Outreach to Underbanked Populations

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Presentation Objectives

1. Share key insights from recent National Segmentation Study conducted with the Unbanked and Underbanked market

2. Share key learnings from El Banco’s experience working with the unbanked and underbanked Hispanic market

3. Discuss the role of state legislators in connecting constituents to the unbanked and underserved community
The Battle for Customers: Who Are the Underbanked and What Do They Want?
CFSI National Segmentation Study

Objectives:

• Help financial services industry deliver relevant messaging and improve acquisition efforts, marketing, and product development activities
• Equip study sponsors to be ‘knowledgeable champions’ in promoting efforts around underbanked populations
Market snapshot

Approximately 40 million U.S. households – 106 million people – are financially underserved

Underbanked HH as a % of U.S.

- Unbanked: 72mm (64%)
- Underbanked: 18.5mm (17%)
- Banked: 21.6mm (19%)

Total un- and underbanked: 40 million (36%)

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household income</td>
<td>$26,390 – median, $47,500 – mean</td>
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<tr>
<td>Homeownership</td>
<td>63% own, 28% rent</td>
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<tr>
<td>Adults living in HH</td>
<td>3 – mean</td>
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<tr>
<td>Ethnicity</td>
<td>60% White, 16% African-Am, 19% Latino, 5% Other</td>
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Source: CFSI Underbanked Consumer Study, 2008
36% of unbanked consumers have never had a bank account
Consumers express traditional reasons for having checking and savings accounts

- *Paying bills* is the top reason for a checking account
  - Yet cash is still the most common form of payment for bills and all payments

- *Saving money* is the top reason for a savings account
  - Hispanics view keeping their money secure as the top priority

The perception of not having enough money to make the account useful is the top reason given for not having a bank account
Underbanked ≠ Subprime

- **25%** had a prime credit score
- **42%** had thin or no credit file
  - These consumers cannot be scored
- **33%** were considered subprime

Note: Credit scores were appended for 79% of survey respondents.

Source: CFSI Underbanked Consumer Study, 2008
A bank is the most preferred place for financial transactions overall

...But only 20% of Black consumers and 14% of Hispanics prefer to use a bank

- Compared to 45% of White consumers

Preferred outlet for financial transactions

- 43% prefer a bank
- 41% prefer a retailer
Almost 80% of underbanked consumers are satisfied with their preferred service provider

*Top reasons for financial outlet satisfaction*
- It doesn’t take a lot of time (28%)
- The people who work there are always helpful (26%)
- I am treated with respect (22%)

*Top reasons for financial outlet dissatisfaction*
- The fees are too high (35%)
- Making transactions takes too long (13%)
- I’m never sure how to do what I need to do (10%)
Cash is King with the Unbanked and Underbanked

Most frequent way of spending money in last 30 days:
Underbanked and Unbanked

Significant differences for those without accounts
Almost 70% of un-banked and under-banked consumers do not get paid through their Checking Accounts.
Consumers that get paid with a check tend to use banks to cash it, especially if they have a bank account.
Underbanked consumers have traditional goals

- Saving for an emergency is most important followed closely by retirement

- Answers based upon a five point scale (1 = extremely important)
Peoples Holding Company

THE PEOPLES
HOLDING
COMPANY

THE PEOPLES BANK
THE PEOPLES REALTY SERVICES
THE PEOPLES HOLDINGS CAPITAL TRUST
El Banco
demuestra comunidad
a division of The Peoples Bank
Four Steps to Differentiation

1. Richly define who they are
2. Distinguish their challenges
3. Develop value propositions
4. Execute the strategy
5. Key Take-aways
**Part 1:**

Richly Define

Who they Are

*Market and Customer Segmentation*
Traditional approach to the Hispanic Market

General market segmentation based on Income, Location and Assets.

- Income < $25,000
- $25,000 - $75,000
- > $75K
Traditional Approach to the Hispanic Market

Focus on Marketing communication
– Spanish language signage and brochures
– Spanish speaking staff
– Contributions to Hispanic organizations
– Sponsorship of large Hispanic events

But... **NO** change in the Value Proposition
– Target Customer Segments
– Product customization
– Policies and Procedures
– Retail Delivery Model
Our View: Hispanic Market Segmentation

We take a much deeper, richer look at the market; and define customer segments based on common challenges, progression, and upward mobility.
Part 2: Distinguish Their Challenges
The Hispanic Immigrant Journey

The evolution from a new arrival to a business owner

From our perspective there isn’t “one” Hispanic model, or segments based on income or location. We see them more in terms of the specific challenges that come from each stage of the immigrant experience.
Part 3:
Develop
Customer Value Propositions
Traditional banks look at the Hispanic market and define their approach in terms of models they’ve used for indigenous population segments.

**Deposit Relationship**
- Primary Entry Point
- Payroll Deposits prove Cash Flow
- Overdraft Driven Fee Model

**External Credit Score**
- Based on Reported Credit History
- Debt Ratio Driven
- Income Implied not proven

**Prime Based Loan Relationship**
- Standard Documentation
- FICO or Beacon Score required
- Micro size usually an issue
The Unbanked Latino Consumer’s View

But, this is how our “un-banked” base segment sees it.

Deposit product drives the relationship

Check cashing drives the relationship

7,000+ Banks and credit unions

30,000+ MSB’s

Consumer credit Drives the relationship

Fast Food Analogy – The Combo Meal
The Non-Bank Combo Meal

Deposit the rest in checking account

Money orders to pay bills and for "savings"

Cashes check every week: $500.00

Send money home to family: $110

Buy phone card: $20

Reload cell phone minutes: $20

So we defined our product set differently so we could serve our customers depending on their stage in their journey.

1. **Transaction Based Membership**
   - Membership is the Primary Entry Point
   - Check Cashing Proves Income
   - Ancillary Fees Make it Profitable while they earn their credit scores

2. **Banuestra Credit Score**
   - Check Cashing History
   - Bill Payment History
   - Card Transactions
   - Employment Verification
   - Asset Verification

3. **“NewPrimeSM” Lending Relationship**
   - ITIN or SSN
   - High Touch Servicing
   - Educational Component Critical
   - Credit Reporting to Agencies
Migrate Consumers to Prime El Banco NewPrime\textsuperscript{SM} Model

El Banco NewPrime\textsuperscript{SM} Model

- Transaction Based Membership
- Internal Credit Score
- NewPrime\textsuperscript{SM} Lending Relationship

Traditional Bank Model

- Deposit Relationship
- FICO Score
- Prime Based Loan Relationship

Part 4:

Execute your strategy
The El Banco Delivery model

Complete Mix of Products & Services
- Non-Banking
- Consumer Banking
- Commercial Products

Culturally Sensitive Customer Experience
- Store Front Design
- Native Spanish Speakers
- Open 7 days a week
- Family Friendly Environment

Grass Roots Marketing & Relationship Management
- Community Events
- Media: Banuestra TV, Radio & Print
- Financial Education Programs
- Active Relationships with Hispanic Businesses
- Promotions & Raffles
- Flyer Distribution
- Telemarketing

Part 5: Learnings and Key Takeaways
Key Takeaways

1. In this economic environment; there will be more unbanked and underbanked consumers.

2. Understand the size and segmentation of the market.

3. Understand that “unbanked and underbanked” does not mean bad credit risk.

4. Provide incentives for financial institutions to serve this community in your markets.

5. Work with banking regulators to help them understand the economic value and risks of serving this segment.

6. Encourage and facilitate public/private partnerships to provide financial literacy and education.