

# Innovations in Serving Underbanked Consumers

Bank on San Francisco Meeting  
December 2, 2005

## CFSI

The Center for Financial Services Innovation assists the financial services industry to identify, develop, and implement innovative ways of delivering asset-building opportunities to the underbanked market.

CFSI provides:

- funding for innovative solutions
- a meeting place for interested parties
- information on how to respond to the needs of the underbanked profitably and responsibly

## Industry Evolution Presents Opportunities & Challenges

- Financial services industry is in flux
  - New players are emerging
  - Unconventional partnerships are developing
  - Access points are expanding
- Innovation is occurring but obstacles remain
  - Information is lacking
  - Volume is hard to find
  - Regulatory framework is out of date

## Is This the Future?

### Non-Bank Companies Seize the Opportunity



- From transactions to mortgages
- In-store bank partnerships – some private labeled
- A bank charter on the horizon?
- Increases store visits

- Vcom self-service financial kiosks
- 1,000 stores & counting
- \$20 million in R&D costs
- Promotes convenience



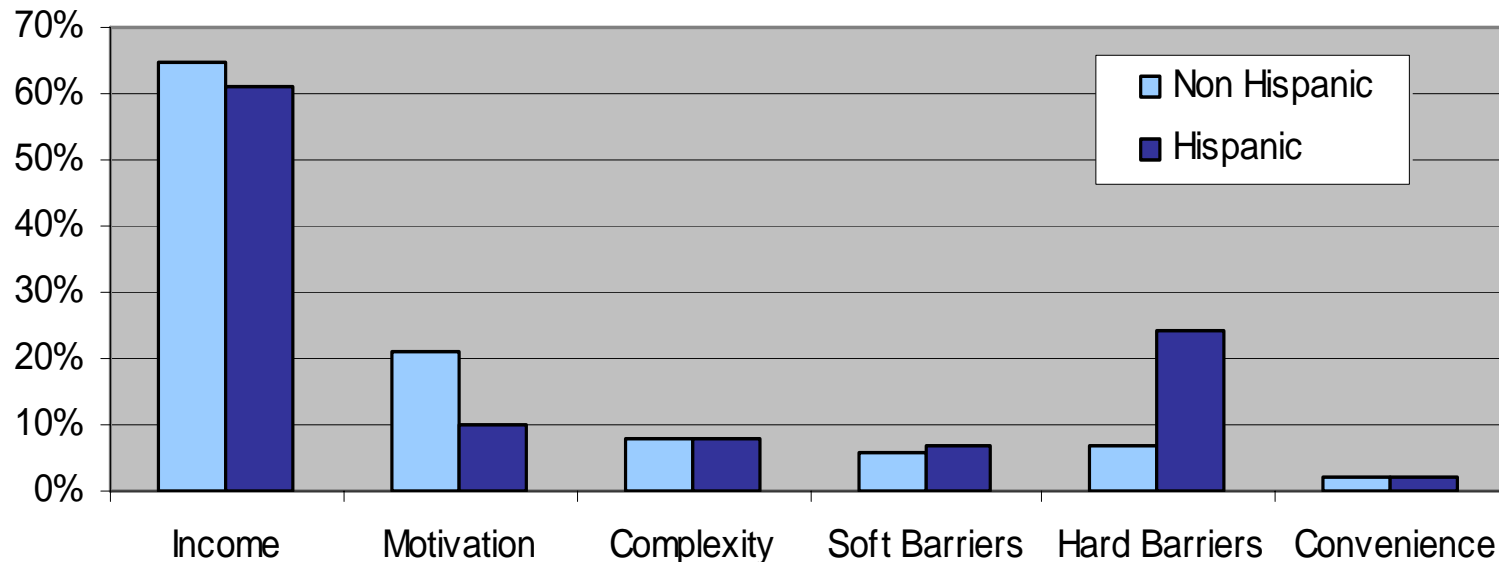
- Tax prep + wrap-around financial services
- IRAs, mortgages, checkless accounts
- A bank charter on the horizon?
- Increases loyalty

## Market Snapshot

- As many as 22 million households – 20% of U.S. households – are unbanked
- At least 53% of Mexican immigrants are unbanked
- The combined unbanked and subprime credit population may be 30-40 million households

***Unbanked consumers spent at least 2% of income on basic financial services.  
That translates into a \$4B-\$9B market.***

## Why Unbanked?



African-Americans and Hispanics have the perception that they don't have sufficient income to support a bank account.

Hispanics are also concerned about hard barriers like ID requirements and credit issues.

## Banked/Unbanked Dichotomy Is Incomplete

*Two-thirds of banked households  
also use non-bank services*

### Banked (70%)

- 20% receive income in cash
- 38% of those with checking accounts pay rent with cash or by money order
- 26% of those who cashed checks did so at a non-bank

**Use banks  
almost  
exclusively  
(36%)**

**Heavy user  
of non-bank  
services  
(64%)**

*Half of unbanked households  
were formerly banked*

### Unbanked (30%)

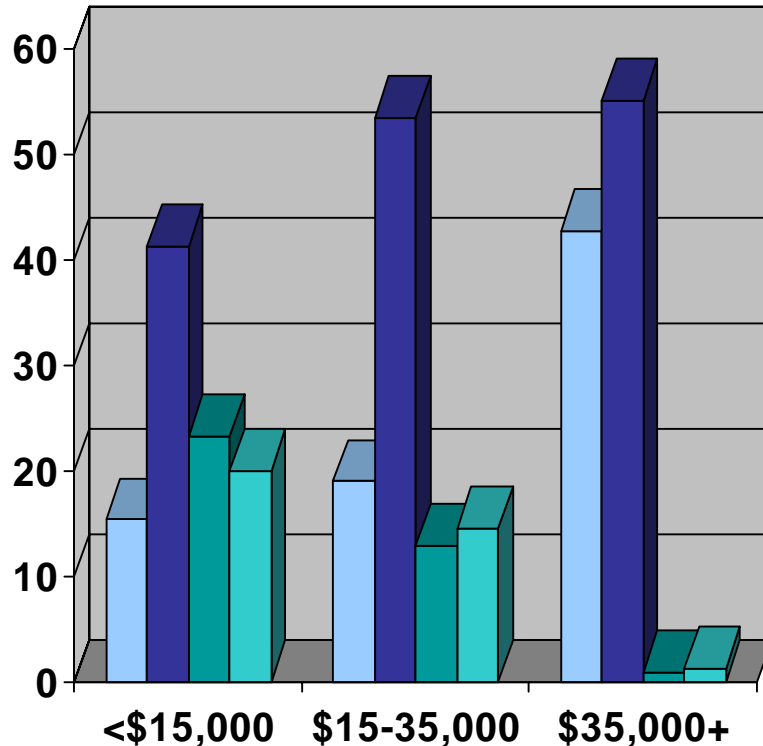
- 48% have had a checking or savings account in the past
- 26% of those who cashed a check did so at a bank

**Formerly  
Banked  
(48%)**

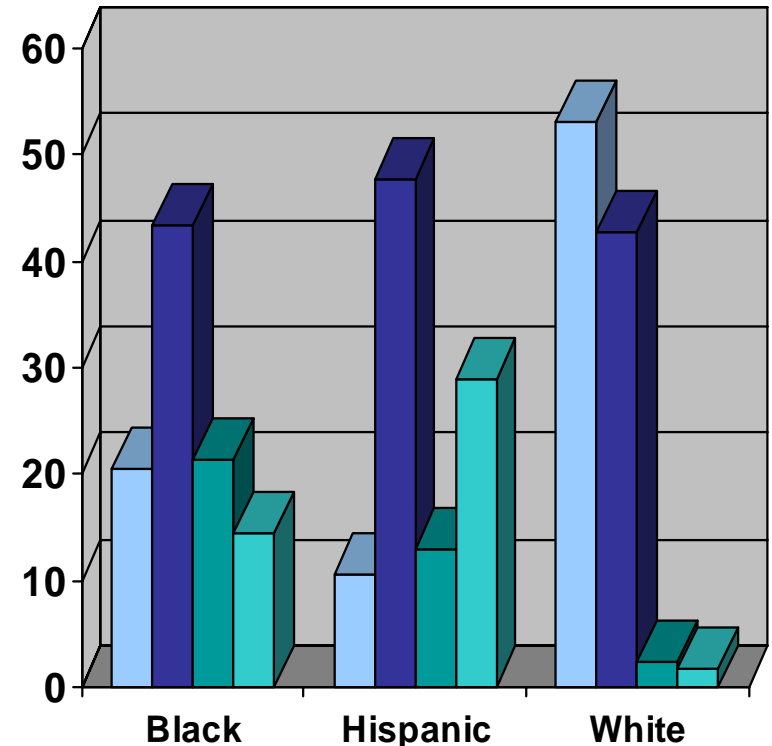
**Never  
banked  
(52%)**

***Having a bank account is not a reliable proxy for customer potential.***

## Non-Bank Use High At All Incomes. . .



## . . .And Among All Races

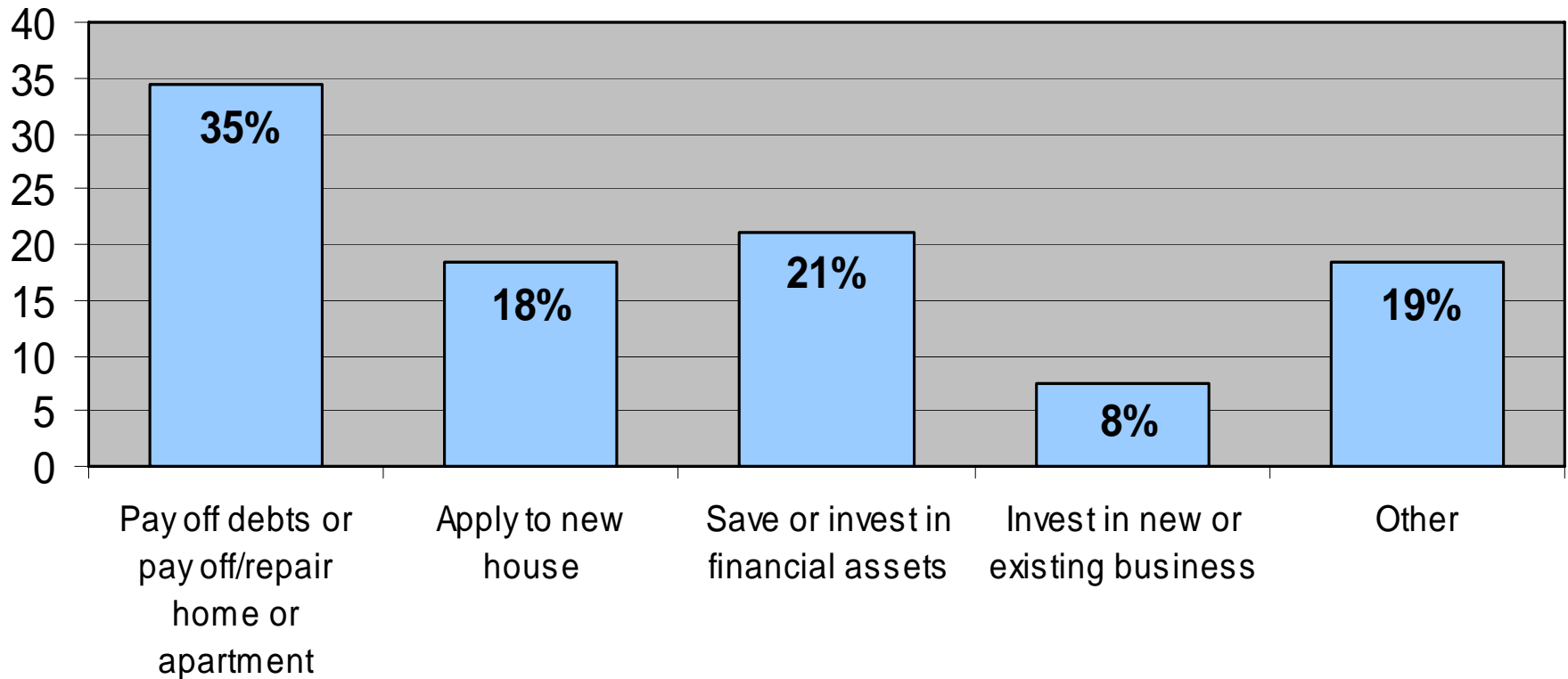


■ Banked, no non-bank  
■ Unbanked, previously banked

■ Banked, use non-bank  
■ Unbanked, no previous acct

## Low Incomes, But Want to Build Assets

### What Would You Do With \$10,000?



## The Supply Gap: A Lack of Alignment

<b>Key success factors</b>	<b>Areas of poor alignment</b>
<b><i>Processes</i></b>	<ul style="list-style-type: none"><li>• ID requirements that overstate risk</li><li>• ChexSystems, credit checks</li><li>• Poorly designed delivery channels</li></ul>
<b><i>Products</i></b>	<ul style="list-style-type: none"><li>• Lack of transparent pricing</li><li>• Failure to meet customer liquidity needs</li></ul>
<b><i>Partnerships</i></b>	<ul style="list-style-type: none"><li>• Lack of cultural awareness</li><li>• Inappropriate marketing messages</li></ul>

## Closing the Gap: Promising Innovations

Key success factors	Innovations
<b><i>Processes</i></b>	<ul style="list-style-type: none"><li>• ITIN, matricula acceptance</li><li>• Second chance programs</li><li>• Financial education &amp; outreach</li></ul>
<b><i>Products</i></b>	<ul style="list-style-type: none"><li>• Prepaid debit cards/checkless checking</li><li>• Remittances</li><li>• Emergency credit</li></ul>
<b><i>Partnerships</i></b>	<ul style="list-style-type: none"><li>• CCO partnerships</li><li>• Workplace-based outreach</li><li>• EITC programs</li></ul>

## Process Improvements: Second Chance Accounts

- The majority of U.S. financial institutions use credit scores and/or databases of customer banking history to determine whether to open a bank account, effectively barring millions from banks, credit unions.
  - These tools are not adequately calibrated for the un/derbanked.
  - Financial institutions don't adequately tailor how they use the tools.

## Process Improvements: Second Chance Accounts

- In the last five years, hundreds of depositories have reengineered the use of these risk management tools and developed alternative pathways for re/entry.
  - Get Checking: eFunds-sponsored effort that offers a second chance to customers with ChexSystems problems.
  - Result: 10,000 graduates, 95% of whom have maintained accounts in good standing for a year.

## U.S. Bank: Second Chance Checking

- Relaxed ChexSystems restrictions
  - NSF okay = Issue checks and check card
  - Fraud/Account Abuse = Unable to open
- No monthly fee
- No minimum balance
- No direct deposit requirement
- \$100 to open

## Process Improvements: Alternative ID

- Meeting identification requirements to qualify for a bank account can be challenging for the underbanked
  - Immigration status
  - Privacy concerns
- The regulatory climate has made it uncomfortable for banks to accept alternate identification – **but it is allowable**

## Process Improvements: Alternative ID

- Matricula consular is official Mexican ID; other countries like Guatemala have developed similar documents
  - 350 U.S. banks accept the matricula for account opening; the USA PATRIOT Act does allow it
  - Last year the U.S. Treasury department - after extensive public comment and review of its procedures - decided not to prohibit financial institutions from accepting foreign-issued identification cards, such as the Matricula card.
- Individual Taxpayer Identification Numbers are issued by IRS for non-citizens in order to pay taxes
  - At least 18 banks are making mortgages with ITINs; MGIC is providing PMI; 2ndary market is considering purchases

## Wells Fargo: Matricula acceptance

- Wells Fargo was the first bank in the U.S. to accept the Matricula Consular card as valid identification for opening accounts. The bank also accepts Consular ID cards from Guatemala and Argentina.
- The bank has opened more than 500,000 accounts with the Matricula.
- The Matricula has provided thousands of Mexican nationals the opportunity to move from the risky cash economy into secure and reliable financial services so they can achieve the American dream.

## Wells Fargo: Matricula acceptance

- The Matricula card gives consumers a new opportunity to enter the banking mainstream by choosing lower cost banking products and services instead of the much higher fees charged for check cashing.
- Enhanced security features have been incorporated into the Matricula to increase its reliability. The new digitized cards have comparable security features to U.S. state-issued driver licenses and ID cards.
- Wells Fargo's experience with accounts opened with the Matricula essentially has been no different than that for accounts opened with U.S. driver licenses or state identification cards.

## Product Improvements: Checkless Checking

- Checking accounts are not well designed to meet the needs of un/derbanked consumers.
  - Lack of liquidity
  - Lack of pricing transparency
- But banks and credit unions are tied to account-based systems, even for their new remittance platforms.
- The rise of debit cards has provided a range of new “checkless” solutions.
  - Account based
  - Prepaid

## Citibank Access Account

- An entry level account
- Checkless Account with a debit card
- No minimum opening or balance requirement
- Monthly fee \$3 or free with direct deposit or linked with a savings account with \$25
- Low cost money transfer options
- Eligible for a line of credit after 6 months (No credit history required)
- Online and phone bill pay

# Washington Mutual: Essential Bank Account

To roll out statewide in CA by June 30, 2006

- **Product features:**

- \$5 monthly fee
- No minimum balance requirement (1¢ required to keep active)
- \$1 minimum deposit to open
- No checks can be written
- No ATM/debit transaction limits
- Unlimited teller access and telephone customer service
- 5 free money orders per month
- Monthly account statement
- No overdraft protection

- **Account opening:**

- Available to any customer
- Non-fraudulent ChexSystems activity is disregarded
- No credit score requirement
- Matricula Consular, as well as other foreign government-issued identification cards, accepted as primary ID
- Alternative forms of secondary ID accepted (i.e., utility bills)

- **Promotion:**

- Partnership with non-profits

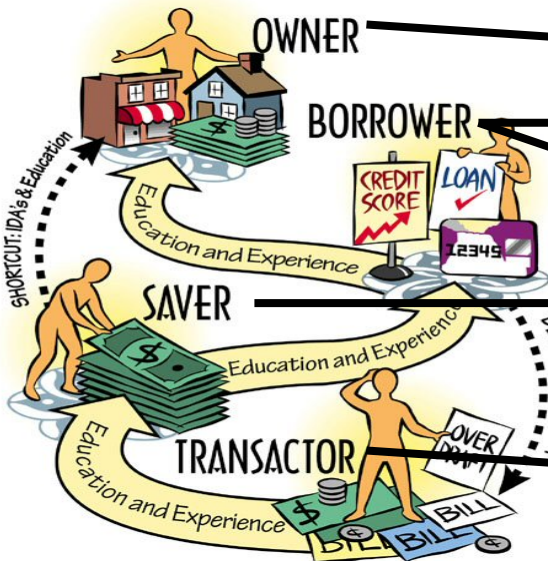
## Challenges Remain

- Cultural barriers
- Inadequate market data
- Finding volume
- Finding partners
- Regulatory issues

## Closing the Gap: Creating Alignment

*Customer view*

*Financial institution view*



- Investment products
- High margin lending
- Consumer credit
- Savings
- Fee income
- Cheap deposits

The Credit Path  
Alternatives Federal Credit Union

When viewed with a “lifetime value” lens, the needs of financial institutions and underbanked customers can be aligned

## For more information

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