KPMG

cutting through complexity

Serving the underserved market

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Consumers who have neither bank accounts (the unbanked) nor incremental credit (the underbanked) represent the largest untapped market for financial services organizations, according to a recent KPMG survey.[1] This "underserved" market represents more than 88 million individuals and nearly $1.3 trillion in wages. One of the fastest growing segments in any industry, the underserved market could grow by six million people over the next two years.[2]

Financial institutions need to examine how services to the underserved market can help increase revenue and promote customer loyalty. Banks are transforming their business models to address changes in the financial services marketplace, including increased costs of regulatory compliance. Responding to the needs of the underserved market could make the difference to banks' financial performance.

KPMG can help your financial services organization respond to this underserved market opportunity. Our Financial Services practice can work with you to analyze customer segmentation, design a portfolio of business opportunities, manage risks, leverage technology, and if appropriate, develop a target operating model and deploy a multigenerational plan.

Growth of the underserved market

As a result of the declining economic environment, more than 14 million wage-earning adults have experienced financially negative events during the last five years, and another 2–6 million U.S. citizens will likely experience negative financial events during the next 2 years, as foreclosures and unemployment are expected to continue.[3]

This total market comprises approximately 45 million households, including income earners age 18 and above. The average underserved household receives $25,500 in wages, government transfers and dividends, interest and rent, for a total income of roughly $1.3 trillion.

Within this market, the unbanked segment (those without a transaction account) comprises approximately 33 million people, or 14 percent of the 230 million adults in the United States. The underbanked segment (those without access to incremental credit) comprises approximately 55 million people, or 24 percent

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1 Serving the Underserved: Profiles and Market Opportunities, KPMG LLP, March 2011

2 Sources: KPMG analysis and research data, focus groups, Federal Reserve, U.S. Census

3 Sources: Unemployed: Bureau of Labor Statistics Personal Bankruptcies: bankruptcyaction.com Foreclosures: realtytrac.com, consumeraffairs.com, uspoverty.change.org

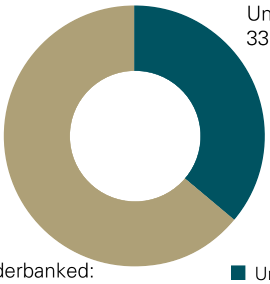
4 The FICO score is a type of credit score that makes up a substantial portion of the credit report that lenders use to assess an applicant's credit risk and whether to extend a loan. FICO is an acronym for the Fair Isaac Corporation, the creators of the FICO score.

5 Source: KPMG analysis, credit bureaus, U.S. Census

of all U.S. households. The underbanked segment has grown by about 12 percent over the last 4 years due to the mortgage and economic crisis.

Furthermore, in 2010, 52 percent of the U.S. population had a FICO score of 600 or less.[4] This represents a shift of over 16 million wage-earning adults from "average" credit to damaged credit over the last 4 years.[5]

Underserved Market Earnings – 2010
($ Billions)



Source: KPMG Analysis

Helping you serve the underserved

KPMG has considerable experience in helping clients navigate critical business strategy changes such as serving the underserved market. Our approach begins with an opportunity assessment. If appropriate, we can then design a target operating model. Lastly, we can help you execute a multi-generational plan.

Analyzing target segments and developing a product set are key elements of the opportunity assessment phase. In addition, banks need to appropriately leverage technology—such as mobile banking—and also ensure that appropriate risk protections are built in for both bank and customer.

UNDERBANKED – KEY TARGET SEGMENTS

UNBANKED	REBUILDER
Age: 18–40	Age: 30–55
Income: $12–$35K	Income: $50–$150K




Analyzing target segments

Customer segmentation is critical to serving the underserved market, and each target segment requires a disciplined and strategic approach. Those banks that carve out a niche and can successfully market and brand themselves will distinguish themselves from the competition.

Using our research on the underserved market, KPMG can help you analyze and, if appropriate, pursue a range of key target segments. These can range from those who do not use a bank to young adults with little knowledge of financial products.

For example, a "rebuilder" customer would be a middle manager who has been unemployed for 4 out of the last 24 months; has a family and children; lacks savings; may have experienced a setback such as a divorce, high medical expense, or foreclosure; had an above-average credit score before the setback; and now rents a home. Such a customer would likely require at least one checking account, limited access to credit cards, and often frequent payday loans.

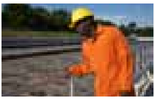
Similar profiles can be developed for the unbanked, "work-to-pay," and "emerging retail" segments. Banks may also need to distribute new products and services via ethnic- and cultural-focused marketing programs.

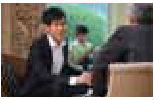
Developing a product set

The needs of the underserved market include meeting immediate cash-flow requirements, establishing a mainstream financial footprint, developing better saving and investing habits, and better managing personal finances. Banks that can successfully meet these needs have the opportunity to cultivate loyalty among underserved customers and grow their services as their customers become financially stable.

KPMG can help you strategize a portfolio of nontraditional services to better support potential customers from the underbanked and unbanked segments. Our market research and implementation experience has helped us identify preferred products for this market.

UNDERBANKED – KEY TARGET SEGMENTS	
WORK-TO-PAY Age: 18–30 Income: $18–$40K	**EMERGING RETAIL** Age: 18–26 Income: $25–$60K



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