Personal Finance:
Untapped Wealth-Building Opportunities

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Matt Fellowes, Director
Pew Safe Banking Opportunities Project
Opportunity 1: Lack of Access

Solutions

Opportunity 2: Too Much Access

Solutions
Opportunity 1: Lack of Access

The unbanked market, at a broad level, is the share of households that we think do not have a basic bank account. For example:

- California: 10,700,000
- Illinois: 4,400,000
- New York: 6,600,000
- North Carolina: 3,000,000
- Pennsylvania: 4,400,000
- Washington: 2,300,000

Source: Estimates based on data from the U.S. Census Bureau and the Federal Reserve's 2004 Survey of Consumer Finances
Unbanked households widely use very expensive nonbanks for their basic financial services needs.

*Estimated typical fees paid to nonbank check cashers over one year by an unbanked, working household:*

- Amount spent on check-cashing fees: $1,042
- Remaining income: $21,908

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

Source: Analysis of data from Fellowes and Mabanta, “Banking on Wealth: America’s New Retail Banking Infrastructure and Its Wealth-Building Potential” (The Brookings Institution, 2008); profile fits the median household without a DFI account.

Note: Check-cashing rate is based on the 50-state average. For more information, see Fellowes and Mabanta, “Banking on Wealth…”
The majority of unbanked households would be financially better off by opening a basic bank account. This could potentially create tens of thousands of dollars in savings for millions of low-income workers.
Solutions

In response, a growing number of cities and states have launched Bank On campaigns—low-cost, public-private partnerships with the goal of connecting qualified unbanked households with starter checking accounts.

They are being motivated by evidence that indicates that the majority of unbanked households would financially benefit from opening a bank account.

Here are six reasons why.
First, 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...*

- **64%** Work full-time
- **25%** Work part-time
- **11%** Do not work
- **55%** of these households have never had a bank account

Second, 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 Bank On provides.

Size and distribution of unbanked segments

Note: Data relevant to 2.2 percent margin of error with 95 percent confidence level
Source: Booz & Company
Third, banks have the grounds to compete with the nonbank check cashers currently serving the segment of the qualified market. For example:

- **California**: 83%
- **Illinois**: 96%
- **New York**: 99%
- **North Carolina**: 79%
- **Pennsylvania**: 95%
- **Washington**: 97%

**Share of full-service check cashers located within one mile of a bank/credit union, by state**

...however, recent survey findings indicate that service hours may remain an access barrier.

Source: Analysis of data from state licensing agencies, FDIC, and U.S. Census Bureau
For instance, this is Crenshaw Boulevard, a major thoroughfare in the low-income Crenshaw district of south Los Angeles.

This points to an overlooked marketing opportunity to connect lower-income consumers to the already existing depository financial service infrastructure.
Fourth, 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 experience that they can put to use.

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

<table>
<thead>
<tr>
<th>Demographic Segment</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom income quartile</td>
<td>74%</td>
</tr>
<tr>
<td>Non-college graduates</td>
<td>85%</td>
</tr>
<tr>
<td>African Americans</td>
<td>75%</td>
</tr>
<tr>
<td>Hispanics</td>
<td>73%</td>
</tr>
<tr>
<td>Unemployed households</td>
<td>78%</td>
</tr>
</tbody>
</table>

Source: Analysis of data from the Federal Reserve’s Survey of Consumer Finances
Fifth, low depositors tend to be more reliant on self-service.

Retail bank customer interaction costs, by deposit amounts
(Index: average household = 100)

<table>
<thead>
<tr>
<th>Average Deposits:</th>
<th>&lt; $400</th>
<th>$400 - $800</th>
<th>$800 - $1,200</th>
<th>$1,200+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-service interactions</td>
<td>82%</td>
<td>81%</td>
<td>76%</td>
<td>77%</td>
</tr>
<tr>
<td>Assisted service interactions</td>
<td>18%</td>
<td>19%</td>
<td>24%</td>
<td>23%</td>
</tr>
<tr>
<td>Average per Interaction Cost:</td>
<td>$3.0</td>
<td>$3.0</td>
<td>$3.8</td>
<td>$3.6</td>
</tr>
</tbody>
</table>

Note: Based on composite bank customer level data, analysis on database of over one million households
Source: Booz & Company analysis
Finally, the majority of unbanked households are already relying heavily on paper checks; they do not live in a cash economy.

*Share of unbanked households that...*

- **Use money orders to pay bills every month:**
  - 84%
  - 16%

- **Are paid wages in checks:**
  - 79%
  - 21%

Only 25 percent of unbanked households report paying one or more monthly bills in cash.

Source: Fellowes and Mabanta 2008, “Converting Basic Financial Services Fees Into Prosperity...”
Opportunity 2: Too Much Access

There are also very valuable opportunities to create savings for consumers in the financial mainstream. Those opportunities generally relate to the democratization of financial services that occurred in the 20th century.
During the 20th century, there was a broad democratization of access to a broad array of financial services and products.

*While much remains to be done, there has been quite a bit of progress.*
Overall, utilization of financial services products has greatly expanded in recent decades.

_Growth in the ownership of major financial services products, 1960-2004_

- **Checking accounts**: From 59% in 1960 to 90% in 2004.
- **Market investments**: From 14% in 1960 to 54% in 2004.
- **Homes**: From 62% in 1960 to 69% in 2004.

Source: Analysis of the Federal Reserve’s Survey of Consumer Finances.
But this is not to say that the democratization in the low- and moderate-income market is complete. In fact, the use of many of these products is still heavily concentrated in the wealthier segment of the population. This is true for both basic and more sophisticated financial services products:

*Participation rates in financial services products, by household income, 2004*

<table>
<thead>
<tr>
<th>Financial Service</th>
<th>Low Income</th>
<th>Moderate Income</th>
<th>Higher Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking accounts</td>
<td>15.7%</td>
<td>88.0%</td>
<td>98.2%</td>
</tr>
<tr>
<td>Tax-advantaged retirement savings</td>
<td>14.2%</td>
<td>49.7%</td>
<td>81.9%</td>
</tr>
<tr>
<td>Primary home mortgages</td>
<td>14.8%</td>
<td>37.9%</td>
<td>65.4%</td>
</tr>
<tr>
<td>Market investments</td>
<td>14.8%</td>
<td>25.4%</td>
<td>59.7%</td>
</tr>
</tbody>
</table>

Source: Analysis of the Federal Reserve’s Survey of Consumer Finances.
This evidence indicates that across nearly every financial product category, there was a broad expansion in access that occurred over the last 50 years.

While this created powerful new opportunities to get ahead, it also created new pitfalls to economic mobility and prosperity.
For instance, tens of billions of dollars were lost over the past decade because of mortgage borrowers paying substantially higher prices than they qualified for.

Source: First American LoanPerformance via the Wall Street Journal ("Subprime Debacle Traps Even Very Credit-Worthy," 12/3/07)
Similarly, recent research indicates that majority of stock market investors are under-diversified, unnecessarily exposing themselves to risk and earning lower-than-possible returns. For instance, of the 23 million households that directly manage their own stock market investments, the majority own stock in 3 companies or fewer.

Only 40.5 percent of investors own stock in more than 3 companies…

…while 59.5 percent own stock in 3 companies or fewer.

Source: Analysis of the 2004 Survey of Consumer Finances
Mortgages and stock market investments are only two examples from a growing body of evidence suggesting that most Americans struggle to effectively convert their wages into sustainable economic prosperity.
For example:

*Of the 84 million households with a credit card in 2004, as many as 40 percent may have been paying a higher rate than what they qualified for.*

*Of the 75 million households that owned homes in 2004, as many as half failed to refinance even though they may have saved money on a lower rate.*

*As many as 10 million eligible workers were not participating in an employer-provided retirement plan in 2004.*

*Most consumers still fail to sufficiently understand the important role that credit scores and reports have on shaping their financial futures.*

*And so on...*
Professional financial advisers could help households avoid these expensive problems, yet only 20 percent of American households use advisers. The mismatch between the need for advice and the demand for the service exists because financial advice today is expensive, unnecessarily complex, dependent on a business model that works with only high-income individuals, and hard to find.
Solutions

In response, I have been building with a team of 20 over the last year and a half a new financial advice service based on an entirely new business model, so we can scale to tens of millions of households by utilizing powerful new technology, new findings from behavioral economics, and a network of national partnerships.

We will be able to offer high-quality, individualized financial advice that is affordable to all Americans.
For more information, please contact:

Matt Fellowes
Project Director, The Pew Charitable Trusts
mfellowes@pewtrusts.org

www.pewtrusts.org/safebanking