free, noninterest-bearing savings pocket available to all UPside cardholders, emerged from D2D’s design process. D2D and Banking Up chose these design features with the hope to reach consumers, drive use, and maintain savings in the Rainy Day Reserve:

- **“Emergency” frame and clear branding.** Since consumers need to opt-in to begin saving, D2D focused primarily on branding the product in a way that would emotionally resonate with consumers to increase chance for take-up. The savings feature

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.

was branded as a Rainy Day Reserve and D2D developed marketing content around the importance of saving now to be prepared for emergencies and build security for your future.

- **Low barriers to entry.** To make saving accessible to consumers, there is no minimum deposit or balance requirement and it is easily funded from the spending pocket of the card.
- **Automated savings capability.** Consumers have the opportunity to sign up for automated savings, which allows them to set a savings goal and choose a frequency (daily, weekly, monthly) and an amount to save with recommended defaults already in place. Individuals also have the option to pause automation. Knowing that some consumers would rather manually save, or consumers sometimes have extra funds to set aside, the savings pocket also has a manual feature that allows for one-time deposit of funds.
- **An effort to limit withdrawals.** To try to encourage people to only withdraw when an emergency hits, D2D designed a withdrawal screen that appears at the time a consumer chooses to withdraw and reminds the individual of their savings goal. The screen reads, "Remember, your Rainy Day Reserve is to help you save for emergencies and build security for your future. Are you sure you need to withdraw now?" Individuals have the option to choose yes or no. If they click yes, the withdrawal occurs but if they click no, it is cancelled.
- **Savings reminders.** Leveraging the Banking Up mobile application's push notifications, D2D created reminder messages that target specific subsets of consumers to encourage consumers to a) start saving in their Rainy Day Reserve b) enroll in auto save and/or c) increase their savings behavior.

Market Opportunities and Potential

Volume of loads and number of card transactions are both important measures of engagement and D2D has found that RDR users excel in both when compared to non-RDR users.⁴ RDR users load more onto their cards, with average total loads of \$6,099 over 14 value loads versus \$2,440 over 5 value loads for non-RDR users. On average, RDR users spent \$5,512 on their cards with an average of 135 spending transactions compared to non-RDR users who spent on average \$2,418 with an average of 41 spending transactions. Importantly, D2D has found that RDR users are actually saving on their cards. RDR users held onto nearly 10% of their loaded funds compared to non-RDR users who held onto slightly less than 1%. This strong correlation

between savings and increased card engagement suggests that the design of the Rainy Day Reserve leads to increased card stickiness and usage.

Additionally, RDR users reported having a positive relationship with their cards and the savings pocket. Eighty-eight percent of consumers said they were very satisfied or satisfied with the feature, and 78% are more likely to recommend the card to family and friends given that it has the Rainy Day Reserve. As of April 2013, the Rainy Day Reserve had over 7,000 active users and over \$14 million deposited, positioning the pocket as an attractive and effective savings feature for cardholders with significant benefits and profitability for the card provider.

Conclusion

By addressing the consumer need for emergency savings, prepaid card providers can capture increased engagement and develop deeper relationships with existing cardholders, both of which can lead to increased profits. Emergency savings pockets on prepaid cards have demonstrated potential in serving as useful financial tools for consumers while also generating significant benefit for card providers. D2D's work with Banking Up on the Rainy Day Reserve represents just one model that can easily be altered and enhanced to scale savings in the prepaid marketplace to fit the varied needs of consumers and prepaid 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.

4. *Paving the Way Forward: Savings on Prepaid Cards*. Rep. D2D Fund, Jul. 2013