**Debit cards and prepaid cards in the US banking system**

**Debit Cards**

* Linked to a checking account, allowing access to funds in the account
* Can be used for purchases, bill payments, and ATM withdrawals
* Spending is limited to the available balance in the linked account
* Typically, do not charge fees, but the linked account may have fees like monthly maintenance, ATM, and overdraft fees

**Prepaid Cards**

* Not linked to a bank account, funds must be loaded onto the card before use
* Widely accepted, often backed by major card networks like Visa, Mastercard, American Express, or Discover
* Spending is limited to the amount loaded on the card
* Comes with various fees, including card opening, monthly usage, ATM, reload, and foreign transaction fees
* Some prepaid cards, like Bluebird by American Express, offer family accounts with spending limits and ATM access restrictions
* Do not report to credit bureaus and cannot be used to build credit

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| Debit cards | Prepaid cards |
| There are 917 million Visa debit cards and 338 million Mastercard debit cards in circulation as of 2023. | Prepaid debit card uses in U.S. households increased from 2013 to 2019 across all age groups. |
| Debit cards are linked to a checking account, allowing access to funds in the account. | Prepaid cards are not linked to a bank account, funds must be loaded onto the card before use. |
| Debit cards typically do not charge fees, but the linked account may have fees like monthly maintenance, ATM, and overdraft fees. | Prepaid cards come with various fees, including card opening, monthly usage, ATM, reload, and foreign transaction fees. |
| Some debit cards offer rewards, like the Discover Cashback Debit which provides 1% cash back on up to $3,000 in purchases per month. | Some prepaid cards, like Bluebird by American Express, offer family accounts with spending limits and ATM access restrictions. Prepaid cards do not report to credit bureaus and cannot be used to build credit. |

**Key statistics**

**Debit cards**

* **Prevalence:** According to the Federal Reserve's 2022 report, there were approximately 5.1 billion debit card transactions per month in the United States in 2021.
* **Transaction Value:** The total value of these transactions was around $2.75 trillion.
* **Average Transaction:** The average debit card transaction value was about $37.
* **Number of Cards:** The number of active debit cards in the U.S. was estimated to be around 159 million in 2021.

**Prepaid cards**

* **Prevalence:** The Mercator Advisory Group reported that in 2021, about 8.3 billion transactions were made using prepaid cards in the U.S.
* **Transaction Value:** The total value of prepaid card transactions was estimated to be around $400 billion.
* **Average Transaction:** The average transaction value for prepaid cards was approximately $48.
* **Number of Cards:** The number of prepaid cards in circulation was around 1.6 billion in 2021, including both reloadable and non-reloadable cards.

**Comparative Insights**

**User Demographics:** Debit card users typically have traditional bank accounts and use their cards for everyday purchases. Prepaid card users might include unbanked or underbanked individuals and those using the cards for budgeting or specific purposes.

**Regulation and Fees:** Debit cards are subject to different regulations compared to prepaid cards, particularly concerning fees. Prepaid cards often have more diverse fee structures, including charges for reloading, monthly maintenance, and ATM withdrawals.

**Impact of Technology**

The rise of digital wallets and mobile payments is influencing both debit and prepaid card usage. Integration with platforms like Apple Pay, Google Wallet, and Samsung Pay offers more convenience and security to users.

Contactless payments and EMV chip technology have become standard, enhancing the security and speed of transactions

**Benefits of debit cards**

**Convenience**

* Debit cards are widely accepted at most businesses, allowing you to make purchases without carrying cash.
* They can be added to mobile wallets like Apple Pay for contactless payments.
* Debit cards are linked directly to your bank account, making it easy to track your spending.

**Security**

* Debit cards offer features like card alerts and daily spending limits to help prevent fraud.
* They provide consumer protection against unauthorized charges, similar to credit cards.
* Debit cards do not allow you to carry a balance or accumulate interest, helping prevent overspending.

**Budgeting**

* Using a debit card can make it easier to stick to a budget, as the funds are directly withdrawn from your account.
* Many banking apps provide detailed spending breakdowns to help you manage your finances.

**Rewards**

* Some debit cards, like the Discover Cashback Debit, offer rewards programs with cash back on purchases.

**No Fees**

* Debit cards typically do not have annual fees or minimum monthly spending requirements, unlike some credit cards.

**Benefits of prepaid cards**

**No Credit or Bank Account Needed**

* Prepaid cards provide financial services to millions of Americans who are unbanked or underbanked, enabling essential transactions without requiring a credit check or bank account.
* The process of obtaining a prepaid card is straightforward and accessible, bypassing the hurdles often associated with opening a bank account.

**Manage Your Spending**

* Prepaid cards operate on pre-loaded funds, preventing the risk of accruing debt or interest charges, making them an excellent tool for budgeting and managing finances.
* They provide a clear spending limit, helping prevent overspending and ensuring funds last until the next reload.

**More Secure Than Cash**

* Prepaid cards offer significant security advantages over cash, as they can be locked or replaced if lost or stolen, protecting your funds.
* Most prepaid cards are protected by the same security protocols as standard debit and credit cards, including PIN codes, chip technology, and fraud monitoring services.

**Avoid Overdraft Fees**

* Prepaid cards never charge overdraft fees, making them an attractive alternative for those looking to avoid these penalties, which averaged over $33 per transaction in 2021.

**Minimize Liability in Case of Fraud**

* You can't lose more than the balance on your prepaid card, even if you fall victim to fraudsters.
* Prepaid cards are subject to the Electronic Fund Transfer Act, requiring issuers to investigate and reimburse unauthorized charges or errors if they file a timely report.

**Overcome Banking History Challenges**

* Prepaid cards don't require a bank history report, making them a viable option for obtaining a debit card when other avenues are unavailable due to unpaid fees.\

**Educate Kids About Money Management**

* Prepaid cards can be an excellent tool for teaching kids about managing money and navigating a cash-free economy.