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How to win underserved consumers...

and turn them into well-served banking customers

While underserved consumers have come with risks, smart banks can leverage well-designed services to produce wins for all.

BY KENNETH PATRICK AND VICTORIA DOUGHERTY

While no two banking customers are exactly alike, financial institutions often treat them the same way—and at a cost. Customers and their financial institutions both feel a negative impact when a "one-size-fits-all" services philosophy fails to meet the needs of certain segments.

One such segment is the underserved. According to the Center for Financial Services Innovation (CFSI), more than half of American adults struggle financially at least some of the time. Consider these statistics:

- ***A recent study by CareerBuilder said 78 percent of consumers are living paycheck to paycheck and need help with cash flow.***
- ***A Federal Reserve study said 42 percent of consumers couldn't come up with $400 for an emergency expense such as a car repair.***
- ***USA Today reported recently that 58 percent of millennials can't make ends meet without financial help from family or friends.***

To cope, about one in five consumers use alternative sources to meet their financial needs—instead of turning to their trusted banking relationship, according to the FDIC.

WHO ARE THESE UNDERSERVED CUSTOMERS?

Underserved customers have low credit scores, as well as low-to-moderate or volatile incomes. They also include small business owners who don't qualify for business credit and can't make ends meet while waiting to be paid.

Examples of underserved customers include:

- ***A single mom who works a part-time job while attending college. Her tuition will be withdrawn from her account tomorrow, but her child support check only arrived today.***
- ***A construction worker who hasn't been able to work for a week due to poor weather. His car payment is due in two days and he doesn't have the funds.***
- ***The owner of a small design firm waiting to get paid for a big job, but has to make his payroll today.***

Often these consumers turn to alternative financial services providers for short-term solutions because financial institutions don't offer similar solutions.

SO WHY AREN'T FINANCIAL INSTITUTIONS 'SERVING' THIS SEGMENT?

Financial institutions aren't charitable organizations. They have shareholders who expect them to operate at a profit. So financial institutions have historically had to make painful decisions on whether to offer some products to all account holders. And those who may need the products and services the most are today excluded from qualifying for them: consumers without a credit history, or with poor credit and repayment history, prior banking losses or a recurring negative account balance.

When consumers turn to alternative providers, they generally pay more in fees than they would at their financial institution. They also often receive lesser services. Clearly, if financial institutions could lower their risk in providing these services to underserved consumers, both would benefit.

WHICH TOOLS ARE AVAILABLE TO CREATE 'WELL-SERVED' CUSTOMERS?

To build and retain relationships with these customers—and help keep their financial health intact—financial institutions must empower underserved consumers with tools and services that provide point-in-time awareness and a range of liquidity options to help them anticipate and avoid problems.

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Typically, financial institutions have offered reactive solutions such as overdraft protection, usually based on each customer's ability to repay. But financial institutions can—and should—provide proactive services to prevent deficits. This can help the customer in times of short-term financial need and minimize the risk to the financial institution.

These include:

1. Notification services

Just by giving these segments point-in-time awareness of events—such as alerts for upcoming transactions and low-balance situations—financial institutions help account holders avoid negative impacts to their financial health.

2. Accelerated funds availability

By providing immediate access to deposited funds at the teller, ATM or via the mobile channel, this service protects the customer and bank from the risk of returned items.

3. Small-dollar, short-term deposit-based loans

By offering short-term lines of credit or loans (generally under $1,000) payable within 90 days, financial institutions can help customers bridge their liquidity needs in a quick, convenient way. These loans or lines of credit are primarily qualified on deposit account history.

It isn't enough to provide just one of these services. Today's underserved consumers and small business owners require a range of forward-thinking services to fully meet their financial needs.

And while credit access remains an important focus for small businesses, it represents only a piece of the full picture of small business financial health.

Broader opportunities exist to address the full range of small business financial stressors and needs, such as limited time for financial management, cash flow volatility and barriers to startup funding.

WHAT'S IN IT FOR FINANCIAL INSTITUTIONS?

According to CFSI, underserved consumers spent $173.2 billion on fees and interest in 2016 across five financial product categories, including single payment credit, short-term credit, long-term credit, payments/deposit account and other products/services. This revenue opportunity can move some of that share of wallet back to the institution—but it's not the only benefit. Some of the most-needed services are not yet mainstream, and the resulting market differentiation could drive new account acquisition. Existing account retention and increased balances can also serve to match deposit growth goals.

By marketing a suite of services that help underserved consumers and small businesses bolster their financial health, financial institutions can gain a competitive advantage. The ultimate goal: By providing these additional needed services, they turn underserved customers into well-served, loyal customers. And to that end, the mutual benefits of reaching the underserved cannot be overemphasized.

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