Relating Unbanked Prepaid Debit Card Use and Opening a Bank Account

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Introduction

According to the Federal Deposit Insurance Corporation (FDIC), 15.6 million individuals older than age of 16 were unbanked in 2015. Over half (59%) of prepaid debit card users have or have had a checking account but most have struggled with bank overdraft fees (The Pew Charitable Trusts, 2014). It seems the banked who obtain prepaid debit accounts do so in order to gain control of their finances. Prepaid card users are more likely to be adults belonging to lower-income households, less-educated households, younger households, black households, and working-age disabled households (FDIC, 2015). Public-policy makers and community educators have long advocated the use of prepaid cards as a way to transition the unbanked and underbanked households into the mainstream banking system.

Banking alternatives, the prepaid debit card industry in particular, have evolved to increasingly provide and mimic bank-like functions even 'mobile banking' is available with most non-bank prepaid accounts. Walmart has been providing basic money services particularly targeted towards the unbanked population such as payroll and government check-cashing, express bill payment, money orders and money transfers since 1999. The Money Services Center of a local Walmart store in addition to offering such services had a display case with two sections, one labeled 'prepaid debit cards' and another labeled 'alternative banking services' (observation, October 31, 2018). In recent news, the Wall Street Journal reported that PayPal plans to expand into traditional banking through partnership with smaller banks to offer consumers debit cards connected to their PayPal accounts, along with direct deposit for paychecks and other services, targeted specifically for masses who are "ignored by the banks" (Rudegeair, 2018). PayPal has partnered with Walmart for cash in and cash out services at Walmart Service Desks, ATMs and cash registers for low transaction fee of $3 starting October 2018 (observation, October 31, 2018; Walmart, 2018). Thus, it could be that anticipating unbanked prepaid users to transition to mainstream banking may be presumptuous. Consumer advocates and educators, providers of alternative financial services (AFS), and bankers will find insights on transitionary behavior between these two types of products useful.

Purpose and Hypotheses

This paper is interested in prepaid debit card holders who are currently unbanked and the likelihood of them opening a bank account in the near future. We hypothesize that

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prepaid debit card users with more recent prior banking experience are more likely to indicate an intention to open a bank account. Specifically, we test this hypothesis in two stages: first, that unbanked prepaid debit card users are more likely to open a bank account than non-users; and second, that prepaid debit card users with more recent banked status are more likely to open a bank account. Using secondary multiyear data of unbanked households in surveys by the FDIC, we account for attitudes about banking, use of alternative financial services for check-cashing, money order, or remittance transactions, and control for age, race, education, employment status, household size, and residence in metropolitan areas.

Theoretical Framework

Ajzen's (1985) theory of planned behavior (TPB) is useful to construct the model for studying the underlying behavior which results in the intention to become banked for currently unbanked prepaid card users. TPB has been used extensively to study the intention of consumers to adopt internet banking, online shopping, and mobile banking in several countries (Aboelmaged & Gebba, 2013; Shih & Fang, 2014). This theory has also been used widely to study the credit card usage behavior among consumers (Rutherford & DeVaney, 2009). The phenomenon talked about is that of the formation of a behavioral intention which is the outcome of a combination of attitude towards the behavior, subjective norms, and the perception of behavioral control.

The behavioral intention here is whether unbanked prepaid card users expect to open a transaction account with a bank within 12 months. Having recent banking experience may motivate prepaid card users to open bank accounts due to social norms whereas those who have gone without a bank account for much longer may now have a new norm outside of traditional banking. Social norms dictate that lifestyles and expectations of social circles or a culture influence purchasing decisions (Conner & Armitage, 1998). Positive attitudes towards banking in general may induce unbanked prepaid card users to become banked. However, aside from low cash supply to warrant having a bank account, one of the most common reasons to be unbanked is lack of trust in the institutions. This belief is captured in the study. Perceived behavioral controls are age, education level, household size, and employment status as most employers use direct deposits for payroll. Metropolitan area may also be proxy for perceived control due to relatively easier access to traditional banking in these areas compared to non-metropolitan areas which on the other hand tend to have more AFS providers. So, the key constructs for our research question are the social norms of participation in the prepaid debit card trend, traditional banking experience, and AFS transacting, and the intention to become banked.

Methods

The data come from 2013, 2015, and 2017 surveys of the unbanked and underbanked sponsored by the FDIC. The full pooled sample consists of 6,546 respondents who were all unbanked when they were interviewed. This means they did not have a checking or savings bank account. After all recoding and removing ambiguous

responses, everyone in the sample also turned out to have been previously banked but some more recently than others. Probit regression is used to predict the intention to open a bank account within 12 months with a vector of independent variables including prepaid debit card use, banking and AFS history, attitude about banking, as well as control variables for year of survey, age, race, education, employment, and household size. The ongoing analysis attempts to correct for any significant selection bias that may be likely due to a proclivity towards alternative financial services for bank-like transactions such as for check-cashing, money orders, and remittances as well as other transacting alternatives.

Preliminary Results

Table 1 summarizes the dependent and independent variables included. Prepaid use is defined as having used a prepaid debit card within the last 12 months. Almost 28% of the pooled sample had used a non-bank prepaid debit card in the 12 months prior to being surveyed. About 30% of the full sample intended to open a bank account within 12 months but interestingly the percentage was significantly higher among prepaid debit card users than those who were not users. Over half (51%) of the full sample had been unbanked for more than a year and 49% had become unbanked within the past year. It interesting to see that prepaid debit card users were less likely to have become unbanked in the past year (34.62%) than non-users (57.32%). However, the inverse relationship suggested by these numbers makes sense given that prepaid card use was for during the 12 months prior to each survey which is the same period for recently becoming unbanked.

Column (1) in Table 2 shows some evidence that prepaid debit card use by the unbanked in the past 12 months is related to the intention to become banked within 12 months. However, the marginal probability is only 4% greater than for those who do not use debit cards. In column (2), the banking attitude variable, don't trust banks, which is only available for years 2015 and 2017, is added. Prepaid debit card use is still a significant predictor of the intention to become banked by a 3% margin over those who didn't use prepaid debit cards. These two columns provide evidence to support the first test of the main hypothesis. In column (3), period since prior banking is introduced and is highly significant overpowering the effect of prepaid debit card use. Those who have been unbanked longer than a year have about 16% lower probability to have the intention to open a bank account than those who became unbanked in the past year. Columns (4) and (5) are the split sample analyses of the prepaid debit card users and non-users, respectively. Among card users, there is a 16.4% lower probability to want to open a bank account for those unbanked longer than a year compared to those more recently unbanked. Whereas, the margin is 15.3% lower for the same group among those who did not use prepaid debit cards. This juxtaposition is evidence to support the second part of the hypothesis. Also, the variable for AFS for check-cashing, money orders and remittances in the past 12 months increased the probability of opening a bank account by 4 to 6 percent give or take distrust in banks and the relative period of being unbanked.

Initial Implications

There is a relationship between recent prepaid debit card use and the intention to become banked after accounting for distrust in banks. However, those who have been unbanked for periods longer than a year are only marginally less likelier than those most recently unbanked to open a bank account if they are using a prepaid debit card than if they are not. This information is useful for both educators and providers for targeted programming and marketing. Consumer advocates should be weary that prepaid cards could be a permanent replacement for banking for some. Thus, consumer protection for stored value on these accounts, similar to FDIC or credit union insurance for traditional deposit accounts may need to be uniformly required and enforced. Not all prepaid accounts provide deposit insurance. It is also important to investigate the potential costs of long-term prepaid debit card use over traditional banking to curb predatory costs and afford unbanked consumers the similar protections that have emerged for bank overdraft fees and monthly fees.

Overall, there is need for more data to delve deeper into the drivers for transitioning especially account and transaction costs of using prepaid debit cards over bank accounts. However, one might also investigate full history of prepaid debit card use. The source or type of prepaid card provider, only available in years 2013 and 2015 needs to be explored. The possible sources include bank or bank website, store or nonbank website, from government agency for public benefits such as social security or disability benefits, from family or friends, from employer for payroll, and other unspecified source. Prepaid debit card uses, account access and reloading channels available such as mobile banking functions continue to be explored.

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Table 1. Measurement and Summary Statistics

Variable	Min	Max	ALL 6,546	Prepaid=0 4,735	Prepaid=1 1,811	Sig. Diff.
Prepaid	0	1=used prepaid card in past 12 months	27.67%	0.00%	100.00%	
Openacct	0	1=if open bank account in next 12 months	29.84%	27.41%	36.17%	***
Prevbankyrs	0	=previously banked within last year 1=if been more than 1 year ago	51.04%	57.32%	34.62%	***
Afstransact	0	1=AFS Check cashing, money order, and remittance transactions	57.24%	51.78%	71.51%	***
Notrust	0	1=unbanked-don't trust banks	11.60%	11.13%	12.72%	0.160
Lomoney	0	1=not enough money to justify banking	38.70%	39.92%	35.80%	**
y2013	0	1	38.89%	40.59%	34.46%	
y2015	0	1	32.20%	31.49%	34.07%	
y2017	0	1	28.90%	27.92%	31.47%	
Age15	0	1	7.70%	7.43%	8.39%	
Age25	0	1	23.80%	21.94%	28.66%	
Age35	0	1	20.70%	19.77%	23.14%	
Age45	0	1	19.23%	19.16%	19.44%	
Age55	0	1	16.10%	16.87%	14.08%	
Age65	0	1	12.47%	14.83%	6.29%	
White	0	1	38.02%	35.10%	45.67%	
Black	0	1	31.62%	30.39%	34.84%	
Hispanic	0	1	24.40%	28.55%	13.53%	
Asianother	0	1	5.96%	5.96%	5.96%	
Nohighsch	0	1	35.15%	38.31%	26.89%	
Highsch	0	1	37.46%	36.83%	39.09%	
Somecoll	0	1	22.23%	19.45%	29.49%	
Colldeg	0	1	5.16%	5.41%	4.53%	
Employed	0	1	41.35%	39.70%	45.67%	
Not Labor force	0	1	48.29%	50.48%	42.57%	
Household size	1	14	3	2	3	
Metro	0	1=in metropolitan area	77.04%	77.66%	75.43%	

*** p<0.001, ** p<0.01, * p<0.05

Table 2. Marginal effects of probit regression on opening bank account in 12 months

VARIABLES	Full sample 2013-17 (1)	Full sample 2015-17 (2)	Full sample 2015-17 (3)	Prepaid card use in 12 months (4)	No prepaid card use in 12 months (5)
Prepaid	0.037***	0.027*	0.007		
	(0.013)	(0.016)	(0.016)		
Notrust		-0.124***	-0.121***	-0.143***	-0.110***
		(0.018)	(0.018)	(0.035)	(0.021)
Prevbankyrs			-0.157***	-0.164***	-0.153***
			(0.015)	(0.028)	(0.017)
Afstransact	0.061***	0.060***	0.044***	0.050*	0.041**
	(0.012)	(0.014)	(0.014)	(0.029)	(0.016)
y2013	0.096***				
	(0.015)				
y2015	0.012	0.008	0.006	0.016	0.003
	(0.015)	(0.014)	(0.014)	(0.028)	(0.016)
y2017					
Age	-0.047***	-0.043***	-0.048***	-0.051***	-0.047***
	(0.004)	(0.005)	(0.005)	(0.011)	(0.006)
White (Omitted)					
Black	0.060***	0.050***	0.073***	0.091***	0.065***
	(0.014)	(0.017)	(0.018)	(0.033)	(0.021)
Hispanic	-0.039**	-0.034*	0.009	0.075	-0.002
	(0.016)	(0.020)	(0.021)	(0.048)	(0.023)
Asian/Other	0.024	0.023	0.064*	0.002	0.090**
	(0.026)	(0.031)	(0.033)	(0.060)	(0.040)
Nohighsch	-0.098***	-0.101***	-0.071***	-0.125**	-0.110***
	(0.015)	(0.018)	(0.018)	(0.059)	(0.031)
Highsch	-0.027*	-0.040**	-0.030*	-0.084	-0.072**
	(0.015)	(0.017)	(0.017)	(0.062)	(0.031)
Somecoll				-0.023	-0.056*
				(0.064)	(0.031)
Colldeg	0.039	0.037	0.053		
	(0.029)	(0.033)	(0.034)		
Unemployed (Omitted)					
Employed	-0.144***	-0.148***	-0.132***	-0.107**	-0.142***
	(0.018)	(0.022)	(0.022)	(0.045)	(0.025)
Not Labor force	-0.205***	-0.213***	-0.197***	-0.210***	-0.193***
	(0.019)	(0.024)	(0.024)	(0.045)	(0.027)
Household Size	0.010***	0.006	0.009*	0.013	0.008
	(0.004)	(0.004)	(0.004)	(0.009)	(0.005)
Metropolitan Area	0.025*	0.029*	0.028*	0.068**	0.009
	(0.014)	(0.016)	(0.016)	(0.032)	(0.019)
Observations	6,546	4,000	4,000	1,187	2,813

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1