



Center for  
Financial Services Innovation

An Affiliate of ShoreBank Corporation

## **The Power of Experience in Understanding the Underbanked Market**

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### Executive Summary

Financial institutions have begun to recognize the enormous potential in serving underbanked households, which, according to some estimates, may number as many as 40 million. But it is becoming clear that attracting underbanked consumers is no simple task. While underbanked consumers differ from their banked counterparts, they also differ among themselves. Indeed, they represent many different markets, based on their likes and dislikes, attitudes, behaviors, financial situations, and other factors. To attract underbanked consumers and win their trust, banks need to deliver experiences that are desirable to each different market.

KeyBank, which began offering check-cashing services and complementary educational curricula for non-customers in 2004, has been a pioneer among large U.S. banks in launching services targeted toward the underbanked market. To learn more about this market, KeyBank and the Center for Financial Services Innovation<sup>1</sup> engaged Market Innovations, Inc. (MII), to learn how to improve acquisition efforts and identify tactics that might appeal to these diverse consumers. The study also sought to learn how open these consumers would be to a traditional banking relationship. Overall, the study confirms the importance of understanding the varied preferences of underbanked consumers in designing an optimal financial services experience for them.

The study surveyed nearly 760 check-cashing customers across the United States, using both qualitative and quantitative techniques. Traditional quantitative information included the needs, desire for products and services, attitudes, and other dimensions, while the qualitative information sought to describe the nature of the experience different types of underbanked consumers want from a financial institution and the decision processes that prevail. Ethnographic research added valuable insights about the complex decision processes of the underbanked.

The study revealed that underbanked consumers make financial decisions differently than mass-market customers. For example, underbanked check cashers place much more weight on previous experiences with the financial system, check-cashing companies, and institutions broadly defined. In addition to appropriate products and services, these consumers strongly emphasize intangibles such as respect, trust, safety, security, and a sense of belonging.

A majority of respondents indicated they were “open” or “very open” to establishing a relationship with a bank. Some were already using banks as well as check-cashing companies. Only 24 percent used a check casher exclusively. Respondents also indicated strong interest in acquiring mainstream financial products, such as checking and savings accounts, loans and investments, and that they had clear financial goals, such as getting out of unproductive debt, rebuilding credit, starting to save, and learning how to use loans to build productive assets.

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<sup>1</sup> This research effort was also supported by the Ford Foundation.

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The study revealed five types of customers. The five segments have very different expectations in terms of what customers want in a check-cashing experience and how open they would be to a traditional banking relationship:

- Segment 1 was primarily concerned with the cost of cashing checks (e.g. set-up cost, check-cashing rate).
- Segment 2 didn't think any of the customer experience elements were important and were probably the most affected by negative experiences in the past.
- Segment 3 was most concerned with having warm, respectful interactions whenever they cashed checks.
- Segment 4 was focused on getting good quality products and services consistently delivered to them.
- Segment 5 was the opposite of Segment 2, perceiving all the customer experience elements as being important when deciding where to cash their checks.

The spectrum of segments and experiences customers deem important makes it evident that banks need to identify what products and services will appeal to the largest number of potential customers and prioritize them based on how responsive they are likely to be to the segments they most want to attract.

The study also identified several common threads among underbanked consumers that financial institutions need to consider:

- Underbanked consumers are comfortable with the informal economy—a trusted network of friends, family and community members, including check cashers—and are often confused by mainstream institutions and their policies.
- Physical surroundings matter. Many people are uncomfortable in an institutional setting and would prefer a less formal environment. Safety and confidentiality are important too.
- Respect is paramount. Financial institutions can show respect through convenient locations and hours, friendly employees and clear communication about charges and other policies.
- Underbanked consumers may not be served by traditional financial products. Banks may need to think about how to offer check cashing, money orders and low-cost remittances, for example.
- Underbanked consumers are interested in learning about financial matters but may not have time for traditional classes. Experiential learning, online courses and peer coaching might be alternatives.

As this study showed, the underbanked perceive significant barriers to establishing banking relationships. By understanding who these consumers are and how they make decisions, banks can develop appropriate services for them and, in time, lasting relationships that are a win for both parties.

### Introduction

Underbanked consumers represent a fundamentally different market from their banked counterparts. Generally speaking, they have common traits that set them apart from consumers with strong banking relationships. They live in a cash economy, with many of their financial decisions driven by the realities of their day-to-day lives. Incomes are moderate, assets are few, jobs change, family structures change, money comes and goes, trust is fragile, and “having cash in hand” is comforting for many. Over the years, people found ways to address their financial service needs outside of the mainstream system—through check cashers, payday lenders, retailers, friends and family.

Financial institutions have begun to recognize the enormous potential in serving underbanked households, which some estimates place at as many as 40 million. But it is becoming clear that attracting underbanked consumers is no simple task. While underbanked consumers differ from their banked counterparts, they also differ among themselves. Indeed, they represent many different markets, based on their likes and dislikes, attitudes, behaviors, financial situations, and other factors. To attract underbanked consumers and win their trust, banks need to deliver experiences that are desirable to each of those different markets.

KeyBank has been a pioneer among large U.S. banks in launching services targeted specifically toward the underbanked market. Its experience prompted a broader look at how to serve this set of consumers.

In late 2004, KeyBank began offering check-cashing services for non-customers at below-market rates as well as a complementary education curriculum designed to help underbanked consumers make more informed decisions and advance toward greater financial stability. Early diagnostics revealed, however, that success of this initiative would depend on KeyBank’s ability to think beyond the mass market and better understand who check-cashing customers really are, what they want and value, and what messages might encourage them to change their behavior—both to try a new check-cashing service and eventually to use more traditional bank products and services. KeyBank and the Center for Financial Services Innovation engaged Market Innovations, Inc. (MII), to learn how to improve acquisition efforts and identify tactics that might appeal to these diverse consumers. The study also sought to learn how open underbanked consumers would be to a traditional banking relationship. Overall, the study revealed, new products and services aren’t enough to win over the underbanked. It is important to consider the varied preferences of underbanked consumers in designing an optimal financial services experience for them.

### Methodology

This initiative used both qualitative and quantitative techniques to answer the critical questions identified. The initial stage of the project used qualitative techniques to elicit feedback about the underlying elements of the check cashing experience. During this phase of work, we used:

**One-on-one interviews:** Check-cashing consumers discussed their check-cashing and bank experiences, why they selected one check casher over another, and how they perceived banks and institutions.

**Ethnographic research:** This was designed to better understand the deeply embedded cultural aspects that affect decisions about check cashing, the resulting behavior, and consumers’ perceptions of the

banking system.

**Co-design sessions:** By bringing together check-cashing customers and bank employees, the session focused on uncovering critical check-cashing experiences that affected the consumer's willingness to go to, or return to, a check-cashing company or bank. The group also brainstormed new services and programs that would create positive experiences and encourage or entice them to come into a bank to try check cashing.

The results were integrated into quantitative work to help determine what respondents to recruit as well in the development of survey questions. The survey was designed to solicit comments about:

**Check-cashing habits:** This included questions about respondents' history of check cashing, influencers when deciding where to get checks cashed, where they typically cash their checks and why, and details about their check cashing "wallet."

**Check-cashing preferences:** Respondents were asked to indicate how important different versions of marketing, messages, general communication, financial coaching, and bank follow-up would be in terms of visiting KeyBank.

**Customer experience importance ratings:** This section asked detailed questions about how important different elements of the check-cashing experience are when deciding where to cash the next check—for instance, interactions with employees, features of the check-cashing service, ancillary financial services offered, the physical building and locations.

**Financial goals and demographics:** People were asked to indicate products they want to have in the future and financial decisions they want to make. Check-cashing consumers were also asked whom they ask for financial advice and basic demographic questions.

The study surveyed nearly 760 check-cashing customers across the United States. The sample was drawn from 10 urban markets in KeyBank's franchise plus 14 markets with similar characteristics. Respondents were asked to participate in the survey only if they had cashed a check at a traditional check casher or other non-bank company (such as a grocery store) in the last six months; if at least one of these checks cashed was a payroll or government check; and if their income was between \$15,000 and \$50,000.

Of those who completed the survey, 34 percent were males and 66 percent females; 56 percent were married or in a committed relationship; 41 percent had children under the age of 18 still living at home; 76 percent were employed; 29 percent owned their home; their average income was \$30,995; and average age was 37. The sample was representative of African American and Caucasian populations.

The following illustrates some of the questions asked:

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**As you decide where to cash your next check, how important ...**

**... is it that employees interact with you in the following ways?**

	Not at all important						Very Important
	1	2	3	4	5	6	7
<b>Be warm and friendly</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Show me respect</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Make me feel comfortable</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Know me and call me by name</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**... are other aspects of the check cashing experience?**

	Not at all important						Very Important
	1	2	3	4	5	6	7
<b>They keep my information confidential</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>They have a lot of locations to cash checks</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>I understand what is expected of me</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>I don't have to worry about being rejected</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

The study revealed that underbanked consumers make financial decisions differently than mass-market customers. For example, underbanked check cashers place much more weight on previous experiences with the financial system, check-cashing companies, and institutions broadly defined. In addition to relevant products and services, these consumers strongly emphasize intangibles such as respect, trust, safety, security, and a sense of belonging. To address this issue, it was critical to get answers to the question, "What experiences do customers really want from a bank or check-cashing company and how does this affect their decision of where to cash their checks?" The answers led to the identification of five market segments representing different types of customers. These segments are not based on demographics, income, or ethnicity but on the consumers' mindsets and the kinds of experiences they want to have. While this kind of information exists about middle- and upper-income consumers, it is scant or nonexistent for those at the lower end of the market.

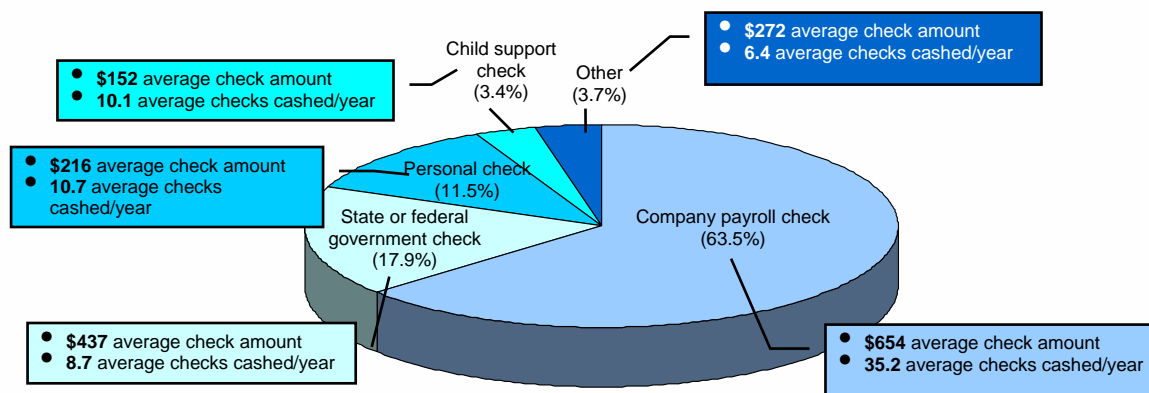
Different offerings are needed to attract different segments. For instance, low check-cashing rates may appeal to one group of consumers, while another cares more about a convenient location or friendly employees.

Finally, the survey identified some common threads across different segments that financial services companies should consider when designing services for underbanked consumers.

## The Opportunity

The research revealed clear opportunities for financial institutions. Among other things, the survey asked consumers how often they cashed checks and in what amounts. (See Figure 1.) The average check size overall was \$452, and the average number of checks cashed per year was 20. Average check amounts for respondents ranged from a low of \$152 for child support checks (3.4 percent of checks cashed) to a high of \$654 for company payroll checks (63.5 percent of checks cashed). Payroll checks are cashed most often, an average of more than 35 times per year. (Tax refunds were excluded.)

**Figure 1: Check Cashing Wallet**

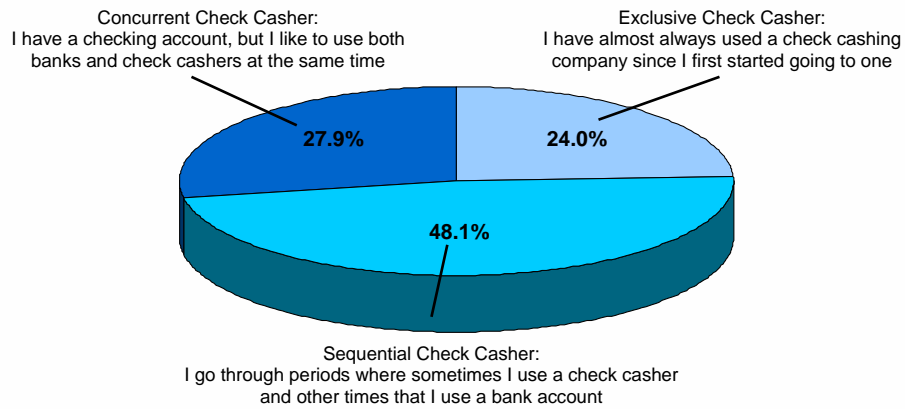


**Question:** "Please tell about the checks you cash (up to 3 checks) – Matrix presented to indicate type of check, check amount; frequency check is cashed"

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When asked about their history of check cashing, roughly 75 percent of respondents revealed that they used both a mainstream financial institution (bank or credit union) and a non-bank check casher, either concurrently or at different times (Figure 2). Only 24 percent used a check casher exclusively.

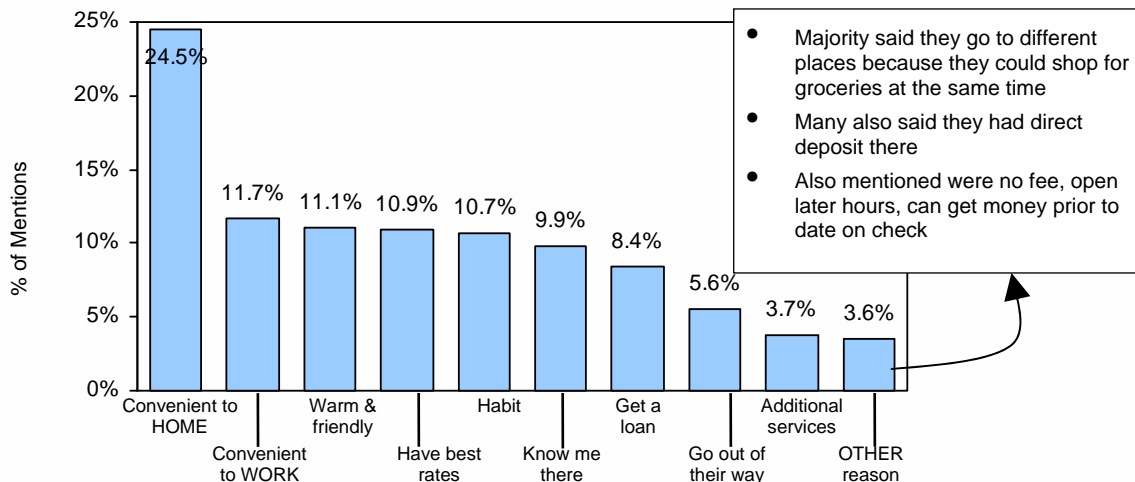
**Figure 2: History of Check Cashing**



**Question:** "Since you first started using a check casher, how would you describe your history of check cashing at places other than at a bank or credit union? [please select the ONE answer that best describes your history]"

When respondents were asked whether they are driven by price or convenience in selecting where to cash checks, the clear winner was "convenience to home" (Figure 3). The majority said they chose a check casher near where they shopped for groceries. Many said they had direct deposit there.

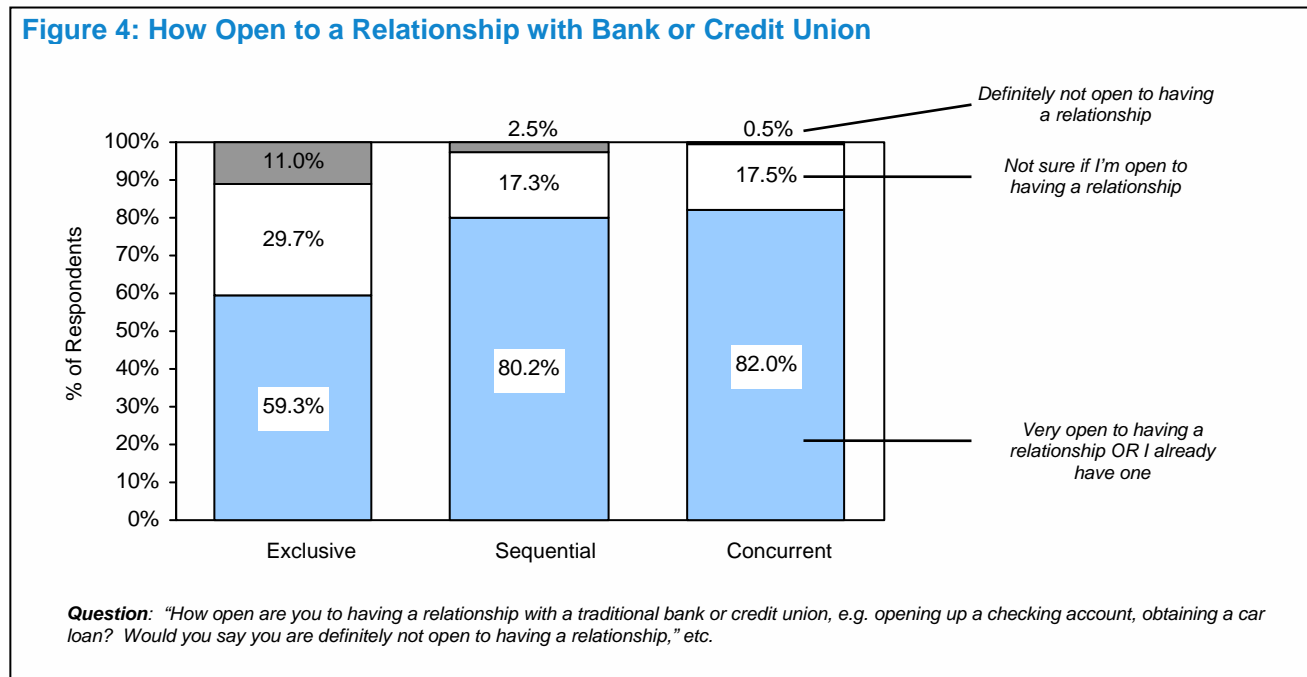
**Figure 3: Why You Use First Ranked Check Casher Most Often**



**Question:** "Thinking about [your most frequently identified check casher], why do you go there more often than any other check cashing place? Check ALL that apply."

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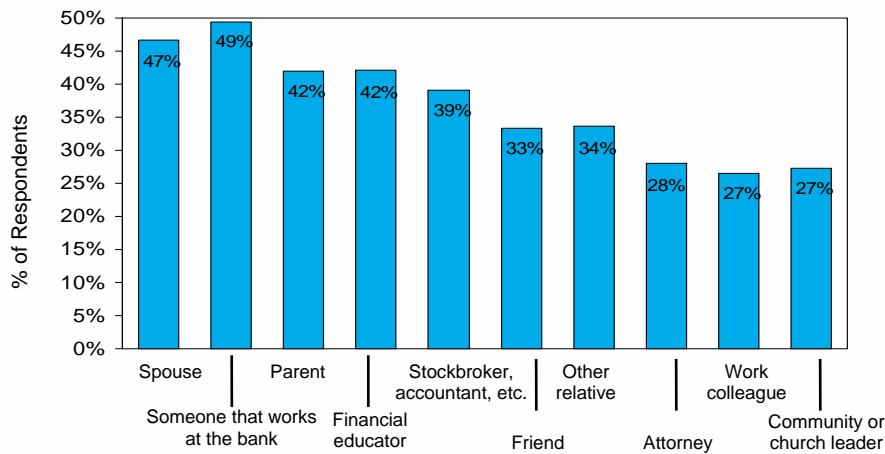
More than 80 percent of concurrent and sequential check cashers indicated that they are open to a relationship with a bank or credit union (Figure 4), while 17 percent were unsure. Very few were not at all open to having a relationship with a bank. Although respondents who use check cashers exclusively were less interested in a banking relationship (11 percent were “definitely not open” to it); still, almost 60 percent were “very open.”



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Asked to rate the likelihood of seeking financial advice from specific types of people, almost half of survey respondents indicated they might approach someone who works at a bank. Further, the answers to this question showed the importance of personal and community networks, with spouse, parent, and financial educator also receiving high marks. (Figure 5)

**Figure 5: People You Ask Financial Advice From**



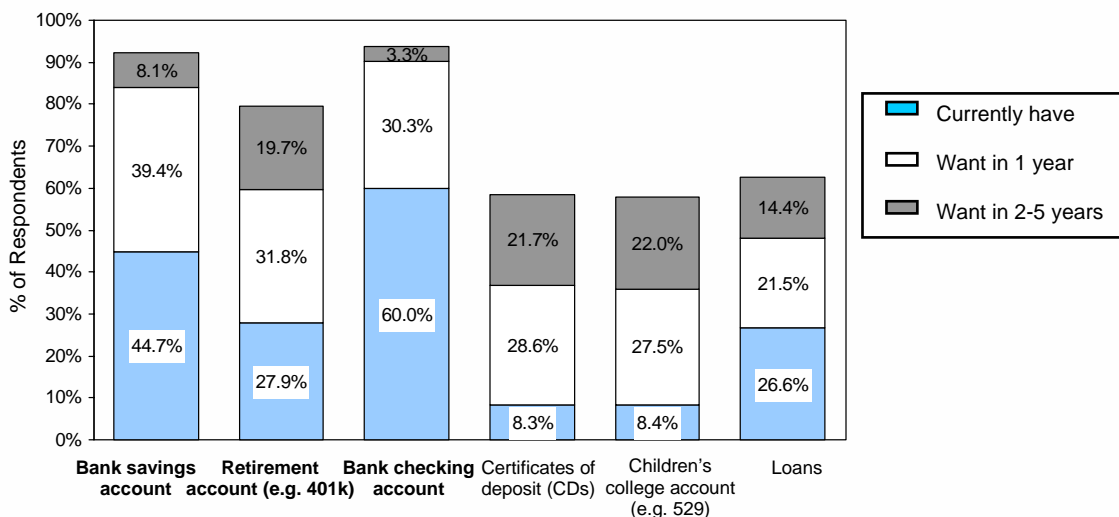
**Question:** "Please rate how likely you are to ask for advice from the following people about any of the financial decisions or goals you aid you wanted to do in the previous question."

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Contrary to the prevailing assumption about the limited penetration of basic banking products, a significant percentage of the underserved have experience in dealing with traditional financial institutions. Figure 6 shows that 60 percent of surveyed consumers currently have checking accounts, 45 percent maintain savings accounts, and 27 percent have loan balances. In terms of longer-term savings, 28 percent currently have a retirement account, 8 percent have certificates of deposit, and another 8 percent are saving for their children's college tuition. This pattern suggests that more customers than previously believed know how to access banking services, are actively planning and managing their financial situation, and already have experience dealing with traditional financial institutions.

Figure 6 also shows respondents' strong interest in acquiring mainstream financial products in the near future. Looking forward to the next 12 months, 30 percent wanted to open a checking account, 39 percent were interested in having a savings account, and 22 percent would like to take out a loan. Twenty-nine percent indicated they would like to invest in CDs during this period, and 28 percent would like to open college savings accounts. Though the high interest in having these products in the next year may be more aspirational than indicative of expected purchases, it is important to note that consumers' future aspirations go beyond transaction accounts and include savings, loans, and basic investment products.

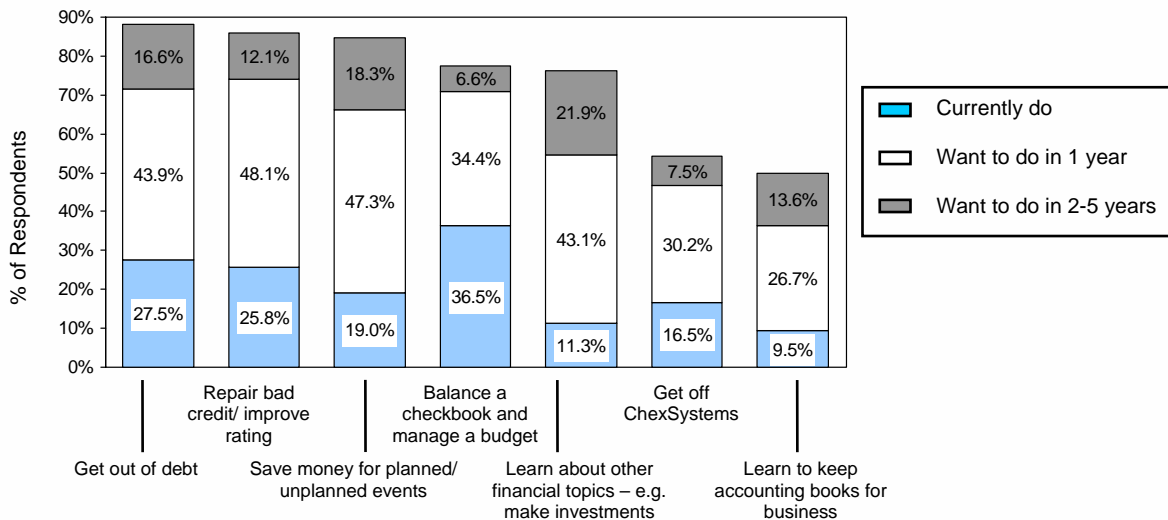
**Figure 6: Financial Products you Currently Have or Want to Have**



**Question:** "Please indicate which financial products you currently have or want to have in the future."

Other financial goals are revealed in Figure 7. A significant percentage cited such goals as getting out of debt (28 percent) and repairing bad credit (26 percent); even larger percentages aspire to these goals within the next year (44 percent and 48 percent, respectively). Although fewer than 20 percent of respondents currently save, 47 percent want to start saving in the next year. Many would also like to receive assistance with financial matters and learn about financial topics.

**Figure 7: Financial Decisions You'd Like to Make or Goals You'd Like to Achieve**



**Question:** Think about what financial decisions you'd like to make or goals you'd like to achieve in the near future. Please tell us about your interest in the following. . .

Underbanked consumers need help getting out of unproductive debt, rebuilding credit, and learning how to use loans to build productive assets. Another signal that the underbanked are ready and willing to improve their financial health is their interest in a financial coach. Forty-seven percent of those surveyed think having a financial coach available to help them is important and would contribute to their success in achieving their goals.

### Five Customer Segments

The survey helped identify five distinct customer segments. Segments were defined by the most important drivers of a person's behavior in terms of expectations and sensory elements, implicitly measured through the importance consumers ascribed to various experience elements. In the case of check cashing, such experiences were based on the checking service terms and conditions, the marketing messages, the interior design and ambience of the facility, exterior building façade, locations and parking, perceptions of security, company reputation, and so on. By virtue of a more comprehensive experience-based approach, we can segment customers according to the experiences they deem most important when deciding where to cash their checks.

The five segments, tentatively named below, revealed very different expectations in terms of what customers wanted in a check-cashing experience and how open they would be to a traditional banking relationship:

- Segment 1 (Price-Sensitive Convertibles) was primarily concerned with the cost of cashing checks (e.g. set-up cost, check-cashing rate).

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- Segment 2 (Disengaged Resistors) didn't think any of the customer experience elements were important and were probably the most affected by negative experiences in the past.
- Segment 3 (Employee-Relationship Transactors) was most concerned with having warm, respectful interactions whenever they cashed checks.
- Segment 4 (Service-Oriented Transactors) was focused on getting good quality products and services consistently delivered to them.
- Segment 5 (Engaged Convertibles) was the opposite of the Disengaged Resistors in Segment 2. They perceived all the customer experience elements as being important when deciding where to cash their checks.

Once the segments were identified, more in-depth profiles were developed based on other segment characteristics, behavior, attitudes, financial goals, demographics, and so on. Each segment is profiled below.

### *Customer Experience Segment 1: Price-Sensitive Convertibles*

Price-Sensitive Convertibles are concerned above all with rates and the maximum amount that can be charged each time they cash a check. They also perceive “hassle-free service, getting checks cashed quickly, and not having to worry about rejection” as being key components of the customer experience. Relative to the other segments, they cash an average amount of payroll and government checks, thus generating an average amount of fee revenue. They are, however, among the most open to a banking relationship and to signing up for a check-cashing service at a bank. Fifty-seven percent currently have a checking account and 46 percent have a savings account. They also expressed above-average interest in obtaining traditional bank products, like checking accounts, in the next year. Demographically, this segment has the highest average household income, has the lowest percent of singles, and the highest percent of children under 18 still living at home.

Given their family orientation and price sensitivity, Price-Sensitive Convertibles will be attracted to below-market check-cashing rates. Therefore, appealing to them will require clear messages about the dollar savings created with the low rates offered and time savings associated with quick, efficient service. Offering a loyalty program that gives lower check-cashing rates to those who frequent the branch regularly or a referral program in which they receive a gift for new customers they referred may be successful tactics to getting and keeping these customers.

### *Customer Experience Segment 2: Disengaged Resistors*

These consumers show little interest in any of the customer experience elements. But they give high ratings to bill payment services and to keeping information confidential. They are not particularly concerned about being known personally by the institution that cashes their checks.

Compared to the other segments, those in this segment cash fewer payroll and government checks than average, yet they still generate an average amount of fee revenue if personal checks are also considered. Fifty-eight percent currently have a checking account and 49 percent have a savings account with a bank. They are the least interested in having a relationship with a bank or in signing up for a bank check-cashing service and do not express a strong interest in obtaining any new financial products in the next year.

When asked about their current financial goals, a large number of customers mentioned that they want to “get off ChexSystems.” In terms of demographics, this segment has the highest percent of males and

employed individuals.

This is a difficult group to attract. To reach this group, it isn't about developing the right initial experience—since they are not interested in any of the customer experience elements—but in creating effective marketing messages to overcome their mental and emotional barriers (e.g., a belief that they are not eligible for bank accounts, a broad dislike and/or distrust of all institutions because of previous negative experiences, feeling overwhelmed with their financial situation and simply trying to live day-to-day). Tactics that encourage trial and provide valuable benefits may influence their behavior. For example, a bank might offer a free gift when they sign up for check cashing service, or give someone with a negative banking history a second chance if the person completes an educational course.

### *Customer Experience Segment 3: Employee-Relationship Transactors*

Emotional experience elements are very important to this group when deciding where to cash their checks. For example, members of this segment appreciate employees who show them respect, are warm and friendly, and make them feel comfortable. They indicate little interest in payday loans, wire transfers, or educational courses.

Compared to the other segments, these consumers cash an above-average number of payroll and government checks and generate an above-average amount of fee revenue. Sixty-four percent already have a checking account (the second highest of any segment), but only 41 percent have a savings account (the least of any segment). They indicate a modest interest in a bank relationship but virtually no interest in signing up for a check-cashing service with a bank.

Although they indicate no strong feelings about wanting any particular financial products in the next year, when asked about their financial goals for next year, many (more than any other segment) mentioned a desire to “get off ChexSystems” during the course of the next year. This group has the lowest household income and is the youngest of any segments. They are also the most likely to live in large households (six or more people) and are the most likely to rent their home.

This segment would probably respond favorably to an emotional appeal that emphasizes the bank's connection with the community and personalized service. Branch interactions should focus on building relationships, calling these consumers by name when serving them, and scheduling follow-ups to ensure customer satisfaction. In addition, programs should be offered that recognize and reward loyal customers or community-oriented programs (e.g. posting a community job board, sponsoring youth sporting events).

### *Customer Experience Segment 4: Service-Oriented Transactors*

Price is not important to this segment. Rather, these consumers want to be sure that information is kept confidential, that they are shown respect, and that they do not need to worry about being rejected. They also want a convenient location—they indicate a preference for banks with a lot of locations—and clearly stated terms.

Compared to the other segments, these service-oriented consumers cash an average amount of payroll and government checks but generate above-average fee revenue when personal checks are included. More than any other segment, 68 percent, currently have a bank checking account and 54 percent have a savings account. They are very open to having a relationship with a bank. They do not show strong interest in obtaining any new financial products in the next year. Demographics reveal that members of

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this segment are slightly older and more likely to be female, unemployed, and earning the least compared to the other segments.

This segment should be relatively easy to convert to bank accounts if the bank's check-cashing service is efficient and consistent. The ability to cash personal checks as well as payroll and government checks is important to them. Offering a price discount, however, is not likely to have much effect. A bank would do better with these consumers by focusing on service delivery.

### *Customer Experience Segment 5: Engaged Convertibles*

All of the experience elements are important to these consumers, but above all they value confidentiality, feeling safe, trusting the check casher, and feeling respected. They are the least concerned with payday loans, having the check casher bend the rules on their behalf at times, being known at the bank, and educational classes.

Compared to other segments, these consumers cash an average amount of payroll and government checks and generate average fee revenue when personal checks are included. Fifty-nine percent currently have a bank checking account and 42 percent have a savings account. Much more than any other segment, they are open to having a relationship with a bank and very interested in signing up for a check-cashing service with a bank. They also signal a strong interest in obtaining many new financial products in the next year. This is further supported by their extremely high desire to get out of debt in the next year and begin saving money. Members of this segment tend to be older, female, homeowners, and higher income.

Like Segment 4, these consumers should be relatively easy to convert to bank customers if the check-cashing service is well executed. Marketing messages that emphasize the importance of safety and security (e.g. keep information confidential, feel safe when cashing checks) will resonate with them. Developing programs that help people migrate into traditional financial products will have strong appeal to these consumers, who desire financial health and independence.

### *Using Segmentation*

Segmenting the check-cashing market and identifying effective tactics and messages is necessary to a successful service offering, but only part of what is required for developing a responsive program. It is also critical to prioritize the segments so that resources can be applied to optimize the results and maximize revenue potential.

Based on the information collected, weights were applied to different attractiveness criteria. Specifically, each segment was evaluated based on its share of the market, attitude toward check-cashing costs, current check-cashing behavior as a proxy for near-term revenue, and anticipated future financial behavior as a proxy for cultivating longer-term relationships and conversion to a mainstream customer. Collectively, these criteria combine to create an overall attractiveness.

The spectrum of segments and experiences customers deem important make it evident that banks need to identify what products and services will appeal to the largest number of potential customers and prioritize them based on the effect they are likely to have on the segments they most want to attract.

### Common Threads

Many observations from the study cut across all of the segments and have important implications for financial institutions trying to reach and serve the underbanked.

#### *Comfort with the informal economy*

Through this research, we learned that casual lending and borrowing money from friends and family is common; there are no contracts, promises are trusted, and the social network will continue to lend even without being paid back. Financial transactions flow through a web of personal relationships, based on trust built over time. This is the ultimate “relationship banking,” just not with banks. Check cashers, payday lenders and sub-prime mortgage lenders are part of the community. They charge high fees and may be stigmatized, yet, many respondents said, “They are like me.”

In contrast with the comfortable feeling of the familiar informal economy, there is much confusion among underbanked consumers about mainstream institutions and their policies, leading to feelings of not belonging. Identification requirements are interpreted as discrimination; overdraft fees are perceived as betrayal. Repeated themes included “Banks are not for me,” “Banks discriminate,” and “Banks make me feel poor.”

Imitating the relaxed reciprocity of social networks is impossible, but a mainstream financial institution could help reduce anxiety by clearly spelling out prevailing practices, their underlying logic, and the consequences of not following them. That would greatly increase trust, familiarity, and comfort with financial institutions. Examples include communicating caution before an account is overdrawn, spelling out consequences of late payments, and articulating benefits of on-time payments.

A fundamental feeling of not belonging drives much of the mistrust of mainstream institutions. Financial institutions could counteract this feeling by sending messages of inclusion through product design, qualification criteria, choice of location, hours of operation, language, tone of advertising and many other aspects of daily operations.

Front-line employees can make or break the relationship with underbanked consumers. Hiring locally is one way to integrate the community into bank operations, and reducing turnover can guard continuity of relationships. In addition, financial institutions need to pay attention to employee rewards. Traditional reward systems tend to be based on size of the relationship (measured by balances and by number of products sold), resulting in little reward earned by branches frequented by underbanked consumers. To attract underbanked consumers, an institution should align the reward system with the magnitude of the effort required to develop and maintain relationships with them.

#### *The importance of physical surroundings*

Physical surroundings can be daunting. Many people are uncomfortable in an institutional setting with plush carpets, desks, security guards, and customer wait lines, to name just a few features often seen at banks. Some are intimidated by bank employees. Others feel out of place because they perceive other bank customers to be in a higher socioeconomic class. Physical spaces can evoke memories of negative experiences with large institutions. No matter what the cause, the result is a sense of physical discomfort that may provoke a “fight or flight” reaction.

## The Power of Experience in Understanding the Underbanked Market

One obvious solution is to be deliberate about the feeling created by the physical branch environment. Underbanked consumers will be more comfortable in less formal surroundings. A balance needs to be struck between creating a business setting and creating one that is uncluttered, easy to navigate and inviting. Very clear signage and a greeter at the door are two elements that could be helpful in creating comfort.

The ethnographic portion of the research also brought out deep concern with safety, both physical safety and information security. For example, while all the segments had distinct experience preferences that require different management and communication approaches, “keeping information confidential” was one item that consistently surfaced as the first or second most important element when people consider where to cash checks. In only one segment was this not in the top five most important experience criteria. Alleviating these concerns is important. Examples include well-lit parking spaces, clear line of sight into the branch, explicit messages about ensuring safety, and operational practices that ensure privacy.

It also is important to demystify the branch experience, inviting people to explore the bank and thus making it more familiar and comfortable to them. Related tactics include formal invitations to visit the branch and sincerely welcoming people who drop in “just to look.”

### *The importance of respect*

The notion of respect was voiced repeatedly. Though warm, friendly service is expected and important, underbanked consumers are very sensitive to subtle, many times unintended, manifestations of disrespect. Customers perceive messages of respect or lack thereof in product design, qualification criteria, choice of location, hours of operation, language, tone of advertising and many other aspects of daily operations. Accommodating consumers’ preferences in all these areas, however, could be operationally complex and expensive.

There are many ways to show respect, and financial institutions must find those that are feasible for them. Examples include adopting respectful and culturally sensitive communication patterns and following up with a letter or a phone call, to ensure that any unresolved problems have been satisfactorily addressed. Clear communication about charges is also a way to show respect. Consumers indicate irritation with penalty fees, which they perceive as “hidden.” Another indicator of respect is involvement in the community. Forty-five percent of respondents indicated that getting involved in the neighborhood by sponsoring events, providing gifts or entertainment, or having financial representatives available at events to answer questions were all important ways to connect with the people and their culture. Specifically, community centers, grocery stores, the workplace, and libraries were considered the best places to get involved.

### *Appropriate product offerings*

Many consumers are not served by traditional mass-market financial products. Check cashing, money orders, and low-cost remittances are missing elements in typical banks’ product offerings. Yet these are services that are important to the underbanked, and sorely needed. Besides these basic transaction services, the underbanked might also be interested in credit, investment, and insurance products. The products needed are not stripped-down versions of mass-market products but qualitatively different ones.

Financial institutions should critically evaluate their product offerings for fit with the needs of underbanked consumers. Assessment of the market and evaluation of operational feasibility should guide the nature

and sequence of new product introductions.

### *More attractive educational opportunities*

Underbanked consumers exhibited strong interest in learning more about financial matters. Yet, a much smaller number of consumers took advantage of opportunities offered by KeyBank to enroll in classes. It is hard to know whether this is a result of time constraints, convenience issues, or a feeling of discomfort in educational settings. It may also be that many do not perceive a tangible benefit and are hard pressed to justify a significant investment of time and energy.

Financial institutions may find it worthwhile to evaluate other delivery channels, such as experiential learning, on-line courses, and peer coaching. People are more likely to participate in educational opportunities when they are engaging, creative, and applicable to everyday life.

## Conclusion

In seeking ways to serve the underbanked, financial institutions are likely to derive both financial and social benefits. The underbanked represent a large market—as many as 40 million households—and many underbanked consumers have a strong interest in developing or expanding relationships with mainstream financial institutions. Many want to improve their financial health. For example, they want to get out of debt, have a savings account, open a college savings account, and/or take out a loan.

But these consumers are not all the same, and financial institutions need to choose for themselves which segments make most sense to serve. More than just creating a new product or service, they need to understand consumers' detailed experience preferences and then design the entire experience around those preferences.

Simply offering check-cashing services at a lower cost is not enough. As this study showed, the underbanked perceive significant barriers to establishing banking relationships. By understanding who these consumers are and how they make decisions, banks can develop appropriate services for them and, in time, lasting relationships that are a win for both parties.

### About CFSI:

The Center for Financial Services Innovation (CFSI), a non-profit affiliate of ShoreBank Corporation, facilitates financial services industry efforts to serve underbanked consumers across the economic, geographic and cultural spectrum. It provides funding and resources, enables partnerships, and identifies, develops and distributes authoritative information on how to respond to the needs of the underbanked profitably and responsibly. CFSI works with banks, credit unions, technology vendors, alternative service providers, consumer advocates and policy makers to forge pioneering relationships, products and strategies that will transform industry practice and the lives of underbanked consumers. For more on CFSI, go to [www.cfsinnovation.com](http://www.cfsinnovation.com).

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