BANKING ON TECHNOLOGY: EXPANDING FINANCIAL MARKETS AND ECONOMIC OPPORTUNITY

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with Perpetual Motion, Inc.

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The views expressed in this discussion paper are those of the authors and are not necessarily those of the trustees, officers, or staff members of The Brookings Institution.

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Finally, while recognizing the assistance of the many contributors to the project, the authors take full responsibility for the report's contents. We hope that this work leads to further discussion and exciting new initiatives using information technologies to make the financial services marketplace work for lower-income consumers.

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BANKING ON TECHNOLOGY: EXPANDING FINANCIAL MARKETS AND ECONOMIC OPPORTUNITY

I. OVERVIEW

No sector of the "old" economy has been more directly affected by information technology than financial services. Money itself—the industry's raw material—has gone digital, and so have the products and services that support consumer finance, from debit cards to financial planning software. Today it is hard to remember what life was like before ATMs. Technology has made it easier for consumers to access financial services and cheaper for providers to develop and deliver them. New partnerships are consequently forming between "old" economy and "new" economy firms to broaden the range of offerings and create new distribution channels. The products, providers, partnerships, delivery points and economics of the industry are all dramatically changing.

This report examines these profound changes in the financial services industry and identifies their implications for expanding economic opportunity for lower-income consumers. In short, it finds that:

1. Technological change is creating profitable new opportunities for financial services companies to bring lower-income consumers into the economic mainstream by "making the market work."

A number of factors are converging to make this a key moment for large-scale, market-based delivery of financial services to lower-income consumers. First, advances in technology, the restructuring of the financial services industry, and the new economics of financial services are making it easier for all consumers to access financial services and the industry, in turn, to create and distribute more customized products to new and conventional customers. Second, the mainstream market is becoming saturated while the lower-income market is large and underserved, with enormous pent up demand for financial services. Finally, the changes resulting from financial industry restructuring—reduced costs, broadened product choices, increased access points, new providers and partnerships—are exactly what are needed to address historical barriers to serving lower-income consumers. These new economies, products, and players can now be applied to the underserved market of lower-income consumers, making the economics of this market work for both new providers and conventional financial institutions.

2. While financial restructuring and new technologies create exciting opportunities to engage lower-income consumers, some challenges must be addressed to fully develop the new market.

Information, access, policy, and other barriers make it difficult for the market to function efficiently. For instance, a lack of reliable market information and segmentation products for the lower-income population prevents traditional institutions from effectively developing customized products for and reaching target lower-income segments. Furthermore, systems for capturing and sharing market data on lower-income consumers remain underdeveloped. Also, antiquated regulatory obstacles interfere with the deployment of new products, such as interest-bearing "savings cards" that might particularly appeal to lower-income consumers. Service gaps like these contribute to a product fragmentation that impedes the integration of low-income consumers into the financial mainstream. The same innovation and market development process that has restructured mainstream financial markets—employing specialized information gathering, customized product development, deployment of new technologies, and the creation of new partnerships—must go on for lower-income market segments.

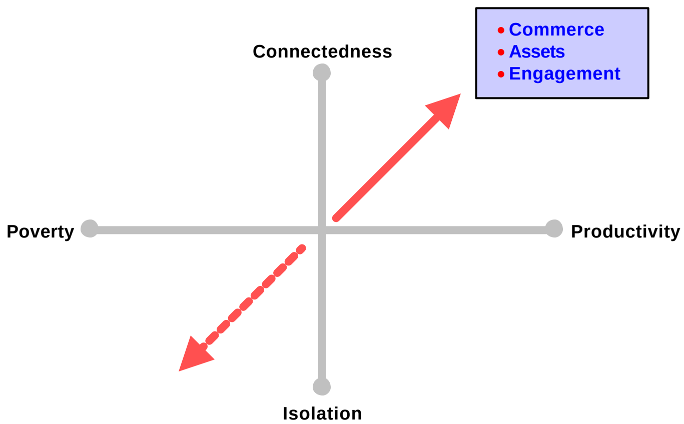
3. There is an emerging market response to meet lower-income consumers' demand for comprehensive financial services; the opportunity now is to accelerate this response and bring it to scale.

Across the nation, new financial providers as well as leading mainstream financial institutions are recognizing the importance and viability of the lower-income market and creating new partnerships, new products, and new delivery channels to meet the needs of such consumers. These initial efforts, however, are unlikely to reach scale without greater participation by conventional institutions, catalytic support from philanthropic and other leadership organizations, and appropriate government policies. The moment is ripe, then, to pursue a set of strategies to accelerate technological and market changes and address barriers to the full financial engagement of lower-income consumers. Such strategies include developing new points of access to financial services, promoting new product innovations and partnerships, developing better information on different segments of the lower-income market, and publicizing and replicating promising business models.

Dramatic changes in the financial services industry give rise to a major opportunity to provide better access to comprehensive financial services for lower-income consumers. Such financial engagement will enable lower-income consumers to reduce their economic isolation, build financial assets, and enhance their economic opportunities. In the ensuing pages, this report will examine the lower-income financial services market and why it does not function well; discuss in more detail the impact of technology-driven changes on the economy in general and the financial services industry in particular; and identify the new opportunities that are being created to promote fuller lower-income consumers' engagement in the economy. The paper closes with a suggested strategy for how best to maximize this opportunity.

II. FRAMING THE ISSUE

Technology is rapidly changing the financial services industry. These changes are presenting significant new opportunities for financial service providers to serve lower-income people—and to make money doing it. This report probes those opportunities by summarizing the findings of a year-long examination of how changes in financial services might be leveraged to enable lower-income people to participate more fully in the mainstream economy. In the course of that examination, the relevant literature was reviewed; stakeholders from around the country were interviewed; and a roundtable discussion was convened among academics, financial services industry executives, telecommunications and technology experts, and professionals in community development finance.



What, Exactly, Are Financial Services?

The term financial services refers to products, services, and systems that enable individuals to receive, store, and access funds; to pay bills and buy goods and services; to insure against risk; to accumulate savings and build assets (for example, by investing in interest-earning products); and to manage money (for example, through financial education, planning, and budgeting products and services). This report focuses on consumer finance, and in particular on non-credit products and services, though not to the exclusion of credit. A good deal of valuable work is underway to improve access to credit for lower-income people. While credit and noncredit financial services are interrelated, the lower-income market for non-credit products and services is comparatively understudied and underdeveloped. Our purpose is to address this gap.

Traditional thinking about financial services for lower-income segments focuses on basic check-cashing and payment services. We use the term more broadly, to include the full range of services people need to engage fully in the new economy. Better access to *comprehensive* financial services can help lower-income people to reduce their economic isolation, build financial assets, and enhance their economic opportunities in three ways, by: (1) strengthening their capacity to receive and make non-cash payments; (2) providing them with access to the full range of financial products; and (3) linking them to the financial information and networks necessary for full participation in the mainstream economy.

Technology Is Changing the Underlying Economy

Over the past few decades, information technology has produced fundamental changes in the underlying economy. Many labor-intensive functions have now been automated, from payroll to order processing to product design and manufacturing, enabling businesses to operate more efficiently and productively. These changes preceded the Internet and proceed independent of the Internet, and they continue to drive wealth creation. Businesses, as well as mainstream and affluent consumers, have a vastly greater capacity to collect, transmit, and manage information, and the new economy places a premium on specialized market information and its flow.

Financial Services Are Reconfiguring

The same changes that have transformed the underlying economy have had a dramatic impact on financial services. Money is digital, and the financial service business, at its core, *is* now technology. Checking accounts, 401(k) plans, mortgages, insurance—fundamentally, these and other financial products are all delivered electronically.

Within the broad category of information technology is a subset that we will call financial technologies—applications that have particular utility for consumer financial services. Besides the Internet, four technologies have reshaped the financial services landscape over the past couple of decades: (1) automatic teller machines (ATMs); (2) credit and debit cards; (3) automated clearinghouse, or ACH, technology, whereby funds can be wired through a network of financial institutions for immediate debiting and crediting of accounts; and (4) data warehousing and data mining, which allow a business to collect huge amounts of customer data and “slice and dice” data in numerous ways.

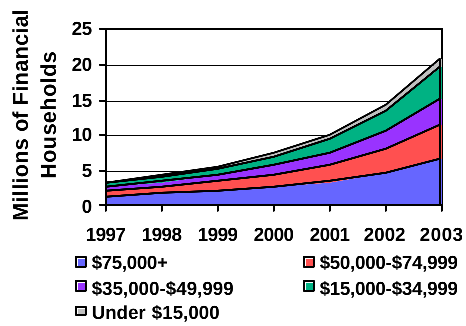
These technologies and others have altered and improved consumer financial services spectacularly over the past two decades. The new financial service system breaks up the old banking structure[1] and replaces it with numerous partnerships, networks, and alliances. Technology-enabled consumers can now access financial services seven days a week, around the clock, and compare and select from an amazing array of custom products and services. The average consumer has instant access to specialized information that once was available only to bankers and brokers, and can execute trades and perform other financial functions that once required an intermediary.

At the same time, technological developments—together with related industry competitive trends such as competition, product diversification, and consolidation—have intensified the competition to become the financial service provider of choice to lucrative higher-income consumers, which has widened the gap between low-income consumers and the financial services

[1] The concept of “breaking up the bank” is adapted from work by Gary Craft, founder of financialDNA.com and a leading analyst of the financial-technology industry and its leading companies. The concept is well described in his five-part series of reports “Breaking Up the Financial Intermediary” (1998-2000) for Deutsche Banc Alex. Brown.

mainstream. In addition, industry consolidation has caused banks to streamline and close overlapping and unprofitable branches.

Internet Use Is Growing

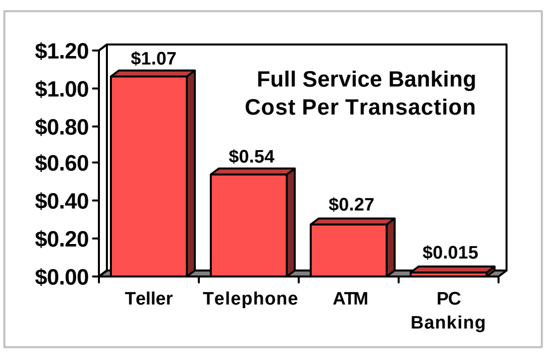


Morgan Stanley Dean Witter source: Forrester

August

Financial technologies are, meanwhile, becoming increasingly integrated with the Internet. Internet use and Internet commerce continue to grow rapidly. A.C.Nielsen estimated that, in 2001, 160 million people—close to 60 percent of the U.S. population—were online. According to comScore Networks, Internet penetration among African American households rose by more than a third between April, 2000 and April, 2001, and now stands at 51 percent.[2] The digital divide remains a concern—lower-income households, rural residents, and people of color have lower rates of Internet access than the rest of the population. Still, households with annual incomes of $25,000 or less had the fastest growth rate of any income segment, with 36 percent of them now online. (It is not known how many of these low-income households are students and seniors, who may possess more assets than the population that concerns us in this report.)[3] Nielsen/Netratings and Harris Interactive report that nearly half of all Americans, more than 100 million people, have already shopped online.[4] The rise of the Internet, and its integration with financial technologies, is not necessarily eliminating location- and paper-based enterprises, but it is forcing the financial-service providers to rethink their strategies and operations.

The Economics Are Changing



Source: Booz, Allen & Hamilton

Technology is also changing the economics of financial services. Electronic delivery is considerably cheaper than paper- and place-based transactions. The widely quoted industry standard is that, excluding investments in legacy systems, it costs roughly a dollar for a bank teller to cash a check or accept a deposit, compared with a quarter for the same transaction processed by ATM, and pennies for an Internet transaction.[5] The costs to a financial service provider of acquiring market information and designing and delivering customized products are dropping dramatically. At the

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[2] See comscore.com.
[3] Morgan Stanley Dean Witter, "Internet Financial Services" in *Investment Research*, September, 1999, citing research by Forrester Research.
[4] "More than half of USA have a web site," *USA Today*, August 18, 2000; see also Nielsen-netratings.com
[5] Booz Allen & Hamilton, Inc., "Customer Demand Internet Banking." 1996.

same time, as supply side entry and access barriers dissolve, and as competition heats up for moderate- and higher-income and certain niche markets, costs to consumers are dropping. Online investors, for example, can now execute their own stock trades for well under $30.

A saturated traditional market for financial services, combined with lower costs for product development and delivery, make the lower-income market much more appealing. Recent analyses – such as John Caskey's evaluation of data from the triennial Federal Reserve's *Survey of Consumer Finances,*[6] and a 2000 Dove Consulting study for the U.S. Department of the Treasury[7] - suggest that the lower-income market is larger, and potentially more lucrative for financial service providers, than traditionally thought. The new economics make it possible to serve more lower-income consumers profitably, to bring innovations developed in traditional markets to scale, and to spur development of a broader range of custom technology-enabled products and services targeted to lower-income people. Information technology is already beginning to attract new providers to the market and creating new points of access to financial services for lower-income consumers. (See Chapter 6 for examples.) At the same time, those who continue to rely on paper-based and traditional face-to-face financial services will face higher costs and fewer options.

Technology Opportunities Have Yet to Reach the Lower-Income Market

Advances in technology, the rise of the Internet, the restructuring of the financial services industry, and the new economics of financial services—all of these create exciting new opportunities for serving lower-income consumers. Yet these opportunities have barely been tapped. Financial technology innovations targeted to the lower-income market have focused primarily on payment technologies and platforms and are relatively small scale. Little has been done to provide lower-income people with the broader range of specialized financial information, products and services necessary for *full* engagement in the economy. Our purpose here is to describe these opportunities in more detail and suggest an approach to seizing them.

[6] John B. Caskey, "Reaching Out to the Unbanked." (Preliminary draft), August, 2000;
Arthur Kennickell, Martha Starr-McCluer and Brian Surrette, "Recent Changes in U.S. Family Finances." Federal Reserve Bulletin; January 2000; and Edward S. Prescott and Daniel D. Tatar, "Means of Payment: the Unbanked and EFT99." Federal Reserve Bank of Richmond Economic Quarterly, Fall 1999.
[7] Dove Consulting, "Survey of Non-Bank Financial Institutions," Final report for the Department of the Treasury, April 4, 2000.

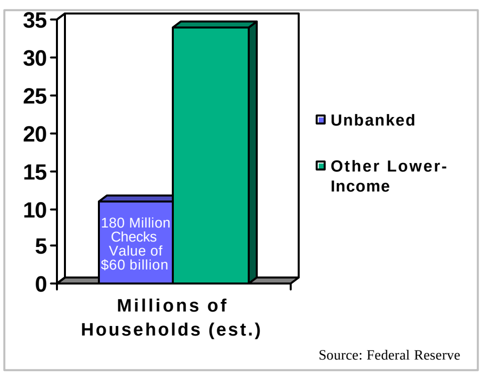
III. THE LOWER-INCOME MARKET IS LARGE AND UNDERSERVED

The traditional view of lower-income consumers understates their demand for financial services. These consumers, who we define as individuals and households earning 80 percent or less than the U.S. median (or $17,600 and $33,600 or less, respectively), represent a large and underserved market for financial service products.[8]

The Market Is Large and Growing

According to the 1998 *Federal Reserve Survey of Consumer Finances*, approximately 10 million households—about one-tenth of all U.S. households—operate outside the conventional banking system. While these tend to be lower-income consumers, the unbanked are not exclusively lower-income, nor are all households with banking relationships necessarily middle- or upper-income.

Many lower-income consumers are marginally banked; that is, they own checking or savings accounts, but maintain very low balances. Their banking relationship does not necessarily satisfy their financial needs. This is a comparatively understudied group, and perhaps larger in number than the unbanked. Research conducted by the Fannie Mae Foundation, John Caskey and the Federal Reserve Bank of Richmond[9] indicates that the marginally banked often turn to a check-cashing service when that is a lower-cost alternative.



Depending on how one defines *lower-income*, the total lower-income market for financial services may be as large as 35 million households out of slightly more than 100 million total households in the U.S. According to the 2000 Dove Consulting study, some experts place the combined unbanked and subprime credit population at 30 to 40 million. Up to 40 percent of American households do not have an unsecured credit card, reports the study.[10]

Spending on Financial Services Is Substantial

Financial service providers that target lower-income consumers—frequently institutions other than traditional banks and investment firms, such as check-cashing services, community

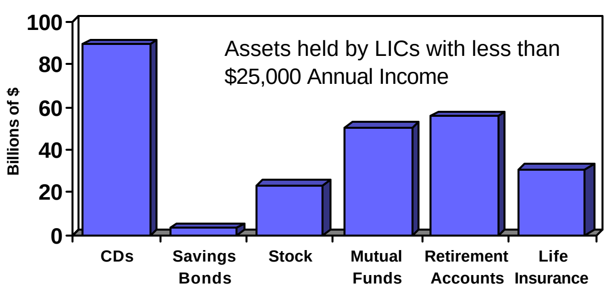
[8] The median household income figures are based on U.S. Census estimates.
[9] James H. Carr and Jenny Schuetz, "Financial Services in Distressed Communities: Framing the Issue, Finding Solutions." Fannie Mae Foundation, 2001; Caskey, 2000; and Prescott and Tatar,1999.
[10] The 2000 Dove Consulting study also concluded that 24 percent of federal benefits check recipients lack bank accounts based on its 1998 analysis of survey data gathered for the Department of Treasury's Financial Management Service by Shogull/Booz Allen.

development financial institutions, Western Union and, increasingly, 7-Eleven and other convenience stores—have found there is significant money to be made from serving this market. The lower-income population, particularly people without a bank account, spends a significant portion of its income on financial services. In 1997, the unbanked purchased $980 million in money orders. In 1998 they cashed $60 billion worth of checks, generating annual fees of about $1.5 billion, excluding money order fees and interest paid on extension of credit. [11]

The Dove Consulting study cites further research estimating that people with no bank account spend about 2 percent of their income on basic financial services such as check-cashing and bill-payment. Assuming an average yearly household income of $20,000 and a population of 10 million households, that translates into a $4 billion market. This figure is conservative—it excludes the marginally banked, as well as the potential lower-income market for savings and investment products. Research indicates that the annual cost to a household with a $20,000 income of basic financial services such as check-cashing and bill-payment ranges between $86 and $500.[12]

Lower-Income People Have Substantial Aggregate Assets

Lower-income individuals also have substantial collective assets, even if they individually often possess few assets or even negative net worth. Calculating from data reported in the 1998 *Federal Reserve Survey of Consumer Finances,* families earning $25,000 a year or less have a collective total of $175 billion in assets, including almost $90 billion in CDs and more than $50 billion in mutual funds.[13]



Source: 1998 Federal Reserve Survey of Consumer Finances, author's calculations.

Multiple Market Segments Offer Distinct Opportunities

The lower-income market is often deemed monolithic (if it is viewed at all), but in fact it is highly segmented like any other market. Different segments offer distinct opportunities to expand product and service offerings based on variations in financial decision-making, attitudes, behavior, and demand for products from one segment to another. Financial institutions that target lower-income people, such as Union Bank of California and Banco Popular, headquartered in Puerto Rico, are beginning to identify distinct segments and tailor products to them. So are leading

[11] Dove Consulting, 2000.
[12] Carr and Schuetz, 2001.
[13] Authors' estimate based on data from the 1998 Federal Reserve Survey of Consumer Finances. Again, some of the families in this category may be seniors with low incomes, but considerable assets.

subprime credit card issuers, such as Providian Financial, based in San Francisco, and CompuCredit in Atlanta. Here is a broad overview of key market segments:

The Working Poor

Individuals classified as "working poor" may earn as much as $25,000 to $35,000 annually. This segment has more income available to save and invest than other lower-income segments. The workplace may be a viable point of access to them.

People on Public Assistance

People who rely on the welfare system have lower incomes and fewer assets than the working poor and are more firmly entrenched in poverty. Though they receive funds on a more or less predictable schedule, their access to basic financial services—check-cashing and payment vehicles—is more limited than that of the working poor. Still, and perhaps due to this very lack of access, welfare-dependent people spend significant sums on financial services and are therefore a potentially significant market.

People Impoverished by One-Time Events

Divorce, bankruptcy, health crises—these and other personal catastrophes can cut people off from the economic mainstream, sometimes temporarily, sometimes permanently. This population, though lower-income, is often employed, and many have a reasonably good chance of returning to economic stability. Their potential for financial recovery makes them an attractive market for financial services.

Immigrants

Perhaps the fastest-growing group of unbanked lower-income people, the immigrant population often is less knowledgeable about the traditional banking system than other lower-income segments. Immigrants are also heavy users of money-wiring services; people of Mexican origin working in the United States wire approximately $8 billion to Mexico annually.[14] The immigrant population has high potential for upward mobility and is thus considered attractive by financial industry marketing analysts. In immigrant households with first-generation American children, youngsters often interpret American language and culture for their parents. Financial service providers need to keep this in mind when developing products and services for immigrants. They also should keep in mind that growth in the immigrant population could double the unbanked population in the next 20 years.

[14] Ginger Thompson and Tim Weiner, "In State of Union, Fox Asks More Time to Keep Promises." *The New York Times*, 2 September 2001, sec. A, p. 4.

Racial and Ethnic Groups

Spending and saving patterns, financial decision-making, and other financial behavior can vary greatly from one racial or ethnic group to the next. These distinctions need to be understood to market financial services effectively. For instance, in African American communities, churches might well function as points of access to financial services, whereas the school system may be a preferable channel for reaching the younger Hispanic consumer population which often “interprets” American culture and economic practices for their elders.

Urban Residents

Urban dwellers, including lower-income people, have more points of access to financial services than rural people, including check-cashing services, convenience stores, and other alternatives to banks than rural residents. Costs, though, are typically higher for lower-income people than the more affluent customers of mainstream financial institutions. Urban residents also tend to have higher rates of Internet access than rural residents.

Rural Residents

Rural communities have fewer choices of traditional and alternative financial service providers and lower rates of Internet access. In especially poor communities, residents would benefit from expanded points of access to financial services, such as through convenience stores and other retail establishments, as well as expanded check-cashing and other service offerings.

Various Age Segments

Financial behavior and product demand vary from one age group to another. People under 35 constitute the highest number of unbanked consumers, although lower-income seniors over 75 are also likely to be unbanked. Younger people are heavier users of credit, and they also have the highest rates of Internet access and literacy. Older people tend to have higher net worth, as savings tend to grow with time. However, Financeware.com, the Virginia-based online financial planning firm, notes that elderly citizens who lack accumulated savings risk falling into poverty.[15]

Notwithstanding differences among various market segments, lower-income people are rational consumers who are looking to purchase financial services and products for many of the same reasons as higher-asset and higher-income financial consumers. Lower-income people have fewer options, but they want a full range of financial services that are reasonably priced and easily accessible. And the fact is that certain market segments, as well as lower-income consumers in the aggregate, have considerable assets and spend substantial amounts on financial services.

[15] Financeware.com, “Living Life on the Flip of a Coin: Will Americans Achieve Their Financial Goals?” 2000.

IV. INFORMATION AND ACCESS BARRIERS IMPEDE MARKET FUNCTIONING

If there is so much market potential among lower-income consumers, why isn't this demand being met? The market has failed for many reasons. Widely held stereotypes persist in the absence of good market information about three broad types of market barriers: those of cost, information and access. These barriers are in turn shaped by a variety of factors, including the costs of serving lower-income consumers; inadequate understanding of those consumers' needs; some consumers' limited financial literacy; their distrust of the financial system; their economic isolation; regulatory constraints; and the paucity of links between potential partners.

Widely Held Stereotypes Discourage Innovation

To begin with, several misperceptions prevent the market from functioning efficiently.

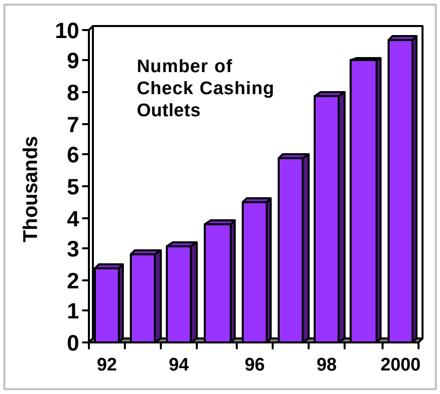
1. Myth: Lower-Income People Don't Want to Save or Invest

The prevailing wisdom has it that lower-income people need only basic financial services—essentially, check-cashing and bill-payment capabilities, perhaps a checking account at most. Lower-income people are not perceived to be interested in savings and investment products or to have the capacity for broader financial engagement.

Research does not support this notion. Half of the regular users of alternative check-cashing services surveyed in September 2000, by Eric Mower and Associates on behalf of Financial Service Centers of America, said they would use a savings account.[16] Research by Michael Sherraden at Washington University in St. Louis indicates that lower-income people save more when they are offered a specialized savings product, such as an Individual Development Account (IDA), than the general lower-income population that does not have access to such specialized savings products.[17] Washington University's Center for Social Development looked at 1,300 households participating in IDA programs with incomes ranging from less than 50 percent to more than 150 percent of the poverty level. Participants showed savings rates from 2 to 8 percent. By comparison, the nationwide savings rate for October 2001 was 0.2 percent, a record low.[18]

[16] Financial Service Centers of America, "Customer Satisfaction Research: Final Report." Report by Eric Mower and Associates: Marketing and Research Services Division, September 26, 2000.
[17] Michael Sheraden, "Saving Patterns in IDA Programs." St. Louis: Center for Social Development, Washington University, 2000. An IDA is a special matched savings account, similar to a 401(k). See Chapter 7 for further details.
[18] SavingsCentral.com Executive Summary (of a business plan), 2000.

2. *Myth: Lower-Income Consumers Are Unsophisticated*



Dove Consulting Source: InfoUSA Estimates

It is widely thought that lower-income people do without bank accounts and pay higher transaction fees because they are unsophisticated consumers. While they may have limited access to the cornucopia of financial information that more affluent consumers take for granted, lower-income people make rational financial decisions based on the information at their disposal, and they are savvy consumers. Minimum balance requirements, monthly maintenance charges, ATM charges, and high insufficient funds (NSF) fees are off-putting for many lower-income people. Both banked and unbanked customers turn to check-cashing outlets when they need immediate access to funds—an important consideration for people living from paycheck to paycheck—and many banked consumers use check-cashing outlets to avoid NSF fees. Research shows that at least half of the unbanked did have bank accounts at one time.[19] The decision to use alternative check cashers may be based in part on a preference for transaction pricing. While the average fee for cashing a check at an alternative institution is about 2.5 percent of the amount of the check, some establishments charge as little as 1 percent. In any case, some lower-income consumers are willing to pay a fee for a financial transaction, but less willing to pay a monthly fee for a bank account that is not perceived to provide specific benefits.

3. *Myth: Lower-Income Consumers Are Not Price-Sensitive*

Experience shows that pricing does influence the financial behavior of lower-income consumers. Union Bank of California has opened more than 100,000 new accounts in the Los Angeles area through a lower-than-average check-cashing option, along with a broader menu of financial products offered at its Cash & Save outlets. Banco Popular in Puerto Rico, in an effort to move customers from high-cost bank tellers to electronic channels, offered an all-electronic account with unlimited transactions for $2 per month. The strategy attracted 15 to 20 percent of the bank's mostly lower-income customers to the all-electronic account.[20]

Banks Find It Costly to Serve Lower-Income Consumers

More than myths depress the lower-income financial services marketplace, however. So do cost, information, and access issues.

Until recently, for example, banks have found it too costly to open and maintain the small-volume accounts that are typical of lower-income consumers. The Tower Group, a leading

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[19] John Caskey, "Consumer Financial Services and the Poor." Filene Institute, 1996; Prescott and Tatar,1999.
[20] Telephone interviews with James Laffargue of Union Bank (August, 2000) and Nestar Obie, Banco Popular (August 2000)

financial technology market research firm based in the Boston area, cites industry data indicating that the cost to a financial institution of opening an account may run as high as $40. Other research has found lower average account opening costs.[21] Service costs for accounts with low average balances pose another barrier for the financial supplier. In addition, many lower-income consumers lack a credit history. Banks have limited means to investigate customers with no previous banking history. If the risk cannot be quantified, a mainstream provider will err on the side of caution. For all these reasons, many banks believe it is unprofitable to target lower-income consumers, and in many instances, it has been.

Information Barriers Contribute to a Dysfunctional Market

Inadequate information increases risk and transaction costs and so keeps markets from functioning well; good information enables the market. Unfortunately, specialized market intelligence is generally much less available for lower-income segments and poor communities. Shorebank's urban market intelligence division, for example, has found that even the best conventional data and models dramatically underestimate the demand for financial products in lower-income communities. With limited knowledge of lower-income market segments and limited access to them, most conventional providers do not deem the lower-income market a particularly attractive business opportunity. Indeed, under these circumstances, it may not be—because without good market information and access, risk and transaction costs are higher, products are poorly tailored, and the provider cannot access targeted segments efficiently. Many conventional institutions have closed branches in poor communities. To the extent that traditional institutions do target this market, they generally offer only basic services, not the broader range of savings and investment products that many lower-income people want. Markets do not function well in the absence of good intelligence—demand and offerings are out of sync.

Low Financial Literacy Levels Are a Barrier for Some Segments

Some, but by no means all, segments of the lower-income market are poorly educated about financial basics. Most don't know as much about available products and services as more affluent consumers. This is partly because mainstream providers are not developing specialty products to serve this market, nor widely advertising the products they do have to this market.

Many Poor People Don't Trust Banks

Trust and cultural issues are factors in the preference of many lower-income consumers for alternatives to the banking system. Research shows that many unbanked people, especially immigrants, find banks intimidating and distrust the financial system. They desire to keep financial

[21] Interview with the Tower Group (July 2000). The $40 figure includes all customer acquisition costs (including marketing and advertising expenses) of a typical bank customer and is used as a standard or typical banking industry estimate. The $13 estimate provided by Dove Consulting's "ETA Conjoint Research Final Report and Market Model of Unbanked Federal Check Respondents (US Treasury Department, May 26, 1999) includes only direct expenses.

information confidential.[22] They are more comfortable with a neighborhood check-cashing facility or convenience store, and many spread transactions among two or more institutions to protect their privacy.

Access Is a Problem for Lower-Income Consumers

In many poor communities, bank branches are few and far between, and they often operate under restricted hours. This makes it difficult for lower-income people to establish a banking relationship. ATMs can compensate to some extent, but one cannot open an account or pay a bill at most first-generation ATMs, and besides, lower-income communities tend to have fewer ATMs than wealthier neighborhoods.

The Regulatory Environment Impedes Specialized Product Development

The current regulatory system was built on the assumption that only traditional financial institutions would be providing financial services. That means that check-cashing companies, Western Union, and convenience stores face major legal constraints on offering savings and other financial products tailored to lower-income people, because these institutions are not insured depositories. If a community center or check casher such as ACE Express, the largest chain of check-cashing outlets, wanted to offer a savings product, it would have to become a regulated depository institution.

Links Between Potential Partners Are Poorly Developed

With advances in financial technology, many of the information, access, and cost barriers we have discussed could be addressed through partnerships between traditional and specialty financial service providers, with community institutions (churches and community technology centers, for example) and between specialty providers and information technology developers. These entities seldom interact in today's environment, and a mechanism is needed to bring them together.

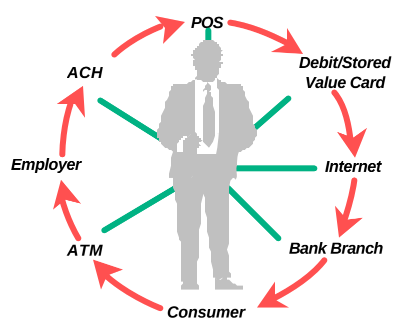
[22] Prescott and Tatar,1999; Caskey,1996; and Jeanne Hogarth and Kevin O'Donnell, "Banking Relationships of Lower-Income Families and the Governmental Trend toward Electronic Payment." *Federal Reserve Bulletin,* July, 1999.

V. The New Economy Is Reordering the Financial Services Industry

The changes wrought by information technology, meanwhile, are deep and fundamental. Information technology is radically reordering the economy– and with it the financial services marketplace.

New technologies allow efficient, rapid collection and analysis of enormous amounts of information. They make possible far less expensive and more sophisticated market knowledge, access, and response. And they enable increasingly nimble companies to target the narrowest of market niches, and to deliver highly tailored products quickly and easily through diverse media and delivery strategies.

Right in the middle of these changes is the financial services industry. Money is now digital. Fundamentally, the financial service industry is information embedded in information technology. That means that technology is changing where and how financial transactions take place and how traditional providers do business. Institutional relationships are changing, the traditional bank model is breaking up, and that is enabling new providers and products to enter the market and catalyze the use of new distribution channels and new partnerships to provide financial services. At the same time, all of this is significantly altering how consumers at every income level go about their business—not only how they process day-to-day financial transactions, but also what options are available to them to build assets and make a better life for themselves. The development and delivery of nearly all financial products has been affected.



The Payments System Is Transforming

Innovations in technology, especially the Internet, have had a major impact on how people receive funds and pay bills. For instance, a 2001 survey commissioned by the Federal Reserve, the first such study in 20 years, found that the number of checks have remained at the same level while other payment media have grown significantly. In the current study, about 62 percent of transactions were completed by check compared to 85 percent the last time such a survey was done, in 1979. While checks increased 55 percent over that period, noncheck payments more than doubled.[23] Location- and paper-based transactions are decreasing relative to electronic media, and electronic transactions are now commonplace.

1. Automatic Teller Machines (ATMs) Are Growing in Number and Function

Between 1983 and 1995, ATMs tripled in number to 120,000, and transactions increased five-fold, to 10 million. By comparison, bank branches grew by only 10 percent during the same period to a total of 40,000 (and declined in many poor communities). In 1995, electronic funds transfer networks lifted bans on fees for using machines not owned by the consumer's bank. Since 1996, the number of ATMs has nearly doubled again to more than 270,000. IDC, a global market intelligence and advisory firm specializing in technology and e-business trends, forecasts that by 2003, ATMs will surpass bank branches as the highest-volume U.S. banking channel, with more than 13 billion annual transactions. Today, non-bank institutions can own and administer ATMs, providing an alternative to traditional banking access points. During 2000, 85 percent of new ATMs were located off of bank premises.[24]

Not only are there more ATMs in the market; today these machines can do more than accept deposits and dispense funds. Some machines can cash checks, issue money orders, and accept loan payments. Enhanced, web-enabled ATMs are essentially electronic kiosks, providing access to a bank's Internet site and information about services ranging from financial planning to investment products. Some financial service providers have installed machines that enable consumers to apply for loans. These automated loan machines issue quick decisions and, upon approval, issue a check or prepaid card.[25] Offerings available through "souped up" ATMs have moved beyond financial products—for example, First Union ATMs issue prepaid phone cards while Chevy Chase Bank ATMs in the Washington, D.C. area sell postage stamps.[26] (Further examples of applications directed at the lower-income consumer market place may be found in Chapter 6.)

The Southland Corporation, through its 7-Eleven convenience stores, also has a strategy to use kiosks as financial service outlets. Through a strategy it calls "Vcom," or virtual commerce, the company offers basic ATM and money wiring services through machines owned by American Express. Southland is working in partnership with NCR, the technology company and ATM manufacturer, and plans to add interactive touch-screen kiosks to the program.[27]

[23] Federal Reserve Bank of Boston, "Fed Announces Results of Study of the Payments System, First Authoritative study in 20 Years." Press release, November 14, 2001; Dove Consulting, "Electronic Payment Instruments Study Summary Report Prepared for the Federal Reserve System's Payments Office," December 5, 2001.
[24] *Bank Network News*, "ATM Growth Not Forever." August 25, 2000.
[25] Research interview with Triton Systems.
[26] David Breitkopf, "On Next-Generation ATM Menus, Cash Will Just Be an Appetizer." *The American Banker,* February 6, 2001; David Beutkoff, "Next Generation ATM's Dispense More than Cash." *The American Banker*, December 6, 2000; Megan Ptacek, "Web Bank Plans ATMs for Subsidized Housing." *The American Banker*, June 20, 2000.
[27] David Breitkopf, "7-Eleven Has the Kiosks, Wants Partners." *The American Banker*, May 9, 2001.

2. *Card-Based Products Are Exploding*

More than 90 percent of consumers hold some type of plastic payment card, according to a survey by Standard Register based in Dayton, Ohio.[28] Point-of-sale transactions using magnetic-strip debit and stored-value cards are rapidly replacing ATM transactions. Synergistics, a financial services research firm in Atlanta, Georgia, reported in February 2000, that nearly half of all consumers who earn more than $15,000 annually have a debit card. In 1998, the Bank for International Settlements reported that there were 240 million debit cards in circulation in selected developed countries, including the United States. Debit-card transactions increased from slightly more than 1 billion in 1994 to 5.7 billion in 1999; and debit-card terminals grew more than tenfold, to 1.7 million, during that period.[29]

The types and capacities of card-based products are also expanding and promise to continue to do so. There are two types of debit cards, online and offline. Online cards require a personal identification number (PIN) at the point of sale and are “real time”—that is, they instantly debit a user’s bank account, just like a withdrawal from an ATM. Offline cards function like electronic checks; they use credit card interchanges for transaction processing and take a certain amount of time to “clear.”

So-called smart cards, widely used in Europe and Asia, contain computer chips to store unique information about the cardholder so as to improve security. One example is the American Express “blue card,” which provides a temporary transaction number for online purchases instead of an actual card number. Smart cards have yet to take hold in the United States, due at least partly to the enormous American investment in terminals that read magnetic-strip cards. Full emergence of smart-card technology is expected to take about five years in the American market, fueled by further expansion of Internet-enabled commerce.

Because card-based technologies have become and will remain a primary vehicle for accessing consumer financial services, card-based products in particular offer significant opportunities to link lower-income people to the economic mainstream.

3. *Automated Clearinghouse (ACH) Transactions Are Seeing Double-Digit Growth*

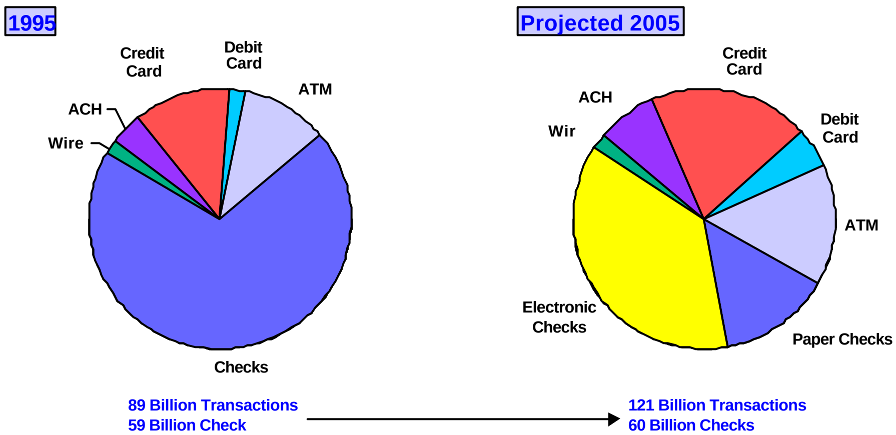
Automated clearinghouse technology wires funds directly between institutions and individuals for immediate debiting and crediting of accounts through an electronic network of financial institutions. During the 1990s, ACH transactions grew fourfold, including direct deposits, government payments, and scheduled automated payments. The ACH system is used for relatively small denominations and large transaction volumes. Per-transaction fees have fallen by half over

[28] Standard Register, “National Consumer Survey of Plastic Card Usage.” August 28, 2000
[29] Bank for International Settlements, “Statistics on Payments in the Group of 10 Countries.” February, 2000.

the past five years. According to the Federal Reserve, ACH transactions number nearly 5 billion per year and average around $60 billion per day in dollar volume.[30]

4. Even Paper Checks Are Going Digital

While the check is still an important means of payment in the United States, about a quarter of all checks are now presented electronically. "Check truncation" enables checks to be handled electronically rather than transferred physically. By 2005, according to M One, a financial technology firm based in Phoenix, Arizona, electronically presented checks are expected to outnumber physically presented checks by about three to one.[31]



Source: M ONE, Nilson Report Forecast, Carreker-Antonori

Customers Have More Access Points, Greater Convenience

Technology lets people access financial services in entirely new ways, around the clock, seven days a week. Consumers can bank from home and office, through the Internet, at ATMs, at point-of-sale terminals in retail stores, over the phone, and through mobile telecommunications.

Costs Are Dropping

Technology lowers the cost of delivering financial services. As we have seen, processing a transaction at a teller's window costs roughly a dollar. Excluding fixed investment costs, the same transaction costs about 50 cents to process over the phone, about a quarter through an ATM, and less than a penny over the Internet. Cost savings are not limited to the provider-consumer interaction. Business-to-business costs are dropping, too. Clearing a check through ACH technology is much cheaper than sending a paper check from one location to another. As more

[30] Louise Roseman, "The Federal Reserve and the Payments System." (PowerPoint presentation; April, 2001).
[31] M One, "It'sOver.com: An E-Commerce Survival Guide for the Banking Industry." 1999.

organizations provide financial services across geographic boundaries, and as price competition increases, the cost to consumers of switching financial providers also comes down.

More Information Is Available to Consumers and Providers Alike

Technology has changed the balance of power between the producer and the technology-enabled consumer. On the consumer side of the equation, information technology makes it possible for bank-users to research, compare, and interact with providers of financial services with fewer limits than ever before. Data warehousing and mining technologies, meanwhile, enable providers to gather and analyze enormous amounts of information on consumer behavior and preferences—and lower the costs of storing and recalling customer information. As Walter Wriston, former CEO of Citicorp, observed: "Information about money has become almost as important as money itself." Marilyn Seyman, President and CEO of M One, puts it another way: "In the new culture, a bank is defined almost solely by its ability to add value to the customer relationship, which breaks down into acquiring, analyzing, integrating and leveraging information about, from and *for the benefit of* each individual consumer."[32]

Information technology has enabled businesses to gather, capture, interpret and analyze great volumes of customer data. The result is an enhanced ability to develop and market products tailored to the needs of specific customer segments and even individual customers. The collection and analysis of data is known as "data warehousing" and "data mining." By data warehousing, we refer to capturing customer data in large proprietary and commercial databases. By data mining, we refer to the analysis and interpretation of information in the databases. The data mining process includes using the warehoused data to develop models about financial product preference and usage of customers. For instance, these techniques can be used to determine which customers are likely to be interested in home equity loans or financial planning software. The data-driven answers may be quite different than the customer stereotypes many of us carry around with us.

Niche Marketing Is on the Rise

The economy as a whole is moving from mass marketing to customized production and marketing, and financial services are no exception. Providers now have precision tools to develop and market products to meet the needs of specific customer segments. With the rise of highly specialized products and providers, the market is becoming increasingly fragmented. Online securities trading firms, for example, do not necessarily offer financial planning and education. With growing numbers of specialized providers, consumers have to keep track of more and more accounts—perhaps several credit cards, bank accounts, savings accounts, investment accounts, and relationships with insurers.

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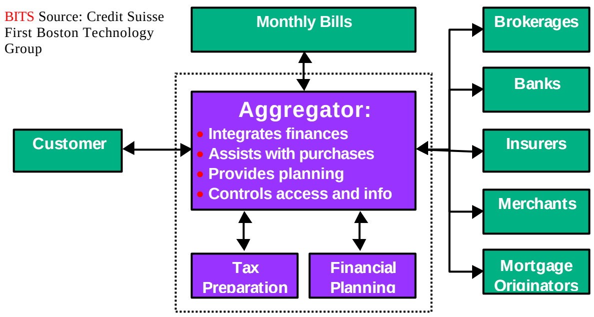
[32] Marilyn Seyman, *Managing the New Bank Technology: An Executive Blueprint for the Future.* Chicago: Glenlake Publishing Company, 1998; Thomas Wurster and Philip Evans, *Blown to Bits: How the Economics of Information Technology Transforms Strategy*. Cambridge: Harvard Business School Press, 2000.

Consolidators Gain a Strategic Advantage

Technology provides financial service firms with a strategic response to market fragmentation and has given rise to a new type of business—aggregators, also known as consolidators or integrators. If a financial provider can consolidate all of a consumer's financial information in one place, the consolidator can create value for the consumer and at the same time control—and profit from—the consumer's interactions with various specialty providers. The Quicken set of products is an example of a strategic response in the race to become the consumer's primary financial service provider. Technology gathers information from all of a customer's accounts and presents it to the consumer as an integrated statement. Schwab, E*Trade, and American Express are also in the race to become the primary point of access to a range of financial services. Though thousands of banks now provide financial services over the Internet, far fewer are currently account consolidators. It should be noted that consolidation services typically target affluent consumers with many account relationships.



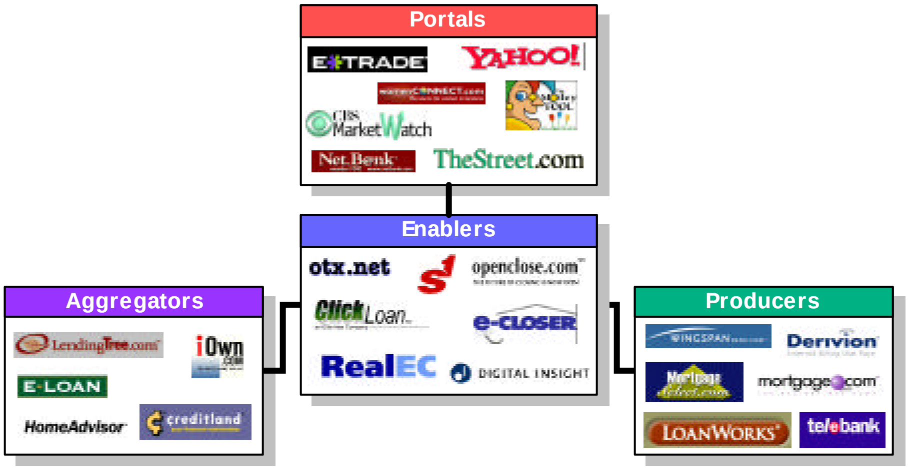
More Players Are Entering the Game

In the old order, a limited range of providers offered financial services: banks, credit unions, savings institutions, brokerages, insurance companies, plus a subgroup of institutions targeting lower-income people—community development financial institutions, currency exchanges, and check-cashing outlets, as well as a range of "fringe lenders." (Remember that our focus is on noncredit products and services.) In the new order, any organization can be a financial services access point. Retail and convenience stores are now routinely cashing checks and writing money orders. Affinity organizations,[33] such as the AARP, are marketing insurance products and financial planning services. More and more employers are offering 401(k) plans and related products and services. Employers could become a critical new access point for delivering financial services to the working poor.

Besides these non-traditional access points, three types of Internet businesses are now providing financial services. The first category is online firms, such as Internet banks, trading firms, and consolidators. The second is Internet portals. A portal is an electronic gateway, a point of entry to the Internet that links a visitor to information, products and services of interest. Mass-market portals, such as AOL, search and link to a huge range of products, *including* financial services. Vertical portals, such as American Express or many bank Internet sites, link only to financial services. A third category is the electronic marketplace, which not only links to financial

[33] Bill Stoneman, "AAA Wants People to Bank on It." *The American Banker*, November 22, 2000.

products from a number of providers, but allows the customer to compare and select offers. Quotesmith.com and LendingTree.com are electronic marketplaces.



Source: Friedman, Billings & Ramsey
Note: Some firms listed in this graphic have since merged with other companies or closed, often replaced by new and emerging entrants in the marketplace

New Combinations of Players Are Giving Consumers "Channel Choice"

While it is easy to view each new technology and provider in isolation, it should be remembered that they typically work together. New partnerships are forming among all of these players. Internet portals now offer banking, lending and investment services from traditional firms. Electronic marketplaces provide content from traditional *and* Internet financial businesses. Partnerships are opening up new marketing and distribution channels that give consumers a range of delivery options. Many online firms have found that an Internet-only strategy is limiting. The financial services industry increasingly views the Internet as one component of an integrated, multi-channel "clicks and bricks" retail strategy that includes branch offices, enhanced ATMs and other electronic media, and card-based technologies. IDC, a leading industry analyst, reports: "The availability of web-enabled ATMs signifies an opportunity to cross-pollinate online banking and ATM services, which can have significant implications on banking products, customer relationship management, and customer acquisition."

Branding Is Key

The proliferation of products, providers, and access points gives new importance to branding. Customers want their financial services from an entity they know and trust. Some financial institutions could become best-of-breed distributors, selling their own products and services, those of specialized producers, or a combination under a trusted brand. A study by the

Corporate Executive Board, a leading financial and corporate information research firm, suggested a potential opportunity to brand services for lower-income consumers.[34]

Product Function Is More Important than Form

Technology enables savvy providers to think about financial products and services more in terms of *function* than form. The checking account, for instance, essentially performs two functions. It is a credit product and a transaction vehicle for paying bills and purchasing goods and services. Consumers need an efficient payment vehicle, but it does not *have* to be a checking account. A savings account with a payments function—say, a debit card or money-order capability—would enable consumers to pay bills and at the same time eliminate credit exposure (the risk to the financial services provider that checks might bounce). Strategies for engaging lower-income people more fully in the economy need not be limited to traditional products. The technology is available today to create and support a variety of hybrids and new products.

[34] Corporate Executive Board Council on Financial Competition, "Mixed Messages: Consumers' Views on Financial Consolidation," 2000.

VI. The New Economy Also Presents Challenges

Technology creates many exciting opportunities to engage lower-income consumers more broadly in the mainstream economy. But it also presents new challenges. These include product fragmentation, poor data-sharing infrastructure, problems of authentication and scale, public policy issues, and Internet access barriers. None of these challenges is insurmountable. But if they are not met, consumers left behind in the digital migration will be forced to pay more for paper and face-to-face transactions and thus will be further marginalized.

Product Fragmentation Can Discourage Full Financial Engagement

Technology-enabled payments vehicles for the lower-income market will not ensure access to the broader set of asset-building and financial information tools necessary for full engagement in the economy. Check-cashing machines and payroll debit cards enable lower-income consumers to receive payments, for example, but most do not store idle funds, nor do they offer an interest-yielding savings vehicle. Service gaps like these contribute to a product fragmentation that impedes the financial integration of some low-income consumers.

Systems Are Undeveloped for Capturing and Sharing Market Data

While mechanisms and systems are well developed for capturing data on mainstream financial market activity, this is not so true for alternative financial markets. Systems comparable to those developed to collect data for higher-income, higher-asset and mainstream customers are needed to capture both aggregate and individual lower-income financial activity in alternative financial markets, such as check cashers, and to integrate alternative financial market data with mainstream databases.

Authentication Is an Issue

Another challenge is how to verify that consumers are who they say they are as technology moves financial services away from face-to-face transactions to remote delivery channels. A related issue is how to prevent identity theft. Authentication is a concern for consumers and providers alike and is particularly problematic for lower-income consumers, who do not always have a fixed address, driver's license or credit card. Biometrics and computer-chip card-based technologies are available to address this problem, but solutions developed to date are far from scale.

Current Models Are Small-Scale

We have seen that technology and related developments in the financial services industry can address many of the perceived barriers to the profitable service of lower-income market segments. However, while a number of pilot projects have demonstrated the feasibility and profitability of serving lower-income consumers (see the next chapter), these have remained small-scale, and have not been well publicized. One way for innovations to reach scale is if they are adopted by full-service or larger capacity providers and incorporated into conventional distribution systems. More business models, and at a larger scale, need to be developed and shared with conventional institutions to encourage mainstream adoption.

Market Changes Have Outpaced Public Policy

Neither currently available savings incentives nor regulations governing depository institutions, securities investments, and privacy have kept pace with changes in the marketplace.

1. Savings Incentives Are Limited for Lower-Income Consumers

Recent tax incentives to encourage savings through "Roth" Individual Retirement Accounts (IRAs) and increased contribution limits to IRAs in general have benefited the mainstream and upper-income financial consumer. Broadly speaking, incentives such as 401(k) and IRA plans have been intended to encourage mainstream consumers to save and invest. Two-thirds of pension tax benefits accrue to the highest-earning fifth of American households, while only 12 percent go to families in the bottom 60 percent.[35] Vehicles to encourage people outside the mainstream to build assets remain limited.

Only recently have policy initiatives begun to target lower-income families. Individual Development Accounts (IDAs), modeled after the 401(k) program, provide specialized accounts that encourage lower-income people to save for medium-term goals like a mortgage downpayment, tuition, or small business capitalization by matching their deposits with public and private funds. Several organizations, such as the Community Action Project of Tulsa County, Oklahoma, have paired recipients of the Earned Income Tax Credit (EITC) with access to an IDA in order to enable them to save larger amounts.[36] These programs, however, have been too small in scale to date to make much of an impact.

2. The Regulatory Environment Does Not Reflect Market Realities

The regulatory environment, meanwhile, is geared to a location-based industry, not the electronic delivery of financial services, even despite recent "financial modernization" legislation (the Gramm-Leach-Bliley Act of 1999). The market definition and service parameters under the Community Reinvestment Act also warrant a re-examination. By redefining what constitutes a deposit in light of new card-based technologies, banking laws that today limit deposits to traditional depository institution locations (for instance, to the exclusion of certain check-cashing outlets and electronic media) might be redesigned to create new savings instruments for lower-income

[35] "Helping America to Save More," Remarks by Treasury Secretary Lawrence H. Summers, Choose to Save Forum, Washington, D.C. April 4, 2000.
[36] The Earned Income Tax Credit (EITC) is a refundable credit available to families with children who earn less than roughly double the poverty line.

consumers. Securities laws, while providing protection against unethical and unscrupulous practices, can also stifle innovation. Some changes will be needed, for example, to accommodate such new ideas as card-based mutual fund investment vehicles. Finally, privacy regulations must be thought through carefully to protect the privacy and integrity of financial transactions in the new environment without restricting the information-sharing that is essential to new partnerships serving lower-income consumers.

Internet Access Barriers Remain

The digital divide also remains a factor. While cost, literacy and content barriers to the Internet are starting to come down, more work is needed to ensure that lower-income consumers have the same opportunities to benefit from web-enabled technologies as more affluent market segments.

1. Access Can Be Costly

Internet access is expensive for poor people, although costs are coming down to the point where at least some segments of the lower-income market are finding the Internet affordable. Recently *The New York Times* reported that the number of home Web users with annual incomes less than $25,000 rose 46 percent, to 6.34 million, from February, 2000, to February, 2001.[37] While these figures confirm that web access is spreading rapidly, they also suggest that it is as yet limited among the lower-income segments that concern us here, especially since the 2001 numbers include students and seniors as well as the low-asset population.

2. Computer Literacy Levels Are Low

Research indicates that low levels of computer literacy can prevent lower-income people from benefiting from the Internet. Youngsters tend to be more Internet-savvy than older consumers, and as the current generation of youth grows into adulthood, the technical competence barrier should start to dissolve. The rise of passive technologies such as biometrics and touch-screen interfaces will also help. So will the growth in wireless communications. As Internet use becomes less dependent on PCs, computer literacy barriers should become less important.

3. Specialized Content for Lower-Income Consumers Is Limited

Much of the content currently found on the Internet has limited appeal to lower-income consumers. Research by The Children's Partnership (a research and advocacy organization based in Los Angeles and Washington, D.C.)[38] and others shows that lower-income consumers are finding little relevant, practical, and local content targeted to their interests and needs. In

[37] "Low-Income Web Users Proliferate." *The New York Times*, March 14, 2001.
[38] The Children's Partnership, "Online Content for Low-income and Underserved Americans." See http://childrenspartnership.org.

addition, Internet content is often written and presented at college-educated literacy levels. Web-based financial services targeted to lower-income consumers are relatively young and have not yet reached scale, but it is expected that as better content attracts more users, that growing interest will evoke even more relevant content development.

VII. What Are the Areas of Opportunity?

The new economics of financial services create an historic opportunity to make access to expanded products and services as ubiquitous for lower-income people as for the rest of the nation. As the financial service industry deconstructs and reconstructs, four unfolding dynamics offer special promise for better connecting lower-income customers to the financial services marketplace. These center on: (1) the new attractiveness of the lower-income market to mainstream providers; (2) the proliferation of new channels available for serving them; (3) the recent explosion of product choices; and (4) the onset of numerous new partnerships experimenting with innovation.

The Lower-Income Market Is Becoming More Attractive to Mainstream Providers

The first auspicious development is the fact that mainstream providers are getting interested. Historically, the lower-income market has offered marginal opportunity at best for conventional financial institutions. However, the barriers are coming down. For example, the lower-income market is characterized by large volumes of small transactions—precisely the type of market where ACH technology can reduce costs significantly, and where payments technologies, from check-cashing machines to payroll debit cards for the unbanked, can be adapted to unmet needs. Research also suggests that lower-income consumers have higher brand loyalty and are less likely to move accounts than middle- and upper-income people. These conditions create a value proposition in which technology providers and financial service firms can realize attractive profit margins. Lower-income consumers are emerging as a viable market as technology drives down costs and enhances market information.

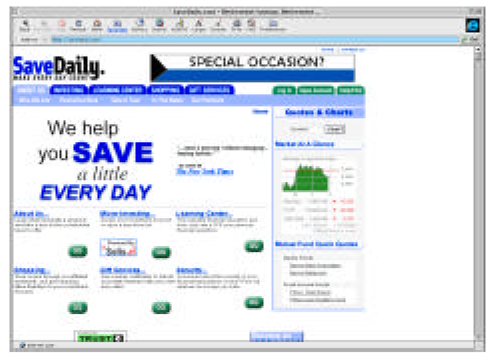
Access for Lower-Income Consumers Is Improving

The proliferation of new providers and points of sale also offers tremendous potential for enabling access to financial services for lower-income people. Market segments that do not trust banks don't have to use them anymore, and people working two or more jobs need not be constrained by banking hours. From the provider's standpoint, any business that wants to target lower-income consumers—whether specialist, traditional provider, or new market entrant—has many more channels potentially available. One can imagine enhanced ATM networks in churches serving African American populations, or in schools serving Hispanic communities. Card-based products issued by employers could provide savings options for the working poor. Community centers could offer financial literacy and planning packages tailored to immigrant market segments; crisis centers could offer products and services tailored to people who have been impoverished by a one-time event.

Product Choices Are Broadening

The new economics of technology-enabled financial services, what is more, can lead to broader product choice for lower-income consumers, and to products tailored specifically for them. To date, most product innovation for lower-income consumers has focused on sending and receiving payments. This, in turn, has produced a trend toward fragmentation in the lower-income marketplace, where access to one product—say, check cashing—does not as readily lead to a full menu of financial offerings. But there is much untapped potential to apply technology to profitably deliver more comprehensive bundles of services. What follows are just a few examples:

1. Micro-Investing



SaveDaily.com's original model focused on lower net worth investors, enabling them to invest as little as $5 at a time in mutual funds. Customers paid no commissions, but SaveDaily.com charged a small annual fee. Technology enabled SaveDaily.com to pool many small accounts to make the economics work for mutual fund partners. The firm has since changed its strategy, and now "private labels" its technology, enabling other institutions to offer the mutual fund service to a broad array of income groups, rather than offering the service directly to the public.

2. Micro-Rebates

When a customer makes a purchase from one of SaveDaily.com's Internet retail partners, the partner contributes to the customer's investment account. This is a variation on "frequent flyer" rebate programs for affluent consumers. The concept could easily be adapted for off-line as well as online application, using card-based technology. A credit or debit card could make an automatic contribution to a savings or investment account for each purchase made with the card.

3. "Structured Savings" Programs

The same technology that enables taxes to be deducted regularly from a worker's paycheck could support regular savings deductions for the working poor. Through alliances among payroll processors, employers, and affinity groups, "structured savings" programs could be set up for seasonal workers or workers who hold several jobs.

4. Individual Development Accounts

IDAs for the working poor represent another area of opportunity.

Already, the American Dream Demonstration, an IDA initiative managed by the Corporation for Enterprise Development and funded by several large foundations, has reached some 250 communities and more than 5,000 participants, although the aggregate dollar volume is still small. The IDA program includes a financial literacy component that provides the working poor with improved access to financial education and information. The rate of savings among IDA program participants is dramatically higher than the savings rate for the lower-income population overall.[39]

Of course, administrative costs and the lack of a real investment product have inhibited program growth. However, financial technology can solve both these problems by enhancing and expanding a product specifically designed for lower-income people and enabling the program to reach scale. Harvard Business School professor Peter Tufano's Doorways to Dreams (D2D) project, for example, is attempting to address both issues through the design of an "online IDA" that would expand customer access to the accounts and reduce administrative overhead by lowering transaction and data management costs.[40]

In addition, passage of the Savings for Working Families Act, likely to be introduced in 2002, shows great promise of helping to bring the IDA program to scale. The SWFA would expand the reach of IDAs by providing financial institutions a dollar-for-dollar tax credit up to $500 per person per year for matching IDA savings and an annual $50 per account credit to maintain the account and provide financial education.[41]

New Partnerships Are Spurring Innovation

There is no limit to the potential of technology-enabled partnerships to create both new delivery channels and entirely new products geared for lower-income consumers. The first collaborations are already up and running, as the following examples indicate:

1. Key Bank, N.A., and U.S. Postal Service

A pilot program in Baltimore and Florida is placing no-cost ATMs in post offices in lower-income communities to provide safe, convenient access to banking services. Government officials

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[39] Ray Boshara, *Building Assets: A Report on Asset Development in the IDA Field* and *Building Assets for Stronger Families, Better Neighborhoods and Realizing the American Dream*. Washington, D.C.: Corporation for Enterprise Development, which can both be found on the organization's web site http://cfed.org/

[40] Jeff Zinsmeyer, "If You Build It, They Will Come: IDA Delivery That Overcomes Hurdles to Program Participation" in *Assets: A Quarterly Update,* Winter 2002 (Published by Corporation for Enterprise Development).

[41] See http://cfed.org/

will study the potential for distributing federal payments through the ATMs. While the jury is out as to whether this is a financially sustainable model, it does provide an example of how the postal system can be a delivery and distribution channel for basic financial services for lower-income neighborhoods in the U.S. Postal banking systems are common in a number of developing economies around the world.[42]

2. Umbrella Bank and Low-Income Housing Developers

Established in 2000 as a subsidiary of an Illinois savings bank, Umbrella Bank has plans to offer financial services through ATMs and PCs in lower-income housing developments. Bank representatives are available to teach residents how to use the machines and encourage them to open savings accounts and engage in financial planning. The bank's business strategy is to develop loyal customers and to add products, including investment vehicles, as residents become more affluent.[43]

3. Fleet Bank, NetKey, and Boston Community Organizations

CityKi is a start-up company deploying web-enabled kiosks in inner cities to serve as gateways to shopping, financial services, and information for lower-income consumers who are largely unbanked. CityKi launched its first kiosk in the Upham Corners area of Boston in July, 2001. Supported by Fleet Bank, a technology company called NetKey, and community organizations in and around Boston, CityKi is developing a stored-value card that can serve as both an Internet payment card and a basic electronic bank account. Merchants providing sites for CityKi kiosks will sell cards in pre-determined amounts that unbanked consumers can use to pay for online purchases made through the kiosks. Cardholders can add funds to the account by purchasing additional cards and linking them to the account at the kiosk. Consumers maintaining sufficient funds will be migrated to an electronic demand deposit account with an ATM debit card and a savings option. As customer relationships mature, additional services might include secured or unsecured credit cards, a full banking account, IDAs, loans and insurance products. CityKi's first kiosk has a customer-friendly touch-screen interface. In addition to financial services, the kiosk provides free e-mail as well as bus and community information.

4. Rite Check Financial Services, Bethex Federal Credit Union, and Chase Manhattan Bank

An innovative partnership between a check casher and a credit union enables customers of the Bethex Federal Credit Union to make deposits at the Rite Check cashing chain in New York. Any Rite Check customer is eligible to join the credit union. Credit union members may access accounts and make deposits through "point of banking" terminals. Point of banking technology was originally sponsored by Chase Manhattan Bank and developed by the NYCE network. Point of

[42] Office of the Comptroller of the Currency, *Community Developments* (newsletter). Fall, 2000.
[43] Megan Ptacek, "Web Bank Plans ATMs for Subsidized Housing." *The American Banker*, June 20, 2000.

banking machines combine high-tech and high-touch features for people wary of using an unmanned machine to receive and deposit funds or who desire immediate access to funds. Several other banks and credit unions use the technology. Because only insured financial institutions may receive deposits, consumers must have a bank or credit union account, which is accessed through a host card. The consumer "swipes" a card in a POS-type terminal and inputs information similar to that required at an ATM. For customers depositing checks, the funds are available immediately, either to pay bills through Rite Check or as cash in hand.

This partnership provides the credit union with additional offices or branches throughout the community (through the relationship with the check casher) and the check casher gains access to a deposit product through the credit union. Viewed within this strategic prism, this may be a constructive model for financial institution-check casher relationships. However, more research is needed to determine whether this type of account-based relationship can be profitable for both banks and check cashers, while still providing lower-income consumers access to a reasonably priced product.[44]

5. One-Economy.com

One-Economy.com is another model for providing online financial services by connecting the lower-income residents of housing developments. The organization is working with builders of subsidized housing projects to ensure that the proper wiring is provided in these units to give residents Internet access. One-Economy.com's "Beehive" web portal provides lower-income consumers with access to specialized content on health, jobs, education and financial services. The financial services content covers topics such as checking accounts, investing, budgeting, using an ATM, and filing for the EITC.[45]

[44] Bethex Federal Credit Union, a community development credit union with a mission of serving low-income individuals in the Bronx, provides a per-transaction fee directly to Rite Check to minimize the costs to its consumers.

[45] See http://www.thebeehive.org/money. Note also that Allied Communications,a minority-owned telecommunications company, is developing a strategy and products for providing online access to financial services for residents of low-income housing projects.

VIII. A STRATEGY FOR MAKING FINANCIAL MARKETS WORK FOR THE LOWER-INCOME

Technological and market change is already beginning to expand the services available to lower-income consumers. The opportunity now is to accelerate and enhance the market's response. To that end, an effective strategy for expediting change should seek to harvest the opportunities created by technology and address barriers to full financial engagement. Five recommendations for accomplishing these objectives follow. They range from (1) providing new points of access to financial services and (2) promoting new product and marketing partnerships to (3) developing better market information, (4) adapting and publicizing successful business models, and (5) addressing public policy issues. While these recommendations are discussed separately, in practice they are interrelated.

Expand Points of Access to Financial Services

As we have seen, new technologies, industry reconfiguration, and partnerships hold great potential for delivering expanded financial services through new access points, particularly more convenient and trusted locations in lower-income communities. Illustrative strategies for expanding access include the following:

1. Develop Workplace-Based Strategies and Products

For middle- and upper-income consumers, the workplace is an important resource and location for financial engagement. This is where many people access 401(k) plans, insurance, and other financial products and services. For the segments of the lower-income consumer population with stable employment (for instance, "the working poor"), the workplace holds equal promise for the delivery of financial services.

A number of large commercial banks, including Citibank and Bank of America, offer electronic accounts for direct deposit of payroll checks for lower-income and unbanked employees of their customers. Directo, a financial technology company, partners with Cardinal Bank in Virginia to offer a product that allows unbanked employees to open accounts with direct-deposit features. Employees can have their paychecks deposited electronically to a debit card, then use the card to access funds through ATMs and point-of-sale terminals. The service also provides bill-payment, low-cost international money wiring, and a savings account.[46]

[46] Steven Marjanovic, "Citizens of Ga. In Deal to Help the Unbanked." *The American Banker*, June 2, 2000 and Texas Capital Bank (press release), "Texas Capital Bank Launches New Payroll Platform." November 15, 1999

Many employers of conventional customers now offer online financial and retirement planning assistance in conjunction with their 401(k) plans. Online delivery lowers the cost of serving middle-market customers and could just as easily do so for lower-income consumers. Financeware.com provides precision financial planning, education, and budgeting tools for individuals and financial planners alike. It includes sophisticated web-enabled software and allows financial planners and customers to communicate online. Programs such as Financeware.com, based in Richmond, Virginia, or Citipro, Citibank's financial software for middle-market customers, could be adapted to serve lower-income consumers.

2. Expand Neighborhood Access Points

While ATMs are growing in number and function, "souped up" ATM technology with expanded functionality is not widely available in poor communities. Incentives may be needed to bring pilot projects to scale and to adapt this technology to lower-income markets. Electronic kiosks could distribute a wide range of products and services in convenient neighborhood locations, such as check-cashing establishments, movie theaters, credit unions, retail outlets, social service agencies, community based organizations, and low-income housing projects. Kiosks should be designed for ease of use, employing biometrics, touch-screen, voice response, and other passive technologies. CityKi provides a model for how such a strategy could work. (See Chapter 6).

Financial technology can also lower the cost of providing personal service, which is what a survey by Maritz Research, Inc., a market research firm based in Fenton, Missouri, suggests almost half of Americans prefer.[47] Along these lines, a "clicks and bricks" strategy that combines high-tech and high-touch has been extremely successful for Washington Mutual, the eighth largest bank in the nation. The bank's strategy is to focus on customers who keep $1,000 or less in a checking account and who do not get personalized service from other big banks. Washington Mutual's "Occasio" branches look more like Starbucks than bank branches. (Occasio means "favorable opportunity" in Latin). Customer islands and clusters of comfortable chairs replace teller windows. Some branches offer play areas and Game Boys to entertain children, as well as interactive touch-screen computers that tell customers what kinds of home or consumer loans they qualify for. A concierge greets customers at the door. At the customer islands, khaki-clad bank employees handle routine tasks, and machines dispense cash. Automating traditional teller functions makes the islands more efficient than a teller window and gives bank representatives a chance to tell consumers about the bank's array of products, from insurance to investment services.

The first Occasio branches opened in Las Vegas in 2000; 18 branches now serve 5 percent of the household market in that city. The Las Vegas branches broke even in a year, compared to an industry standard of three to five years. By August 2001, almost 90 Occasio branches had opened in Texas, Washington, Nevada and California, and plans were on the

[47] Noelle Knox, "Online brokerages go from clicks to bricks." *USA Today*, November 1, 2000.

drawing board to expand into Atlanta.[48] Now that the Occasio branch design has proven popular with middle-income financial customers, the strategy could very well be adaptable to the lower-income marketplace.

3. Address Internet Content Barriers

As costs drop, and Internet use and wireless telecommunications expand, market forces will improve the Internet's viability as a distribution channel for some lower-income market segments, if not for all. Online networks targeted to lower-income consumers should be created, supported, and encouraged to develop specialized financial product offerings. Vertical portals, such as One-Economy.com, focusing on lower-income products and services can also help to overcome product fragmentation concerns.

Promote New Product and Marketing Partnerships

We have seen a variety of new players entering the market as the financial services industry reconfigures. More partnerships between traditional and specialty providers (who understand lower-income consumer behavior and product demand), and between specialty providers and information technology developers, could help to create the full range of targeted products, services, and marketing channels needed to promote broader financial engagement among lower-income consumers.

1. Create a Forum for Innovation

A few market leaders have begun to collaborate on product and marketing innovations for the lower-income market, but in the normal course of business, conventional financial institutions and technology firms seldom interact with specialty providers. A forum is needed to bring them together to explore opportunities for creating win-win collaborations. The following discussion sketches some possible combinations of partners.

2. Create a Fund for Innovation

Much innovation has already taken place, and more will emerge as key players become better acquainted. Nevertheless, it remains uncertain whether there will be enough investment in research and development to develop scalable products for lower-income consumers in a timely manner. Conventional institutions tend to be cautious, and financial technology developers and specialty providers do not always have the resources to take a product through all the phases of R&D and on to market-testing. Given that, the creation of a financial technology innovations fund to share or offset risk could prove a powerful catalyst. The sections that follow sketch some possible combinations of partners and products that merit examination by such a fund and others.

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[48] Julie Monahan, "Consumers like using branches along the 'web.'" *The American Banker*, October 12, 2000.

3. Encourage Product and Service Partnerships

There are two approaches to tailoring new offerings for the lower-income market. One is to adapt mainstream products for lower-income consumers, and the other is to create new, specialized products. Conceptually, these are distinct categories, but in practice, boundaries are blurred.

Examples of adapting mainstream products include partnerships between community development financial institutions and financial planning software developers, or between Internet banks and community organizations, to create user-friendly interfaces for lower-income consumers. Similar partnerships could add savings products to electronic check cashers and ATMs, add literacy modules to neighborhood kiosks, and provide hands-on help to lower-income customers who may be unfamiliar with ATMs. The Umbrella Bank's partnership with low-income housing developers, discussed in Chapter 6, might serve as a model.

Additional partnerships to create new, specialized products might include a "structured savings" program developed jointly by a bank and its commercial customers that employ lower-income workers. The technology exists, as the growth of the 401(k) program demonstrates. The challenge is to attract a major payroll processor to adopt it, to persuade sufficient numbers of employers to promote the service to their workers, and to do the focused market research needed for employee acceptance. Another example might be a partnership between a search engine and specialty financial service provider to develop an online comparative pricing service geared to lower-income people. "Electronic signature" technology, being developed for such purposes as online mortgage origination, could be adapted for broader use by lower-income people through a partnership between a technology developer and a financial services provider.

4. Encourage New Marketing and Distribution Partnerships

Any number of partnerships might be formed to improve Internet, workplace, and neighborhood access to financial services. The potential combinations of partners are limited only by our ability to imagine them. A mainstream provider could partner with a community technology center, retail establishments, credit counseling center or others to put financial kiosks in central locations that are convenient for lower-income consumers.

Affinity marketing also affords opportunities to reach lower-income consumers. For some lower-income segments, in particular the African American community, churches make a lot of sense as a point of distribution. In Memphis, for example, people who can't get a bank checking account, due either to bad credit or to the absence of a bank branch in their neighborhood, can now get a prepaid debit card through a consortium of African American churches, MasterCard, Western Union, and an African American-owned bank. The product lets cardholders withdraw money from ATMs, pay bills, and purchase goods on the Internet or from stores that accept

MasterCard. While the product provides greater access to the unbanked, it is not inexpensive.[49] Over time, consortia such as these will need to find a way to lower costs to the consumer in order to attract considerable numbers of the unbanked.

Affinity organizations and specialty providers such as community development credit unions could also partner with mainstream financial companies to offer financial education and technology literacy training. Many different players could unite to create an Internet financial portal geared to lower-income people.

Develop Better Information on Lower-Income Market Segments

As a rule, specialized market intelligence is neither widely available nor accurate for poor communities. Shorebank, various credit card companies, and others have developed specialized data sets and models that address deficiencies of conventional market research. Some market research firms have developed localized data on lower-income markets. But more work needs to be done to create specialized databases on lower-income financial consumers, as well as to develop data, market research, and analysis on particular segments and localities, to identify trends and promising market opportunities. In particular, more research is needed to develop a much fuller lower-income market segmentation, and to understand various segments' proclivity to use technology-driven financial services.

Equally critical is the need to develop better systems and mechanisms for gathering lower-income market data. Data mining technology is a powerful tool for understanding consumer behavior, but it is much more widely used to analyze middle- and upper-income consumers than lower-income brackets. Once gathered, lower-income market data needs to be better integrated with mainstream databases. Lower-income market potential goes unrecognized by conventional financial institutions, not only due to the dearth of market information, but also due to poor channels for *sharing* it. In particular, a mechanism is needed to feed information from check cashers and other outlets serving lower-income people to consumer credit rating bureaus. Check cashers do maintain customer databases and thus have a record of check-cashing and bill-payment patterns. Incorporating such data into a formal credit history may enable unbanked customers to obtain conventional bank accounts and broader financial services.

Adapt and Publicize Business Models

Financial innovation in the United States frequently has been driven by organizations other than traditional financial institutions. Banks often move more slowly and cautiously until they find business models that have worked. Once the evidence is in, they will respond to market opportunities. The development of consumer loans is an instructive example. Household Finance

[49] At the product's inception, the customer paid a $50 annual fee, plus $5.50 a month; there may have been additional per-transaction charges, or charges for loading money onto the card. W.A. Lee, "First Data Offering Card for the Unbanked." *The American Banker*, August 10, 2000.

pioneered consumer lending in the 1950s. Once the finance company *proved* that the product was profitable, Bank of America entered the market, followed by the rest of the banking industry.

Technology-led initiatives around the country are creating new products, services, and distribution channels, including some for lower-income consumers. Further work needs to be done to identify the most promising new technologies and products in the industry at large, and to adapt them to lower-income markets. In addition, case studies of the most successful or instructive attempted innovations—for example, Banco Popular, Union Bank of California, Umbrella Bank, and CityKi—if widely publicized, should help to interest mainstream providers in expanding offerings for lower-income consumers. Current initiatives should be studied thoroughly to discover what works and what doesn't, to see which are profitable, and to enhance, publicize, and replicate the models that prove most promising.

Address Public Policy Issues

At this early stage of market and product development, private-sector initiatives are likely to advance the agenda of broader financial engagement more significantly than public-sector reforms. Nonetheless, several policy issues merit attention. Public policy has an important impact on the landscape in which financial services are provided. As we have seen, several policy challenges need to be addressed to remove barriers to innovation and promote broader participation of lower-income people in the economic mainstream. Policy work should strive to put in place additional savings incentives targeted to lower-income people (such as expansion of the IDA program) and determine what regulatory changes are needed to maximize technology's potential to serve and expand the lower-income market. The Community Reinvestment Act's service parameters and market definition also warrant re-examination, as do banking laws that limit deposit products for some financial service providers. Securities laws should be analyzed to determine whether investment product registration and other requirements create unnecessary impediments to development of wealth-creating technology products. Privacy laws may create barriers to new product and marketing partnerships by restricting the timely exchange of necessary market data.

IX. CONCLUSION

Consumer finance has seen unprecedented technological innovation in the past two decades. It has never been easier for mainstream consumers to access financial services, or cheaper for providers to create and distribute customized products for even the narrowest of market niches. And, of course, the primary beneficiaries of all this innovation have been the "haves" of our society—people with living-wage jobs, bank accounts, credit cards, and easy Internet access—who now enjoy more opportunities to build assets than ever in history.

Now, though, the mainstream market is becoming saturated—and the tens of millions of lower-income consumers who were left behind by the first wave of financial innovation are starting to look much more attractive. What is more, this lower-income market is large and under-served, with enormous pent-up demand for financial services. This means a tremendous opportunity now beckons to use financial technology to reduce the cost of meeting that demand and in doing so to better connect lower-income citizens to the mainstream financial services narketplace.

To be sure, specialty providers have understood this for some time, as have market leaders in financial technology and some leading conventional financial institutions. In fact, exciting partnerships have started to form to create innovative technology-enabled products, services, and delivery channels tailored to the needs of lower-income consumers. Still, specialty providers often lack the resources and connections to respond at sufficient scale to make a real impact. Too often, conventional financial service organizations and financial technology firms are deterred by poor connections to specialty providers, market information barriers to accessing lower-income communities and consumers, and public policy disincentives.

None of these barriers need be insurmountable, however. The market is poised to put technology-enabled savings, asset-building, risk management, financial education, and planning tools into the hands of the people who need them most. Leadership institutions and astute service providers should recognize the opportunity, and move now to put the new financial services market to work for lower-income consumers.

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APPENDIX: PARTICIPANTS

The following individuals were interviewed for this report. Those that participated in a roundtable discussion are indicated with an asterisk (*).

Organization	City, State	Name
ACE Cash Express*	Irving, TX	Eric Norrington
ACORN	Brooklyn, NY	Steve Kest
Allied Communications*	Washington, DC	Curtis White
Alternatives Federal Credit Union	Ithaca, NY	Bill Meyers
AOL-Time Warner*	Dulles, VA	B. Keith Fulton
American Express	New York, NY	Tom Sclafani
American Express	Washington, DC	Peggy Haney
American Express	Washington, DC	Anna Flores
APS	Hamden, CT	Corey Stone
Banco Popular	San Juan, PR	Nester Obie
Bank of America	Jacksonville, FL	Kathy Weise
Bank of America	Charlotte, NC	Pattie Mathews
Bank of America	Washington, DC	Vicki Tassen
Bank of Internet*	San Diego, CA	Gary Evans
Bank One	Columbus, OH	Kathleen Houck
Bank One	Chicago, IL	Mary Laraia
Bethex Federal Credit Union	Bronx, NY	Joy Cousminer
Blackplanet.com	New York, NY	Omar Was
Broadway Federal Savings Bank	Los Angeles	Eric Jognson/Paul Hudson
Business for Social Responsibility	San Francisco	Bill Boler
Business for Social Responsibility	San Francisco	Alexis Morris
CAEL	Chicago	Sam Leiken
CA Foundation for the Environment and the Economy	Oakland, CA	Don Viol/Norman Jayo
Canadian Imperial Bank	Toronto, ONT	Phyllis Howell
CDIII	Chicago, IL	Kirsten Moy
Center for Law and Human Resources	Chicago, IL	David Marzahl
CFED	Chicago, IL	Bob Friedman
CFED*	Washington, DC	Andrea Levere
Citibank	Chicago, IL	Dan Nemek
Community Bank of the Bay	Oakland, CA	George McDaniel
Community Development Finance	San Francisco, CA	Dan Leibsohn
CompuCredit	Atlanta, GA	Dennis James
Conference Board	New York, NY	Thomas Cavanaugh
Consultant	Missoula, MT	Alan Okagaki
Consumer Federation of America	Washington, DC	Steve Brobeck
Consumer Federation of America	Roanoke, VA	Jean Ann Fox
Corporate Executive Board	Washington, DC	John Benevides
CorePROFIT*	West Chester, PA	Joe Prunty
Credit Union Foundation	Washington, DC	Pat Brownell
CS First Boston	Philadelphia, PA	Jim Marks
Digital Insight	Calabasas, CA	Steven Reich
Digital Partners	Seattle, WA	Justin Thumler
Fannie Mae Foundation	Washington, DC	Issac Megbolugbe
Fannie Mae Foundation	Washington, DC	Patrick Simmons
Financeware.com*	Richmond, VA	David Loeper
First of America Bank	Chicago, IL	David Boss
FirsTel USA	Atlanta, GA	John Cahill
Fleet Boston*	Boston, MA	Sean Stanton
Fleet Boston	Boston, MA	Elizabeth Wadsworth
Ford Motor Company	Detroit, MI	Eric Siegel
Genpass Technologies*	Dallas, TX	Charles Sapp
Gomez Advisers*	Lincoln, MA	Paul Jamieson

APPENDIX: PARTICIPANTS (CONTINUED)

Organization	City, State	Name
Harvard Business School*	Cambridge, MA	Peter Tufano
Household Financial	Chicago, IL	Dana Funk
Independent Author	Falls Church, VA	Mary Gotschall
InnoVentry	Fort Worth, TX	Jason Griffin
Joint Center for Housing Studies, Harvard University	Cambridge, NY	Nick Retsinas
KPMG Peat Marwick	Vienna, VA	Linda H. Gallagher
KPMG Peat Marwick	Vienna, VA	Janet Gordon
MacArthur Foundation	Chicago, IL	Elsbeth Revere
Microsoft Financial Network	New York, NY	James Kinsella
National Assoc. of Financial Service Centers/Rite Check	Brooklyn, NY	Joe Coleman
National Center on Poverty Law	Chicago, IL	Rita McClennon
National Council of La Raza*	Washington, DC	Charles Kamasaki
National Council of La Raza	San Juan, Puerto Rico	Sonia Perez
National Foundation for Credit Counseling	Silver Spring, MD	Kathleen McNally
National Fed. of Community Development Credit Unions*	New York, NY	Cliff Rosenthal
National Partners for Financial Empowerment	Washington, DC	Dino DeConcini
National Partners of Financial Empowerment	Washington, DC	Natasha Bilmoria
National Community Capital Association	Philadelphia, PA	Mark Pinsky
NCR/Southland	Irving, TX	Walter Matan
North Carolina Support Center	Chapel Hill, NC	L. Cox/Bethany Chaney
Office of the Comptroller of the Currency	Washington, DC	Greg Golembe
Office of the Comptroller of the Currency	Chicago, IL	Ralph Delease
Office of the Comptroller of the Currency	Washington, DC	Connie Dunham
Office of Thrift Supervision	Washington, DC	Teresa Stark
One-economy.com	Washington, DC	Ben Hecht
Paymybills.com	Santa Clara, CA	Karsha Chang
PNC Bank	Louisville, KY	Leonard Watkins
PNC Financial*	Pittsburgh, PA	Tom Whitford
Progressive Neighborhood Federal Credit Union*	Rochester, NY	Melissa Marquez
Providian Financial	San Francisco, CA	Chris Lewis
Quotesmith.com	Fort Worth, TX	Harvey Popilow
SaveDaily.com	Irvine, CA	Mark Maruyama
SaveDaily.com*	Irvine, CA	Eric Solis
Schwab	San Francisco, CA	Lois Allen
Self-Help Credit Union	Durham, NC	Mary Munson
Shorebank*	Chicago, IL	Jennifer Tescher
Shorebank	Chicago, IL	Mary Houghton
Swarthmore College*	Swarthmore, PA	John Caskey
TD Waterhouse	New York, NY	Richard Neiman
The Reinvestment Fund	Philadelphia, PA	Jeremy Nowak
Tower Group	Waltham, MA	Richard Bell
Triton Systems	Long Beach, MS	Ernest Burdette
Triton Systems	Long Beach, MS	Doug Scholer
Union Bank of California*	Los Angeles, CA	James Laffargue
United Airlines FCU	Chicago, IL	Bob Bream
Universal Pensions	Brainerd, MN	Cindy Roggenkamp
University of North Carolina at Chapel Hill	Chapel Hill, NC	Michael A. Stegman
U.S. Department of the Treasury	Washington, DC	Michael Barr
U.S. Department of the Treasury	Washington, DC	Dino DeConcini
U.S. Department of the Treasury	Washington, DC	Cliff Kellogg
Washington University	St. Louis, MO	Michael Sherraden
Wells Fargo	San Francisco, CA	Michael Gallagher
Wellspring Consulting*	Glen Cove, NY	Jim Wells
Western Union	Denver, CO	Tom Norton
Woodstock Institute	Chicago, IL	Marva Williams
World Bank	Washington, DC	Thyra Riley