



Bank on California: Assessing the Market Opportunity

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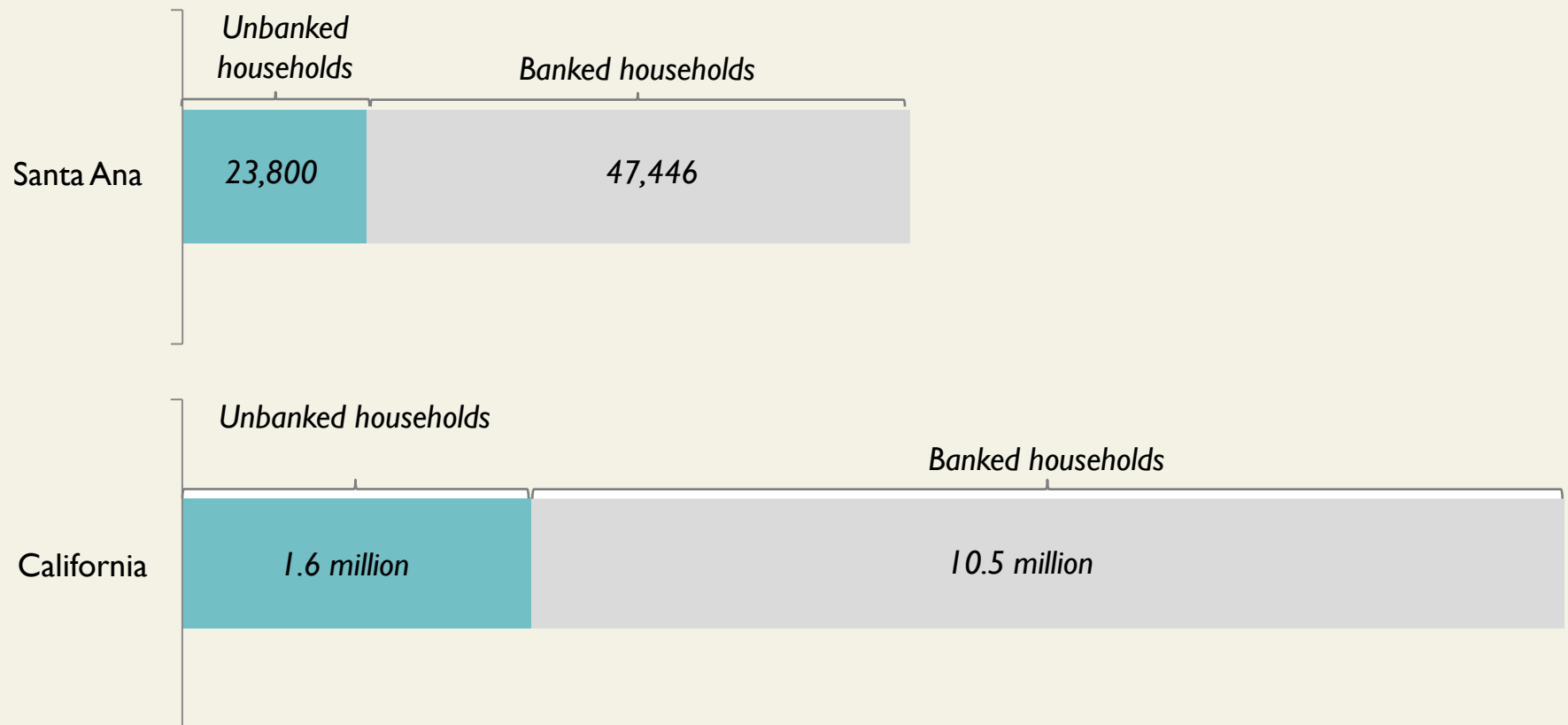


As we have heard today, the broad goal of the Bank on California campaign is to help Californians make better use of financial services to convert their wages into wealth, with an initial focus on connecting qualified households to appropriate bank accounts.

What is that market opportunity?

At a broad level, it's the share of households that we think do not have a checking account. In California, that works out to be about 1.6 million households, and in Santa Ana it's about 23,800 households.

Share of unbanked households in Santa Ana and California:



Source: Estimates based on data from the U.S. Census Bureau and the California Department of Justice

Note: The estimate provided for each geography represents the average across our low and high ranges. In Oakland, the low estimate is 26,000 households and the high estimate is 34,000; in California, the low is 700,000 and the high is 2.5 million.



These unbanked California households rely on both banks and non-bank check cashers to manage their income, using these institutions to cash their paychecks, pay their bills, borrow money, and/or wire money (in addition to buying groceries and gas, in some cases). Non-banks, in particular, exist to meet financial service needs of unbanked households.

Check cashing

Remittances

Money orders

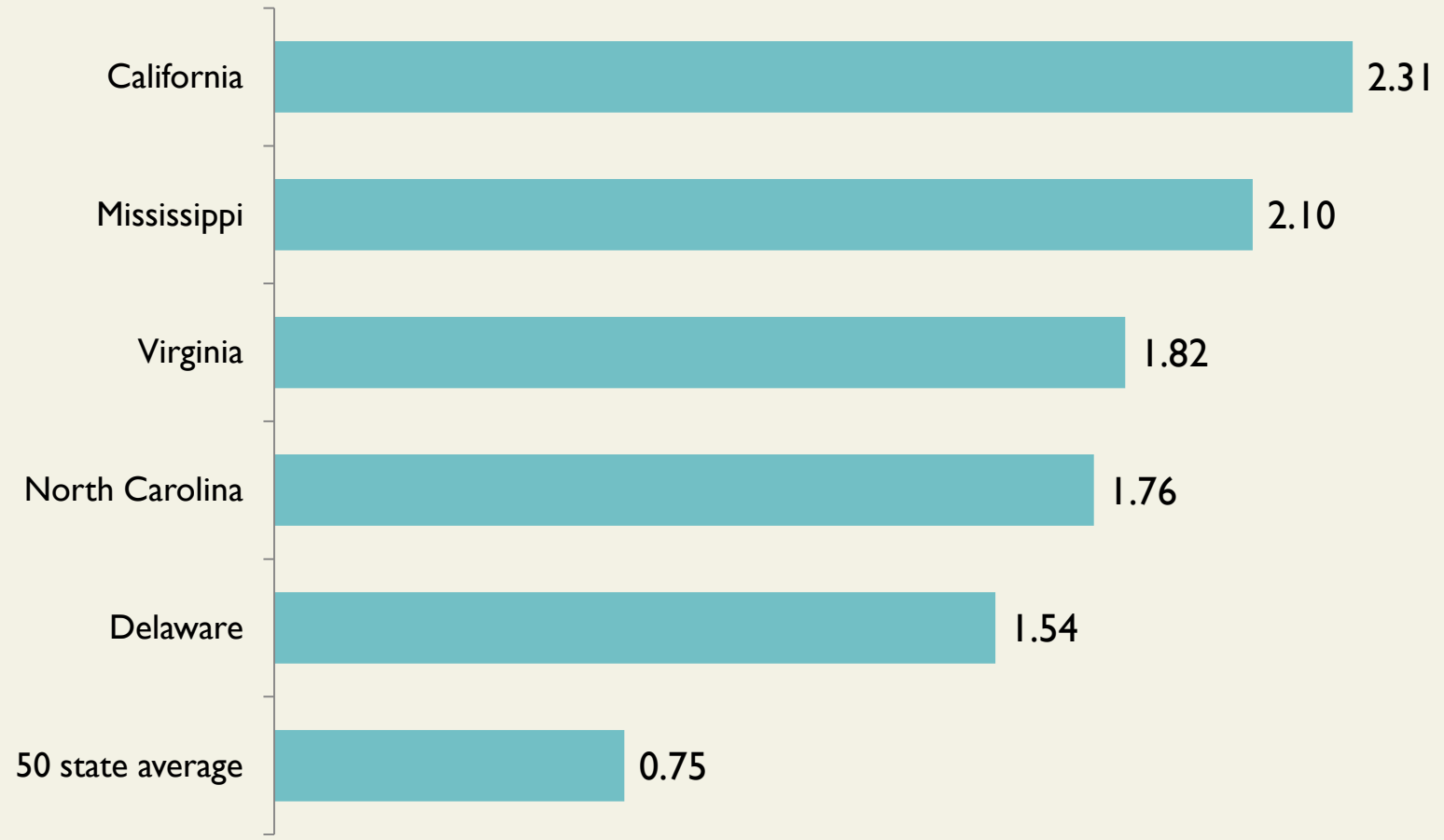
Bill payment services

Short-term loans (e.g., pawn loans)

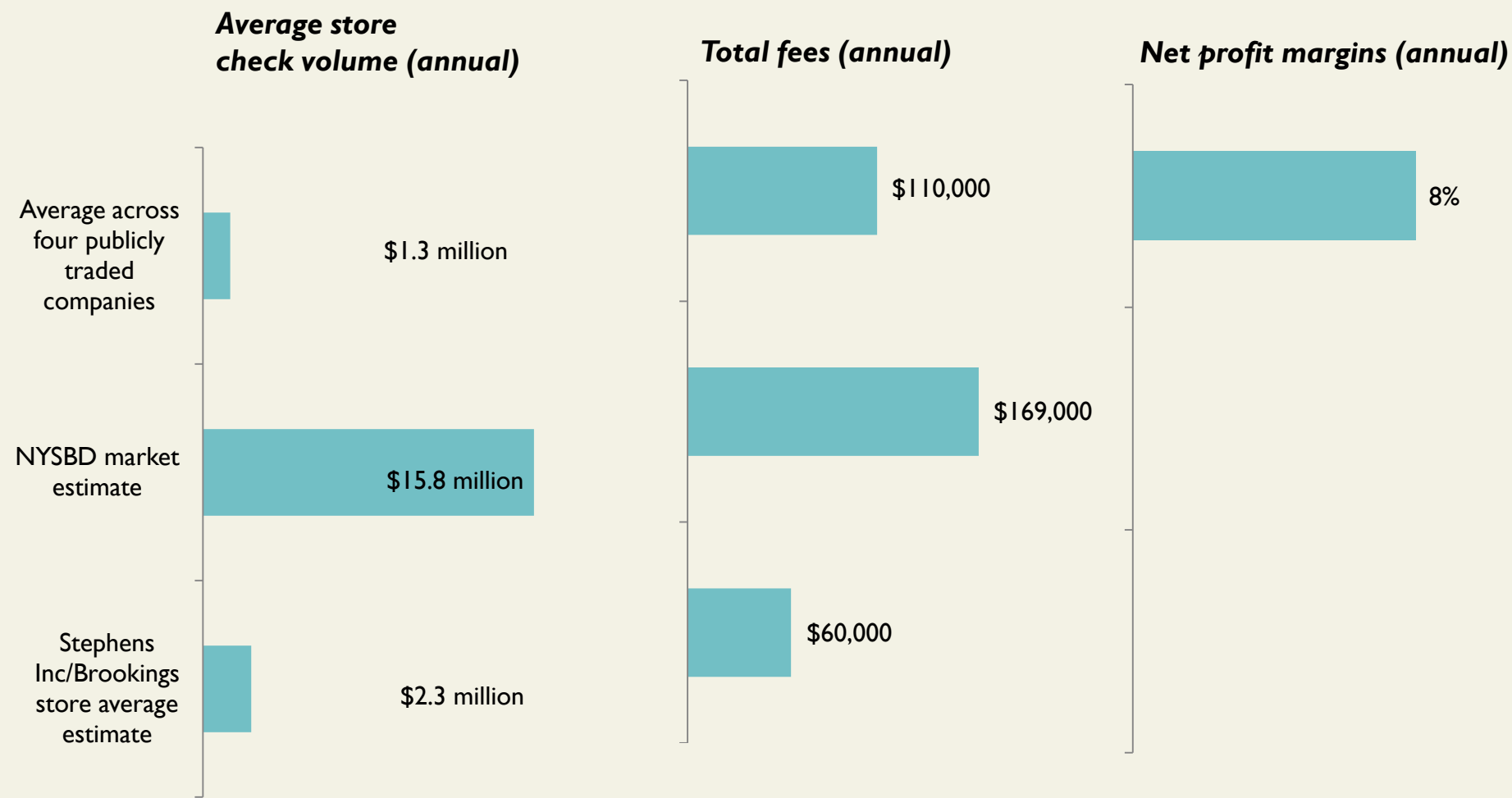
Across California, there are approximately 7,800 non-bank check cashers or roughly one for every 4,300 residents, which is the highest per-capita number in the country.

Number of nonbank check cashers per 10,000 residents in the states with the highest density

Source: Analysis of data from state licensing departments, infoUSA, and the U.S. Census Bureau



The economics for the nonbanks in this market are generally attractive. They have steady demand and can charge prices well above the rates charged by banks for a comparable service. The specifics of that information are hard to come by, which means that public estimates are all over the place. For instance:



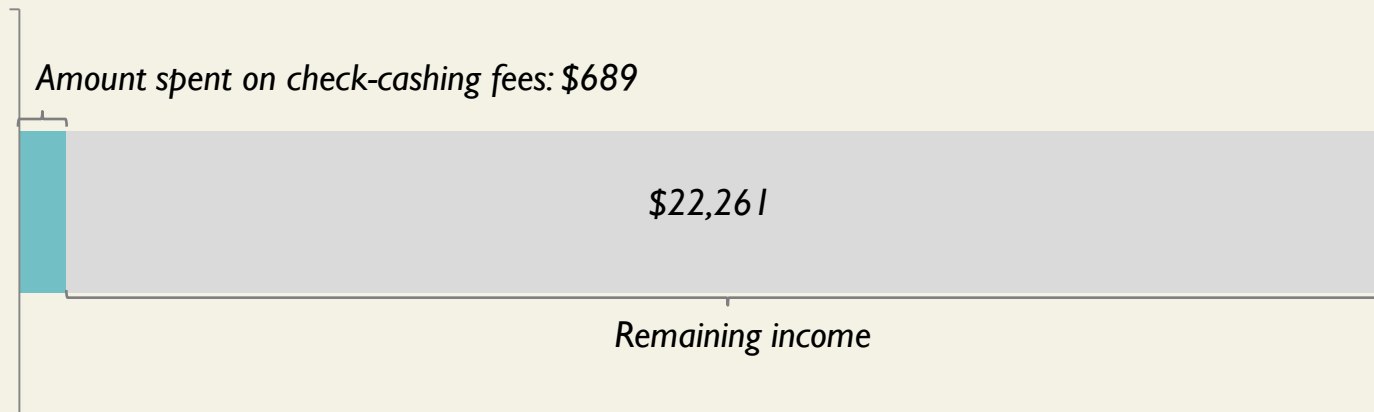
Source: Hoover's, New York State Banking Department, The Brookings Institution, Stephens Inc.
Note: Net profit margins were averaged across three companies, not four, and represent all business lines, not just check cashing.



For customers, these economics work out differently depending on how regularly they use a check casher and the state they live in. Here is one example:

Estimated typical fees paid to non-bank check cashers over one year by an unbanked, working household in California

Source: Analysis of data from Fellowes and Mabanta 2008; profile fits the median household without a bank account.



Additional Unknown Direct Costs: *Money orders, bill payment services, remittances*

Additional Unknown Indirect Costs: *OPPORTUNITY COST = No or limited access to wealth-building credit or loans, often with higher prices than might be otherwise possible*



But this is the overall market opportunity, which is potentially larger (and more risky) than the one that Bank On is going to help you meet in the short term, because they are initially focused on connecting the segment of unbanked households that are qualified for appropriate bank accounts.

Qualified means that households can financially benefit from using a bank account, have appropriate paperwork, and do not have a history of fraud or identity theft.

Appropriate means that the bank account is safe, affordable, fair, and empowering.



So what is the **Bank On** market opportunity in California and Santa Ana?

We'll have a better idea in the fall because Pew has commissioned a statewide survey with the support of the Annie E. Casey Foundation, the Brookings Institution, and the Clinton Foundation, with the support of the Office of the Governor...

...until then, we can use national, state, and local data to give you a snapshot of how much of the share of unbanked California and Santa Ana households is actually qualified for a bank account.



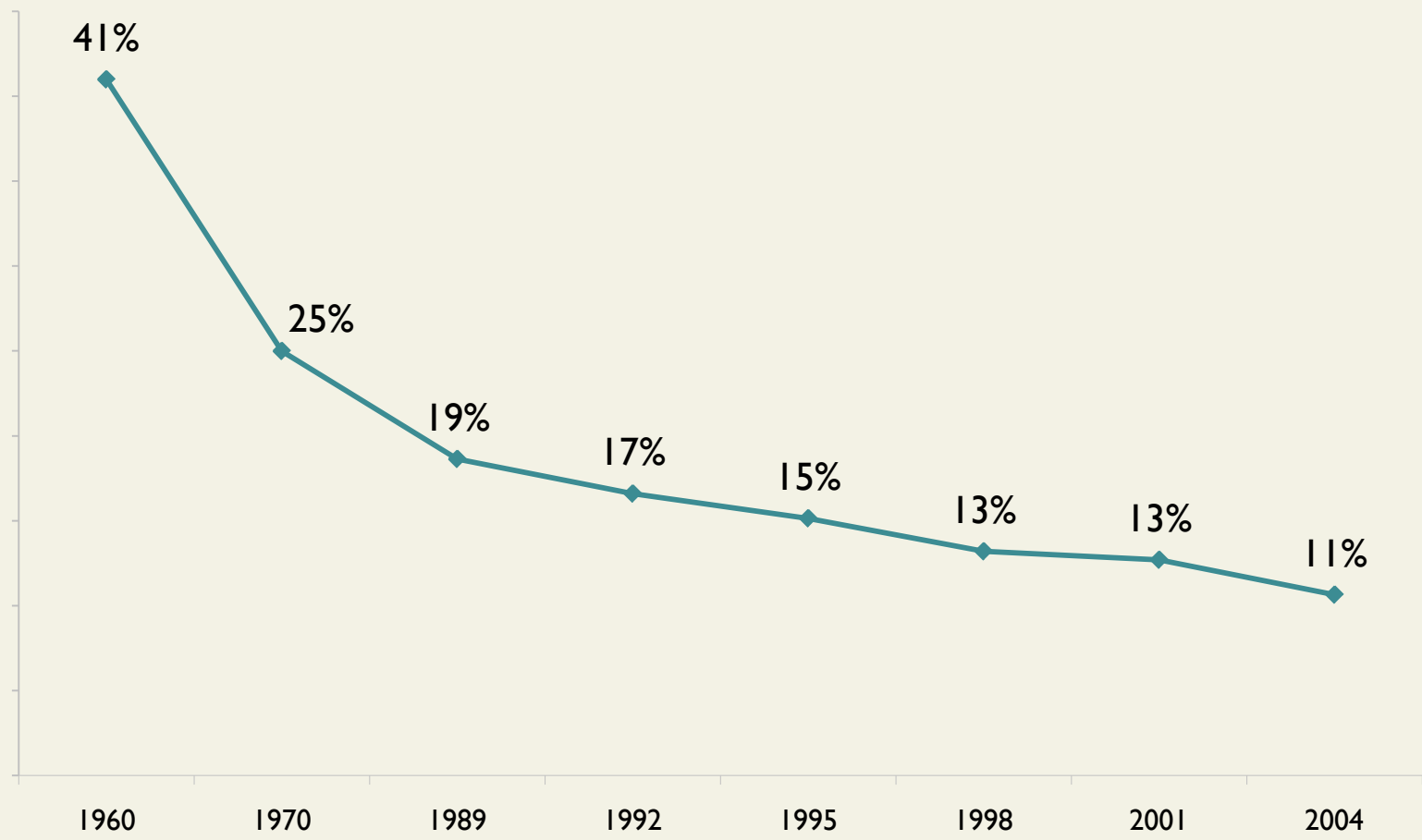
Our bottom line is that we think that the majority of the 1.6 million unbanked households in California and the 23,800 in Santa Ana are in fact qualified for an appropriate account and can be served by banks and credit unions.

Here are five reasons why:

First, the national share of households that are unbanked has been steadily falling since 1960, showing us that there is **strong underlying demand for** and **supply of** bank accounts. For instance, here is this trend for checking accounts:

Share of U.S. households that lack a checking account, 1960-2004

Source: Analysis of data from the Federal Reserve's triennial Surveys of Consumer Finances

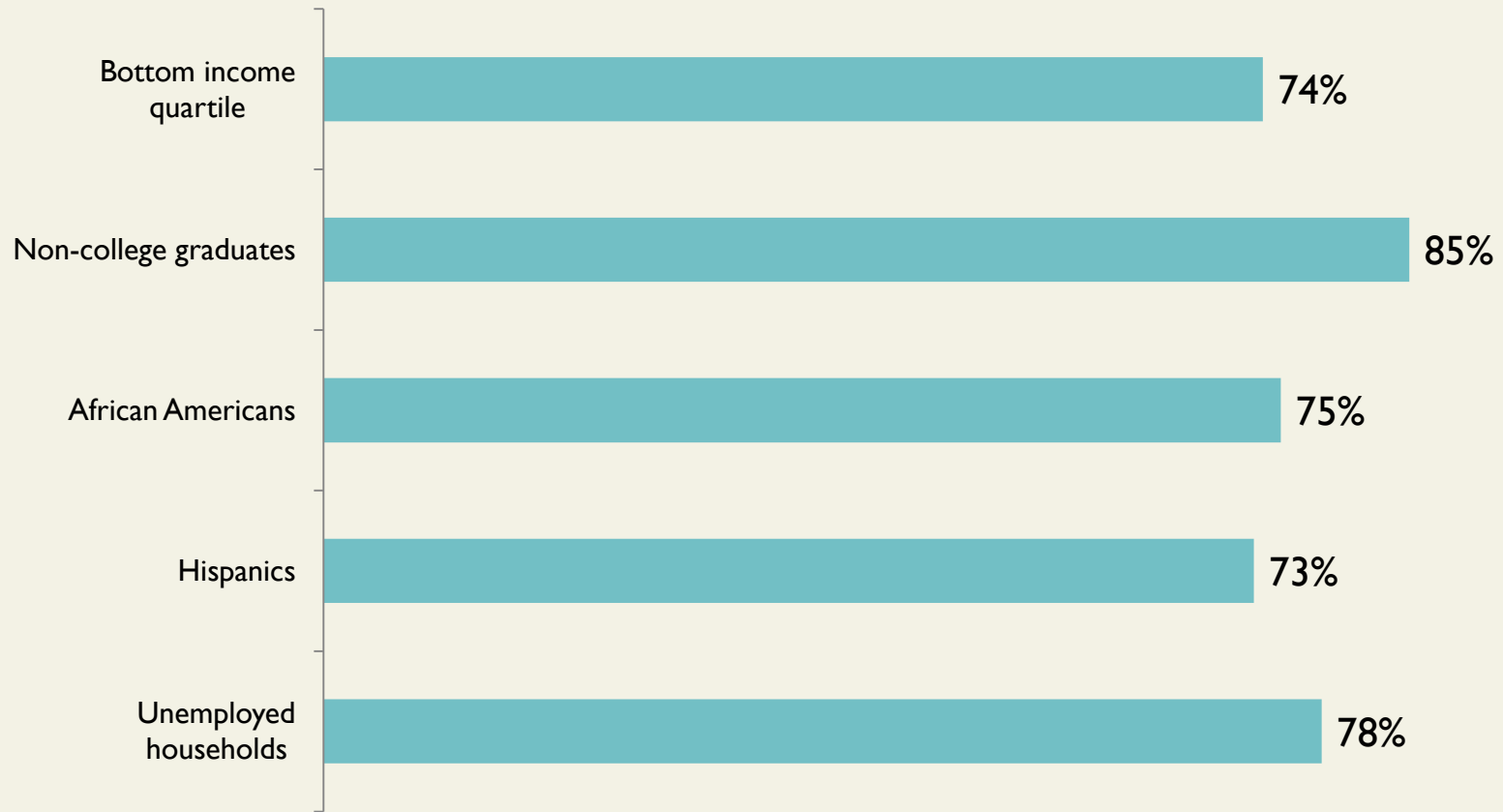


Second, **the majority of demographic segments** that have a higher probability of being unbanked **already have a bank account and we think are using it**, suggesting banks have relevant expertise they can put to use. For instance:

Share of households that have bank accounts, by demographic segment:

Source: Analysis of data from the Federal Reserve's 2004 Survey of Consumer Finances

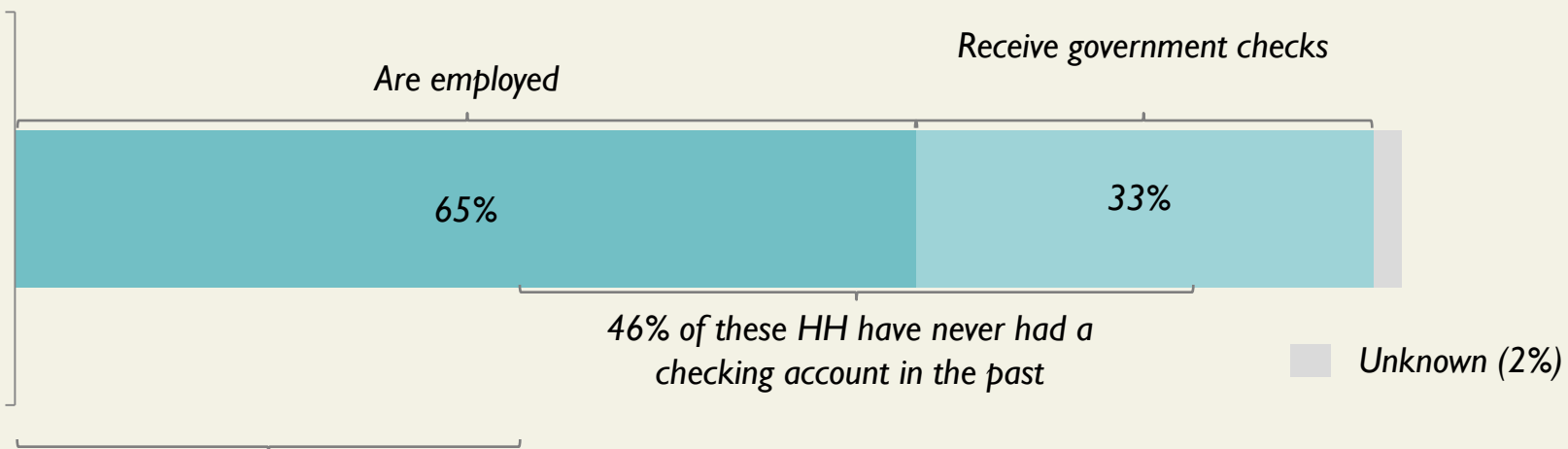
Note: With the exception of household income, demographic characteristics are attributed to the head of household.



Third, most unbanked households have acceptable financial profiles for most banks. Many households without checking accounts, for instance, have steady, full-time jobs, and about half have never had a checking account in the past.

Share of unbanked households that...

Source: Analysis of data from the Federal Reserve's triennial Surveys of Consumer Finances



Unfortunately, we have nearly no generalizable data about the reasons why these HH are no longer banked, nor the duration they were in an account or unbanked

Fourth, the most important reasons why people indicate they don't have a checking account point to trust and misperception barriers—which can be broken down with the right marketing and partnerships, which the Bank On campaigns provide.

Households' most important reasons for not having a checking account:

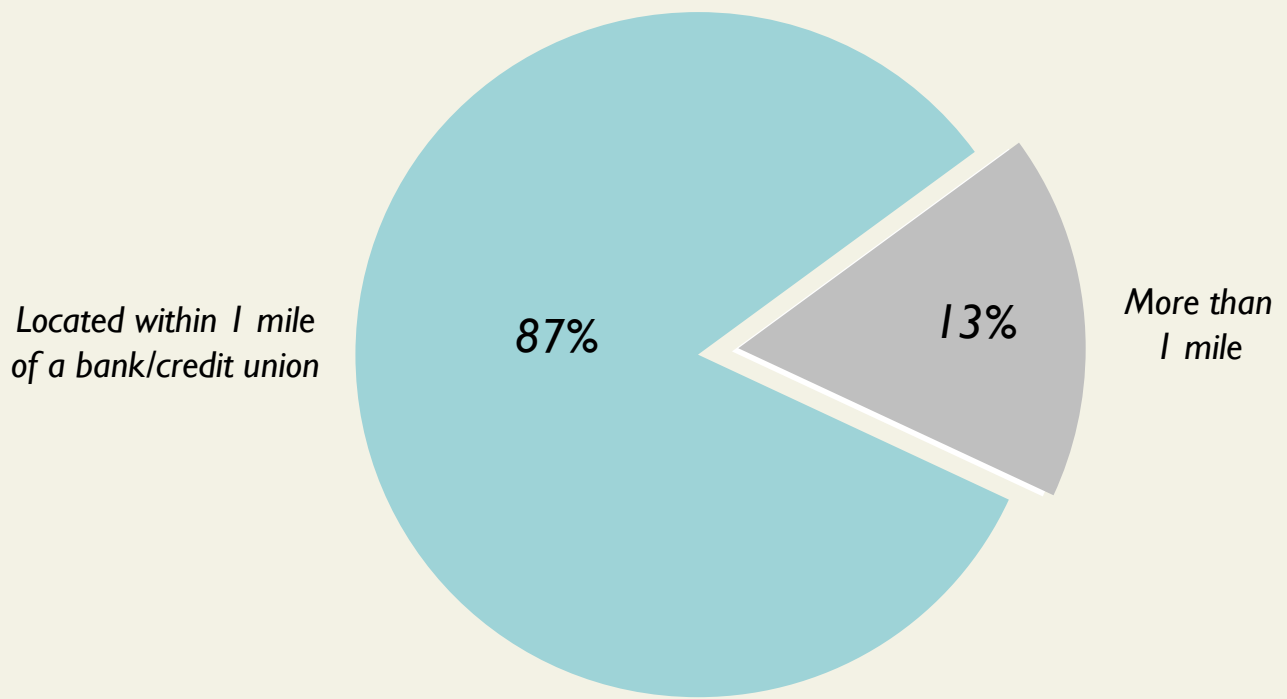
Source: Analysis of data from the Federal Reserve's 2004 Survey of Consumer Finances

<u>Most Important Reason for Not Having an Account</u>	<u>Share of Households</u>
Do not write enough checks to make it worthwhile	28%
Do not like dealing with banks	23%
Do not think that I have enough money	14%
Fees are too high	12%
All other reasons	23%

Finally, banks have the grounds for competition with the non-bank check cashers that are currently serving the segment of the market that could qualify for an appropriate account.

More than 87 percent of licensed check cashers in Santa Ana are located within one mile of a bank or credit union.

Source: Analysis of data from the California Department of Justice, FDIC, and U.S. Census Bureau





OK, those are the major reasons why we think the Bank on California and Santa Ana initiatives represent a real market opportunity for banks and credit unions: there is well-established trend that demonstrates solid supply and demand, robust market expertise, acceptable customer profiles, sunk capital costs, and ongoing related bank priorities.

So, what are the major entry barriers?

Some of the major entry barriers to the unbanked market include:

Limited supply of high-quality, actionable analytics, which has hampered segmentation ID, related marketing strategies, and product/service design, where needed

Widespread trust and misperception issues among unbanked households

A relatively less enticing business proposition

But the Bank On campaign and major national institutional partners are addressing many of these barriers.

Limited supply of high-quality, actionable analytics, which has hampered segmentation ID, related marketing strategies, and product/service design, where needed

Forthcoming research by Pew, FDIC, CFSI, and others will hopefully address some of these gaps. The Bank On campaigns will also help build knowledge by bringing together a diverse group of institutions, each with their own core competencies.

Widespread trust and misperception issues among unbanked households

The Bank On campaign will leverage trusted community figures in nonprofits and elected officials to overcome these issues.

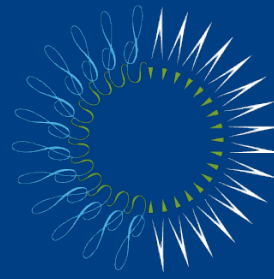
A relatively less enticing business proposition

A challenge, but pressure for core deposit growth mitigates this somewhat; so do lower-cost banking tools.



In conclusion, the available evidence suggests that the majority of the unbanked market is qualified for appropriate accounts, although that is certainly not to say that there is not also a large unqualified share.

Evidence also suggests that banks are already going after this segment. The Bank on California and Santa Ana campaigns will add value to those efforts by accelerating this market trend in a relatively low-cost manner.



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