

Understanding and Serving Unbanked and Underbanked Consumers

According to a study released by the Federal Deposit Insurance Corporation (FDIC) in October 2012, 8.2 percent of U.S. households are “unbanked”—meaning they do not have any accounts with financial institutions. Another 20.1 percent have an account, but are considered “underbanked.” These underbanked consumers may have an account, but also use money orders, check cashing services, payday loans, prepaid cards, and other financial services offered through outlets other than a traditional bank or credit union at least once per year. Recent research conducted by First Data reveals that most un- and underbanked consumers are employed and working very hard to be financially responsible. These consumers feel that banks cannot help them manage their money effectively or achieve their financial goals. Financial institutions have an excellent opportunity with this consumer segment to gain new customers and to set their institutions apart from the crowd with customer-friendly, innovative services.

What do the un- and underbanked dislike about financial institutions?

Most un- and underbanked consumers live on fixed incomes and are often struggling to make ends meet. They are generally not college educated, but they are hopeful that they’ll be able to provide better opportunities for education for their children. They put a priority on paying bills, paying their children’s expenses, saving money, and only after, on “fun” expenditures. With every dollar of their paychecks tightly allocated, delays in payment processing and unexpected fees can easily derail these consumers. In interviews with un- and underbanked households, First Data

found that these families are very in tune with their finances and demand complete control. They want to know exactly how much they’ve spent and how much they have available. They don’t like credit and debit cards because it is too easy to spend more than they have available. Many track their expenses on paper or in electronic spreadsheets and use alerts on their phones to remind them when bills are due.

While these consumers expect fees for financial services, they find it frustrating trying to understand and predict the fees they are charged by financial institutions. They also find it perplexing that some fees are waived when an account is first opened and then suddenly charged after six months. Overdraft and minimum account balance fees are especially aggravating to people striving to pay their bills. They find it very difficult to understand why banks allow them to spend more money than they have available and then charge fees—many times in excess of the actual overdraft—for the account violation. Many of the consumers First Data interviewed left their financial institution because of these fees and because it was difficult to maintain minimum balances.

A very common complaint from the un- and underbanked is the poor customer service they’ve received from financial institutions. While fiercely independent and intent on maintaining control of their money, this group of consumers is open to advice, counsel and recommendations to help their money go further. In First Data’s interviews, consumers stated that they often “felt like a number” to their financial institutions and did not get clear, helpful or consistent information from the bank employees with whom they spoke.

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How to win back the trust and service of the un- and underbanked population

Many un- and underbanked consumers have had negative experiences with financial institutions and have turned elsewhere for financial services. Most often, they feel these alternatives are more convenient, offer more control and are more transparent about their fees. Your financial institution can offer the same benefits; you just need to position them in the right way for this segment.

- Provide an alternative to traditional credit and debit cards by offering prepaid cards. Fees are low and explained clearly up front. The cards provide the ability to pay bills by phone or online, but don't allow consumers to spend more money than they've loaded to the card.
- Demonstrate how your online banking system provides real-time access to their account balances, pending payments and pending deposits, as well as the ability to receive alerts and notifications. Many consumers may simply not know how much control they can have over their accounts or may be unfamiliar with how online banking works. The un- and underbanked may not have reliable Internet access, but frequently have smartphones—so make sure your online banking system is mobile-friendly.
- In addition to the legal documents provided about account fees, provide a simple, one-page account overview that

clearly and simply outlines the parameters of the account and all of the fees. Review this document in person with the new account holder, being sure to frequently stop and ask if they have questions or need clarification.

- Provide personalized, ongoing recommendations for additional services or ways these consumers can take advantage of what your financial institution offers.
- Above all else, ensure that your telephone customer service representatives and branch personnel are trained to be friendly, empathetic and patient. The un- and underbanked are seeking a personal touch and want to feel that you value their business and understand their financial situations and goals.

Be the alternative for which these consumers are searching

The un- and underbanked are using an assortment of financial services, but have a low opinion of financial institutions. Whether these consumers feel they need greater control of their money or believe they have been victimized by unfair fees, your institution can help them better understand the many valuable benefits of the services you offer. By adopting a customer-centric approach with your services and reaching out in a clear, friendly way you can gain the trust and loyalty of a large number of potential new account holders.