

# **Bank On:** ***The Market Opportunity***

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**The broad goal of the Alliance for Economic Inclusion/Bank On campaigns is to help moderate- and low-income consumers make better use of banks and credit unions to convert their wages into wealth.**

**What is that market opportunity?**

A broad array of market opportunities exist in two segments within the moderate- and low-income demographic group.

## 1. Missing Wallet Segment (i.e., unbanked)

**Financial Services Profile:** not banked; using banks and/or non-banks to cash-checks, pay bills, send money, and borrow money

## 2. Wallet Leaker Segment (i.e., under/overbanked, or under/overserved)

### Group A. Banked, but underbanked/served by banks

**Financial Services Profile:** using non-banks to cash checks, pay bills, send money, borrow money; under-using bank credit; inaccurate credit rating; etc..

### Group B. Banked, but overbanked/served by banks

**Financial Services Profile:** regularly using NSF programs, overusing credit and loans



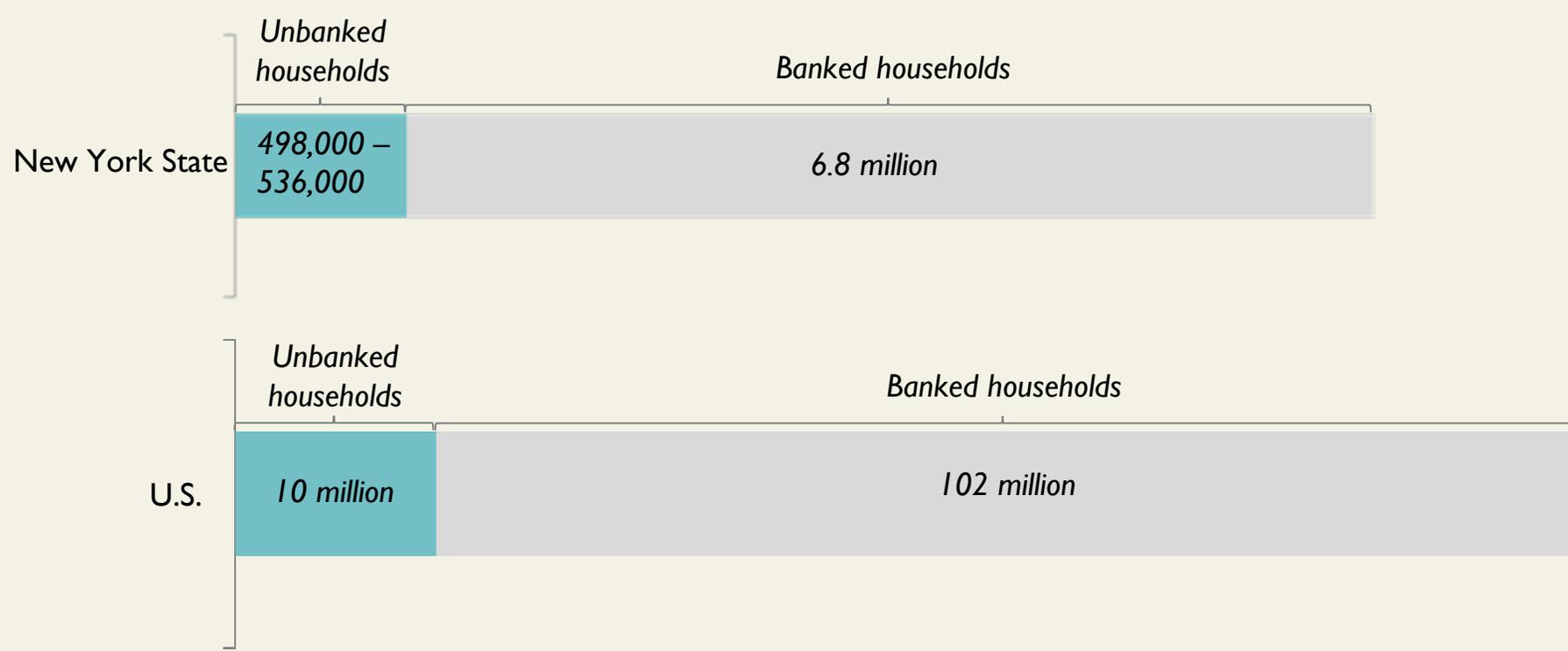
**Unfortunately, much of the extant data on these segments are quite limited or problematic, which has bred quite a bit of conjecture and hyperbole along with, it's important to note, some business failures spurred by innovations designed for market mirages (although probably no more than in any other type of business sector).**

**Probably our best data and most actionable analytics right now relate to the missing wallet segment, or the unbanked group, which is what I want to review for you this morning.**

The missing wallet segment is equal to the share of households that we think do not have a bank account. Across the US, it was about 10 million households in 2004, who collectively earned \$216 billion that year; in New York State we think it was between 498,000-536,000 households.

### Estimated share of unbanked households in New York State, and across the U.S. in 2004

Source: Estimates based on data from the U.S. Census Bureau and the Federal Reserve's 2004 Survey of Consumer Finances using an algorithm created by Fellowes and Mabanta (2007).





**Missing wallet households currently rely on both banks and nonbank check cashers to manage that \$216 billion in income, using these institutions to cash their paychecks, pay their bills, borrow money, and/or wire money (in addition to buying groceries and gas, in some cases).**

Check cashing

Remittances

Money orders

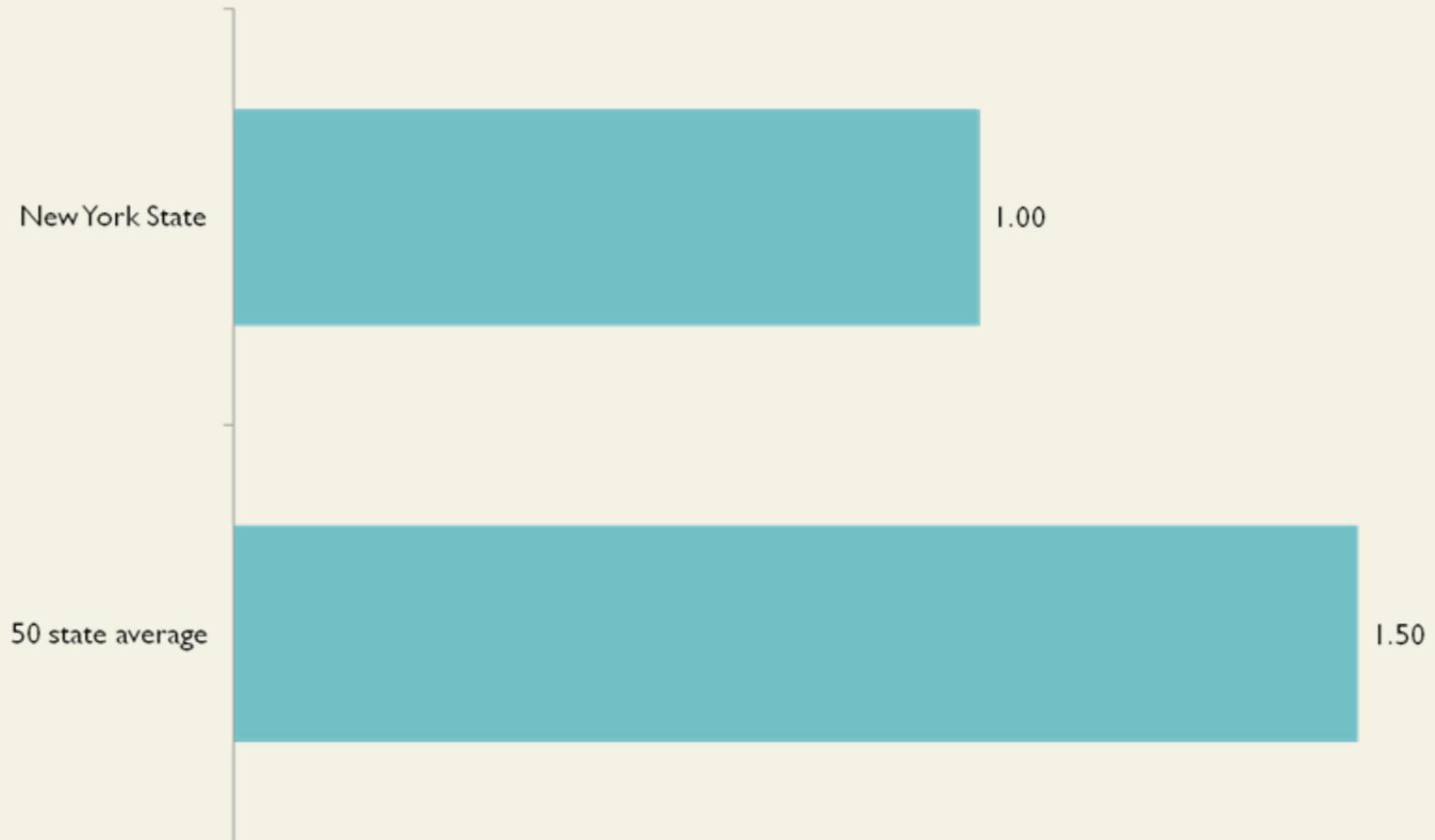
Bill payment services

Short-term loans (e.g., pawn loans)

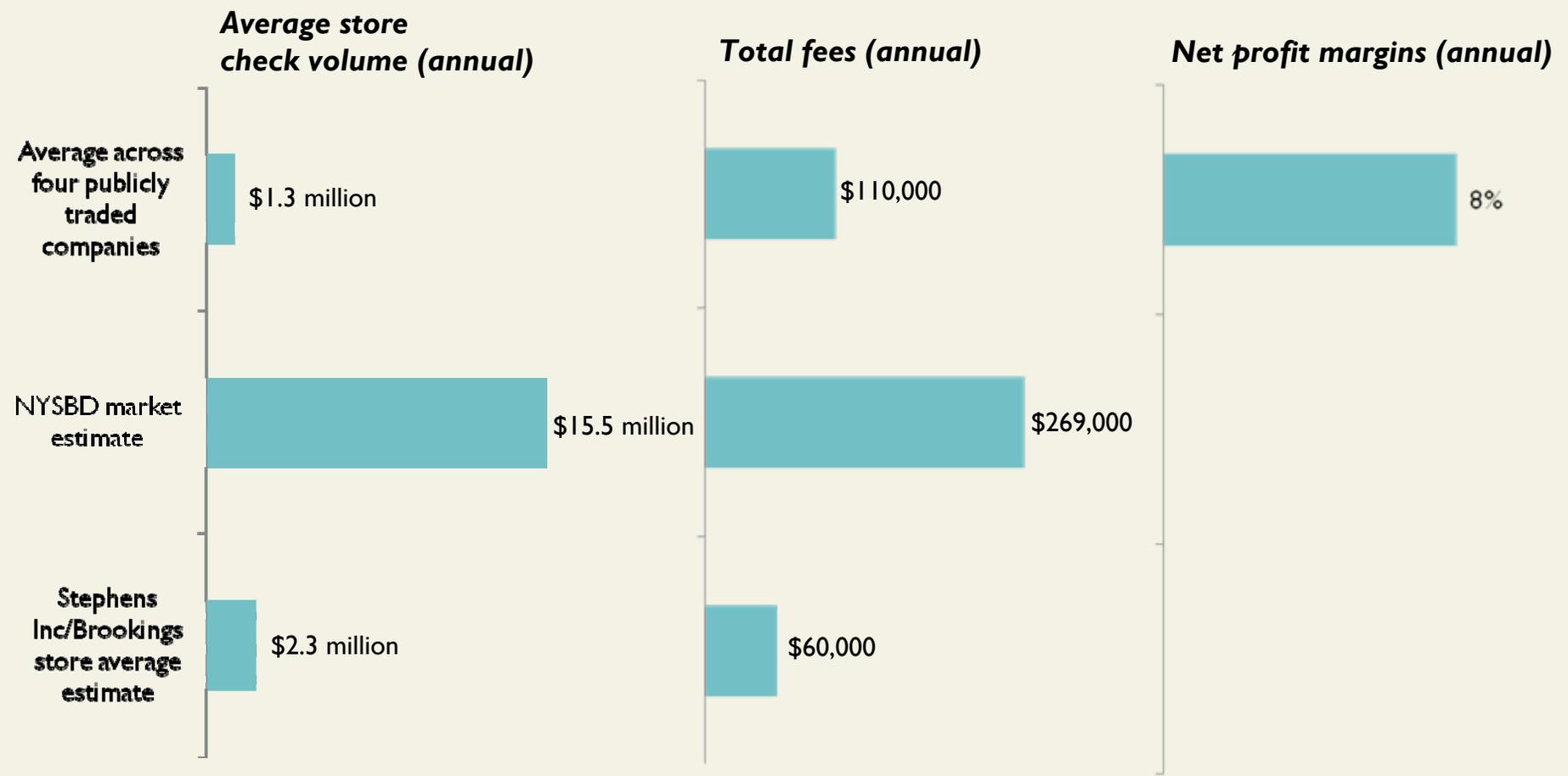
Across New York State, there are approximately 942 nonbank check cashers or roughly one for every 20,000 NY residents, which is slightly lower than the national average.

## Number of nonbank check cashers per 20,000 residents in New York State

Source: Analysis of data from state licensing departments, infoUSA, and the U.S. Census Bureau



The economics for the nonbanks in this market are generally attractive. They have steady demand and can charge prices above the rates charged by banks for a comparable service. The economic specifics of that information, however, are hard to come by, which means that public estimates are widely variable and not clearly comparable. For instance:



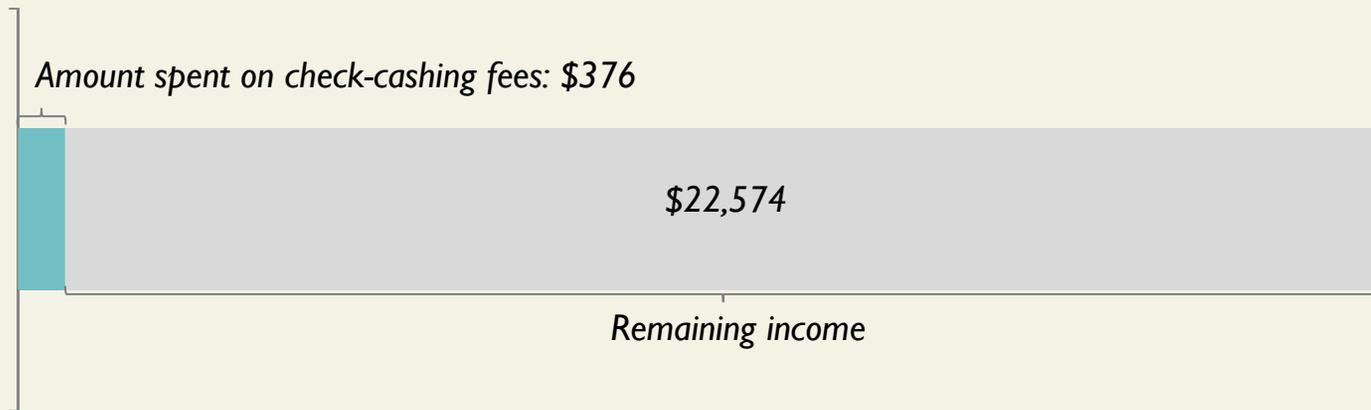
Source: Hoover's, New York State Banking Department, The Brookings Institution, Stephens Inc.  
 Note: Net profit margins were averaged across three companies, not four, and represent all business lines, not just check cashing.



For the missing wallet segment, these economics work out differently depending on how regularly they use a check casher and the state they live in. Here is one example:

## Estimated typical fees paid to nonbank check cashers over one year by an unbanked, working household in New York State

Source: Analysis of data from Fellowes and Mabanta 2008; profile fits the median household without a bank account.



**Additional Unknown Direct Costs:** *Money orders, bill payment services, remittances*

**Additional Unknown Indirect Costs:** *OPPORTUNITY COST = No or limited access to wealth-building credit or loans, often with higher prices than might be otherwise possible*



**But all of these data relate to the overall missing wallet market opportunity, which is potentially larger (and more risky) from the one that the AEI/Bank On campaign is going to help you meet in the short term, because they are initially focused on connecting the segment of unbanked households that are qualified for appropriate bank accounts.**

**Qualified** means that households can financially benefit from using a bank account, have appropriate paperwork, and do not have a history of fraud or identity theft.

**Appropriate** means that the bank account is safe, affordable, fair, and empowering.



## So what is the immediate **AEI/Bank On** market opportunity in New York?

It is not the entire missing wallet segment. Some unbanked consumers have a history of fraud and/or identity theft, some want to fly under the radar, some can't manage a bank account, some live in a cash economy, and some don't have appropriate paperwork.

Nonbank and some bank check cashers address this segment, and so do some market innovations, although the trick is to sell these innovations to people who stand to financially benefit from them (as opposed to alternatives) since some of these innovations sold to the wrong people cause more harm than good, as some Federal Reserve has pointed to.



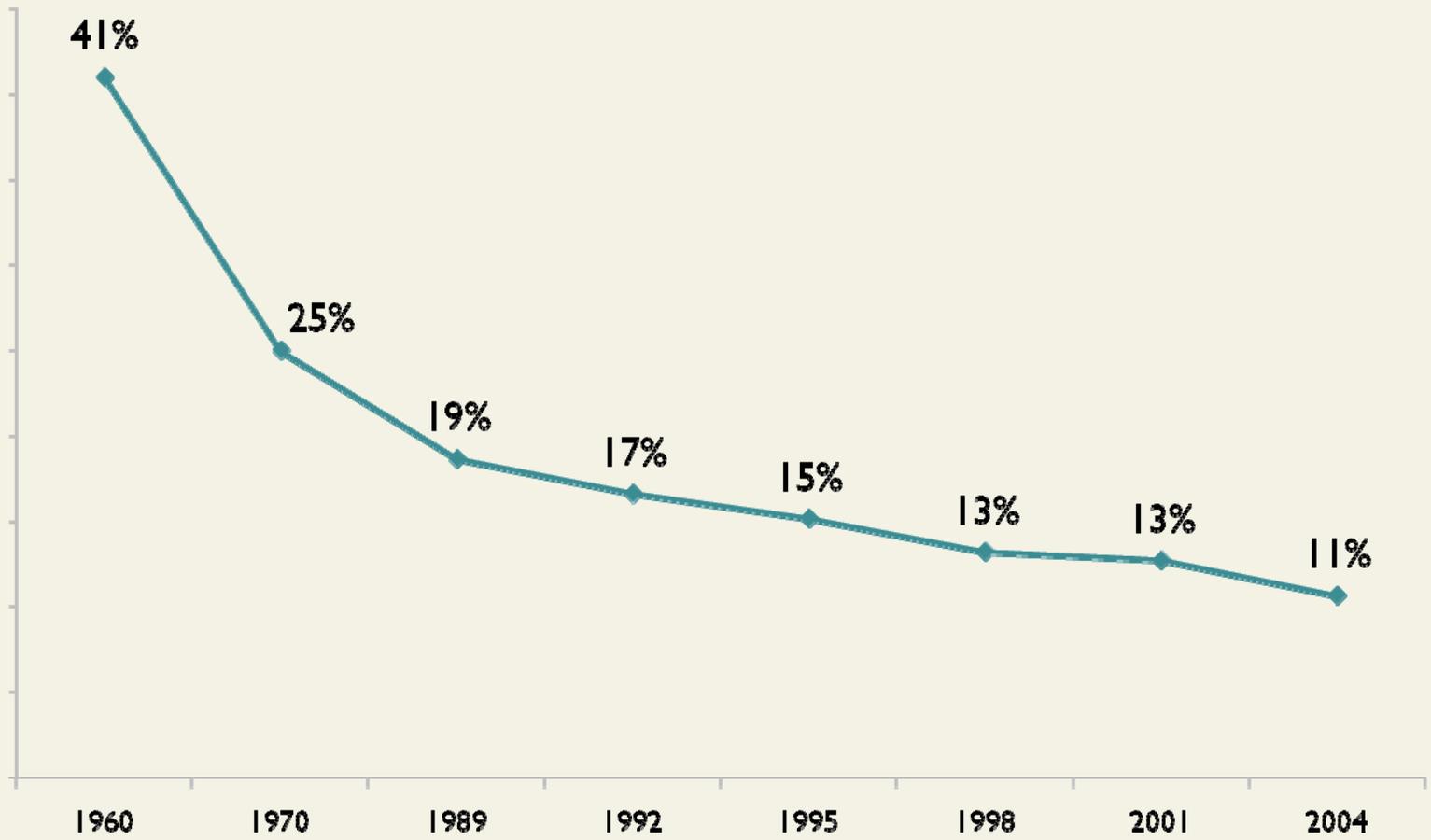
**BUT the bottom line is that we think that the majority of the 498,000-536,000 missing wallet households in New York State and the 10 million across the United States are in fact qualified for an appropriate bank account and can be served by banks and credit unions.**

**Here are 6 reasons why.**

First, the national share of households that are unbanked has been steadily falling since 1960, showing us that there is **strong underlying demand for** and **supply of** bank accounts. For instance, here is this trend for checking accounts:

### Share of U.S. households that lack a checking account, 1960-2004

Source: Analysis of data from the Federal Reserve's triennial Surveys of Consumer Finances



Second, **the majority of demographic segments** that have a higher probability of being unbanked **already have a bank account and we think are using it**, suggesting banks have relevant expertise they can put to use. For instance:

## Share of households that have checking accounts, by select demographic segments

Source: Analysis of data from the Federal Reserve's 2004 Survey of Consumer Finances

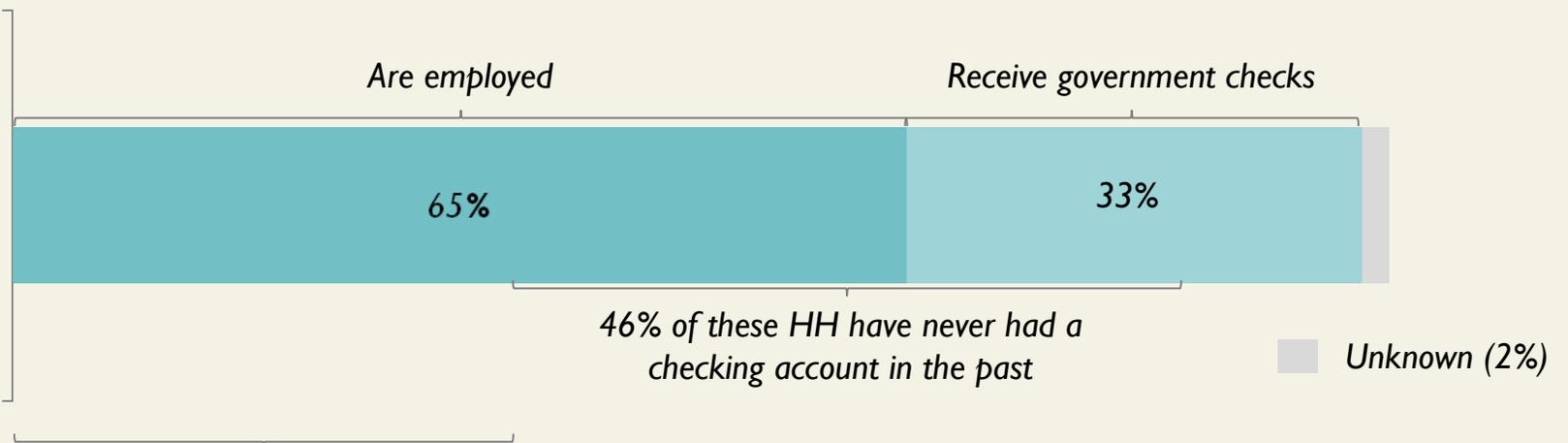
Note: With the exception of household income, demographic characteristics are attributed to the head of household.



Third, most unbanked households have acceptable financial profiles for most banks. Many households without checking accounts, for instance, have steady, full-time jobs, and about half have never had a checking account in the past.

### Share of households without a checking account that...

Source: Analysis of data from the Federal Reserve's triennial Surveys of Consumer Finances



Unfortunately, we have nearly no generalizable data about the reasons why these HH are no longer banked, nor the duration they were in an account or unbanked

Fourth, the most important reasons why people indicate they don't have a checking account point to trust and misperception barriers—which can be broken down with the right marketing and partnerships, which the Bank On campaigns provide.

## Households' most important reasons for not having a checking account

Source: Analysis of data from the Federal Reserve's 2004 Survey of Consumer Finances

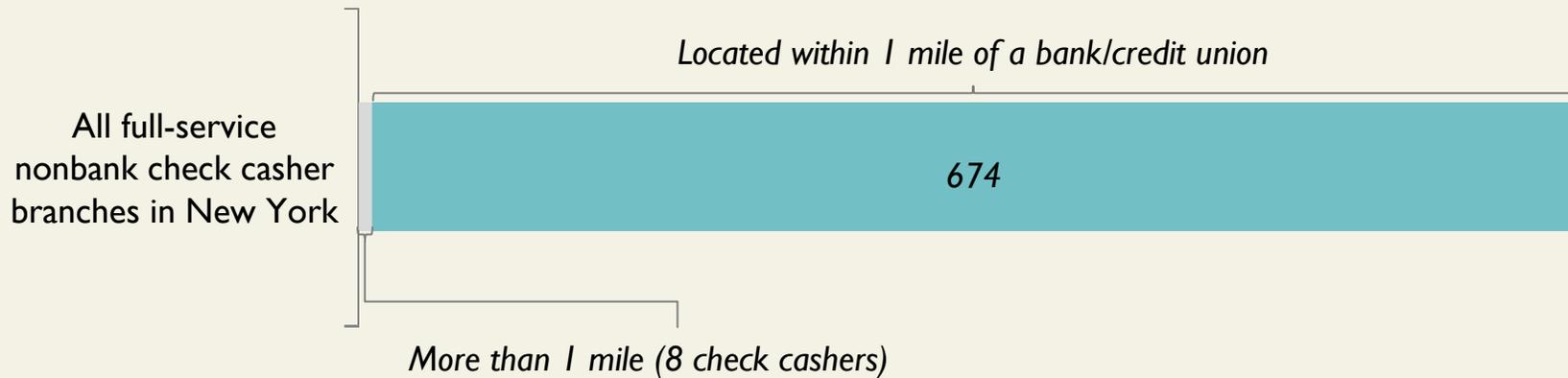
<b><u>Most Important Reason for Not Having an Account</u></b>	<b><u>Share of Households</u></b>
Do not write enough checks to make it worthwhile	28%
Do not like dealing with banks	23%
Do not think that I have enough money	14%
Fees are too high	12%
All other reasons	23%

Fifth, banks have the grounds for competition with the nonbank check cashers that are currently serving the segment of the market that could qualify for an appropriate account.

More than 99 percent of **full-service** nonbank check cashers in New York State are located within one mile of a bank or credit union.

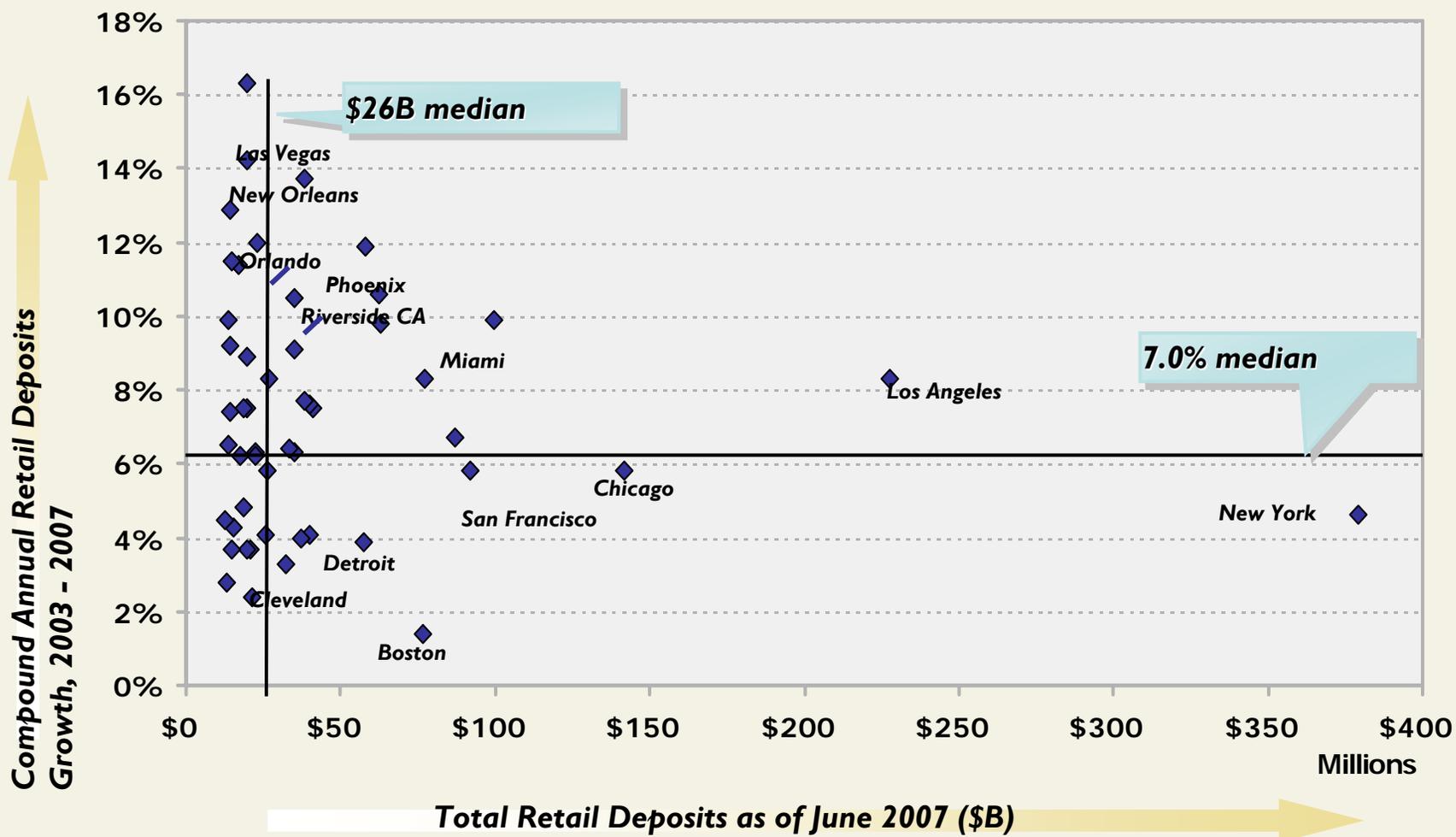
Source: Analysis of data from the New York State Department of Banking, FDIC, infoUSA, and U.S. Census Bureau

Note: Analysis includes only nonbank check cashers that cash checks as their primary business.



Finally, banks are hungry for core deposit growth, particularly in the New York market, and less expensive acquisition strategies, something that the Bank On campaigns offer.

### Top 50 US Banking Markets, Growth vs. Size 2003-2007



Source: Novantas BranchScope



**OK, those are the major reasons why we think the AEI/Bank On initiative represents a real market opportunity for banks and credit unions: there is well-established trend that demonstrates solid supply and demand; robust market expertise; acceptable customer profiles; sunk capital costs; and ongoing, related bank priorities.**

**So, what are the major entry barriers?**

Some of the major entry barriers to the unbanked market include:

**Limited supply of high-quality, actionable analytics, which has hampered segmentation ID, related marketing strategies, and product/service design, where needed**

**Widespread trust and misperception issues among unbanked households**

**A relatively less enticing business proposition**

But the AEI/Bank On campaign and major national institutional partners are addressing many of these barriers.

**Limited supply of high-quality, actionable analytics, which has hampered segmentation ID, related marketing strategies, and product/service design, where needed**

Forthcoming research by Pew, FDIC, CFSI, and others will hopefully address some of these gaps. The AEI/Bank On campaigns will also help build knowledge by bringing together a diverse group of institutions, each with their own core competencies.

**Widespread trust and misperception issues among unbanked households**

The AEI/Bank On campaign will leverage trusted community figures in nonprofits and elected officials to overcome these issues.

**A relatively less enticing business proposition**

A challenge, but pressure for core deposit growth mitigates this somewhat; so do lower-cost banking tools.



**In conclusion, the available evidence suggests that the majority of the missing wallet or unbanked market is qualified for appropriate accounts, although that is certainly not to say that there is not also a large share that is not.**

**Evidence also suggests that banks are already going after this segment. The AEI/Bank On campaigns will help add value to those efforts by accelerating this market trend in a relatively low-cost manner.**