



## CONCEPT DOCUMENT

# Advocard Prepaid

### TEAM MEMBERS

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## PROBLEM DEFINITION

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Fact... 2 out of 3 American consumers are NOT credit union members. Why? Many are unaware of credit unions and their potential benefits.

What if you could productize the credit union difference and put it in a new distribution channel offering membership to people in places the average consumer visits several times a week? And what if this could increase awareness of credit unions and entice consumers to take advantage of them? And what if you offer an incentive for membership using a proven product currently boasting 200% growth in a variety of market segments including millennials, families and people of modest means?

Introducing Advocard Prepaid – an affordable member acquisition tool that can help increase membership at a lower than industry average cost to acquire.

## INNOVATIVE SOLUTION

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Advocard is the first general purpose reloadable (GPR) prepaid card to offer consumers easy access to their money and free membership to credit unions nationwide.

Prepaid cards like Bluebird and Green Dot are already available in millions of retail locations. This ubiquitous presence presents an opportunity to put the credit union difference in front of millions of consumers using a distribution network they already frequent. Instead of requiring people to find credit union services in branch or online, you bring the credit union to them.

Packaging the credit union difference in a tangible offering and putting it in retail locations where people shop will significantly lower the friction currently associated with joining a credit union. The prepaid card answers a consumer need (converting cash to plastic) and proactively provides a convenient solution. The incentive to join a credit union, while important, is a secondary focus by design – the goal is to use the prepaid card as bait to attract consumers attention and then convince them of the value of credit union membership.

So how would something like this work?

1. Consumers would purchase the prepaid card from their local retailer
2. After buying the card they have the option to
  - 2.1. use the card as is or
  - 2.2. convert the card into a credit union account for a bonus
3. The conversion process is completed online or on a mobile device in less than five minutes

# PROTOTYPE

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Execution of the idea requires many moving parts so for prototyping 4i3 elected to draft the concept on paper. Here is an outline of how the product would work and the platform necessary to support it.

## THE PRODUCT

Advocard is, for all intents and purposes, a standard prepaid card. It offers typical features consumers desire such as access to cash via plastic and bank account-like features typically associated with a credit card. Advocard also offers money management via a smartphone app. The key differentiator however, is a built-in incentive for any consumer who purchases the card and wishes to join a local credit union.

Built into the point-of-purchase packaging of Advocard is an offer for free money<sup>1</sup> if the purchaser converts their standard prepaid card into a credit union membership. The objective is to attract the attention of two primary consumers segments – those seeking out prepaid cards and those simply passing by the rack where the card is being offered. In both cases strong design and an offer for free money will encourage engagement. Once the prepaid card is purchased, the consumer can take advantage of the offer through a website designed to make it easy to join a credit union and cash in on the bonus.

## THE PLATFORM

Due to the unique nature of the distribution model, designing and delivering this product requires partnerships with credit unions, retailers and prepaid card distributors.

Connecting consumers with credit unions is a key part of the value proposition so it requires a vast network of participating credit unions to pull this off. Also needed is a strong partnership with a prepaid card distributor to ensure production of the cards and distribution of the cards in retail outlets. Management of this program would benefit from a credit union service organization that functioned under the joint ownership of several credit unions sponsoring this idea. This CUSO would manage the nationwide network of participating credit unions and the partnership with the prepaid card distributor.

While the CUSO would be constructed through the partnership of a few credit unions, consumers would be given access to hundreds of credit unions based on the availability of partners in their area. Ideally a customer that has purchased this prepaid card would be presented with the option of joining the credit union of their choosing. To participate in the Advocard Prepaid program, credit unions would pay an annual fee. Participating credit unions can design their offers for membership to fit growth goals and acquisition budgets. If a credit union prefers to strengthen an offering with a larger incentive, they can do so.

Producing prepaid cards and distributing them through national retailers like Target and Walgreens requires a retail distribution partner. One example is Blackhawk the company responsible the freestanding gift card centers you see in many retailers.

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<sup>1</sup> The bonus ranges from \$25-100 – the exact amount is left at discretion of the sponsoring credit union.

## TESTING AND RESULTS<sup>2</sup>

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To gauge the level of interest in the idea and test the viability of the concept 4i3 talked with consumers and credit union executives. 4i3 also reviewed existing research on prepaid cards.

To talk with consumers 4i3 hit the streets of Chicago on Memorial Day weekend to do a 'blind taste test' survey pitting our idea for a prepaid card against existing competitors. Consumers were presented with benefits of each prepaid card and the team gathered feedback on preferred features and what would motivate consumers to switch institutions. More than 50 respondents were interviewed. Over 60% had either previously used or were actively using a prepaid card. The majority of these consumers didn't utilize them for their primary banking but rather they were used as a simpler way to manage their money. Those consumers that had not previously used a prepaid card, but said they would consider using one, had similar responses. Over 60% claimed they would use the card for either a simpler way to budget or to share expenses with members of their household.

Regardless of consumer's experience with prepaid cards, fees significantly influenced their preferences. Seventy-four percent stated "Low or No Fees" was in their top two most important features with "free money" when activating a card being the second highest rated feature. Ease of adding money to the card and having access to high deposit rates were the two lowest rated features.

After the field work, 4i3 delivered an online survey to 29 credit union executives to gather feedback on Advocard from the perspective of the credit union. Seventy-one percent of respondents had over \$250 million in assets; 58% over \$500 million. All 29 executives stated they were at least slightly concerned about their future membership growth with 25% stating they were "not satisfied at all" with their membership growth and only "14% extremely satisfied."

Part of the positioning for Advocard is it will offer a lower than average cost-to-acquire for new membership compared to the industry. Ironically, less than 15% of the executives surveyed were aware of their current cost-to-acquire with ranges from \$101-\$400 reported by those that were aware. Eighty-six percent of executives expected to grow their membership over the next 3 years from the community, followed by family membership, special employee groups and lastly mergers/acquisitions. Every executive was either interested or very interested in growing membership with millennials. Prepaid cards are a promising channel to grow millennials.

Both phases of our testing matched up to the research done by Phoenix Marketing International and the Federal Reserve Bank of Philadelphia titled, Millennials with Money: A New Look at Who Uses GPR Prepaid Cards published in September, 2014.<sup>1</sup>

This multi-year study surveyed over 4,200 individuals in 2012 and again in 2013 that pointed out industry trends that debunked many industry assumptions for these cards and the consumers that use them. Below are a few takeaways that reinforced 4i3 findings.

- Ninety percent of reloadable prepaid card owners have a checking account, 85 percent have a debit card, and 75% have a general-purpose credit card or charge card. These three measurements indicate that a majority of cardholders have a range of financial services options that include mainstream banking products<sup>3</sup>

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<sup>2</sup> Appendix A - charts from survey

<sup>3</sup> Millennials with Money: A New Look at Who Uses GPR Prepaid Cards; p18

- Seventy nine percent of prepaid users expect to use a card the same or more in the coming year.<sup>4</sup>
- Conditions have become favorable for the introduction of broad-based prepaid product offerings into the marketplace. A number of full-service banks and credit unions launched new GPR products in the past 18 to 24 months.<sup>5</sup>
- Cardholders across age and income categories reported similar experience in achieving better money management and reducing the incidence of overdrafts when using their GPR cards.<sup>6</sup>

## **BUSINESS MODEL AND 3-YEAR FINANCIAL PROFORMA<sup>7</sup>**

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The viability of Advocard is dependent on the number of participating credit unions, the volume of new members converting to a credit union, and the interchange income earned on transactions. The CUSO model allows up to 10 shareholder credit unions receiving one percent annual dividends on total revenue. 4i3 expects that 20% of consumers will convert to credit union membership generating income of \$25 per new member back to the CUSO. Participating credit unions will also have a monthly membership premium of approximately \$200/m.

Variable expenses are primarily made up of expenses included for retail delivery of the cards through the stores and multiple switch fees to enable transactions.

Outside of startup costs, the marketing expense is anticipated at 15% of total revenue each year and the annual dividend paid to investor credit unions.

## **COMMENTS, NEXT STEPS, AND CALL TO ACTION**

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Advocard is a concept with potential but the idea is in its genesis. In order to bring the idea to life, even as a 1.0 offering, will require savvy marketing strategies, a unique delivery model and support from several Credit Unions.

Marketing – Competing head-to-head with established brands in the prepaid space requires superior product packaging and a seamless digital experience. Show-stopping design and an enticing offer will help draw attention to passers-by and this will get the product noticed and purchased. On the backend, a friction-free registration process via mobile or online allows us to capitalize on connecting with consumers in the moment. The digital experience is also critical because this is where we will both promote the value of credit unions and do the work of compelling card purchasers to become members. There is more work required to design this experience to be effective..

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<sup>4</sup> Millennials with Money: A New Look at Who Uses GPR Prepaid Cards; p24

<sup>5</sup> Millennials with Money: A New Look at Who Uses GPR Prepaid Cards; p28

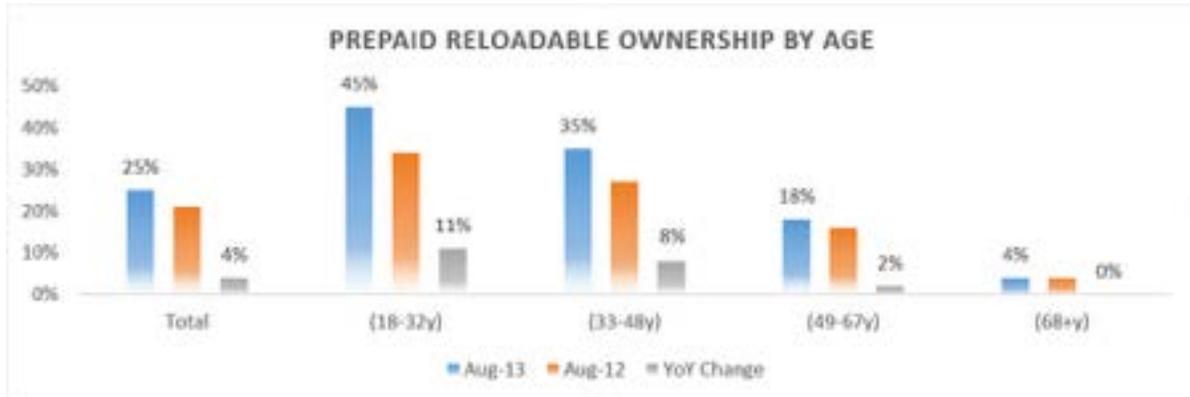
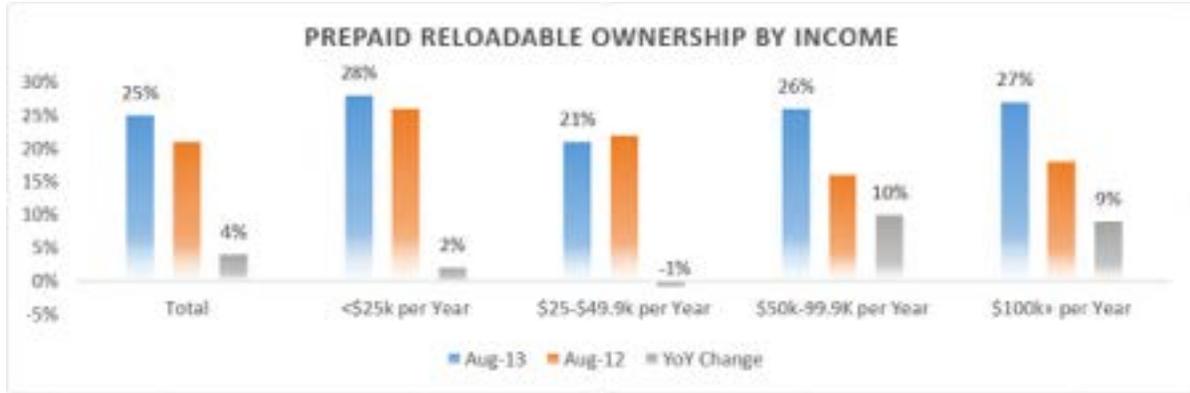
<sup>6</sup> Millennials with Money: A New Look at Who Uses GPR Prepaid Cards; p32

<sup>7</sup> Appendix B - Proforma

Delivery model – We understand that another key success factor is developing an effective strategy for getting cards in the marketplace. In addition to the obvious retail outlets that are most commonly known for selling prepaid cards (big-box, drug and grocery stores) we see potential in other channels also. These include places that are very heavily trafficked but not currently targeted by our competitors. Examples include college campuses and SEGs/communities targeted by credit union business development teams. We've explored this enough to know our options and that next steps include partnerships with a prepaid card distributor. Any gift card or reloadable prepaid card placement in a prominent retail outlet is governed by a third-party (e.g. Blackhawk), not the retailer. Similarly field distribution (e.g. college campuses) would require partnerships with credit unions or a third-party representing credit unions. Developing these relationships is also an important part of the next phase of work.

Credit Union support – The funding and operational support we need requires a partnership with credit unions. We need to develop a CUSO that handles logistics of program management and card delivery (to include production and distribution). Marketing and promotion of the product can be left at the discretion of participating credit unions. Due to the operational burden of this idea the CUSO would probably be required for smaller credit unions to take advantage of this idea. However, larger credit unions could possibly execute without any external support. The next phase of work will include development of a framework that outlines details of the CUSO in particular which responsibilities lie within the CUSO, which lie with the sponsoring credit union(s) and finally which responsibilities lie with the credit unions implementing the program.

## APPENDIX A



# APPENDIX B

CUSO MODEL	Year 1	Year 2	Year 3	Year 4	Year 5
Total Credit Unions	150	250	500	650	750
Shareholder Credit Unions	5	7	10	10	10
New Cards added	18,000	45,000	120,000	156,000	180,000
Total Cards opened	18,000	54,000	147,000	229,500	294,750
New Memberships Converted	3,600	9,000	24,000	31,200	36,000
CUSO Maximum FTE	5	7	10	12	12
Outstanding Card Balances	<b>\$1,715,659</b>	<b>\$5,146,978</b>	<b>\$14,011,217</b>	<b>\$21,874,655</b>	<b>\$28,093,919</b>
Variable Expenses					
Retail Distribution Fee	\$63,000	\$157,500	\$420,000	\$546,000	\$630,000
Card Issuance Fee	\$45,000	\$112,500	\$300,000	\$390,000	\$450,000
Fraud losses	\$ 17,157	\$ 51,470	\$ 140,112	\$ 218,747	\$ 280,939
Card Expense	\$ 690,984	\$ 2,072,952	\$ 5,643,036	\$ 8,810,046	\$ 11,314,863
<b>Total Variable Expenses</b>	<b>\$ 816,141</b>	<b>\$ 2,394,422</b>	<b>\$ 6,503,148</b>	<b>\$ 9,964,793</b>	<b>\$ 12,675,802</b>
Variable Revenues					
New membership	\$ 90,000	\$ 225,000	\$ 600,000	\$ 780,000	\$ 900,000
Card Purchase Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Membership	\$ 375,000	\$ 625,000	\$ 1,250,000	\$ 1,625,000	\$ 1,875,000
Card Revenue	\$ 1,228,090	\$ 3,684,269	\$ 10,029,398	\$ 15,658,142	\$ 20,109,967
Dormant Balances					
<b>Total Revenue</b>	<b>\$ 1,693,090</b>	<b>\$ 4,534,269</b>	<b>\$ 11,879,398</b>	<b>\$ 18,063,142</b>	<b>\$ 22,884,967</b>
Fixed Expenses					
Start up costs (3-year amortization)	\$833,333	\$833,333	\$833,333	\$ -	\$ -
Salary and Fringe	\$500,000	\$700,000	\$1,000,000	\$1,200,000	\$1,200,000
Rent and Utilities	\$60,000	\$61,500	\$63,038	\$64,613	\$66,229
Marketing	\$ 253,963	\$ 680,140	\$ 1,781,910	\$ 2,709,471	\$ 3,432,745
CUSO Dividend	\$ 84,654	\$ 317,399	\$ 1,187,940	\$ 1,806,314	\$ 2,288,497
<b>Total Fixed Costs</b>	<b>\$1,731,951</b>	<b>\$2,592,372</b>	<b>\$4,866,220</b>	<b>\$5,780,399</b>	<b>\$6,987,471</b>
<b>Net Income</b>	<b>\$ (855,002)</b>	<b>\$ (452,525)</b>	<b>\$ 510,030</b>	<b>\$ 2,317,951</b>	<b>\$ 3,221,694</b>
<b>Profit Margin</b>	<b>-50.50%</b>	<b>-9.98%</b>	<b>4.29%</b>	<b>12.83%</b>	<b>14.08%</b>

## ABOUT FILENE

Filene Research Institute is an independent, consumer finance think and do tank. We are dedicated to scientific and thoughtful analysis about issues affecting the future of credit unions, retail banking, and cooperative finance.

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process. Since 1989, through Filene, leading scholars and thinkers have analyzed managerial problems, public policy questions, and consumer needs for the benefit of the credit union system. We support research, innovation, and impact that enhance the well-being of consumers and assist credit unions and other financial cooperatives in adapting to rapidly changing economic, legal, and social environments.

We're governed by an administrative board made up of credit union CEOs, the CEOs of CUNA & Affiliates and CUNA Mutual Group, and the chairman of the American Association of Credit Union Leagues (AACUL). Our research priorities are determined by a national Research Council comprised of credit union CEOs and the president/CEO of the Credit Union Executives Society.

We live by the famous words of our namesake, credit union and retail pioneer Edward A. Filene: "Progress is the constant replacing of the best there is with something still better." Together, Filene and our thousands of supporters seek progress for credit unions by challenging the status quo, thinking differently, looking outside, asking and answering tough questions, and collaborating with like-minded organizations.

Filene is a 501(c)(3) nonprofit organization. Nearly 1,000 members make our research, innovation, and impact programs possible. Learn more at [filene.org](http://filene.org).

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—Edward A. Filene

