

Tools for Saving: Using Prepaid Cards to Set Aside Funds

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Consumer Financial
Protection Bureau

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Project Rationale

- CFPB mandated to “provide opportunities for consumers to access savings, borrowing, and other services found at mainstream financial institutions”
- Mismatch between intentions and behavior in the savings space
- 53 percent of households making less than \$40,000 reported saving nothing during the year
 - Among these respondents 17 percent were unbanked*
- Savings feature on a prepaid card could help underserved consumers save
 - “Earmarking” savings could help consumers dedicate funds for emergencies
 - Meet consumers where they are → savings vehicle on prepaid card already in use

*Source: Board of Governors of the Federal Reserve System. *Report on the Economic Well-Being of U.S. Households in 2015*.

Research Questions

- Can certain interventions encourage saving behavior?
- Is saving behavior associated with better outcomes for consumers?
- American Express implemented various marketing strategies as part of a randomized controlled trial (RCT)
 - *Reserve* “set aside” feature on *Serve* card

Interventions


- **Encouragement via email** – Encouraged *Serve* users to set up and use *Reserve* by highlighting benefits of saving
- **Encouragement via direct mail** – Provided magnet urging consumers to “picture the possibilities” that could result from saving
- **Promotional Incentives** – Offered \$10 incentive to encourage savings behavior through *Reserve*
- **Automatic Transfers** – Highlighted automatic transfer functionality of *Serve* funds into *Reserve*
- AmEx also surveyed study participants 9 months post-intervention to learn more about personal finance topics

Participant Experience

Reserve makes it easy to put money aside for big purchases

Earn a \$10 Serve® Account credit!
Transfer at least \$150 into your Reserve between 1/9/15 and 3/31/15.*

Start Your Reserve



Dear Gail,

A brand new sofa? An exciting vacation? There are so many reasons to put money aside. What's yours? With the Reserve feature, you have an easy way to separate the money you spend from money you want to put away for a big purchase or to cover an unplanned expense.


Earn a \$10 Serve Account credit after you put at least \$150 into your Reserve between January 9th and March 31st. For example, that's just 6 automatic transfers of at least \$25 each. It's an easy way to put away at least \$150!

IT'S FREE. Reserve is a complimentary feature that comes with your Serve Account.

IT'S CONVENIENT. Automatic transfers into Reserve can help make reaching your goals easier. Just set it up and forget about it. And when you're ready to spend the money you've reserved, simply move it from Reserve back to your available balance.

Picture the possibilities. Start your Reserve with automatic transfers today. Then watch your money in your Reserve add up to something big.

When you want to put money aside for a big expense, Reserve makes it easy.



Picture what you can do with your Reserve.

A big screen TV? A comfy new sofa? There are so many reasons to put money aside. What's yours? With the Reserve feature, you have an easy way to separate the money you need for immediate expenses from money you want to put away for a big purchase or to cover an unplanned expense.

Picture yourself taking an exciting vacation. Small amounts put in Reserve could get you there faster.

Picture yourself splurging on a big purchase. Reserve makes it easy to save money for big ticket items.

Picture yourself more in control. You decide how much money to add and when.

You decide how much money to put into Reserve and when. Transfer money into your Reserve from your available balance as often as you like. Then watch your money in your Reserve add up to something big.

It's FREE. Reserve is a complimentary financial tool that comes with your Serve Account.

It's Convenient. Get started in a few simple steps. Go to serve.com/reserve to create and name your Reserve.

Study participants

- Approximately 540,000 *Serve* prepaid card users
 - “Active” card users (approximately 240,000 users)
 - “Inactive” card users (approximately 300,000 users)
- 60 percent reported annual, pretax HH income less than \$50k in 2014
- 26 percent reported not having checking or savings account
- 41 percent reported having at least a checking or savings account and using Alternative Financial Services (AFS) in 2015
 - Money orders, check cashing, rent-to-own services, pawn shop, refund anticipation loans, remittances, payday loans

Figure 1: Enrollment in Savings Feature Over Time by Randomization Set

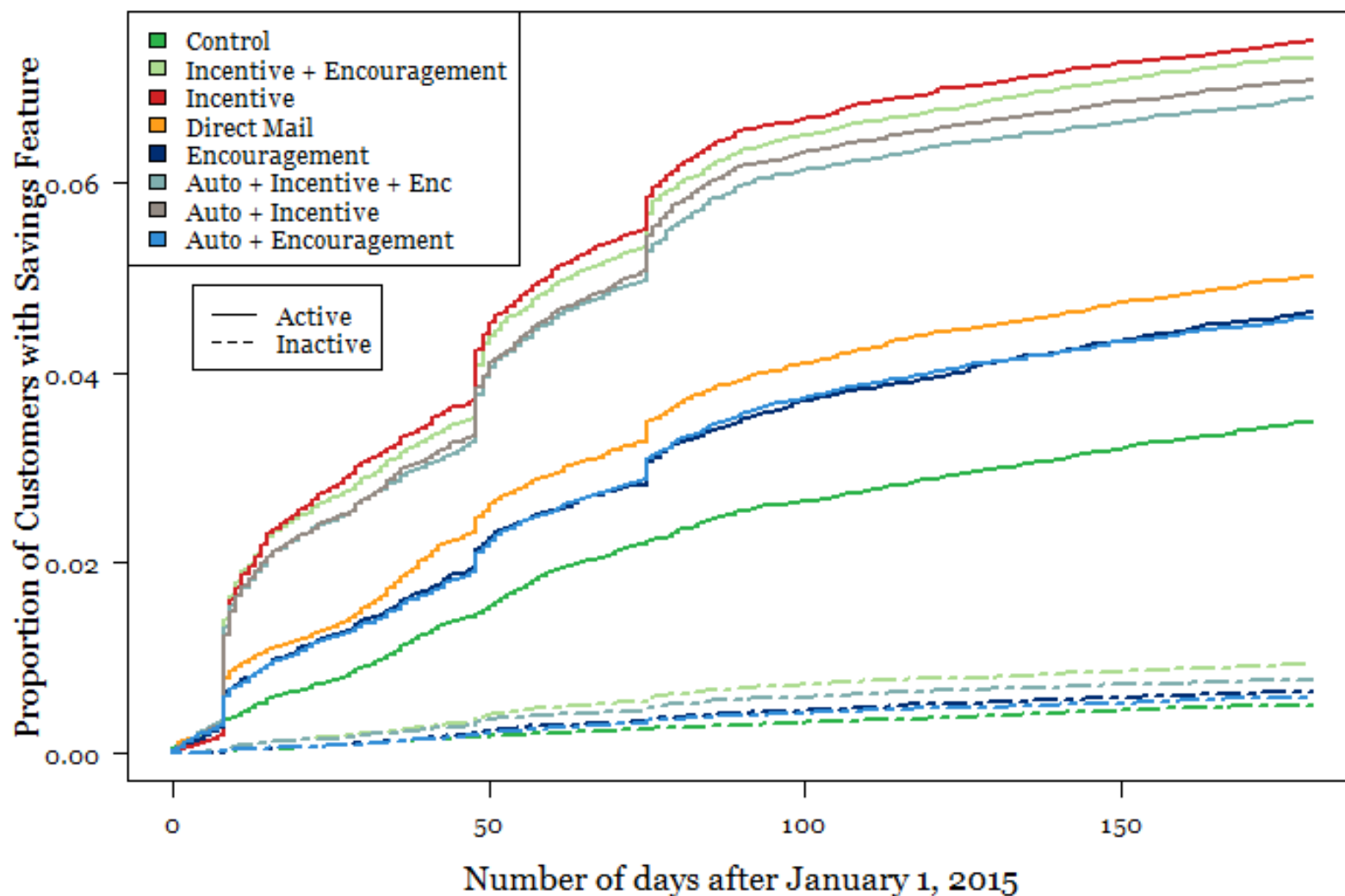


Figure 2: Savings Feature Enrollment as of June 30, 2015

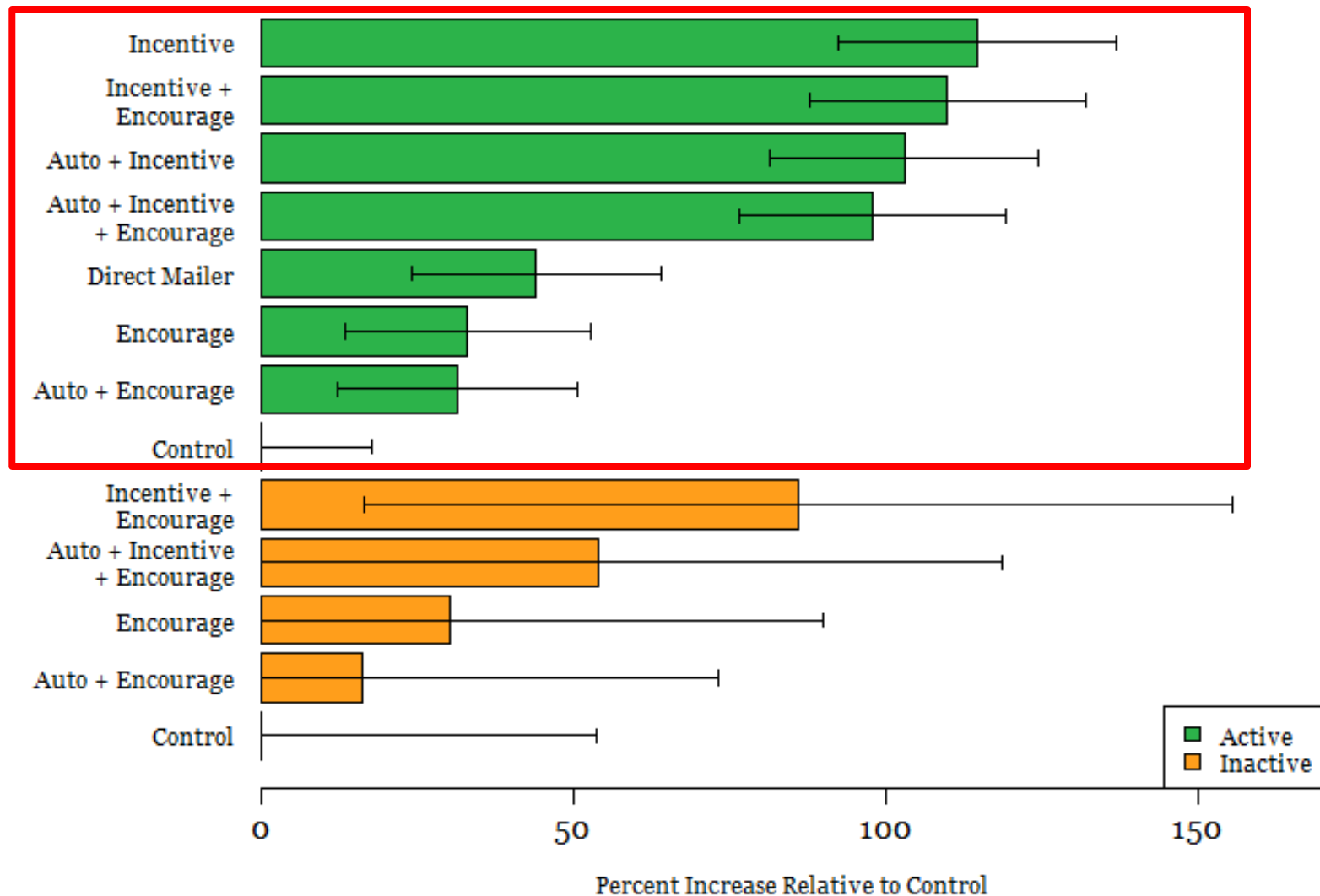
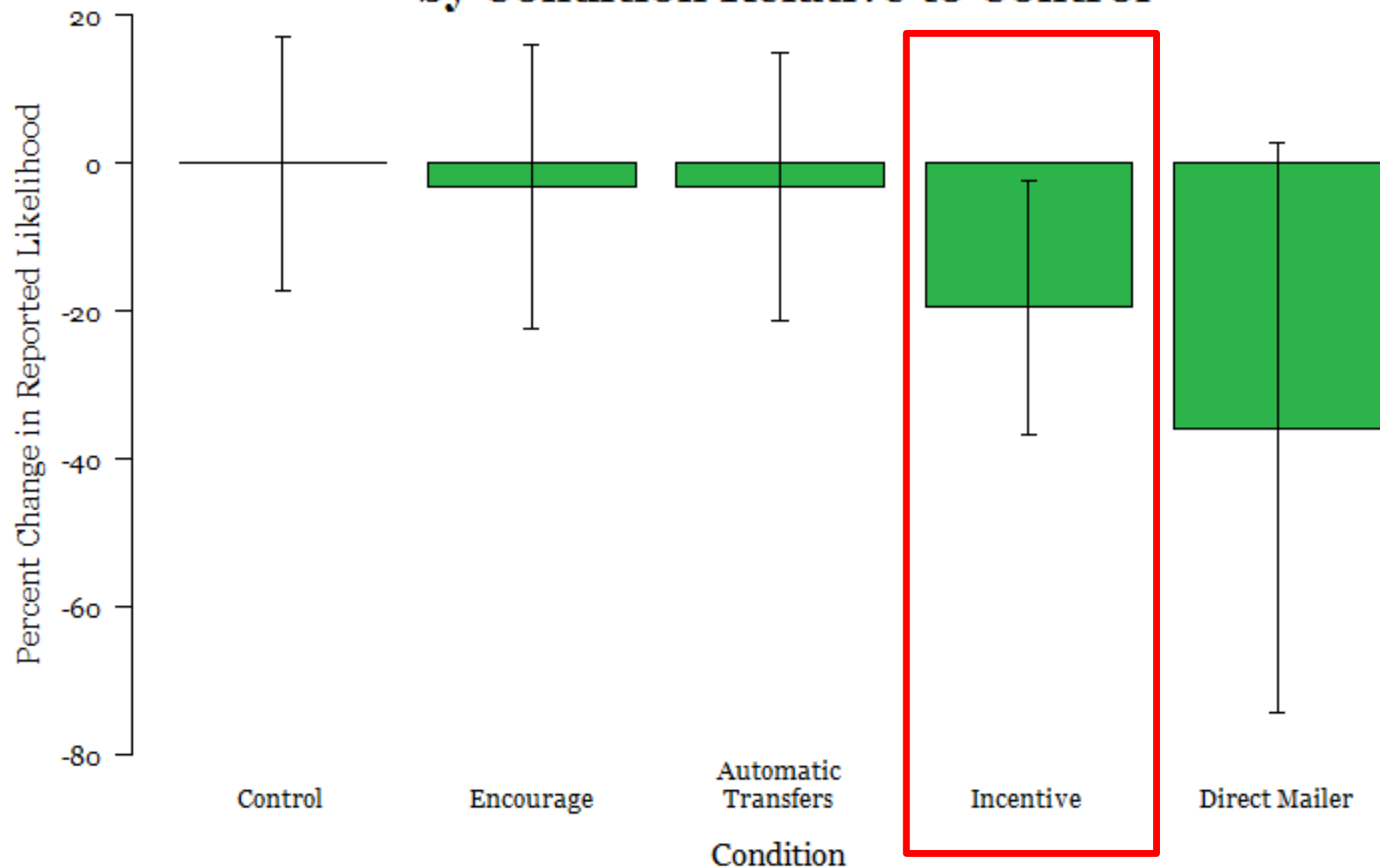


Figure 3: Differences in Reported Payday Loan Use by Condition Relative to Control



Research Results Recap

- Individuals in incentive-only group were more than two times as likely to enroll in *Reserve* than those in control
- All treatments that included the incentive resulted in greater enrollment than those without the incentive
- Receiving all three treatments in combination led to 40 percent decrease in reported payday loan use compared to control (survey results)

Discussion

- Simple, low-touch methods of encouraging uptake of a savings feature on a prepaid card drove customers to take action
- Interventions reduced utilization of high-cost credit source
- Findings may be unique to the *Serve* population, may not translate to other prepaid card users or similar products
- However, pilot results suggest tangible financial benefits from:
 - incentivizing prepaid card customers to save,
 - providing an opportunity to do so using a feature that keeps funds for saving separate from funds for spending