

ETA 2008
Annual Meeting and Expo

Electronic Transactions Association Annual Meeting and Expo
April 15-17, 2008 • Mandalay Bay Resort & Casino • Las Vegas, Nevada

Banking on the Unbanked

April 16, 2008

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The 'Underbanked' population in the U.S. is:
Disproportionately represented among lower-income households. Primarily consisting of immigrants, younger, less educated and minorities; a large percentage are headed by African-Americans and Hispanics.

Reason for not using mainstream financial services:

- Preference for privacy
- Lack of month-to-month financial savings
- Credit problems
- Confusion or concern about minimum balances
- Language barriers

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Why Unbanked?

Reason	Non Hispanic (%)	Hispanic (%)
Income	~65	~60
Motivation	~20	~10
Complexity	~10	~10
Soft Barriers	~10	~10
Hard Barriers	~10	~30
Convenience	~5	~5

African-Americans and Hispanics have the perception that they don't have sufficient income to support a bank account.


Hispanics are also concerned about hard barriers like ID requirements and credit issues.

Source: "Check Cashing Market Overview" The Center for Financial Services Innovation (CFSI), October 2006, Business Match: Check Cashing Conference


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The 'Underbanked' Opportunity

- According to:
 - A 2006 study by BearingPoint and Visa:
 - There are a total of 45 million underbanked consumers in the U.S., representing \$1.1 trillion in income.
 - 28 million of these consumers are entirely unbanked, lacking a transactional savings or checking account.
 - The Center for Financial Services Information (CFSI):
 - The underbanked represents 40 million households and spends \$10.9 billion on more than 324 million alternative transactions per year.
 - The FDIC:
 - The underbanked will drive 50 percent of the next decade's growth in retail banking.


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Where Unbanked Conduct Financial Transactions

- Money Service Business
 - Check Cashing
 - Bill Pay
 - Money orders
 - Wire Transfer
 - Phone Cards
 - Prepaid Cards
- Grocery Store
 - Check Cashing
 - Bill Pay
 - Money Orders
 - Phone cards
- Bank
 - Check Cashing
 - Bill Pay
 - Wire Transfer


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Money Service Businesses (MSB)

- Despite higher costs, MSBs are often the preferred location for unbanked to transact:
 - Convenient location
 - Extended hours (after business hours & weekends)
 - Language
 - Additional services offered
- A 2005 survey by CFSI, shows that two thirds of low to moderate income banked households use non-bank services such as check cashing.

Source: "A Financial Services Survey of Low- and Moderate-Income Households, Chicago, IL: The Center for Financial Services Innovation", July 2005.

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The Check Cashing Market

A \$2.6 billion opportunity:

- \$300 billion in checks cashed annually.
- 22,000 check cashing outlets in the US generate over \$1.5 billion in annual revenue.
- Fees vary by state, typically 1 - 4% per check.

2006 Check Cashing Volumes (USA)
 Dollar figures are in billions. Total = \$300 billion

Source: "Check Cashing Technologies: Market Overview and Vendor Comparison" Alle Group, March 2007

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Why Cash Cards?

- During a check cashing transaction consumer can chose to load all or part of the dollar amount to a prepaid cash card (i.e., the consumer can take away their money on a card rather than cash).
- Merchants
 - Can now offer a check cashing service without the risk of having large dollar amounts in the store (e.g., convenience stores)
 - Gain additional revenue sources from card issuance and reloads
- Consumers
 - Can now conduct card-based transactions (e.g., online, POS, ATM)
 - Provides the under-banked community a way to safely store funds, participate in mainstream electronic commerce, build credit and provide a status symbol

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Cash Cards Value Proposition

- Consumers:
 - Provides the underbanked with an account
 - Allows for money to be safely "saved" instead of carrying around or stuffing in a mattress
 - Allows for participation in e-commerce: renting cars, hotels and making web purchases
 - Status of the Visa/MasterCard branded card
 - Creates credit history for unbanked consumer
 - Privacy
- Merchants:
 - Ability to cash checks without in-store cash-handling issues (Security, theft, banking, cost of building out bulletproof booth)
 - Fee opportunity of check cashing
 - Loyalty effect of check cashing
 - Increased overall sales through traffic lift
 - For merchants already in business, this is a natural product extension and added fee revenue business

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How the Cash Card Works...

A check cashing customer enrolls in the check cashing system

The check cashier offers the customer the option to transfer their funds into cash or onto a prepaid card (or split the funds between both)

The funds transferred to the Cash Card can be used anywhere the card is accepted

... at ATMs

... at POS terminals

... online

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Consumer Prepaid Activity

- Card holders, on average, spend close to 100% of the funds loaded into their prepaid card accounts each month.
- Most frequently use cards for POS transactions (rather than ATMs); using it as an electronic payment instrument and a substitute for cash, as opposed to a convenient way to withdraw cash when needed.
- Card holders reload cards, on average, once a month.

Source: "Cardholder Use of General Spending Prepaid Cards", Center for Financial Service Innovations, February 2007

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Prepaid Opportunity

Huge growth market:

- Prepaid debit card transactions will amount to about US\$150 billion by 2009, up from US\$12.8 billion in 2004.
- By 2009 the business of prepaid processing will be as large as the business of debit card and ATM processing was in 2004.

Source: "Prepaid Cards: A Market Overview", Aite Group, September 2005



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Unbanked to Banked

- Prepaid debit cards are a stepping stone for unbanked consumers to enter the more traditional financial services arena via credit building and possible savings features.
- Migrating them towards credit cards, mortgages and loans.
