



Nonprofit Distribution of Prepaid Cards

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Executive Summary¹

This report explores experimentation in nonprofit distribution and marketing of prepaid debit cards to underbanked consumers. We focus on three community organizations to discover the potential role for such groups in distributing financial services.¹

Community organizations play a critical role in the lives of their members. By providing a variety of services such as credit counseling, legal assistance, and employment training, they seek to directly improve the lives of their members. Nonprofit community-based organizations have begun to explore their possible role in distributing prepaid debit cards to members. By distributing prepaid debit cards to their members, they are seeking to provide members with a convenient, cost-effective financial tool that will, in turn, strengthen member participation and a sense of shared ownership.

This paper explores how three such organizations—the Center for Community Change, the Consumer Credit Counseling Service of Delaware Valley, and the Service Employees International Union—are combining a new product, prepaid debit cards, with new marketing and distribution methods to provide economical and convenient financial services to their communities. These organizations serve many people who have low incomes, often lack bank accounts, and frequently use check-cashing services. As a result, their costs for the services can often be high and the ability for saving and asset building is limited.

Community organizations frequently work with individuals who have no bank relationship and rely upon check cashing or related services for their transactional needs. Prepaid debit cards provide an economical financial tool for the underbanked, and community organizations provide a distribution and support channel for these products.

For millions of U.S. consumers, prepaid debit cards are an important financial tool. They offer safety, convenience, predictability, and accessibility, especially for those who lack a direct relationship with a

¹ We are grateful to the Federal Reserve Bank of Philadelphia for cosponsoring with us a conference on “Innovative Financial Tools for Serving the Underbanked” in October 2007. At the conference, each of the organizations profiled here made a presentation about their work. See <http://www.philadelphiafed.org/cca/conf/underbanked/index.cfm>.

traditional financial service firm. By providing a safe way to carry an account balance, manage cash, and pay for purchases, prepaid cards can mimic the functionality of a bank account.

The relationships between community organizations and their members provide unique opportunities for the distribution of prepaid debit cards. Many of the underbanked population need guidance regarding how to properly use these cards as well as education related to the basics of financial management. Community organizations have a relationship with their members to provide this guidance as well as the mission to see it through. By adjusting operational models to meet consumers where they are, local community organizations are uncovering the significant potential in providing financial services to the millions of individuals who are currently underserved by traditional banks.

Introduction

Nonprofit community organizations represent an approach to the marketing and distribution of prepaid debit cards not typically open to other outlets. By working directly with their membership, a community organization has the ability to establish a set of shared responsibilities among the community member, the card issuer, and the community organization itself.

The shared responsibility for education, support, reconciliation, card management, and distribution can, if properly managed, help card holders begin a journey toward the use of additional financial services that can help to transition them into the economic mainstream and onto a path toward greater financial prosperity. This journey, though, is currently not easy for any of the participants.

Successes can be had, but learning and perseverance are the keys. Community organization must, as part of their core mission, persevere through vendor evolution and changes as well as consumer education. The prepaid card industry has yet to develop a complete solution for community organizations. Organizations wishing to serve their members with prepaid debit cards will have to expect their efforts to require time and resources to complete. While their programs will frequently take longer and be more difficult to facilitate than initially estimated, all the groups profiled here agree the benefits exceed the costs over time.

As many as 40 million U.S. households fall into this category. This includes 28 million individuals who have no banking relationship with a mainstream bank or credit union and approximately 45 million who, while they have an account of some kind, still rely on nontraditional financial services for many of their needs.² The average underserved household earns \$27,500 annually, representing \$1.1 trillion in combined buying power. If only 1 percent of this income shifted to traditional financial services, it would represent a market opportunity of \$11 billion per year.

Why prepaid debit cards? To begin, prepaid debit cards are likely to be a good entry-level financial product for individuals who either cannot obtain or do not want a traditional checking account. They provide substantial safety, security, convenience, and transparency for the consumer. By providing a safe way to carry an account balance, manage cash, and pay for purchases, the card features mimic the functionality of a bank account. Furthermore, prepaid cards may also be a step toward the use of additional financial services that can help to transition individuals into the economic mainstream and onto a path toward greater financial prosperity.

There is significant potential in combining prepaid cards with new marketing and distribution methods, and the experiments to date are exciting. Community organizations have the potential to be strong marketing and distribution agents. They have deep knowledge of their constituent consumer base, a position of trust within the community, and often have some of the operational

² BearingPoint and Visa study, U.S. Census data, 2004.

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elements required to provide an effective financial service offering. However, it is critical that community organizations and their chosen industry partners be aware of the potential challenges in their respective roles. They will need to remain operationally and strategically committed on a long-term basis. A short-term venture will not yield the expertise necessary to see the new services come to fruition.

To understand the opportunities for nonprofit community-based organizations to distribute prepaid debit cards, this paper presents three such organizations and reviews their experiences, identifying opportunities and challenges and briefly reviewing key lessons learned.

Prepaid Card Industry Background

For millions of U.S. consumers, branded reloadable general spending cards are an important tool to manage their finances and pay bills. In large part, the substantial growth in this market reflects an overall trend toward electronic payments. The 2007 Federal Reserve Payments Study announced that greater than two-thirds of non-cash payments are electronic.³ It is estimated that \$26.76 billion was loaded onto more than 45 million open solution network branded prepaid card accounts in 2006. Within this large market, the segment that most closely represents the type of general spending card discussed in this paper probably accounted for \$1.05 billion, an increase of 48.5 percent from the previous year.⁴

Even with these volumes, the industry is still young. As a result, the landscape of service providers is fragmented and in flux. Typical product features and pricing can vary a great deal, although increasing standardization should make it easier to introduce the products to consumers. Consumers appear to use general spending prepaid cards mainly as an electronic payment instrument and a substitute for cash, rather than as a convenient way to store and then access cash.⁵ The advantages of prepaid cards for consumers include:

- **Safety and security:** Prepaid cards allow consumers to make purchases and pay bills without carrying large amounts of cash.
- **Immediate liquidity:** Many low-income consumers use check cashers rather than checking accounts because they cannot afford to wait for a bank to clear a deposited check. Funds loaded on prepaid cards are available immediately.
- **Convenience:** Consumers appreciate the ability to make purchases and access funds at many locations and all hours of the day.

³ The Federal Reserve System found that 77% of non-cash transactions were completed using debit or credit cards, through automated clearinghouse (ACH) or electronic benefit transfer (EBT) transactions. The remaining 33% of non-cash transactions were completed by check. See "The 2007 Federal Reserve Payments Study," Federal Reserve System, December 2007, <http://www.frb.services.org>.

⁴ Tim Sloane, "4th Annual Open Prepaid Market Survey: Spend, Growth and Opportunity," Mercator Advisory Group, September 2007.

⁵ For a more detailed review of prepaid card market trends, current product offerings and an analysis of customer usage of general prepaid spending cards, see Sherrie Rhine, Katy Jacob, Yazmin Osaki, and Jennifer Tescher, "Cardholder Use of General Spending Prepaid Cards: A Closer Look at the Market," The Center for Financial Services Innovation, February 2007.

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- Transparency and predictability: Prepaid cards are difficult to overdraft and tend to have fewer back-end charges than checking accounts.
- Accessibility: Many underbanked consumers either do not have, or do not perceive themselves as having, sufficient identification or credit history to access traditional bank accounts. Prepaid cards do not require a credit check.

The prepaid card industry is experimenting with many ways to market and distribute its products to consumers. Some major banks may explore offering prepaid cards in the branch lobby alongside traditional checking and savings accounts. For standalone prepaid card issuers, however, avoiding a bank-like branch-based distribution channel is key to profitability. Therefore, prepaid card companies are marketing their products online and through employers, and retailers, as well as directly to consumers.

Each of these channels has advantages and disadvantages. Distribution through employers holds the promise of reaching large numbers of consumers at once and decreasing costs through direct payroll deposit. Direct deposit also dramatically increases the longevity of the customer relationship. State regulations in this area are still evolving, however, and confusion remains. As more employers seek the cost advantages of direct deposit, many states have begun to develop clearer legislation identifying what service fees may and may not be applied to payroll deposits. While many states are silent on payroll check instruments (and associated cashing fees), they have begun to legislate fees on payroll prepaid cards. The unintended consequence of this may be that employers will continue to use check instruments to avoid department of labor issues, and a key distribution channel could be lost.

Distribution through retail channels is promising as well. Retail stores represent one of the most convenient avenues for reloading cash onto cards, though the currently available reload networks still seem to present some hurdles. Yet, unless the cards are marketed properly, consumers who purchase cards at retail stores may not be as “sticky” as those who access the product through other avenues, possibly because a card hanging on a j-hook display in a retail store seems disposable. Consumers need to be educated about the features and functionality of prepaid cards, which can be difficult in a grocery or convenience store with high employee turnover and the expectation of a quick sales process.

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In this context, marketing and distribution of prepaid cards by community organizations present an alternative and an interesting case study. Each of the three organizations profiled in this paper has a different operating model, serving a particular constituency with a diverse set of services. Yet, all three organizations chose the same card issuer. Their different models yield significant variations in their approaches to marketing and distributing prepaid cards, as discussed below.

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However, because the three organizations utilized the same card provider, their programs were very similar. It should also be noted that when the card vendor selected by the three organizations exited the business all the organizations had to, at a minimum, restart their vendor selection efforts. All three products are branded (either Visa or MasterCard), reloadable prepaid debit cards with FDIC-insured deposits. With minor variations, the cards have the following fees:

Account opening fee	\$4.95–6.95
Monthly fee (primary/secondary card)	\$2.95/\$2.50
ATM withdrawal U.S./international	\$1.00/\$2.00
Signature and PIN purchases	Free
Cash back with purchase	Free
Direct deposit loading	Free
Cash loading fee	\$2.50–\$4.95
Card-card money transfer (Local bank ATM fees apply to withdraw funds)	Free
Money transfer	\$8.95 flat fee

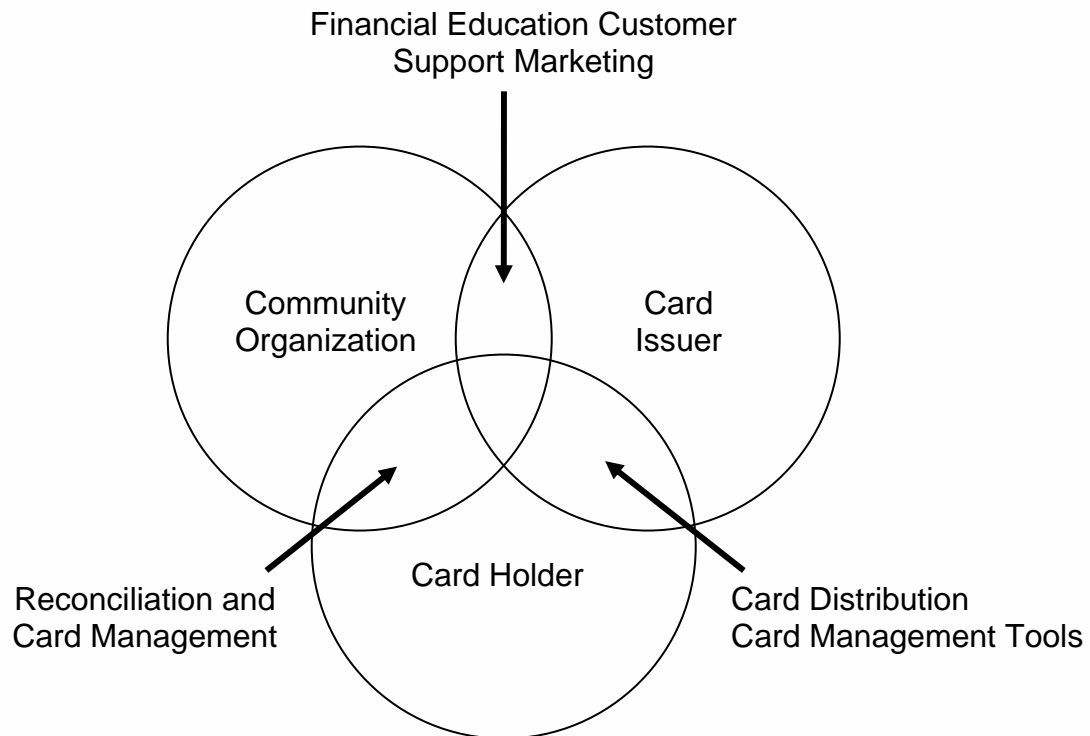
In addition, with all three cards, the community organization functions similarly, relative to the other parties necessary to bring a prepaid debit card to a consumer. The community organizations covered in this report have developed a set of shared responsibilities with their members and the card issuers (see Figure 1). In each case, the community organization markets and distributes the card as well as educates its consumers on how to use it. This means the community organization provides some customer service for the product, which can be both good and bad for the organization. On the one hand, the organizations are trusted advisors to their constituents, and providing financial management assistance deepens that relationship; they can assist consumers who might otherwise be intimidated by activities such as account reconciliation. On the other hand, customer service is time consuming and could easily overtax an organization if not carefully planned. The community organization also could become a cash-reloading site, creating a need for reconciliation and cash handling.

In exchange for providing these services, the community organization receives a share of the income generated by the cards to offset some administrative expenses. The income has been minimal so far, but all three organizations hope it will ultimately cover most of their costs to offer and support the card, in which case the program could be self-sustaining.

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The card vendor provides the card itself and general customer service via an online system and a call center. The applicant completes an application online, potentially with support from the community organization.

Figure 1: Operational Shared Responsibilities



The Center for Community Change

The Center for Community Change⁶ pursues its goal of strengthening the leadership voice and power of low-income communities by working with grassroots organizations across the country. One such organization is the immigrant worker center. Analogous to the mutual aid societies and settlement houses of the last century, approximately 140 immigrant worker centers across the country provide a range of services for low-wage immigrant workers and their families, including employment information and training, legal assistance in labor and immigration matters, and advocacy with employers.

The Center offers prepaid debit cards to worker center members with two goals in mind: 1) to provide a convenient, reliable, robust, affordable suite of financial services to low-wage workers,

⁶ CFSI provided the Center with a grant to help develop this program in 2005.

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many of whom are unbanked, and 2) to strengthen community ownership of worker centers and build their financial sustainability by developing systems such as formal membership dues collection.

Before this pilot, the Center researched the potential demand for a prepaid debit card product offered by worker centers.⁷ Through almost 500 surveys and four focus groups, the Center found that while less than half of the respondents (47 percent) were unbanked, the use of alternative financial services was high. Of those with bank accounts, 36 percent were using money order services and 81 percent were sending international remittances. Respondents expressed strong interest in savings accounts (35 percent), home loans (26 percent), financial education, and a range of other services. The Center's research also confirmed that affinity matters: a close connection with a community organization creates a strong selling point for a particular financial service. More than 80 percent of survey respondents said it matters to them that the financial service provider they use does good in the community. The worker centers' credibility with their constituency was very high, with almost 90 percent of respondents reporting that they would take the recommendation of a worker center very strongly.

Because the worker centers function as community hubs, they have regular face-to-face contact with their members. They generally have small computer labs that can facilitate the application process and ongoing, online account monitoring by cardholders. Many of the worker centers already have education programs into which they can integrate financial information and training about how to use a prepaid debit card.

Furthermore, because they are connected so deeply to their communities, the worker centers understand why individuals will use the card and can market it effectively. For example, the executive director of one worker center reported that a public health survey it had conducted revealed that members' biggest health concern was having their cash stolen in a mugging. Accordingly, the key reason they use a debit card is safety and security.

In September 2006, the Center launched the debit card program at two worker centers: New Labor in New Brunswick, New Jersey, and the Philipino Workers' Center in Los Angeles, California. Each issued approximately 300 cards. Another four worker centers completed test rollouts, issuing 10 to 50 cards each. In all, almost 1,000 cards have been issued to date. Given the many challenges in offering a financial product through a new distribution channel, this early result is extremely promising. Initial anecdotal feedback about the card has been positive. Cardholders appreciate having access to new marketplaces, such as online shopping and car rental. Transferring money between cards allows for easier domestic money transfer. The worker centers have experienced high demand for the debit cards. In New Jersey, when the *New York Times* covered the pilot,⁸ the local Spanish language press picked up the story, and both Univision and Telemundo visited the New Labor worker center. As a result of the public awareness generated, hundreds of potential cardholders called New Labor.

⁷ For a detailed description of these research results, see Janice Fine, Lauren Leimbach, and Katy Jacob, "Distributing Prepaid Cards through Worker Centers: A Gateway to Asset Building for Low-Income Households," The Center for Financial Services Innovation, October 2006.

⁸ See Steven Greenhouse, "Immigrants Wary of Banks Put Faith in New Card," *New York Times*, December 30, 2006.

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But the worker centers also experienced substantial operational challenges in offering the card. While some of these issues were internal, the most difficult issues related to the card vendor relationship. The problems experienced ranged from delays in issuing cards (or cards that never arrived) to incorrect balances and difficulty loading cash. The Center also found it difficult to get data about card usage from the vendor.

In addition, the need for education in using the cards was significant and resource intensive. Use of a prepaid debit card is not intuitive to a consumer moving away from cash, and fees can vary substantially for activities the consumer expects to be equivalent. For example, getting cash back at the point of sale may be free, while accessing cash at an ATM may incur a charge. Given the worker centers' mission-driven reasons for offering prepaid cards, ensuring that consumers are fully equipped to use them cost-effectively is critical but also time consuming.

In addition, many consumers did not understand how the prepaid cards worked. Although the functionality of the cards offered by the Center was not uncommon, the challenges made them less effective for consumers. First, loading cash onto any prepaid card can be costly and complicated. If a cardholder's employer does not deposit wages directly onto the card, then the cardholder pays a cash checking fee in addition to a cash loading fee to the card vendor. These fees can become excessive for day laborers and others paid frequently.

Second, immigrant workers regularly remit funds internationally and would like that service available from a prepaid debit card. The prepaid cards currently on the market generally provide only for card-to-card remittance, which requires the recipient of the transfer to have a debit card and access to an ATM in their home country. Individuals generally prefer, and sometimes need, card-to-cash remittance, since fund recipients frequently lack access to ATMs.

Third, authorization holds placed on the debit account during the lag time after a signature-authorized transaction can cause transactions to be declined, a situation that is confusing and problematic for cardholders with small balances. Finally, native language support is essential. While Spanish has become relatively standard, not every card vendor uses it, and customer service in languages other than English and Spanish is still rare.

In April 2007, while seeking a new partner, the Center placed its card program marketing and distribution on hold. Today, it is poised to relaunch the card program with a new vendor and hoping to resolve many of the previous issues. In the coming year, the worker centers will offer low-cost cash loading on site for their cards. The new program has an integrated bill-pay system, which will provide more of the functionality of a traditional bank account. In addition, the cards are connected to an alternative credit-building and reporting system. The Center is also investigating how to incorporate a card-to-cash remittance function.

Consumer Credit Counseling Service of Delaware Valley

The Consumer Credit Counseling Service of Delaware Valley (CCCS) provides comprehensive consumer credit education, counseling, asset-building, and debt-reduction programs to a wide

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range of consumers. CCCS began piloting a prepaid debit card because it saw the potential to create a self-funded program that would benefit its clients and be at the forefront of financial services innovation. Before offering the program, CCCS conducted focus groups that confirmed that consumers overwhelmingly wanted such a product and perceived value in carrying a Visa or MasterCard product. The Visa and MasterCard brands represent safety and convenience as well as membership in the economic mainstream. More than 90 percent of the participants in this research said either they themselves or a family member needed such a product.

CCCS is partnering with the Campaign for Working Families, which operates volunteer tax assistance sites in Philadelphia. The goal of the pilot is to offer the prepaid debit cards during the tax season to recipients of the earned income tax credit. The cards are intended to enable taxpayers to receive their refunds quickly, decreasing the use of costly check-cashing services and refund anticipation loans.

In offering a prepaid debit card, CCCS has two major operational advantages, both of which result from its work helping individuals manage debt. First, CCCS has the infrastructure to manage client accounts, including receiving and accounting for cash transfers. Second, CCCS regularly conducts financial education, a natural platform in which to integrate training in the cost-effective use of debit cards. As a result, CCCS needs fewer new processes.

Nonetheless, like the Center for Community Change, CCCS experienced major challenges in working with its card vendor. CCCS is preparing to roll out its prepaid card with a new vendor during 2008. In addition to the Campaign for Working Families, CCCS is seeking other partners, such as small businesses, through which to offer the card. Small business partnerships would solve one major issue for cardholders by directly depositing payroll funds.

CCCS will also offer the card directly to its debt management clients. Because participants in this program are required to close their existing credit card accounts, CCCS expects that the prepaid debit card will provide an alternative to credit cards. A development worth noting is that CCCS hopes to add a savings feature to the prepaid card. This would allow cardholders to allocate part of the balance on their prepaid card as savings, making the prepaid debit card more of a substitute for a traditional banking relationship and helping consumers move toward greater financial prosperity.

Service Employees International Union

The Service Employees International Union (SEIU) is the fastest-growing union in North America. Its 1.9 million members work in four industries: health care, long-term care, property services, and state and local public sectors. SEIU seeks to provide nontraditional benefits that are meaningful to its members. Since many members are underbanked, SEIU is exploring financial services and asset-building opportunities. For SEIU, the prepaid debit card provides a new benefit that helps low-wage members obtain financial services at a lower cost. In addition, SEIU also could use the card itself as an affinity program and as a way to pay benefits to members.

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SEIU launched the card program in July 2006 in five locations. Two were large local unions of home health care workers: one including 38,000 members in Michigan and another of 50,000 members in Illinois. The other three locals, in Texas, Wisconsin, and Minnesota, were smaller. SEIU faced both internal and external challenges in marketing and distributing the prepaid card. Nevertheless, in the nine months during which SEIU offered the card, almost 400 union members signed up to be cardholders.

SEIU rolled out the card program as part of its organizing strategy with relatively new local unions. As a result, SEIU was working with members with whom it had shorter relationships and locals with less-developed infrastructures and smaller staffs. Union staff had competing priorities. In new locals, organizing members is the highest priority, and any new program that diverts resources from this priority suffers from lack of strategic and personnel commitment.

In addition, the card was packaged with three other benefits: low-cost health care access, prescription drug discounts, and the earned income tax credit. This dramatically increased the complexity of what SEIU was trying to achieve. Communication was complicated, and it was hard to educate members on a variety of benefits at the same time, and enrollment logistics were much more difficult with multiple products offered simultaneously.

SEIU's membership is dispersed geographically. Home health care workers are likely to work at individual locations and have little or no face-to-face contact with the union. Therefore, SEIU's marketing was based largely on direct mail. SEIU found that multiple communications are necessary to explain and market the prepaid debit card. In addition, although SEIU found the assumption valid that community organizations can be effective in marketing financial services because of their deep local knowledge, the union also found it expensive and challenging to respond to this local knowledge by creating separate marketing campaigns in each of the five locations where it rolled out the card.

The vendor and product offering also presented challenges. SEIU built its own technology interface because it was not satisfied with the reporting that the card vendor could provide, and it was difficult to coordinate this interface with the card company's system.

As with the Center and CCCS, many of SEIU's members are not able to have their payroll funds directly deposited. Thus, the ability to load cash onto the prepaid card easily and cost-effectively is critical. All three community organizations heard from members that reload locations often lack staff who can reload the cards quickly and easily. In addition, many of SEIU's members are immigrants, so the ability to make international money transfers using the card is also a high priority.

SEIU is preparing to roll out the program again with modifications to address some of these issues. First, it will focus on more established union locals with larger staffs and better developed infrastructure for member services. Second, SEIU will no longer offer both health and financial services benefits via the same marketing campaign. Third, in some locations, SEIU will offer the card as a way to load tax refunds directly into an account. Finally, in one location, SEIU will pilot the card with no monthly fee if the cardholder's payroll funds can be directly deposited.

The new card vendor is willing to experiment to see whether this increases card adoption and utilization rates sufficiently to generate enough revenue to support the card's costs.

Operational Lessons Learned

The three community organizations profiled here are in the midst of the development cycle for offering this new service, and the challenges they are facing in marketing and distributing a prepaid debit card are not atypical for the rollout of a new product via a new distribution channel. Although 2008 and 2009 will see important milestones, many lessons have already been learned. Our analysis reveals four primary hurdles for community organizations offering a new financial service to manage:

1. Development of a new business line consistent with the organization's mission but likely requiring new skill sets and operational models;
2. Re-engineering of tried and trusted communication strategies to market and distribute a new service;
3. Alignment of the goals and capabilities of multiple partners/vendors from different locales and sectors; and
4. Navigation of an evolving industry.

Most community organizations offering a financial service will need to incubate a new business model internally. Developing the operational capacity to offer financial services can be a heavy burden. It requires new technological capabilities, potentially new staff, and certainly staff training. It is resource and time intensive. To develop this internal capacity, the organization must be committed to the new financial product as strategically valuable for its own mission and growth. The three organizations profiled in this report see substantial benefits in developing this capability for their organizations as well as their members, which is why they've been willing to persevere through the challenges of piloting a new program.

A related point is that marketing a financial product may require substantial re-engineering of a community organization's communication with its members. Community organizations typically have deep knowledge of their clients' needs as well as strong credibility. They should already have proven and reliable communication methods that reach their constituents. That said, these methods most likely were not designed to explain a new financial product. Using existing communication strategies and tactics for a new purpose requires deliberate evaluation of what is applicable and what needs to change. Organizations that already educate members as a core activity are likely to be more successful, because financial training will usually be a key element of marketing the financial products and of their ultimate success.

The community organizations here are umbrella organizations working with local partners: the Center for Community Change through worker centers, CCCS through the organizations that are part of the Campaign for Working Families coalition, and SEIU through its local chapters. There is a strong reason for this. Larger national organizations are better able to negotiate cost-effective contracts with financial services vendors and invest in the research and development

necessary to roll out a new, complicated program. In conjunction, the local organizations have firsthand knowledge of their clients' needs and are best positioned to work directly with them. This structure has some parallels to many large financial services companies, which have a national strategy combined with local branches that need a balance of training, support, and autonomy.⁹ The community organizations, like financial services firms, also need to rely on contracting with multiple vendors, each providing a piece of the financial product. Nonetheless, any community organization embarking on distributing a financial service needs to acknowledge the complexity involved in aligning the goals and capabilities of multiple players.

Finally, the rapid growth of the prepaid debit card market presents real challenges for a nonprofit group. Community organizations need to be flexible and adaptable to this dynamic industry. Not only should they be prepared to conduct substantial due diligence on potential partners, but they also need to plan in advance for how to migrate cards to a new vendor if needed. Vendors may continue to enter or exit the market and consolidate. Product features and pricing change continually, and community organizations will want to be able to change vendors as necessary to offer their clients the best products available. It is also challenging to market and distribute a relatively new product that is still in flux. Customers are demanding easier, less expensive reloading, card-to-cash international remittance, and better links to building a credit score and accessing other financial services, such as saving and building assets.

Figure 2: Operational Lessons Learned

Community Organization Strengths

- Credibility and open channel of communication with membership
- Deep knowledge of customer
- Existing programs on which to build (e.g., financial education, tax preparation)

Community Organization Challenges

- Internal capacity to develop a new business line
- Re-engineering of communication strategies
- Coordination of multiple partners
- Navigation of an evolving industry: both vendors and products in flux

Critical Operational Steps

- Operational preparation:
 - o Strategic commitment
 - o Staff training
 - o Technology development
 - o Programmatic changes
- Vendor/product due diligence
- Education

⁹ For further discussion on partnership strategies for Nonprofits see *Accessing the American Dream: Affinity Marketing Partnership Strategies for Financial Institutions and Nonprofits*, The Center for Financial Services Innovation, July 2006

Opportunities and Advantages

Despite the challenges they have encountered, the Center for Community Change, CCCS, and SEIU are undeterred from offering financial services that will benefit their constituents. Wiser, and perhaps more cautious now, they are forging ahead because they see significant opportunities and advantages. Early experience proves that it is worthwhile to continue experimenting with this model of marketing and distribution.

It is clear that client demand for a cost-effective prepaid debit card is strong. Focus groups and early responses to even a somewhat flawed product offering confirm this. Consumers trust their community organizations as providers of financial services. The Center for Community Change, in particular, has found that many worker center members are eagerly awaiting the next version of the card, even though many struggled as early adopters.

Community organizations may benefit significantly by offering financial services. Financial services are “sticky”; people generally remain loyal to their bank or credit card for many years. Thus, providing these services may increase loyalty to the community organization. SEIU remains optimistic that an affinity card will increase member commitment and raise awareness of the union among merchants. The community organizations also expect to use the card to make some of their operations more efficient—by electronically collecting membership dues, for example. Finally, they anticipate generating sufficient revenue from the card that this program will ultimately cover its administrative costs, allowing it to be self-sustaining (versus requiring continual fundraising to maintain it).

Conclusion

Reaching the millions of individuals who are currently underbanked is likely to require new financial products and new marketing tactics. In this context, marketing and distribution of prepaid cards by community organizations appears promising.

However, this approach should be thought through and well planned. Financial institutions partnering with community organizations should strive to offer turnkey solutions and should expect to engage for the long-term if the organizations are to justify their investment of time and resources. Without comprehensive planning community organizations could find their efforts to take longer and be more difficult to maneuver than they initially estimated. Given the challenges, organizations should attempt to offer financial services only if it helps fulfill their core mission. They need to be prepared to invest significantly in developing the resources and internal capacity required. Organizations that have at least one operational component required to support a prepaid product—whether it is the infrastructure to offer another financial service, as CCCS has; financial education programs, as the Center for Community Change has; or substantial scale, as SEIU has—can better navigate this landscape.

Prepaid debit cards are likely to be sound entry-level financial products for individuals who either cannot acquire or do not want a traditional checking account. They provide safety,

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security, convenience, and transparency for the consumer. They could be a step toward the use of additional financial services, which can help more individuals enter the economic mainstream and the path to greater financial prosperity. Community organizations are well positioned to meet the need.

About CFSI

The Center for Financial Services Innovation (CFSI), a non-profit affiliate of ShoreBank Corporation, facilitates financial services industry efforts to serve underbanked consumers across the economic, geographic, and cultural spectrum. It provides funding and resources, enables partnerships, and identifies, develops and distributes authoritative information on how to respond to the needs of the underbanked profitably and responsibly. CFSI works with banks, credit unions, technology vendors, alternative service providers, consumer advocates, and policy makers to forge pioneering relationships, products, and strategies that will transform industry practice and the lives of underbanked consumers. For more on CFSI, go to www.cfsinnovation.com.

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