

Innovative Financial Products and Services that Expand Markets and Build Assets

Microenterprise: Building Assets in a Growing Market
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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 - Regulatory framework is out of date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
- \$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.

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%)

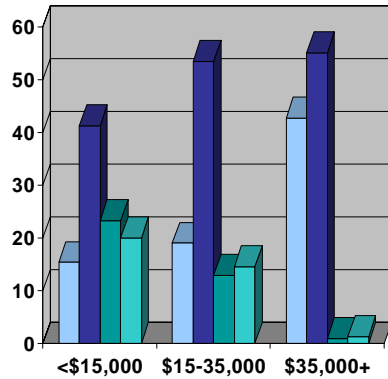
- 48% have had a checking or savings account in the past
- 26% of those who cashed a check did so at a bank

Formerly Banked (48%)

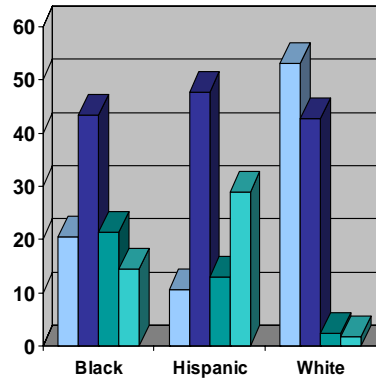
Never banked (52%)

The unbanked population is disproportionately lower income, with less education, foreign-born, households with more kids, younger, and black or Latino.

Non-Bank Use High At All Incomes. . .



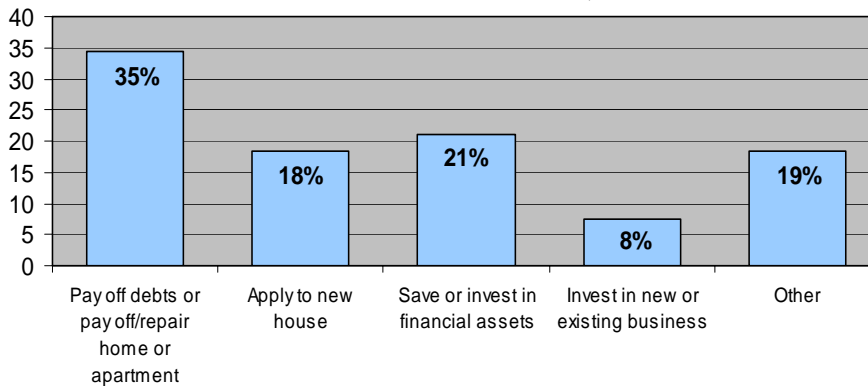
. . .And Among All Races



Banked, no non-bank
 Banked, use non-bank
 Unbanked, previously banked
 Unbanked, no previous acct

Low Incomes, But Want to Build Assets

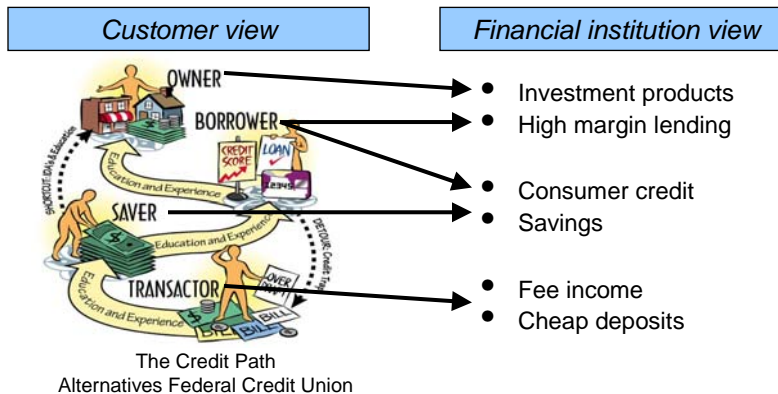
What Would You Do With \$10,000?



The Supply Gap: A Lack of Alignment

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

RFSI: Creating Alignment



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

RFSI Site Overview

Second Chance Accounts

- Citizens Trust Bank
- Legacy Bank

Check Cashing Partnerships

- Bethex FCU
- SSA Baltimore FCU

Alternative Loans

- Alternatives FCU
- North Side Community FCU

Stored Value Cards

- Central Bank of Kansas City
- University Bank

Community Partnerships

- Opportunities CU
- Water & Power Community CU

Emerging Lessons

- Meet the customers where they are
- Use transactional products as transitional vehicles
- Asset-depleting behavior must change before asset building can occur.
- Develop a suite of products and services that meet both the liquidity and asset building needs of low-income households
- Nonprofits can play a key role in connecting financial institutions with target households and providing financial counseling
- Migrating the unbanked to asset-building products can be a “win-win” proposition for both customers and institutions

For more information

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