

Community Investments Vol 15, Issue 3 Investing For "The Little Guy"

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In an era when mainstream investment firms are turning away clients with less than \$100,000 in assets to invest, is it possible for banks to not only provide their low-income customers with quality investment services, but to do so with attractive margins?

The Challenge

Historically, financial institutions have viewed business opportunities in low- and moderate-income markets as marginal at best, especially investment and advisory services. Meanwhile, the competition to attract and retain lucrative high net-worth investment customers has created an ever widening gap between the products and services available to low-income consumers and the affluent "target market." The result: the affluent market has become saturated while the low-income market remains largely underserved despite a strong demand for financial services. This gap is manifest within many banks where low- to moderate- income banking customers make up the "bread and butter" of the customer base.

Why have traditional providers been slow to penetrate the low-income market? Simply put, in the past, banks and brokerages have found it too costly to open and maintain the small-volume investment accounts appropriate for low-income consumers. There is significant expense in servicing an investment account, so the bank must either cover these costs through high fees (commissions, transaction fees, account maintenance

fees), and/or ensure that its investment accounts have high asset levels (through minimum investment requirements). Of course, these very fees and investment minimums act as financial barriers to exclude many low-income investors from participating. A new approach is needed that will remove the barriers preventing low-income investors from participating and banks from serving this market; an approach that encompasses affordability, guidance, and simplicity.

The Opportunity

Evolving technologies and innovative new models are laying a path for both traditional and non-traditional financial service firms to realize attractive profit margins on investment services, regardless of income level or account size. As these new models drive down costs and enable access to financial tools and education, low-income consumers are emerging as a large and viable market. This article introduces an innovative platform that banks can employ to offer a comprehensive set of investment and advisory services to their low-income customers, empowering them to affordably save and invest towards core financial goals such as a first home, business or retirement.

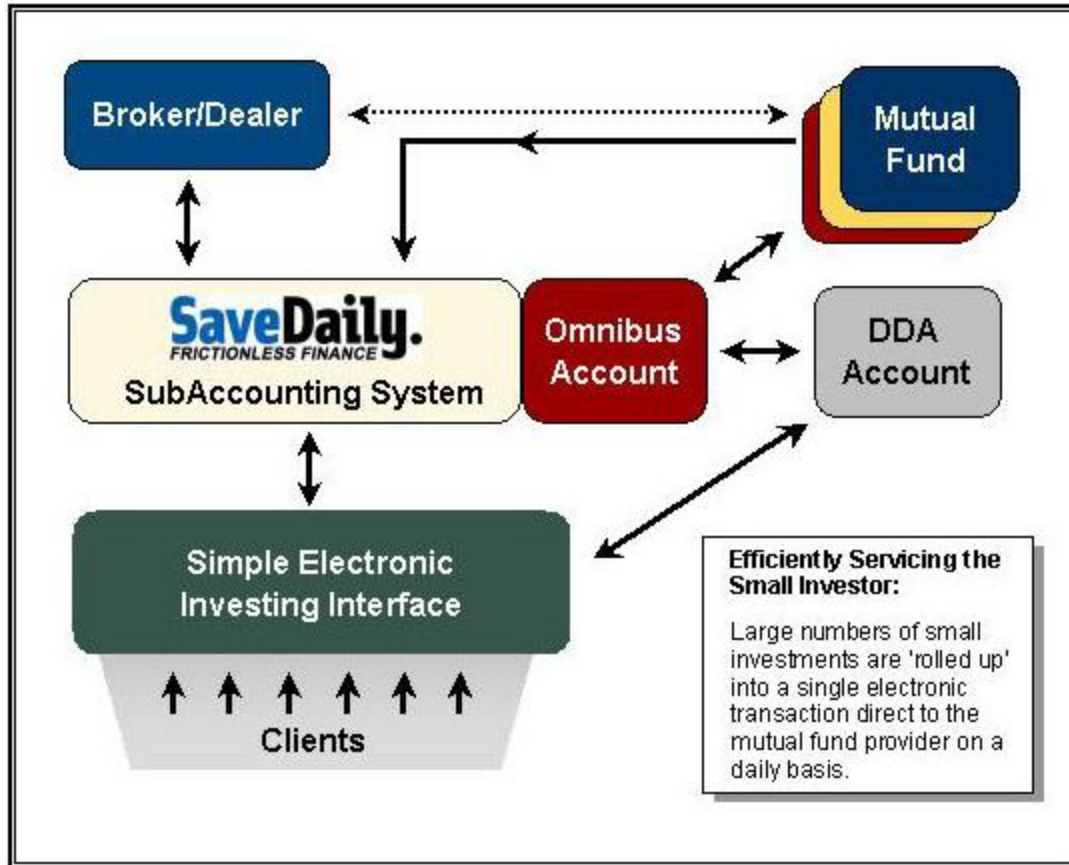
A Solution

Founded in 1999 with a mission to bring affordable investing and advisory services to underserved markets, California-based SaveDaily (www.savedaily.com) has created a financial services platform which delivers a new approach. SaveDaily designed its all-electronic LiquidFinance™ platform from scratch with an emphasis on cost efficiency and simplicity. Launched in November 1999, it helped pioneer paperless brokerage solutions, effectively eliminating printing and mailing costs while allowing for electronic registration, confirmations, quarterly statements, tax reporting, and account history. Devoid of manual processes, it incorporates straight-through processing capability to ensure maximum efficiency and minimum transaction processing costs. This ultra-low-cost investing and recordkeeping platform makes it possible to profitably service smaller

balance accounts by lowering the financial entry for investors. The platform also allows for private label integration by banks, brokerages, and non-traditional financial service providers.

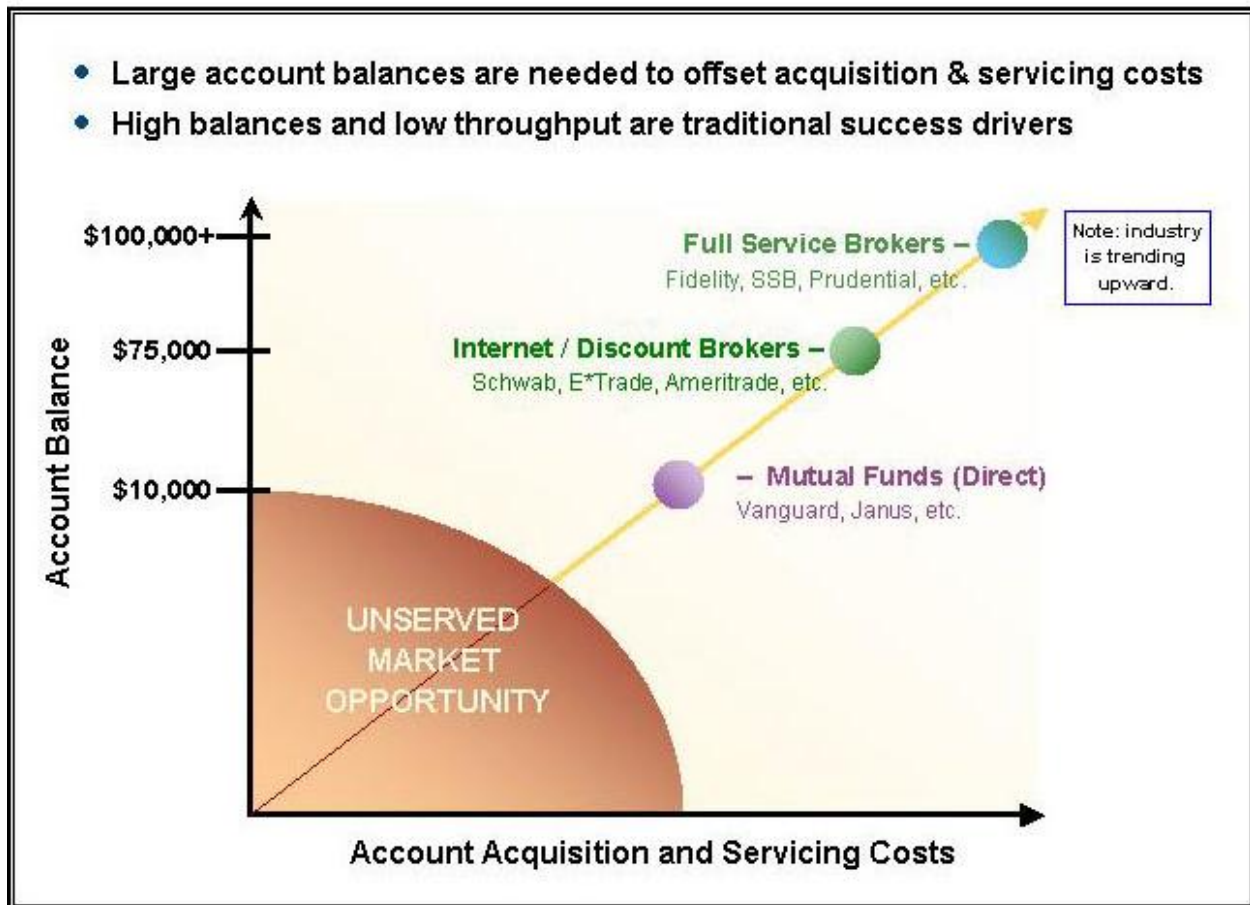
How It Works

Using SaveDaily's LiquidFinance platform, banks can offer their customers access to mutual fund investing with no minimums and no transaction fees at a cost that is a fraction of the industry standard. Customers can be provided complete 24/7 access to open accounts, make investments, redeem shares or view transaction histories through web sites, kiosks or ATMs. Transactions are settled utilizing the automated clearing house (ACH) network, allowing clients to invest directly from existing checking accounts into their mutual fund accounts. The platform also features systematic transfer capabilities, which allow for regularly scheduled deductions from payroll or other sources. This "out-of-sight, out-of-mind" investing allows new investors to practice regular, disciplined investing in any amount they choose while leveraging the benefits of dollar cost averaging.



At the heart of the model's transactional efficiency is SaveDaily's use of an "omnibus" account, which allows the pooling of multiple smaller investments into a single large aggregated transaction that is executed at the completion of the trading day when the mutual fund pricing (net asset value) is established. For example, 1000 individual \$10 investments can be rolled up into a single \$10,000 transaction direct to the fund provider at the end of a given day. Since all 1000 investments share a single transaction cost, the allotment for each of the 1000 individual investments is truly minimal. And since all the individual investments are rolled into a single larger investment, the need for investment minimums is also eliminated, allowing customers the flexibility to invest any amount of money in nationally-known mutual funds that would normally require high minimum investments. SaveDaily's proprietary sub-accounting technology also allows for the tracking and reporting of each individual investor's activity, which is manifested in the

system via electronic confirmation notices, online account balances, quarterly statements, etc.



Save-Today (www.save-today.com), an online investment service based on SaveDaily's platform, calls the above concept 'micro-investing': the ability to regularly contribute small amounts over time to an account without worrying about minimum investment, account size requirements or the eroding effect of individual transaction fees. While the model can be structured to accommodate participation by platform reps or registered financial advisors, its leanest form is a 'self-serve' model in which the customer interacts directly with the system via a web browser interface to invest in no-load shares at low cost.

The various features of SaveDaily's innovative platform essentially allow any intermediary to market an investment program with:

- no minimum initial or ongoing investment
- no loads or commissions
- no transaction fees
- unlimited transactions for one low monthly or annual fee

The result is a compelling value proposition for the low-income investor. Importantly—as outlined later in this article—with the collection of a low monthly/annual fee, this model is profitable on a per unit basis, regardless of income level, account size or activity levels.

Providing Guidance

Historically, professional financial advice had been available only through a broker or a financial planner, and then only to the relatively affluent. Ironically, it is the underserved, low-income investor who most likely lacks investing expertise. To address the need for guidance, SaveDaily's platform provides an automated interface to assist customers in determining their investor profile and goals, selecting suitable investments and managing those investments over time. The advisory capabilities are imbedded in the system's "assessment wizard," an online questionnaire that recommends an appropriate account type and suitable investment allocation based on the customer's responses to a series of interactive questions and scenarios. For example, an investor with a six-month time horizon would be directed to a low-risk money market option, while a more risk-tolerant investor saving towards a distant retirement might be directed to a more aggressive allocation. To address the unique needs of a multi-cultural audience, the wizard can be made available in several languages.

To enable cost effective ongoing management and oversight of customer investment accounts, SaveDaily's system provides tools for banks to deliver

and monitor specialized, goal-oriented asset allocation portfolios. Banks can choose to design these allocations themselves or to have them designed and managed by nationally-known investment organizations. The LiquidFinance platform automatically rebalances and reallocates portfolios in accord with a customer's profile and investment goals. This model allows low-income investors to benefit from the 'high touch/low cost' service of ongoing professional money management without the need for a costly personal investment adviser.

One Size Does Not Fit All

SaveDaily's customizable interface allows the program to be presented to target a particular demographic and align with any bank's brand. Color schemes, graphics, marketing messages, language, and even financial products can be assembled based on the target audience. For example, SBK-Brooks Investment Management Corp, a Black-owned investment bank headquartered in Cleveland, Ohio, launched the Black Wealth Network (www.bwnonline.com) using SaveDaily's platform. It offers African-American-managed mutual funds in a program that is truly tailored to the African-American audience it is targeting. While not aimed at a particular income level, the low cost/no minimum nature of the program allows low-income investors to participate alongside more affluent investors.

CRA Eligibility

Delivering investment services to low-income customers may be the most daunting part of an effort to offer the same caliber of retail banking services across all income groups. SaveDaily's program can help accomplish this goal. The Community Reinvestment Act evaluates both the range of services offered and the degree to which those services are tailored to meet the needs of specific geographies. Recent interest in asset accumulation among low-income consumers underscores the need for products that will allow this group to access higher-yield instruments beyond passbook savings accounts. Using information that is collected at the time a customer signs up for an

investment account, such as zip code and income, an institution can track and document the percentage of its customers that fall within the low- and moderate-income range. Institutions that adopt programs that allow low-income customers access to investment services can enhance their CRA program, and thus distinguish themselves as marketing innovators.

Expanded Services Yield Expanded Profits

In addition to the responsiveness and CRA advantages of offering investment and advisory services to the low-income demographic, these services can significantly impact the bottom line. Because of the low cost of servicing accounts on an electronic platform, banks only need to collect a few dollars a month in fees to turn a profit regardless of account size. In addition, asset-based advisory fees for managing the allocations, and distribution payments from the mutual fund companies contribute incremental recurring revenue over time. But perhaps most importantly, selling a new product to an existing bank customer serves to lock in customer loyalty and guard against defection and erosion of assets (the average mutual fund account is held for approximately 12 years). And some low- and moderate-income customers may likely evolve over time into that most cherished of assets: the high net worth investor.

Conclusion

Innovative new models and technologies are creating an opportunity for banks to extend investment service offerings to their low-income customers, and to do so profitably. Gone are the days when financial services were available only at banks and brokerages. The industry of financial services has become a melange. Retailers are routinely cashing checks, affinity groups are offering insurance products, and a week's wages can now be stored on plastic cards that double as phone cards. Retailers and other businesses that already cater to 'middle America' and low-income consumers clearly recognize the potential associated with the provision of financial

services to this large, underserved market. Low-income banking customers continue to ask for assistance with savings and investing—will banks deliver?

To learn more about SaveDaily, contact Mark Maruyama via email at: mark.maruyama@savedaily.com or by phone at 562/795-7500.

Biography



Mark Maruyama is executive vice president of business development for SaveDaily, Inc. (www.savedaily.com), an investment company focused on servicing markets overlooked by traditional investment providers. Based in Seal Beach, California, the company's electronic investment platforms make investing attractive and affordable to underserved markets and profitable to the intermediaries that deliver them. Mr. Maruyama has more than 14 years of experience in the information technology industry. In his current role with SaveDaily, Mr. Maruyama is responsible for establishing business relationships to distribute the company's private label financial services platform. Previously, he held a variety of leadership positions for the IBM Corporation, focused primarily on sales, integration services and strategic partnerships in the financial services, education, and media/entertainment industries. He received his bachelor's degree in economics and business from the University of California at Los Angeles.