

CFSI Center for Financial Services Innovation
An Affiliate of ShoreBank Corporation

**Distributing More than Refunds:
Reaching the Underbanked at Tax Time**

4th Annual Underbanked Financial Services Forum
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Who is CFSI?

The Center for Financial Services Innovation is a nonprofit that taps the power of the market to improve the quantity and quality of financial services for underbanked consumers. We bring together business, government and nonprofits to create the right conditions for innovation.

Our Work

Educate: Making the Case for the Underbanked

- Market intelligence is lacking. CFSI closes the gap through research, communication and evangelism.

Connect: Creating Networks and Partnerships

- Industry structure has changed, but industry networks have not. CFSI brings like-minded companies together to facilitate an exchange of ideas and broker partnerships.

Catalyze: Bringing Ideas to Fruition

- Smart capital that drives social impact is lacking. CFSI promotes double bottom line innovation through grants and investments and works with companies large and small to advise them on their plans.

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Why is tax time important for the consumer?

- For financially underserved consumers, many of whom are low-income, tax time holds special significance
 - Possibly the only time all year that they meet with a financial advisor of any kind, often in the form of a tax preparer.
 - Use a mix of paid-prepares and free-tax preparation sites
 - In large part due to the Earned Income Tax Credit (EITC), bolstered by over-withholding and other refundable tax credits (such as the Child Tax Credit), a tax refund represents the largest lump sum of money a consumer is likely to receive during the year.
 - Often twice the average paycheck or more.
- As a result, consumers are looking for...
 - Quick and easy access to their funds.
 - Low fees – keeping as much of their refund as possible.
 - Good advice.
 - Options for saving part of their refund.

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Why consider tax time?

- Frequently heard issue #1: volume is important to profitability in serving financially underserved consumers.
 - Chance to reach underbanked consumers in large numbers:
 - 26.4 million filers claimed the EITC (19% of filers).
 - Moreover, take up on EITC is 80% nationally, a disproportionate number of which are underbanked.
 - Opportunity to partner with tax preparer.
- Frequently heard issue #2: Account economics are difficult to make work when the balances are low.
 - Significant amount of funds in the hands of consumers at one time:
 - Maximum value of EITC return is \$4,824; average value is \$2,200.
 - Over \$43 billion distributed annually and increasing.
 - Spending happens over time:
 - More than half of consumers have not spent the entire refund after a month, and a quarter haven't spent entire refund after three months.¹

¹ From "Where Does It Go? Spending by the Financially Constrained." by Shawn Cole, HBS; John Thompson; Peter Tufano, HBS

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What are the opportunities at tax time?

- Transaction accounts: Bank Accounts and Pre-paid cards for the Unbanked
- Alternative Refund Anticipation Loans (Alt-RAL)
- Refund Splitting and Savings Products

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