

Overview

In 2010, CFSI launched its largest effort yet to catalog all existing financial products and services aimed at the underbanked population: the Underbanked Industry Scan.

On the heels of the financial crisis, the banking industry faces unprecedented challenges. Banks and other financial providers are subject to strong public pressure to improve their practices. At the same time, motivation to adjust to changing consumer patterns is strong. Many providers are innovating to improve the supply of responsible and profitable financial products and services for underbanked consumers. But, prior to the launch of the Industry Scan, no one source of data existed that could provide a detailed understanding of exactly what exists today.

CFSI's Underbanked Industry Scan provides an objective look at the market. Through a quantitative survey, we sought to identify the range and character of services offered. CFSI surveyed the entire spectrum of suppliers to the underbanked market – banks, credit unions, prepaid providers, nonprofit providers, retail financial services outlets, check cashers, payday lenders, and other direct suppliers of products and services. The information gathered includes new details about specific product offerings, provider results and customer usage of products. The survey, which will be fielded on a recurring basis, also uncovers industry participants' perceptions of the key trends, opportunities, and challenges in serving underbanked consumers. Over time, the findings of the industry scan will enable CFSI to measure, benchmark, and track changes in the supply of high quality financial products and services for the underbanked.

We received 171 responses out of a total of 600 eligible organizations, representing a response rate of approximately 29%. This is a robust participation rate for a survey of this kind – a census of an entire population of providers. The findings offer a clear snapshot of the perceptions, expectations, and product offerings of a subset of financial providers to the underbanked population. Among the respondents to the survey are several of the largest players in the market today, including three of the top four prepaid providers and four of the top five banks in the U.S.

Looking across the results from the Industry Scan, a picture emerges of a diverse and varied marketplace. In today's market, different types of providers see the challenges and opportunities inherent in serving the underbanked in different ways. Banks offer a large number of products that have potential to meet the broad range of needs of underbanked consumers, and they expect customer demand in this segment to increase. And yet banks, on the whole, are cautious in their assessment of future profitability in this market. Non-bank providers point to growing demand and profit potential in serving this market, and yet these providers, in many cases, meet the transactional and credit needs of consumers with just one or two targeted products.

This set of briefs illuminates broad market trends, perceptions across different types of providers, and findings by product type, in order to demonstrate what exists in the marketplace at the product level. The underbanked financial services market is dynamic and evolving, and we hope the snapshot the Industry Scan represents will provide useful context for suppliers as they plan their strategies for the future.

METHODOLOGY

Eligible Survey Population:

Organizations serving the U.S. market with a commitment to, or interest in, serving the underbanked.

Data Collection and Scope of Survey:

Online quantitative survey addressing market trends, engagement with underbanked customers, and specific product offerings.

Sample Details:

More than 170 organizations participated in the survey. Slightly more than half of the sample was made up of for-profit institutions, with the remainder being nonprofit financial providers. Respondents represented a variety of institutions, including:

- Nonprofit financial providers: 32%
- Banks: 17%
- Credit unions: 12%
- Vendors: 11%
- Prepaid program managers: 8%
- Check cashers/payday lenders: 7%
- Consultants: 3%
- Retailers: 2%
- Other respondents: 8%

Survey Details:

- Duration of survey: approximately 25 minutes
- Survey sections:
 - Company/Organization Data
 - Underbanked Market Context
 - Engaging with Underbanked Customers
 - Number and Type of Products Offered
 - Details about Credit, Transaction and Savings Products Offered

KEY TAKEAWAYS

- ✓ Nearly all survey respondents – 93% – said that reaching underbanked consumers is important or very important to the future of the financial services industry.
- ✓ The market for underbanked services is anticipated to grow in the next two years, and providers plan to expand their product offerings accordingly.
- ✓ For-profit respondents are more optimistic about growth in the underbanked financial services market – and growth in overall customer demand – than nonprofits.
- ✓ Slightly more than half of respondents expect overall competition for underbanked consumers to increase.
- ✓ For-profit respondents were significantly more likely than nonprofit respondents to indicate that competition will increase.
- ✓ Respondents think the greatest market opportunities lie in transaction and credit products, and specifically in GPR prepaid cards and short-term credit instruments. Respondents were less optimistic about the prospects for savings products.
- ✓ Nonprofit providers see consumer financial education as a top priority in serving the underbanked, while for-profit groups ranked financial education much lower in terms of priorities in serving the underbanked.

OPPORTUNITIES AND CHALLENGES IN SERVING THE MARKET

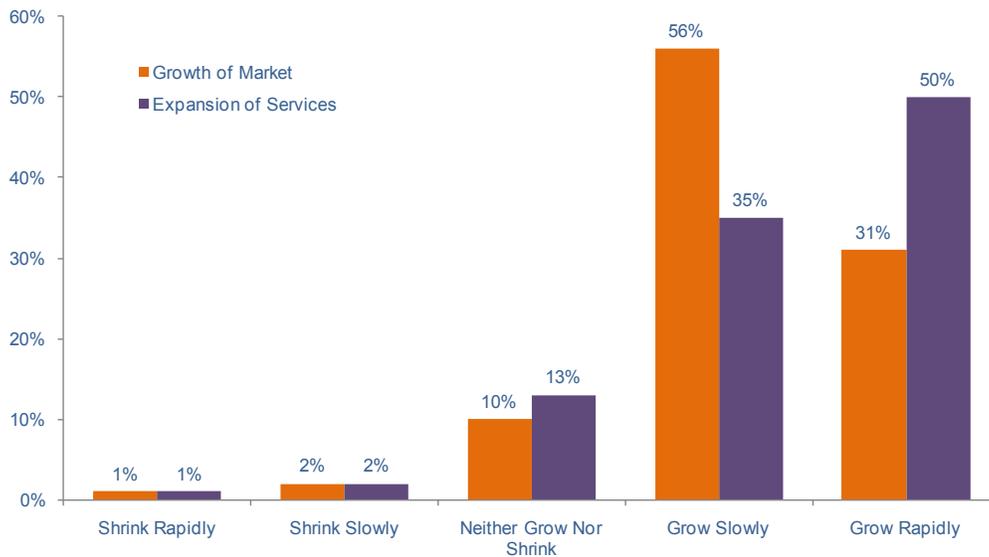
Top opportunities providers identified in serving the underbanked:

- Develop new credit products
- Develop new transaction products
- Enhance existing customer education programs
- Increase market share
- Scale within existing geographic footprint

Top challenges providers perceive in serving the underbanked:

- Marketing products effectively
- Customers' lack of understanding of financial products
- Developing a product that meets the needs of the customer
- Limited profitability
- Regulatory issues

Expected Growth in the Underbanked Financial Services Market



87% of respondents expect the marketplace to grow in the next year, and 85% of respondents expect to expand services to this customer base.

For-profits are slightly more optimistic about market growth compared to their nonprofit counterparts: **91% of for-profits expect growth (slow or rapid), compared to 80% of nonprofits.**

Expected Growth in Customer Demand

Within credit, small-dollar credit products were cited most frequently as an area slated for increased demand

Respondents cited general purpose reloadable prepaid as a significant growth area among transaction products

Respondents were most tepid on the direction of demand for savings products

• “Sustained job loss and depletion of safety net options are moving people closer to economic insecurity and there is a need for sustainable, affordable options to help them bridge the gaps.”

• “Increased awareness of unauthorized overdraft and NSF fees are causing consumers to distrust banks and driving them to use more fixed-fee-based check cashing services and loadable debit cards.”

• “Simply put, the economic crisis has made it almost impossible for underbanked consumers to save.”

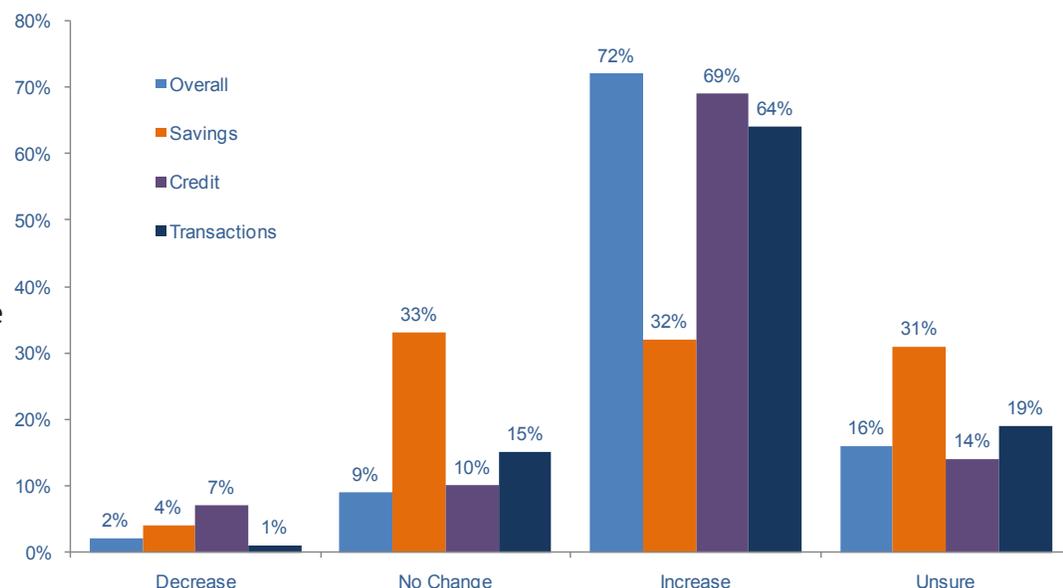
• “Banks have significantly reduced credit options for consumers. Payday lenders are being regulated out of business. Customers are seeking replacement credit options.”

• “There is more risk in the marketplace and these consumers are looking for control.”

• “People are concerned about surviving day to day and not saving for long term.”

72% of respondents said that overall demand is increasing, but expected changes in demand are not uniform across products.

94% of for-profit respondents expect customer demand for financial products and services for the underbanked to increase, while **a smaller proportion – 50% – of nonprofits** see customer demand increasing.



Expected Change in Competition

44% of respondents expect competition to increase among providers of credit products

55% of respondents anticipate increased competition within transaction products

25% of respondents expect growth in competition for savings products, while 34% are unsure about the prospects for these products

- “Customer demand and varying distribution channels/models are drawing competitors into the [credit] space.”

- “Customer demand is driving increased competition.”

- “Intuitively we believe there would not be significant competition among suppliers for savings products.”

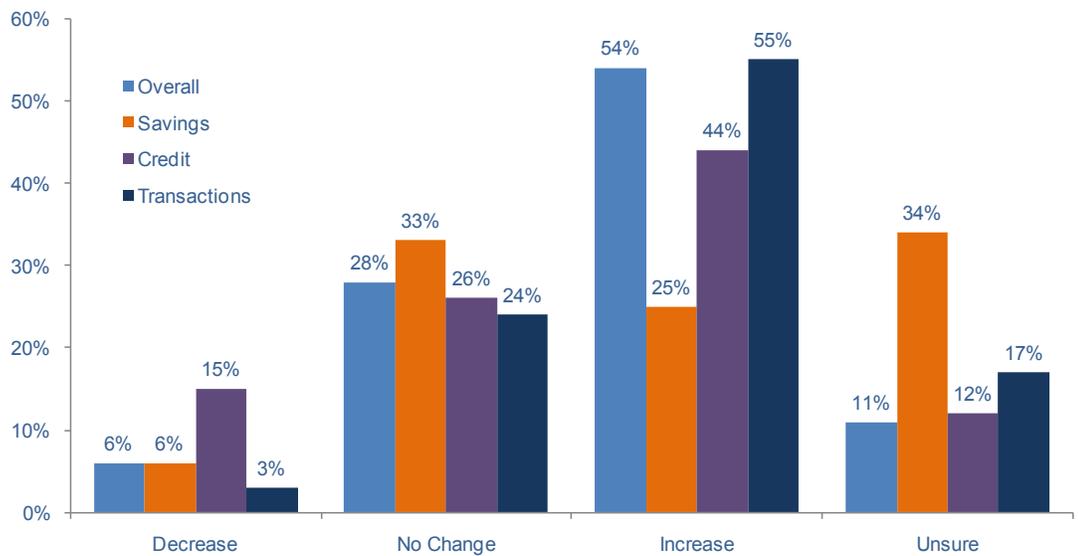
- “With changing regulations at the state and federal levels, there may be additional opportunities to develop new products. Tightening of credit by banks will also create this phenomenon.”

- “Prepaid cards [will see increased competition] because more and more financial institutions are realizing unbanked individuals are transactional and not relationship-focused.”

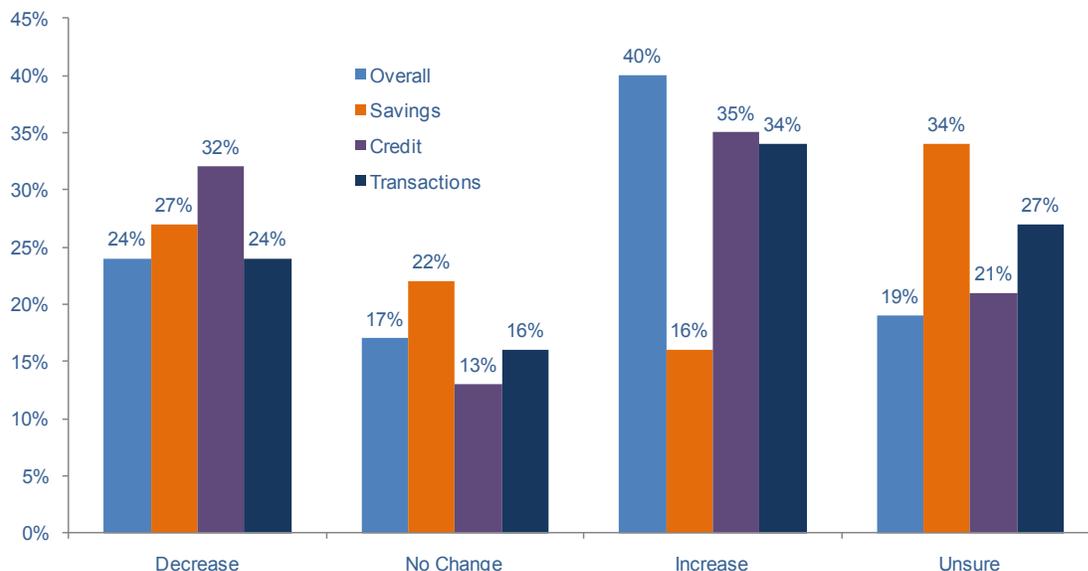
- “Demand by consumers would not be high in an economy where disposable income, if any, among the underbanked is increasingly scarce.”

54% of respondents report that competition for underbanked customers is increasing.

69% of for-profit financial providers expect competition for underbanked customers to increase, compared to 39% of nonprofits.



Expected Change in Profitability



Overall, 40% of respondents believe this market will become more profitable over the next three years, and 24% believe it will become less profitable.

About the same percentage of **for-profits** and **nonprofits** expect profitability to increase, but a significantly larger percentage of **for-profits** expect profitability to decrease versus **nonprofits** (41% vs. 13%).

Innovations

The survey asked respondents to highlight exemplary practices and innovations that are improving financial services for un- and underbanked consumers. Consistent with the emphasis throughout the survey findings on credit and transaction products, more than half of the product offerings identified by respondents as innovative fell into these categories. Several respondents also identified innovations in financial capability solutions. The list below shows some of the types of innovations that respondents described.

- Credit: flexible terms, extended repayment options, alternative credit data solutions, employer-based lending
- Transactions: prepaid solutions, mobile and electronic payments, money transfers
- Financial Capability: financial coaching and literacy training, online budgeting tools
- Combined product offerings: loan repayments with a savings component, microbranches, transaction accounts that build credit histories

More in this series...

Prepaid

Functioning like electronic bank accounts without checks, general purpose reloadable prepaid accounts hold a great deal of promise for underbanked consumers. The findings from the Industry Scan paint a picture of the prepaid products currently on the market, providing new details on the range of features and functionality available to consumers. In the survey, we asked respondents about product features, reload options available to consumers, consumer usage of prepaid, and fees charged for various activities.



Secured and Unsecured Credit Cards

Underbanked consumers need appropriate forms and amounts of credit to manage everyday expenses, pay bills electronically and fund emergencies. The Industry Scan queried providers about credit cards they offer that are directly targeted to these consumers. The findings from the survey highlight details about application requirements, acceptance rates, fees, collateral posted for secured cards, and product structures for both secured and unsecured credit cards.



Response by Organization Type

In addition to benchmarking the existing products and services available to underbanked consumers, an important goal of the Industry Scan was to gauge perceptions about the financial services market among various types of providers. In the survey, we sought feedback on perceived opportunities, challenges and top priorities in addressing this market. We also asked providers to opine about future trends in demand, competition, and profitability. This brief illustrates how perceptions vary by different types of organizations.



Deposit Accounts

Unbanked and underbanked consumers, by definition, do not rely to a great extent on deposit accounts to store and transact with their money. Perceptions about the utility of deposit accounts for these consumers have kept consumers from demanding these accounts and providers from supplying them. The Industry Scan surveyed providers about product features offered with deposit accounts that are particularly relevant to un- and underbanked consumers.

Small Dollar Loans

Although the danger of using credit products to excess is undeniable, consumers need access to appropriate forms and amounts of credit in order to smooth income and pay for emergencies. The findings from the Underbanked Industry Scan highlight details about underwriting procedures and application requirements, typical borrowing behavior of consumers, customer default rates and credit reporting for payday loans and salary advance products.



About CFSI

The Center for Financial Services Innovation is the nation's leading authority on financial services for underbanked consumers. Since 2004, its programs have focused on informing, connecting, and investing – gathering enhanced intelligence, brokering and supporting productive industry relationships, and fostering best-in-class products and strategies. A nonprofit, CFSI works with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape. For more on CFSI, go to www.cfsinnovation.com.

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