

Scaling Up Microfinance



New Products

Sarah Gordon, CFSI
Monica SanMiguel, CFSI



Goals & Objectives

Goal:

To understand the underbanked financial services marketplace and how this presents an opportunity to achieve scale through expanded product offerings.

Objectives:

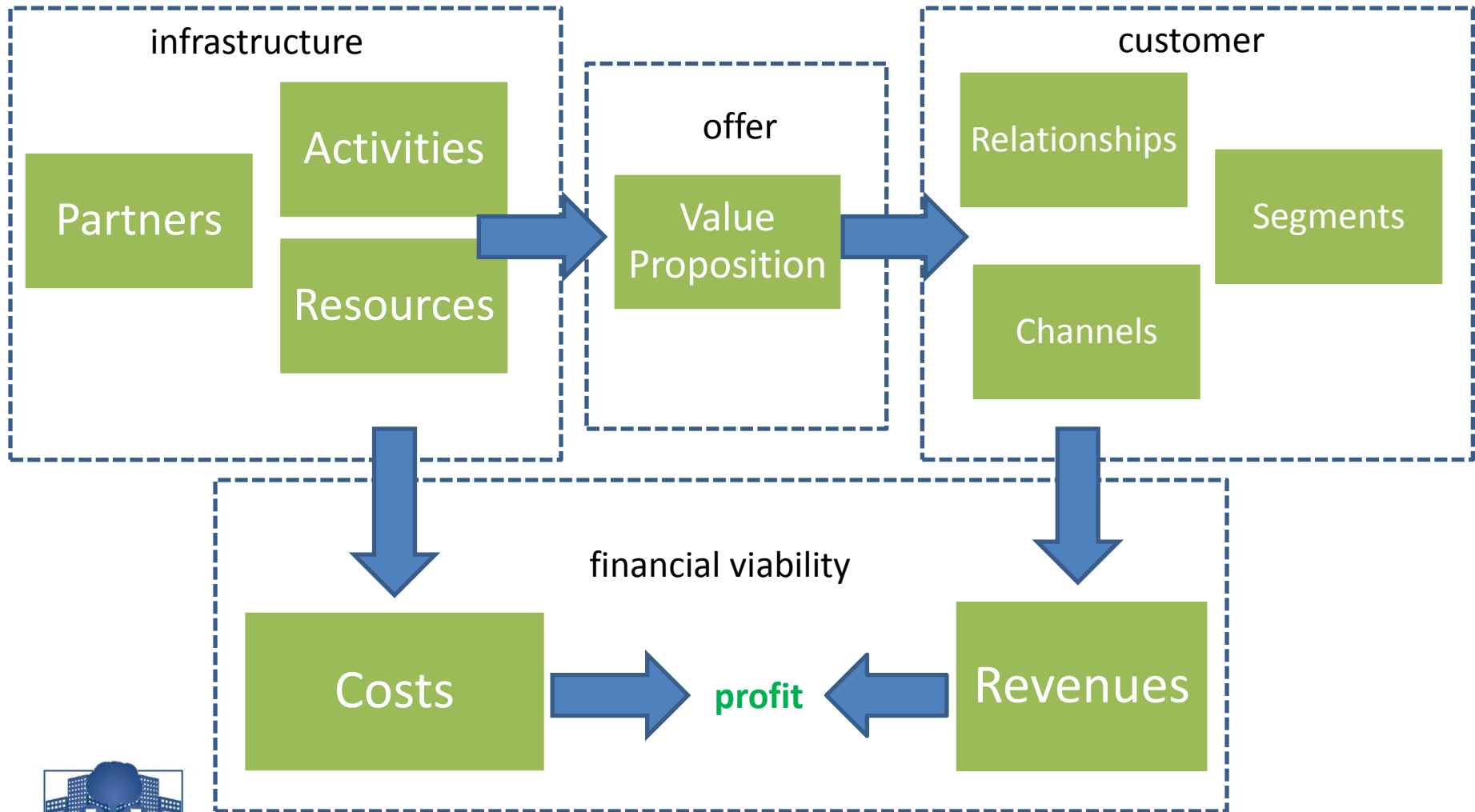
- Understand the financial needs of underserved consumers and opportunities to better serve them
- Assess what this information means for CDCUs and Loan Funds
- Learn about the product development process to assist in making a decision about exploring or implementing new products
- Present examples of how CDCUs and loan funds implemented new products to meet consumer needs

Agenda

- Expanding your Product Suite to Increase Impact
- New Product Development Process Overview
- Case Study Break Out Session
 - Self-Help Prospera vs. Centris Credit Union's "Bank in a Box"
 - Justine PETERSEN Secured Card vs. Opportunity Fund Start2Save
- Exploring your Capacity & Interest in Broadening your Product Suite
- Final Remarks



Business Model Canvas



THE FINANCIALLY UNDERSERVED



Universal Consumer Needs

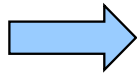
All consumers need high-quality products to help them transact, plan, borrow and save



...and the tools to manage these products

Consumers Need More & Better Tools to Improve Financial Capability

How Do We Rate?



49% have difficulty covering monthly expenses



56% do not use a budget to guide spending



33% have no non-retirement savings



66% did not comparison shop when obtaining a credit card (51% for auto loans)



44% gave themselves a grade of C,D, or F on their financial knowledge



Sources: FINRA 2010 Financial Capability Study, NFCC 2011 Consumer Financial Literacy Survey

What is Financial Capability?

Answer: A set of consumer behaviors that lead to tangible improvements in a consumer's financial health

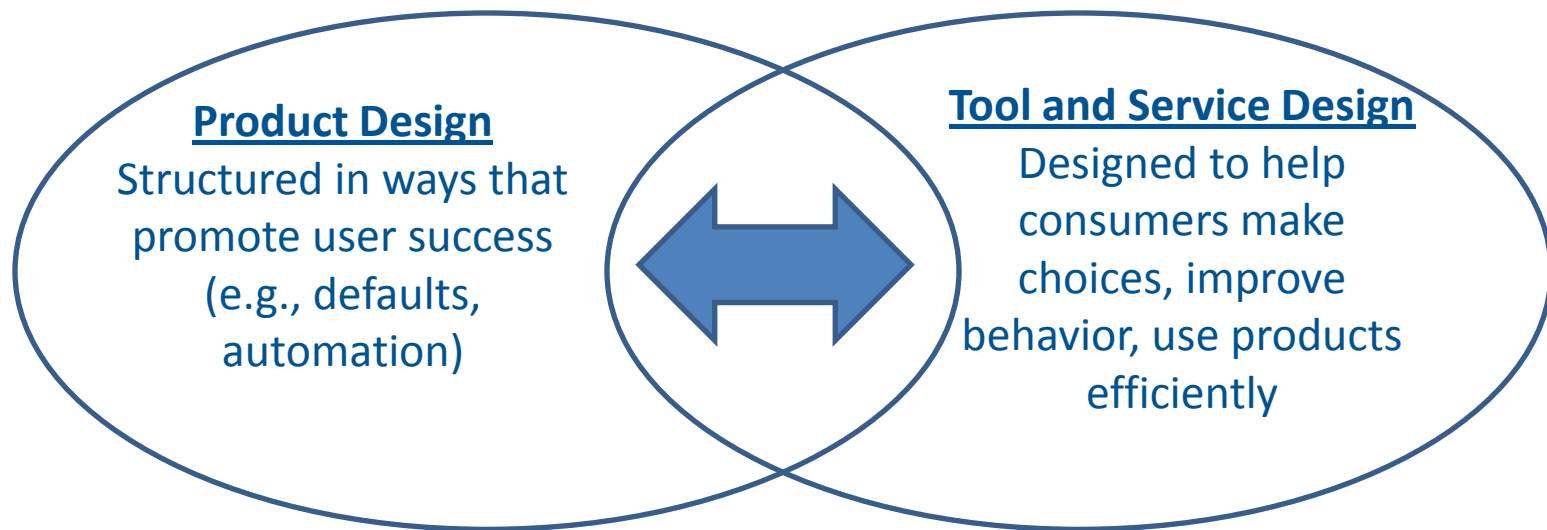
- 1) Being able to **cover monthly expenses** with income
- 2) **Tracking** spending
- 3) **Planning** ahead and saving for the future
- 4) Effective selection & use of financial **products**
- 5) Exercising **financial knowledge**

Financial Literacy: What you know::Financial Capability: What you do



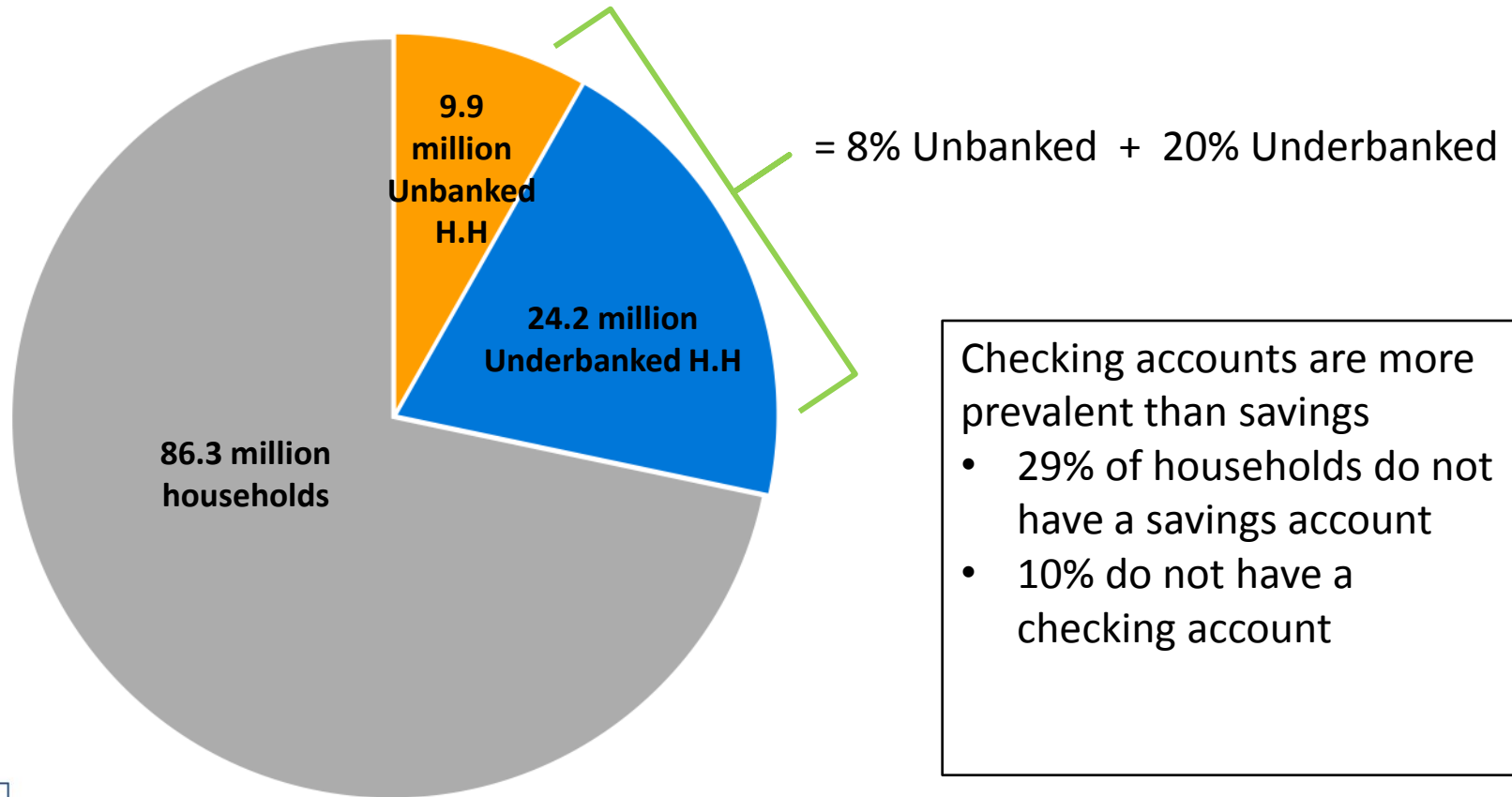
How Can CDCUs & Loan Funds Improve Financial Capability?

Expanding access to high-quality financial products with guidance on how to use them



The Underserved Population

Approximately 34 million U.S. households – 28 % of all households– are financially underserved



Checking accounts are more prevalent than savings

- 29% of households do not have a savings account
- 10% do not have a checking account

Source: 2011 FDIC National Study

Underserved Demographics

Race

Non-Asian minority households are disproportionately underserved

Education

22% of underbanked households have a college degree

Age

48% of households under 24 are underserved

Employment

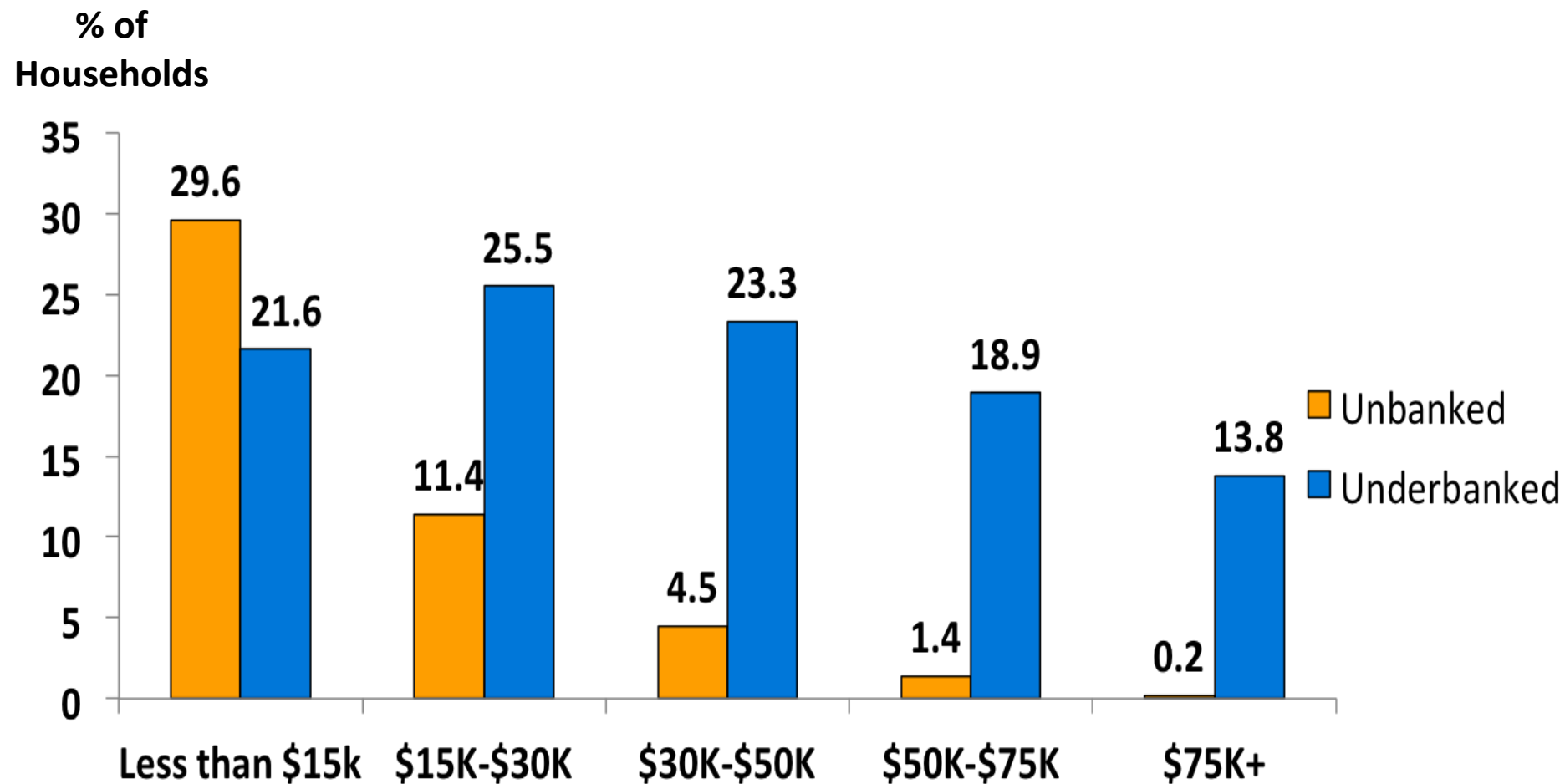
50% unemployed households are underserved vs. 26% employed



Source: CFSI Underbanked Consumer Study,

Underserved Income Distribution

Underserved doesn't necessarily mean lower incomes



Use of Alternative Financial Services (AFS)

U.S.
households
using AFS

- 25% of all households have used an AFS product in the last year
- 42% of all households had used one or more AFS in the past

Transaction
> Credit

- 23% of all households used an transaction AFS in the last year, compared to 6% who used AFS credit

AFS= Non-bank money order, non-bank check cashing, non-bank remittances, payday loans, pawn shops, rent-to-own, or refund anticipation loans.

Source: 2011 FDIC National Survey



Specific Product Use

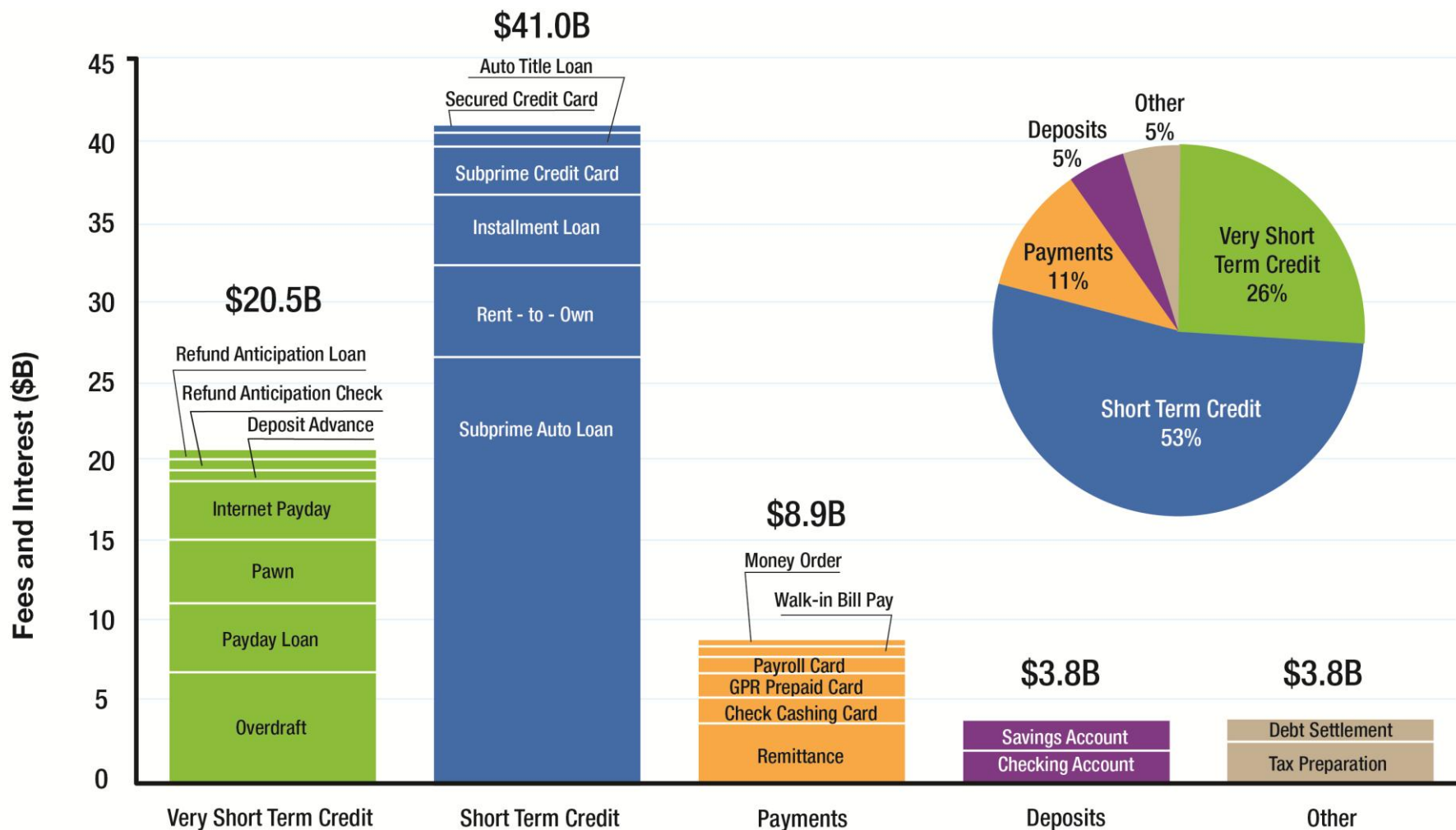
	Most Common Product Used by Un/Underbanked	Value Proposition
AFS Transaction	Money Order Check Cashing	<ul style="list-style-type: none"> • Convenience • Quicker access to funds
AFS Credit	Pawn Shop Payday Loan	<ul style="list-style-type: none"> • Easier to access than bank loan

	Usage & Preference
Prepaid Cards	<ul style="list-style-type: none"> • 10% of households have ever used a GPR prepaid card • Significant increase in proportion of unbanked households using prepaid • Overall, 36% of consumers prefer a prepaid card over a checking account, all else being equal

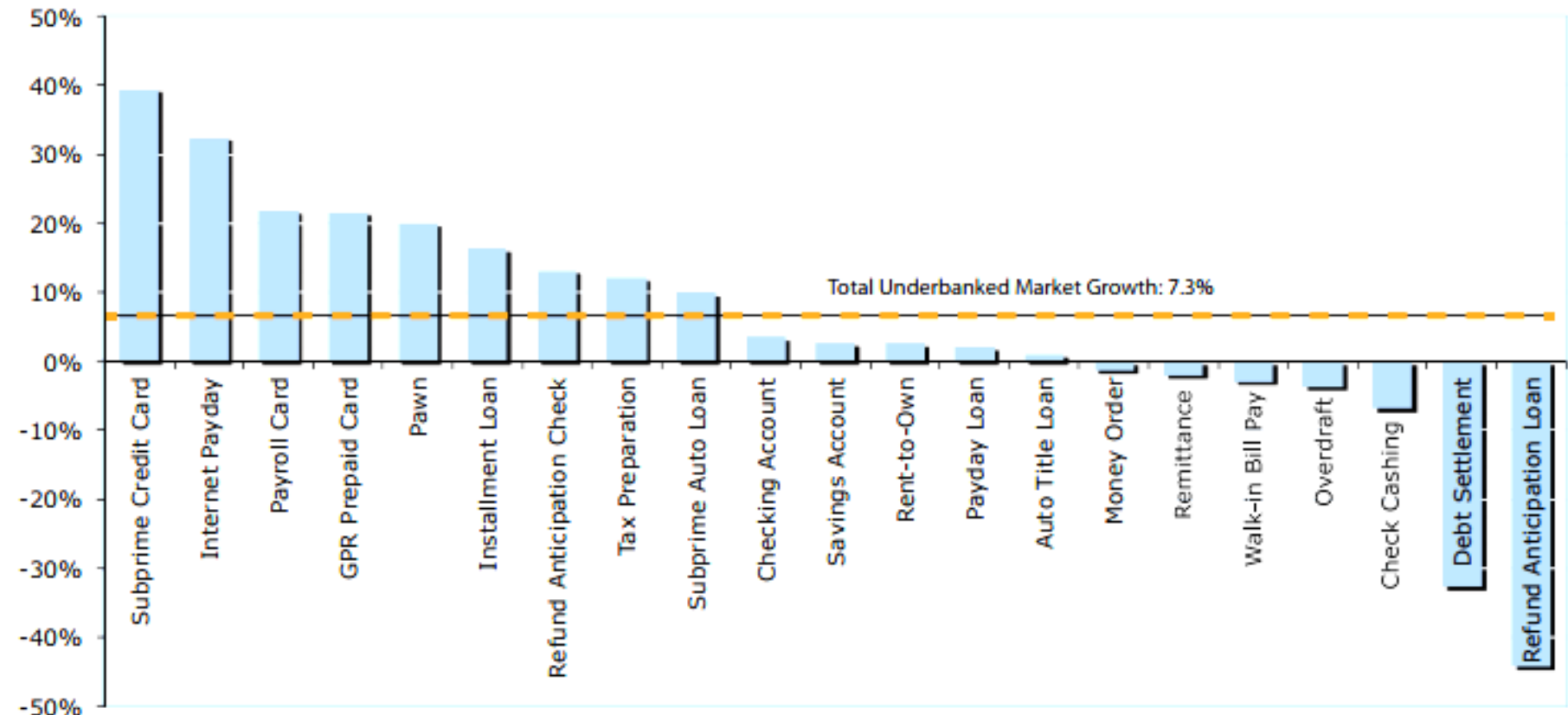


Source: 2011 FDIC National Survey
CFSI 2008 Consumer Segmentation

\$78 Billion Underbanked Marketplace



Trends in the Underbanked Marketplace



Financial Products

Note: Financial products without strong historical data for 2009 and 2010 are excluded from the product segments above.

Source: 2011 CFSI and Core Innovation Capital analysis.

Latest Research on Small Dollar Credit (SDC)

- 2012 CFSI Small Dollar Credit Paper: analysis of 1100+ SDC users
- Key research areas of focus
 - Demographics and financial state
 - Consumer need
 - Purchase decision process
 - Experience



Description of SDC Products Examined

- **Payday Loans:** Loans of generally \$300–\$500 with full repayment due two weeks after the date of the loan via a post-dated check or electronic account withdrawal. Payday loans come with a flat borrowing fee, typically between \$15 and \$20 per \$100 borrowed.
 - More likely to be female, ethnic, and less educated
 - Poorest consumer experience, yet many report being dependent
- **Pawn Loans:** Loans of typically a few hundred dollars, secured by a physical object, with a maturity of around 30 days and a borrowing fee of approximately 20% of the loan's value.
 - Poorest and least educated; Loans for smallest avg amount
 - Average consumer satisfaction but perceived as untrustworthy and last resort
- **Deposit Advance:** Loans or advances offered as add-ons to checking accounts with funds transferred to the account and repaid via an automatic deduction from the next direct deposit. Customers are typically charged a flat borrowing fee of \$7.50–\$10 per \$100.
 - Unavailable to many consumers; most often used to cover an unexpected expense
 - Average consumer satisfaction but perceived as untrustworthy and last resort
- **Non-bank Installment Loans:** Loans ranging from several hundred to several thousand dollars offered by nonbank providers and repaid in a series of installments. Borrowers are charged periodic interest over the life of the loan, with APRs ranging from 20% to 30% for larger, longer loans to over 200% for smaller, shorter loans.
 - Oldest and highest income
 - High consumer satisfaction
- **Auto Title Loans:** Loans offered by nonbank providers and secured by the title to a used car. Loan sizes are typically near \$1,000 but can range from a few hundred dollars to over \$2,500, with borrowing fees in the range of 10% to 25% of the loan value per month.
 - Highest amount borrowed and longest term
 - Below average consumer satisfaction; more expensive than expected



Small-dollar credit products. Who is using them and why?



An estimated 15 million consumers used at least one SDC product in the past year

Who are they?



59%
High school
education or less



27%
Possess a
credit card



66%
No
savings

Why are they short of cash?



30%
Living beyond
their means



32%
Bills due
before paycheck



32%
Unexpected
hit to income

How do they use the SDC?



36%
Utility bills



34%
Living expenses



18%
Pay rent

Top 3 Loan Attributes That Matter Most

1. Quick access to money
2. Ability to qualify
3. Clear terms

SDC Customer Satisfaction

While a slight majority of SDC customers reported a satisfactory experience, a significant number reported quite negative experiences.

- Within the products considered, payday loans and auto title loans received the lowest ratings and deposit advance received the highest.
- 30% of SDC consumers reported the loan costing more than expected



Big Takeaways So Far

- Many consumers would benefit from a multiplicity of safe, affordable, high-quality credit products and tools designed to meet different needs and uses
- In order to meet consumer needs safely, high-quality credit solutions will need to balance affordability and sound underwriting with speed, convenience, and accessibility
- High-quality credit can play a role in consumers' lives alongside (and possibly linked to) savings
- Underwriting that examines a consumer's ability to repay and overall financial situation will be critical to preventing repeat usage
- Strong consumer protections and innovation in high-quality credit will be necessary to address the struggles and needs of SDC consumers



Guidelines to Product Quality

Compass Principles – CFSI developed guidelines on quality for the U.S. financial services industry. The four principles affirm standards of excellence in the design and delivery of basic tools that people use to manage their daily financial lives.



Group Activity: What Does This Mean For You?

Break into small groups and discuss the following:

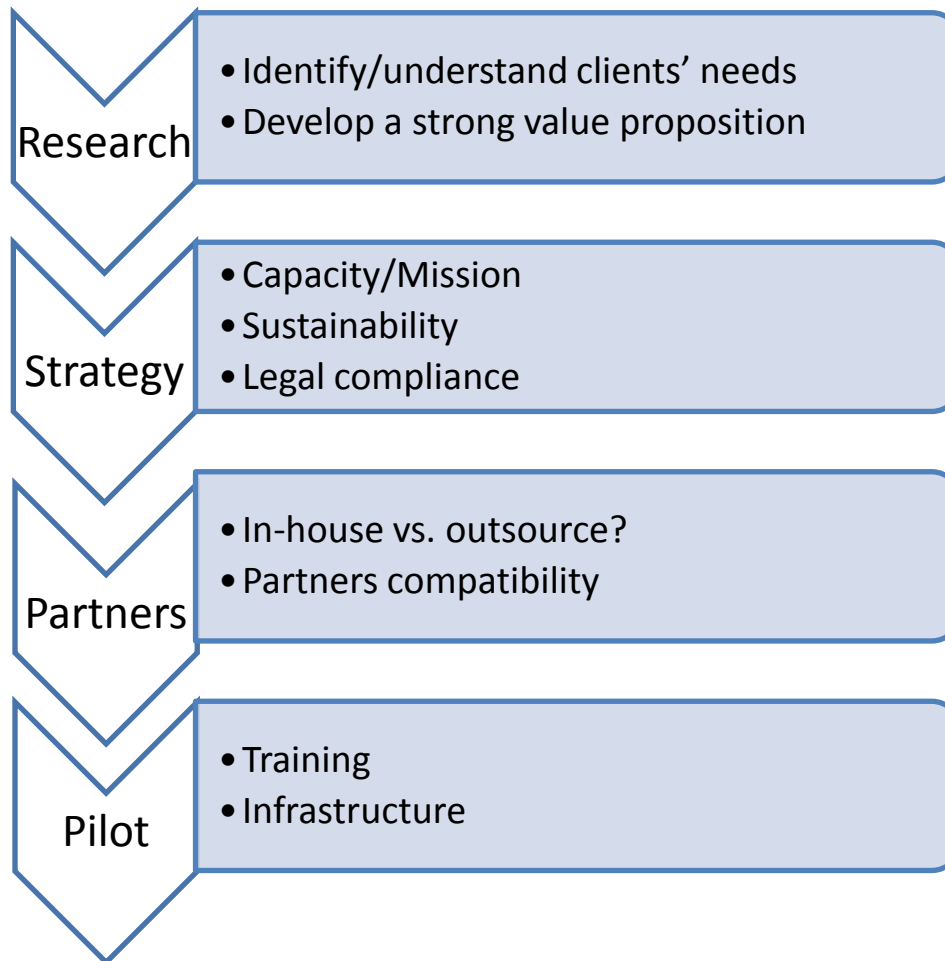
- What are your reactions to what you've just learned about the underbanked market?
- Think about your own clients and customers. Are their financial needs being fully met with high-quality products and services?
- What additional products or services do you think your clients need?
- What opportunities or challenges do you see for your organization in expanding your product suite to better serve broader range of financial needs of your clients?
- What additional questions does this raise for you?



THE PRODUCT DEVELOPMENT PROCESS: DECIDING, DESIGNING & DOING

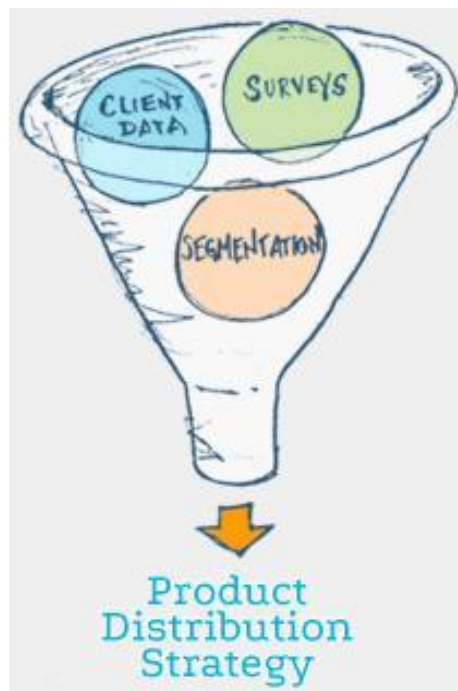


High-Level Overview



Conducting Market Research

Market research is a tool to help your organization make informed decisions about which financial product(s) and services represent the greatest value to your clients.



How?

Some frequently used market research methods include:

1. Focus groups and one-on-one interviews with clients
2. Client surveys
3. Mystery shopping of current bank and non-bank providers
4. Demographic analysis of current and potential clients



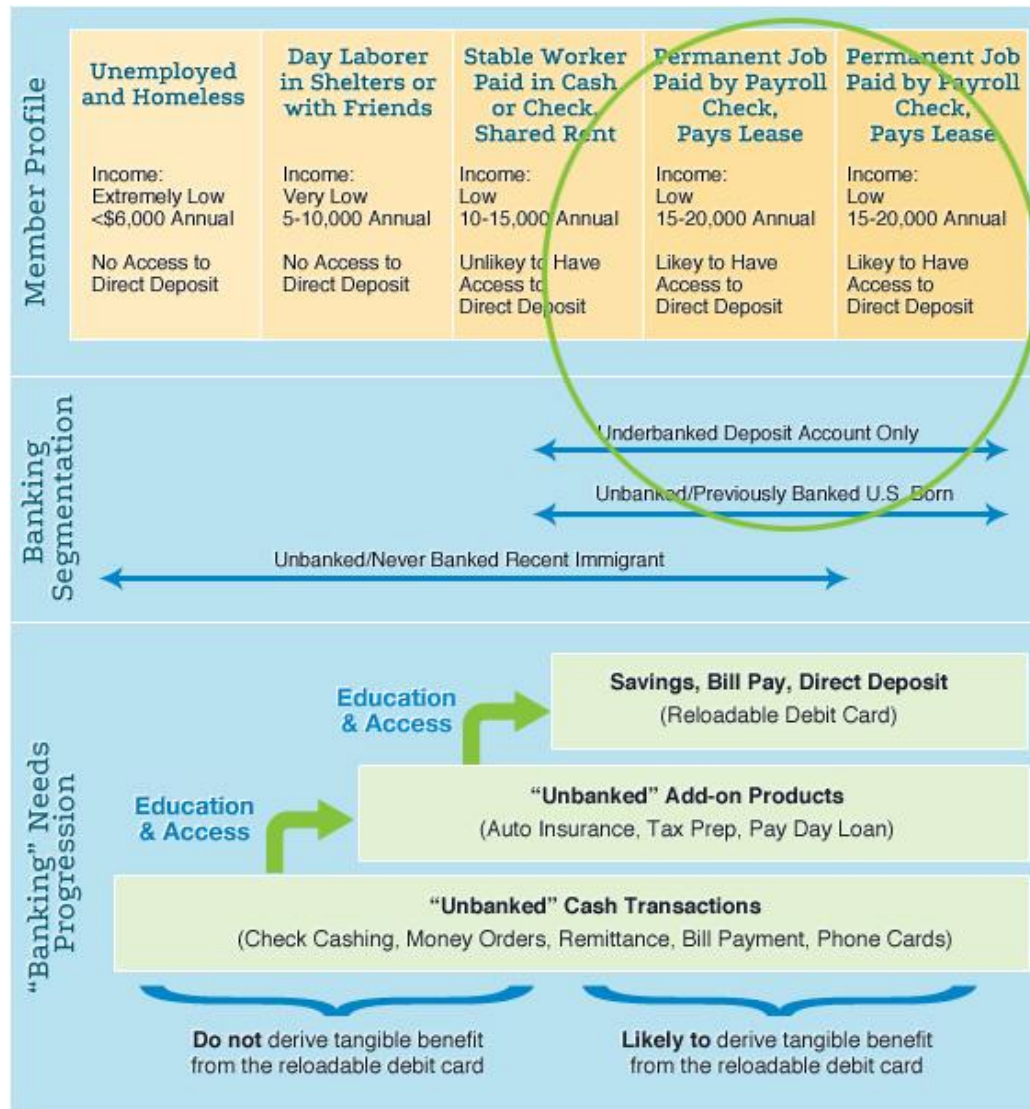
Market Segmentation

Customers can be segmented by many different characteristics

Geographic	Demographic	Lifestyle	Behavioral
Region	Age	Opinions	Behavior toward financial services
Population density	Gender	Values	Benefits sought from financial products
Size of population	Income	Interests	Use of existing financial products
Proximity to financial services providers	Race	Preferences	Brand loyalty
	Language		Criteria used when comparison shopping
	Education level		
	Employment		



Worker Center Example



Self-Help Micro Branch (Prospera) Example

Market Research Goals:

1. Who's our customer?
 2. What is the need?
 3. How do we address our customer's need?
 4. What do we represent in the mind of our customer?
-

Tactics:

Observation Excursions

In-Depth Interviews

Focus Groups

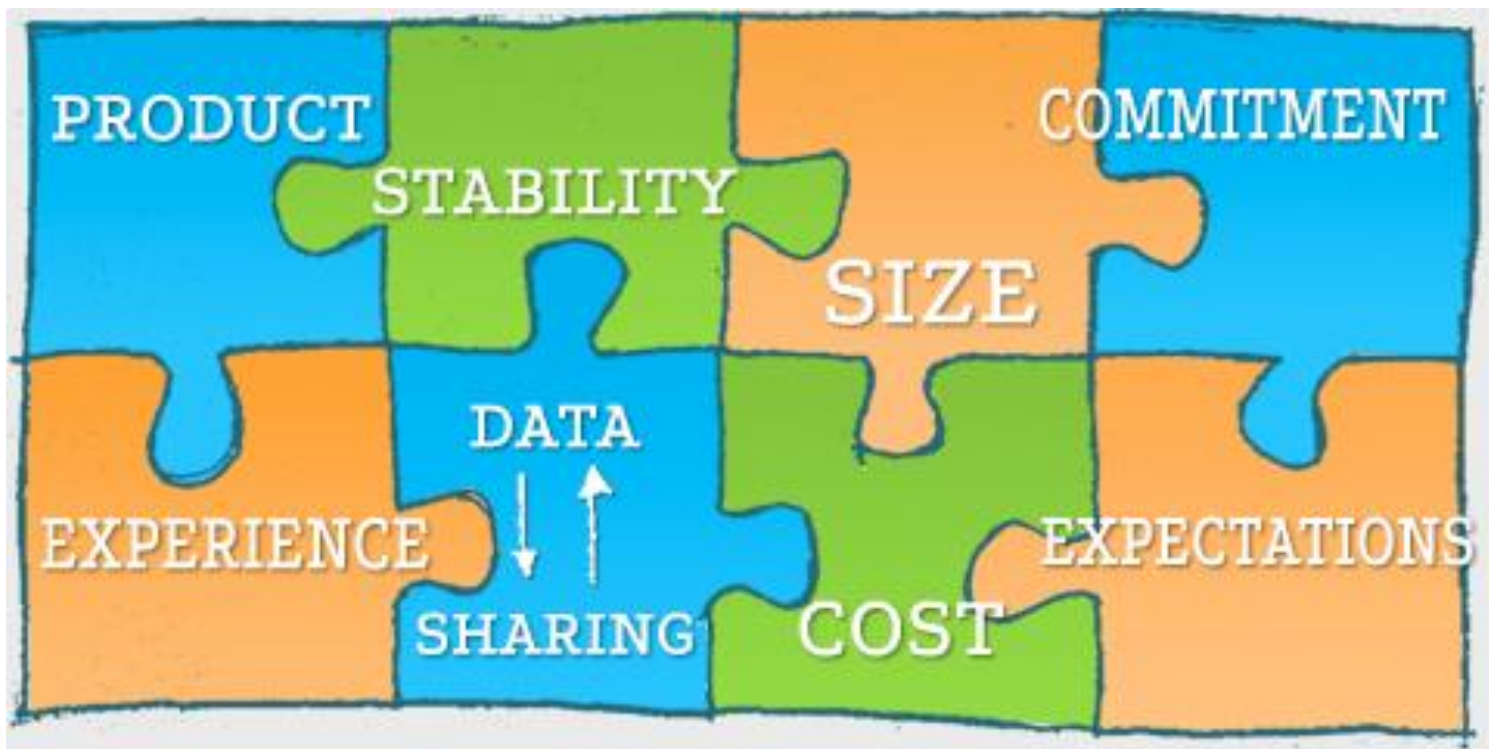
Surveys

Street Interviews



Partner Selection Criteria

- First, share an example of when you've partnered in the past: what worked well, what didn't work?



CASE STUDY BREAK OUT SESSIONS



Group 1 Overview



Opportunity Fund – Nonprofit microlender offering a low-cost emergency savings product coupled with financial counseling to better serve the financial needs of low-income consumers in their footprint. Achieving scale by serving new clients and better serving existing ones.



Justine PETERSEN – Nonprofit microlender offering a credit building secured card, in partnership with a national retail bank, alongside financial counseling. Achieving scale by attracting new clients.

Key take-away: These innovations deliver a new product to the organization that meets the needs of underserved consumers and is delivered with unique wrap-around support.



Group 2 Overview



Community development credit union meeting consumers where they are and offering affordable, responsible transaction financial services targeting underserved consumers.



Credit union offering a full range of financial services to underserved consumers in a cost-effective, convenient, and user-friendly way in the credit union context.

Key take-away: Innovation can be the delivery channel and integration of services in a way that address consumer financial needs. Both organizations are achieving scale by attracting new customers/members or better serving existing ones with new a product suite.



Exploring your Capacity & Interest in Broadening your Product Suite

Spend 20 minutes completing the planning worksheet with your colleagues.

We will ask volunteers to share reflections at the end.



Final Remarks

- Evaluation
- Next Steps
- More Resources

