

Myth-Busting About our Customers... and Our Competition

FACTS FROM THE RECENT AITE GROUP STUDY | BY CYNTHIA VEGA

Researchers from the AITE Group have devoted much time and energy lately studying the marketplace in which Financial Service Centers (FSCs) operate. Over the past few years, they have focused on specific activities such as check cashing, and on products such as prepaid debit cards and money remittances. For this reason, FiSCA invited Gwenn Bezard, Co-Founder and Research Director to speak about some of the AITE Group's recent findings at the 2009 FiSCA Conference.

Education is a most powerful tool when addressing those who are not part of the FSC industry but who presume to speak about it, and judge it, lock, stock and barrel. That is what makes two of the AITE Group's recent studies so fascinating. *Debunking The Myths about the Unbanked and Underbanked* explores the behavior and attitudes of our customers, exploding common myths about them in the process. *Walmart: A Rising Force in Alternative Financial Services* takes a look at how Walmart has approached their entry into this marketplace and whether they have the market savvy it will take to succeed in it.

By studying the results of in-person interviews conducted with 400 customers of FSCs in Virginia during November and December of 2008, the AITE Group identified ten myths about customers that are pervasive in the minds of bankers, regulators, legislators, consumer advocates and the press.

»Myth #1: People are Unbanked for cultural and attitudinal reasons.

It's often been said that customers harbor a deep-rooted mistrust for the traditional mainstream banking system in the U.S., either because they migrated here from a country where banks are not secure places to keep one's money, or because they can only trust their money where they can see it.

In fact, it will come as no surprise to those who service them, that these consumers remain unbanked for very practical reasons, such as credit, price, cash flow and service issues. Credit problems are an issue for these customers – whether real – 46% have had credit issues or problems with a previous checking account – or imagined – 56% of those surveyed fear that banks will garnish their deposits should they run into credit trouble.

Over 90% of those AITE surveyed expressed avoidance of bank fees as a key reason that they remain unbanked.

Cash flow, or as we often refer to it, the need for liquidity, is paramount for those who live paycheck to paycheck. Many simply cannot afford to deposit their paycheck and then wait for access to their own funds. The requirement of maintaining a minimum balance also ties up funds when these consumers may need to access them. Checking accounts are simply impractical for those for which this is the case.

»Myth #2: Unbanked and Underbanked are underserved.

If one assumes that these consumers do not conduct many financial transactions relative to their banked counterparts, one would be very much mistaken. The AITE study shows the opposite to be the case! Whereas the average American visits a bank branch 2.9 times per month, the underbanked consumer visits a bank, FSC, or other location 6.9 times per month, with unbanked consumers transacting only slightly less often at 6.3 times per month. Where the "underserved" moniker is justified is in reference to the services offered by the retail branches of mainstream banks where these consumers fall into the segment. This, despite the fact that virtually all underbanked consumers and most of the unbanked, have one or more card products, be they credit or debit cards.

»Myth #3: Unbanked and Underbanked are ripped off by alternative financial service providers.

This myth is perhaps the most dangerous one of all and is completely unsupported by the customers themselves. By a wide margin, unbanked and underbanked consumers report that they are much more wary of the cost of bank products than they are of the multitude of products marketed by alternative financial services providers. The product that generates the most dissatisfaction and frustration amongst these consumers? NSF fees for bounced checks or debit card overdrafts!

»Myth #4: Unbanked and Underbanked consumers have low incomes.

While a majority of those studied (53%) fall into the "low-income" category (household income less than \$30,000) relative to 35% of the U.S. population occupying that category, the lesser-known fact is that 20% of unbanked and underbanked consumers have incomes higher than \$45,000 with some upwards of \$70,000. And, 85% of these consumers are employed either full time (68%) or part time (17%).

»Myth #5: Unbanked and Underbanked are static groups within the U.S. population.

As those who have spent generations serving them know, this group moves up and down the financial ladder with regularity. Many flow between a "banked" and "unbanked" status based on which will serve them best at the current time. Of those studied, only 26% reported never having had a checking account! Their current status is a matter of choice – a choice that is most often discounted or overlooked by the outsiders claiming to advocate on their behalf.

»Myth #6: Unbanked and Underbanked consumers would be better off relying on a regular checking account.

AITE debunks this handily right off the bat by pointing out that just about half of this segment already has a checking account! However, they also have other needs that banks are not addressing, creating an inconvenience that causes these consumers to eschew banks in favor of FSCs. The other half of this segment can't obtain, or do not wish to obtain, traditional checking accounts for reasons cited earlier.

»Myth #7: Unbanked and Underbanked are not technologically and financially savvy and most are illiterate.

This myth is nothing more than a lot of insulting hogwash. In fact, in certain segments, check-cashing customers turn out to be more highly educated than the general population – particularly the underbanked. Only 9% of FSC customers did not complete high school as compared with 20% of the population at large. And 38% have a high school diploma as opposed to 29% in the general population. At the top end, 16% of FSC customers have a college or graduate degree as compared to 25% of the general population. In terms of technology, across the entire segment Internet usage level is comparable to the profile of the general population. Like everyone else, more than two thirds of these consumers use the Internet at home and more than one-third use it at work.

»Myth #8: Unbanked and Underbanked are cash addicts.

This myth needs to be viewed globally, and in parts. The preference of underbanked consumers for cash is the same as that of the general U.S. population. However, the unbanked do have a greater preference for cash than the mainstream consumer. When viewed from a worldwide perspective, AITE saw that the U.S. population has a greater preference for cash than the French, but not as high as those expressed by German consumers.

»Myth #9: Unbanked and Underbanked don't save.

AITE found that what was really characteristic of both these groups is that many are neither savers, nor spenders. Of the U.S. general population, only 30% defines itself as neither savers nor spenders, but 38% of unbanked and underbanked respondents defined themselves this way. In fact, both groups are more likely

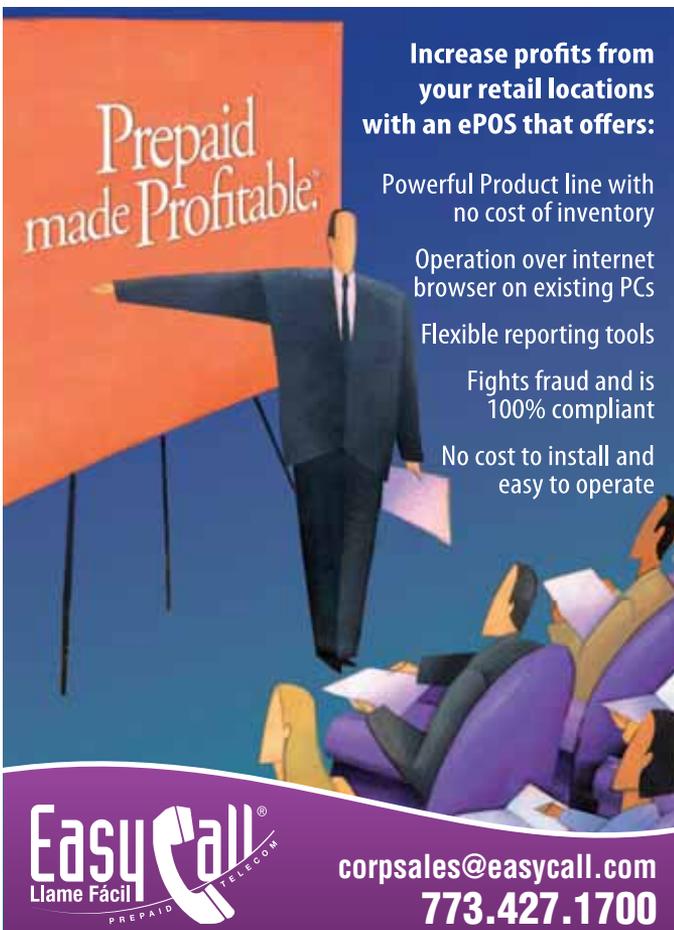
than general consumers to live within their means! Further, they have little opportunity to become either big-time savers or big-time spenders. However, over half of them do save money – but do so in ways that are not detectable by standard means of measurement – for example, using money orders to put cash away for the short term.

»Myth #10: Unbanked/Underbanked consumers are older consumers and ethnic minorities.

Consumer groups and others would, and do, paint a picture of these consumer segments as being chief among those abused and “ripped off” by FSCs, etc. The truth is however, that older consumers are in the distinct minority of those being serviced by FSCs. And the racial/ethnic makeup of those customers is reflective of the general population in the area that AITE studied. Although Caucasian customers were not the majority of customers, they were certainly represented in the unbanked and underbanked groups surveyed (25%).

The findings from this study all point to the fact that the underbanked and unbanked are not all that different from mainstream or banked individuals. Differences have been manufactured where none, in fact, exist. This knowledge must be leveraged to correct the record where our customers are concerned. Do similar myths exist about our competition? The AITE Group took a look at the giant in the room – Walmart, and their study gives us a glimpse at the answer. ■

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