

Viewpoint: The Changing Market for the Underbanked

From: American Banker

Friday, May 25, 2007

By Jennifer Tescher

A growing number of companies from across the financial services spectrum have launched efforts to reach the underbanked or increased their commitment to the segment over the last year.

Questions about the underbanked now are focused not on whether there's an opportunity, but rather on how to mine it.

Opportunities in this market will be the focus of next month's Underbanked Financial Services Forum, produced by my organization and SourceMedia Inc., the publisher of *American Banker*. Last year's inaugural forum helped legitimize the profitable and responsible pursuit of underbanked consumers, and this year's gathering will provide insights into what's working.

The biggest developments in underbanked strategy will be featured at the forum, including the convergence of bank and nonbank models to reach consumers on their terms. Banks have realized that they need to offer a broader array of transactional products and services, like check cashing and remittances, to attract the underbanked and capture a bigger share of their wallets.

Wells Fargo and U.S. Bank are among the largest new entrants into check cashing for noncustomers at the branch. Wells is focused on self-service, testing the use of ATMs to cash bank-issued paychecks. U.S. Bank recently launched a check-cashing pilot test at the teller lines in some Colorado Springs branches. Initial results suggest an ability to convert some check-cashing customers into account holders.

At the other end of the spectrum, nontraditional financial services firms are broadening their offerings to shift from transactional to relationship businesses. H&R Block, for instance, is using a new thrift charter to extend a growing array of financial products and services to its tax clients to build loyalty for its tax preparation services. In the last seven months it has opened more than 2 million prepaid card accounts with a fee structure designed to encourage use and relationships.

In the middle are a handful of companies attempting to create a new genre of financial services company, combining retailer-like distribution with high-quality products and services that blend transactions, credit, and saving. The offerings generally are priced below those of other nontraditional players, like check cashers, but loans in particular often are made at rates above what banks would feel comfortable offering.

Banuestra Financial Corp., for instance, has created a chain of financial storefronts in the Atlanta region focused exclusively on Latino immigrants. Once owned in part by SunTrust Banks Inc., Banuestra is cobbling together a variety of services — and legal structures — to provide transactions, credit, and banklike products and services without a bank charter. It also has developed a check-cashing platform it licenses to other banks and credit unions.

Similarly, Microfinance International Corp. targets Latino immigrants through a small chain of storefronts in Maryland, Virginia, Delaware, and the District of Columbia under the name Alante Financial. Its two primary hooks are consumer loans, often for individuals with poor or no credit, and low-cost remittances, provided through a proprietary platform it also licenses to other financial services providers.

These hybrid models have found fertile ground through a combination of technological advances, regulatory evolution, and increasing competition. But the attitudes and preferences of underbanked consumers are driving companies to develop them in the first place.

KeyBank has felt both the push and pull of these dynamics. It recognized that it was missing an opportunity in many of the lower-income, predominantly African-American neighborhoods in its home base of Cleveland.

Three years ago it began experimenting with lower-cost check-cashing services in a handful of urban branches with the idea of graduating consumers to more traditional bank products and services. The early tests did not hit the mark, so the bank conducted research to understand what was driving the decision-making of check-cashing consumers and what would motivate them to do business with the bank.

The research, some of which will be released at the forum, helped KeyBank tweak key features of the check-cashing effort to be more successful. The winning formula was recently exported to the bank's Albany and Denver markets.

KeyBank is just one example of how change has accelerated as the financial services industry has tried to figure out how to reach and serve the underbanked.

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