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INTO THE FOLD
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Banks in America are seeking out people they once shunned

FOR most of us, banking is a regrettable necessity. For many others, it is an unaffordable luxury. In America at least 12m households have no bank account--are "unbanked", in the industry's ugly jargon. Once unnaturalised immigrants and the "underbanked"--an even uglier term for those with a low credit score or none--are added, some estimates exceed 40m. For years, banks did not look on these people as potential customers at all. No surprise there: banks see little profit in the poor and the poorly educated.

But this is changing. Last month Citibank announced a partnership with 7-Eleven, a large convenience-store chain, to put its brand on more than 5,500 in-store cash machines, some of which are self-service kiosks, for wire transfers, check cashing and bill payment. This takes Citibank into areas where it has no branches, but it also allows the behemoth to serve those without bank accounts. Meanwhile, JPMorgan Chase is targeting the unbanked through its new "direct-benefit card", which lets people without bank accounts receive government tax credits electronically on federally insured debit cards, rather than by check.

All of this is good news for the unbanked, who often use expensive "alternative financial providers" to pay bills, cash checks and borrow. For instance, payday lenders, which provide short-term (usually two-week) loans, often charge interest rates that top 470% when annualized--no small sum when you are living from one paycheck to the next. Worse, those without bank accounts find it hard to save, build credit histories and obtain loans at reasonable rates. A study published this week by the Federal Reserve Bank of Chicago and the Brookings Institution reports that cities

with higher shares of "banked" residents tend to have higher rates of income, employment and homeownership, and lower crime rates.

The Community Reinvestment Act (CRA) of 1977 was meant to bring financial services to the poor by requiring banks to meet their "credit needs" in the areas they serve. Banks are regularly examined on their lending practices, their investment in community development and the provision of banking services in low-income areas. But community activists complain that the banking-services criteria are too soft. For example, banks win CRA points for putting branches in a poor neighborhood, which might encourage those without accounts to open them, but also for placing employees on the boards of groups promoting affordable housing, which is unlikely to.

Perhaps the CRA is beside the point. Jennifer Tescher, of the Centre for Financial Services Innovation, a non-profit group, says: "For banks to rise to the challenge, they must see the unbanked as a sustainable business--not just community development." In other words, if banks are to go after the unbanked, they will have to see profit in it.

Surprisingly, they might. Visa, a credit-card organisation, reckons that the unbanked, underbanked and unregistered immigrants receive almost \$1 trillion a year from employers, government, insurers and so forth. This money flows through those alternative providers. Moving some of it into the banking system--for a fee--could mean substantial profits, as well as saving the unbanked the exorbitant interest rates and other charges they must often pay. Elizabeth Rowe of Guideline, a research firm in New York, believes that banks which absorbed the business of the alternative financial sector would bring in \$9 billion before any cross-selling of other products. "The unbanked are an upwardly mobile population," she says.

FIRST, CATCH YOUR CUSTOMER

Optimistic? Perhaps. But not so long ago banks steered clear of remittances and lending to those with poor credit histories. Today big banks, hungry for new growth areas, are clamouring to offer wire-transfer services to immigrants. And sub-prime mortgages have boomed.

Admittedly, finding the right way of serving poorer customers is hard. Some banks try to woo the unbanked by offering free remittances or cheap check-cashing if they open a free cheque-book account. But to make money this way, banks rely on penalty fees, such as those for letting a balance slip below the minimum or bouncing checks, which tend to scare would-be customers away. A few community banks, such as Mitchell Bank in Wisconsin, are trying to catch them young by putting branches in high schools in areas where there are large numbers of immigrants without accounts.

One bank that seems to be getting it right is El Banco de Nuestra Comunidad, established in 2001, which aims at unbanked Hispanic immigrants in Georgia. It eschews free checks: "Like giving them a loaded gun," says Drew Edwards, the chief executive. Instead, the bank prides itself on knowing its customers intimately--and knowing what they will pay for.

Take El Banco's 12 "storefronts". Instead of offices and bullet-proof glass, there are televisions, piles of toys, free internet access and a staff of immigrants (not, says Mr Edwards pointedly, "bilingual staff"). El Banco targets check-cashers by undercutting them in price, then offers its customers simple accounts tailored to immigrants' needs, for a fee: immediate access to cash (rather than the typical five-day wait for checks to clear), unlimited cheque-cashing and no risk of bounced checks--because they have no cheque books. El Banco says it averages \$40 a month per customer in fees, before loans and anything it gets from cross-selling mortgages and insurance. It has moved half its 20,000 customers to check-book accounts and has plans to expand beyond Georgia. Admiring banks in North

Carolina and Tennessee have adopted its platform and strategy.

Other new models are emerging, from non-bank financial institutions and retailers that are often nimbler and more lightly regulated than traditional banks. Prepaid cards that allow customers to deposit money onto them, like Chase's direct-benefit card, are booming (see article[1]). 7-Eleven's kiosks require little labour and bring more people into its stores. Wal-Mart, the retail giant that is applying for a limited banking licence, already cashes millions of checks every month, along with offering wire transfers and other services. Perhaps America's unbanked don't need banks after all.