

**Mobile Financial
Services for the
Underbanked in the
U.S.:
Preliminary Findings
from EARN's Mobile
Financial Services
Research Initiative**

by Camille M. Busette, PhD and
Menekse Gencer

February 2010

EARN Research Brief

eARN
Research Institute



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SUMMARY

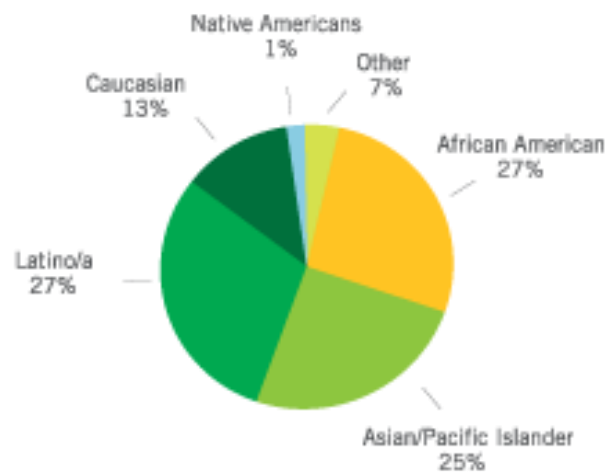
Is there a market for mobile financial services for the underbanked in the U.S.? Briefly, the answer is yes. Yet, the customer preferences in this market are distinct from those normally assumed either for the unbanked or for higher income segments.

INTRODUCTION

Globally, mobile payments are accelerating as a significant method of money transfer. In developing countries, coalitions of governments,

telecom carriers, and financial institutions have often worked in concert to encourage the accessibility of mobile financial services to the unbanked and underbanked. In the United States, however, mobile financial services are still in their infancy. Many reasons have been offered for this comparatively slow progress. Two of the chief reasons for caution by innovators in this area are uncertainty about whether a lucrative market exists for mobile financial services in the U.S., and a general lack of market information on the unbanked and underbanked.

EARN Saver Demographics 2009



Yet, the use of mobile technology to conduct financial transactions has enormous potential to help the underbanked enter and participate in the financial mainstream and begin building financial assets over time. Using mobile devices for financial transactions can potentially help mitigate the dearth of bank branches and bank ATMs in the communities in which underbanked people often live and work. This is not just a matter of convenience. The use of mobile technology in financial transactions has the potential to help underbanked individuals avoid expensive check cashers, and other fringe financial services

providers which charge exorbitant fees.¹ These cost reductions could potentially be redirected toward savings – a crucial need for underbanked consumers.

The goal of EARN's Mobile Financial Services Research Initiative is to inform the marketplace and to galvanize business, social sector, and government innovators towards the use of mobile technology to facilitate prosperity for low-wage workers in the United States.

EARN recently undertook a feasibility study to understand the potential opportunities and challenges for developing mobile financial services for the underbanked. As a result of our role in creating and co-managing the Bank on San Francisco program², EARN has helped over 40,000 newly banked customers navigate the financial services landscape. In addition, EARN has directly served over 3,000 matched savings clients. These clients enter our doors with incomes of less than 200% of the federal poverty line and have little financial management or financial institution experience. Since 2001, EARN has helped our clients save over \$12 million toward buying a home, starting or growing a small business, or going to college. EARN's Mobile Technology Research Initiative aims to leverage these achievements to realize even greater prosperity gains for lower-income Americans.

Our initial feasibility assessment began with a survey of EARN clients on mobile usage, financial services behaviors, and preferences for mobile

financial services. 200 clients responded to the online survey.

We then conducted three focus groups (one each in English, Cantonese, and Spanish) with 10 clients participating in each session. Focus group discussions focused on understanding the behavioral drivers of mobile phone, financial services, and mobile financial services preferences. Our goal was to understand how we could enable withdrawals, deposits, and balance inquiries via mobile phone applications.

PROFILE OF EARN CLIENTS

EARN's underbanked clients are all low-income wage earners. They typically have cell phones, use them regularly, and do not terminate mobile service unless they are under severe financial distress. They tend to maintain their mobile numbers for years and do not have a behavior pattern of switching carriers or numbers.

Most of our respondents had experience with text messaging; less than 10% had experience using data-based applications on their mobile phones.

The deposit and money transfer behaviors of our clients vary widely. Only a minority of EARN clients have employers who enable direct deposit; these clients are immediately able to use online banking services or phone-based banking services to transfer money between accounts.

Most clients, however, are paid in cash or by check, and make regular trips to a banking branch office to deposit money and to perform other transactions. For this latter group, mobile financial transactions would achieve a considerable savings in the time it takes to conduct financial transactions.

¹ Studies conducted for the Bank on San Francisco program have found that underbanked consumers can save upward of \$800 per year by avoiding check cashers.

² The Bank on San Francisco program is an initiative launched in 2007 by the San Francisco Treasurer's office which aims to encourage 50,000 unbanked San Franciscans to open bank accounts at mainstream financial institutions.

Stable and frequent mobile phone usage is ubiquitous for our clients, and they are familiar with how to navigate the banking system to make transfers from one account to another.

BARRIERS TO USING MOBILE FINANCIAL SERVICES

During our focus groups we presented three different options for using mobile phones to initiate financial services transactions:

1. Integrated voice response systems (IVR)
2. Text messaging commands
3. WAP-browser technologies that let users surf the internet

For this segment of mobile phone users, we identified two main barriers to mobile financial service. The first barrier is apprehension about security, and the second barrier is cost.

The majority of our clients surveyed expressed a willingness to undertake simple transactions -- such as depositing money into accounts or getting balances via mobile phones -- provided it was fairly straightforward, free, and secure.

Interestingly, while our clients highlighted ease of use and cost as important considerations, they were most likely to cite security issues as a source of apprehension for moving funds via mobile phones. This was particularly true when we discussed using text messaging to initiate fund transfers: they felt that this method was very insecure, even under two-factor authentication, which is technically considered highly secure. Many expressed anxiety that the theft or unauthorized usage of their phone could lead to the compromise of important and sensitive financial information.

EARN clients were particularly concerned about costs when discussing text messaging and browser-based options. Currently, the majority of our clients use text messaging; however, some texting plans are expensive relative to the client's income. In those cases, there was understandably less appetite for text message-based financial transactions than for IVR-based options. However, in a scenario where security concerns have been overcome, these clients did say that they would likely embrace financial transactions via text messaging if they were offered financial incentives or subsidies to encourage such transactions.

On the other hand, EARN clients were less familiar with browser-based mobile applications, largely because data plans currently on offer in the market are too expensive for these wage earners. As a result, they were not particularly enthusiastic about using data-based applications to transact online.

In general, the IVR solution was the one which had greatest appeal and with which our clients were most comfortable. However, if pricing becomes more attractive for either text messaging or for data-based mobile applications, there is a high probability that this target group would, after some initial coaching, embrace these options for transacting online.

EARN'S MOBILE FINANCIAL PAYMENTS PROTOTYPE

There are two key takeaways from our research. First, there is a market for mobile financial services among the underbanked in the United States. Second, the approach to gaining traction with these users is to start with the relatively conservative strategy of enabling IVR-based transactions. Converting users to text- or data-based applications for financial transactions is possible as

costs decline and as these users become more comfortable with these other applications.

Based on these findings, EARN has worked with two of the top mobile financial services integrators to design a system that is compatible with virtually any financial institution offering online banking functionality.

EARN's prototype concept has many advantages. The prototype does not require the user to have a computer to complete initial sign-up; it enables IVR transactions in three languages (English, Spanish, and Cantonese); and it allows automated text messages containing no sensitive financial information. EARN is confident that such a platform, designed by experienced vendors, will galvanize an existing market demand.

EARN's goal is to build this platform and implement it as a pilot project, working with our client base. EARN expects that the pilot project's outcomes will indicate a path forward and will spur activity in the mobile financial services marketplace to help the underbanked build prosperity.

ABOUT THE AUTHORS

Camille M. Busette, PhD is EARN's Vice President and Policy Director. She previously served as PayPal's Deputy Director of Government Relations where she managed advocacy efforts for the Americas. In addition to state and federal legislative advocacy, she worked closely with several national central banks and U.S. federal regulators on financial services issues. Prior to joining PayPal, she headed the privacy function at Intuit, and the consumer and market research division at NextCard. Dr. Busette is a former Ford Foundation Post-doctoral Research Fellow, and holds a PhD in Political Science from the University of Chicago.

Menekse Gencer is a consultant on mobile payments with mPay Connect, a mobile payments consulting service. Her executive experience in the mobile payments arena includes working with banks, alternative payments companies, mobile wallet platform companies, and others. In particular, she has extensive expertise in mobile financial services for the unbanked in the United States and in emerging markets. Ms. Gencer holds a Wharton M.B.A. and a Harvard B.A. in Economics.

ABOUT EARN

EARN, the nation's leading provider of microsavings, is an award-winning California non-profit that gives low-income workers the power to create economic prosperity for generations to come. Since 2001, EARN has helped tens of thousands of low-wage families through innovative financial products including matched savings accounts, checking accounts for the unbanked, micro-loans, and money management coaching. EARN's powerful combination of lasting assets and financial know-how enables families to build wealth and achieve life-changing goals such as saving for college, purchasing first homes, or starting small businesses.

The EARN Research Institute evaluates the impact of EARN's work and publishes original data, sharing lessons learned and best practices. EARN uses this unique grounding in rigorous research and direct service experience to transform the financial services landscape and to champion effective public policies. EARN's ultimate vision is that millions of well-informed, low-income American families will achieve financial success through proven strategies, fair public policy, and their own hard work.

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FOR FURTHER INFORMATION

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