

# HIGHLIGHTS FROM THE SIXTH ANNUAL UNDERBANKED FINANCIAL SERVICES FORUM, 2011

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# INTRODUCTION

More than 600 participants gathered at the Sixth Annual Underbanked Financial Services Forum to discuss the future of the marketplace for the underbanked. The event drew the largest attendance in its six-year history, including bank and credit union executives, entrepreneurs, consumer advocates, government officials, nonprofit providers, investors, foundation officials, vendors, non-bank providers, and other leaders in the financial services industry. Held in New Orleans June 8–10, 2011, the Forum was presented by the Center for Financial Services Innovation and SourceMedia, the publisher of American Banker.

The Forum provides an occasion to discuss the ideas, technology, partnerships, and policies that are transforming the market. Once again, this year’s conference took place amid a troubled economic environment, where many consumers have been shaken by high unemployment and difficulty repaying debts. Distrust for financial institutions lingers. Given these realities, many of the Forum’s speakers and panelists emphasized the need for improving quality in financial services in order to rebuild trust with the consumer and reestablish a thriving marketplace.

CFSI’s President and CEO Jennifer Tescher opened the Forum by citing some compelling statistics that underscore this need: 86 percent of surveyed Americans have little or no confidence in financial institutions, and 51 percent say financial institutions do not share their values. The work to repair both the perception and reality of this situation will not come from one company or simply through regulatory action. Rather, building a high-quality financial services marketplace will be a shared effort for the entire industry.

To inspire this effort, Tescher introduced the Compass Principles, a set of aspirational guidelines that offer a framework for excellence in the design and delivery of basic tools for managing one’s financial life (for more details, see Sidebar: A New Initiative for Quality).

Chart 1: Types of Organizations in Attendance

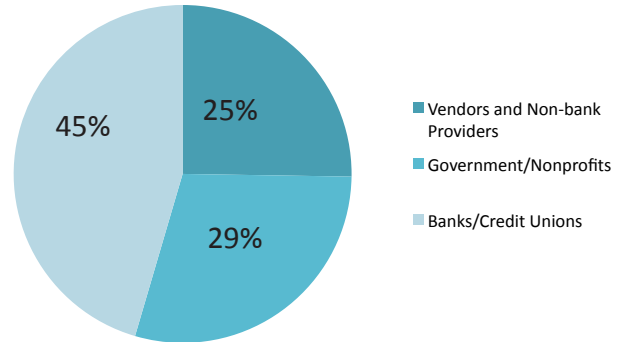
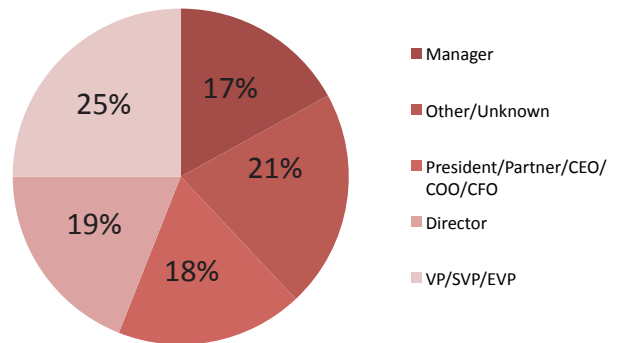


Chart 2: Titles of Attendees



Four key themes emerged during the conference:

**Know your customer:** Many researchers and practitioners shared insights about underbanked consumers—who they are, why they are underbanked, and what they want in financial services.

**Create innovative products that deliver value:** Financial service innovators are redefining traditional credit, transaction, and deposit products to create value for the underbanked with lower costs and more consumer-friendly features.

**Develop inclusive distribution channels:** Providers continue to deliver financial services in ways that are more convenient for underbanked consumers, through such channels as retail outlets, convenience stores, nonprofit partners, mobile phones, and micro-branches.

**Build a healthy marketplace:** Industry leaders want to balance competition, regulation, and industry standards to improve access to high-quality products for underbanked consumers, generate financial returns for businesses, and allow for innovation.

# KEY THEMES

## Know your Customer

Understanding the customer is the first step in developing quality services. Accordingly, researchers and practitioners shared what they had learned about the nature of underbanked consumers and what they want and need in financial services.

**Green Dot CEO Steve Streit** discussed lessons he had learned building the prepaid company Green Dot. Streit attributed part of Green Dot's success to its strong customer focus and ability to understand that different customers use the card for different needs. Some want to complete a one-time transaction online. Others want a tool to help with budgeting and managing expenses. Still others want the card to function as their primary financial account. Streit said it is critical that the card be easy to use. "I hate complexity," he said. "We work hard to keep Green Dot cards simple. It's very difficult to be easy."

Streit also addressed some of the recent controversy about regulatory issues in the prepaid industry, saying that they are part of the industry's natural maturation process. He noted that some prepaid companies have misleading practices, and that critical articles by consumer advocates have had a positive effect, prompting the industry to become more consumer focused and leading it into the mainstream.

**Bill McCracken, CEO of Synergistics Research Corporation**, presented highlights from recent consumer research. He defined an underbanked household as a household having one checking or savings account but no other deposit, savings, or investment accounts.<sup>1</sup> One advantage to defining the underbanked market in such a way is that it highlights the opportunity for cross-selling products to current banking consumers. McCracken noted that the underbanked, under this definition, are a broader population than many typically assume: 49 percent have attended college and 45 percent are homeowners. Nearly 10 percent of households with incomes above \$40,000 per year are underbanked. While many assume that the underbanked do not use banks because they are shut out of the system, McCracken suggested that some people are

underbanked simply because they have chosen a more convenient option. In a survey of underbanked individuals with less than \$40,000 in annual income, respondents cited convenient hours (54 percent) and convenient locations (49 percent) as two of the most important reasons for using alternative financial service (AFS) providers. Only 15 percent of respondents said the lack of a checking or savings account was an important reason for using AFS. Mainstream financial service providers looking to tap the underbanked market would benefit from making convenience a priority.

**Chart 3: Important Reasons for using AFS Providers**

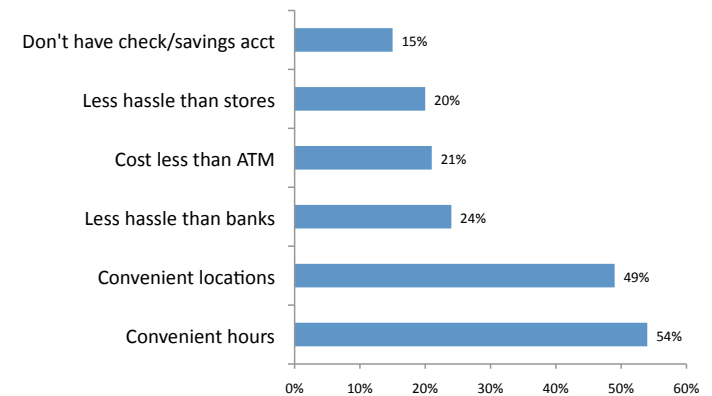


Chart 3 Source: Bill McCracken, Synergistics Research Corporation, June 2011

According to McCracken's research, although underbanked consumers may choose to use alternative financial services, they still may be unsure about the value of those services in terms of cost. Only 18 percent of underbanked consumers said AFS providers offer much better value than banks do. A full 25 percent said AFS prices represented a poorer value than bank prices, and 18 percent were not sure. Because of this uncertainty, banks and non-bank providers may be able to benefit by delivering a stronger message and demonstrating the cost-effectiveness of their services.

**Chart 4: Underbanked consumer: How would you compare AFS pricing to bank pricing?**

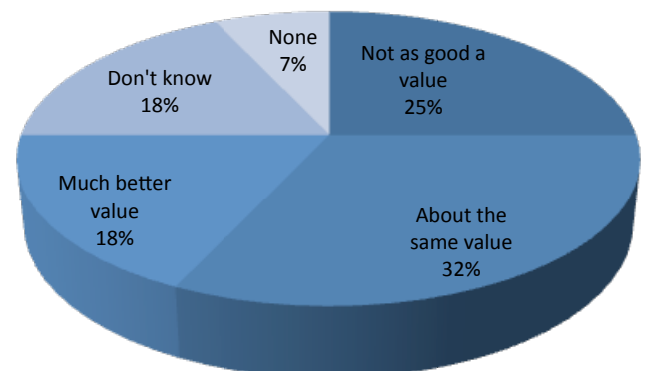


Chart 4 Source: Bill McCracken, Synergistics Research Corporation, June 2011

<sup>1</sup> McCracken's definition differs from the definition used by the FDIC. The FDIC defines underbanked individuals as those who hold an account with an insured depository institution but also rely on nonbank alternative financial services, such as check cashers or payday lenders. The FDIC defines unbanked individuals as those who do not currently hold a checking, savings, or other transaction account at an insured depository institution. CFSI uses the FDIC definitions.

To build better industry and regulatory knowledge around prepaid, **Bob Hunt** from the **Federal Reserve Bank of Philadelphia's Payment Cards Center** and **Mick Conlin** from **Meta Payment Systems** are conducting a transaction-based analysis of prepaid consumer usage. Their analysis emphasizes the differences among prepaid card users depending on card distribution channel. Presenting preliminary results, Hunt provided detailed usage information by channel for characteristics such as average length of activity, transaction volume, and dollar load volume. Hunt also showed the dramatically higher prepaid dollar load and usage of customers who use direct deposit compared to those who do not. These results represent some of most detailed public studies of prepaid consumer behavior to date and may influence future regulation. The full results will be published in 2012.

In addition to new research, the Forum convened practitioners to share insights on serving specific underbanked market segments. **Gina Harman, president and CEO of Accion Network**, **Mitchell Jacobs, CEO of On Deck Capital**, and **Luz Urrutia, president of El Banco De Nuestra Comunidad** participated in a panel on the unique financial needs of the underbanked small business. The underbanked consumer and small business share much in common: Both frequently require alternative forms of credit because they lack a traditional credit history; both turn to high-interest credit cards and overdraft to cope with cash flow; both obtain credit from non-bank providers; and both tend to lack understanding of banks' lending requirements. To underwrite loans for this segment, providers may need to rely on alternative sources of data, such as daily cash flow and bill payment history. Using such an approach, On Deck Capital has extended \$125 million in loans with an average balance of just \$35,000. Additionally, providers may need to offer technical assistance with business plan preparation and accounting. Finally, companies seeking to serve this segment may also want to look to the employees of the underbanked businesses, who themselves may also be underbanked. If a provider can acquire some of those employees as customers, the economic case for serving underbanked businesses becomes stronger. For many small businesses, the line between household and business financial transactions can be blurred. Understanding this overlap and the financial needs it creates merits further exploration.

The Forum also highlighted the youth market, another group who are frequently underbanked. At a session titled "The Young and the Bankless," **Patrice Peyret, CEO of Plastyc**, shared insights from serving this segment. He said that when Plastyc launched a card targeted at young consumers, company officials expected them to spend most of their money online, want complete financial independence from their parents, and help market the card through social media. They found quite the opposite: Most spending occurred offline; teens wanted ways to get financial support from their parents; and they did not share and promote the card via social media.

## Create Innovative Products that Deliver Value

Financial service innovators are redefining traditional credit, transaction, and deposit products to create value for underbanked consumers, with lower costs and more consumer-friendly features. The conference highlighted both startups and established institutions looking to deliver new, innovative products. If these products can be delivered in a sustainable, scalable manner, the underserved will find new options to meet their needs, and incumbent providers will need to adapt their business models to remain competitive.

A keynote delivered by former **Safaricom Limited CEO Michael Joseph** illustrated how an innovative, high-quality product can transform the marketplace for the underbanked. While leading Kenya-based Safaricom, Joseph launched M-PESA, the world's most successful mobile payments platform to date. This product enables customers to carry out a multitude of transactions, such as money transfers domestically and internationally, ATM withdrawals without a card, supermarket and bus ticket purchases, online shopping via a linked prepaid card, salary payments to employees, and receipt of Safaricom's own shareholder dividends. With more than 15 million customers, or almost 40 percent of the Kenyan population, M-PESA has brought financial access to millions of people. A follow-on savings product, launched in September 2010, generated 350,000 new savings accounts with a total of \$15 million in deposits in only two months.

For those thinking about mobile payments in other countries, such as the United States, Joseph had some advice. First, invest in the distribution network. "If you're

not prepared to spend money on the payment network, don't do it," he said. M-PESA invested in a large number of cash in/out points (typically small roadside stands with an agent who can load cash onto accounts and disburse cash from existing accounts) and works diligently to ensure their quality and reliability. Second, look to government transfer payments. Governments around the world require cost-effective, safe, and reliable ways to deliver transfer payments to their citizens. The proliferation of mobile phones and evidence of successful models position mobile as a potential channel. Finally, think beyond simple cost and return calculations. M-PESA was originally envisioned as a customer loyalty product, not a money-making feature for phones. This approach allowed Safaricom to deliver a high-value service, but it required a holistic view of the customer relationship. Now at scale, M-PESA has proven to be a strong customer retention and margin protection tool for Safaricom's wireless business.

Later in the conference, **Kevin Morrison** from **US Bank**, **Bart Narter** from **Celent**, and **Ray Sosa** from **MPOWER Labs** joined a panel to discuss the future of mobile transactions for underbanked consumers in the United States. While it remains an open question whether mobile services can increase access for the underserved domestically, consumers clearly benefit from the ability to access information through mobile phones. Many underbanked consumers pay particular attention to their account balances because they frequently live paycheck to paycheck. In terms of building mobile payments, the panelists felt that merchants appear to be the largest impediment to implementation. Consumers tend to update their phones as often as every two years, but it is expensive for a merchant to replace existing point-of-sale investments.

In a research report released shortly following the conference and drawing upon the discussions there, CFSI explored the topic of mobile services for the U.S. underbanked in greater depth. The report concluded that in the short term, mobile financial services are likely to help consumers in three ways. First, by providing timely information and financial capability tools, they help people make more informed financial choices. Second, they make key transactions more convenient. And third, they ensure greater security of customer accounts. In the long term, mobile financial services have a high potential to help the underbanked convert some of their cash-based payments

to electronic payments and may eventually serve as a distribution channel for new financial accounts. Yet despite all these promising features, one of the most talked-about innovations, mobile payments, likely faces many difficulties in implementation. Some of these impediments relate to business model and revenue potential, infrastructure, and consumer psychology. For a deeper discussion of mobile financial services and the U.S. underbanked, download the paper "Reaching Underbanked Consumers Through Mobile Services."

During a session titled "Extreme Product Makeover: Financial Capability Edition," experts in financial services from **Filene Research Institution**, **Churnless**, and **CFSI** applied principles of financial capability and behavioral economics to offer innovative suggestions to improve an existing general purpose reloadable card offered by PreCash. The company hopes to increase the use of bill pay, direct deposit, and savings. Panelists suggested redesigns such as turning on the savings feature by default for the product, giving the customer tools to self-impose limits on withdrawals, and allowing customers to pre-commit to saving portions of large deposits, such as tax returns. Other suggestions included simplifying the enrollment process for online bill payment and reducing monthly fees for customers using direct deposit. The session demonstrated that providers can build even higher-quality products by designing features and tools to encourage smart financial choices by customers.

## **Innovators in Credit, Payments and Deposits**

The Forum also hosted innovators working to deliver new products and services in the credit, payment, and deposit realms. These innovators served on panels, demonstrated their products in the exhibition hall, and shared their vision for a new way to conduct financial services.

In the credit area, innovators were looking to reduce operating costs, streamline underwriting, and lower defaults:

- **ZestCash** provides online short-term, small-dollar loans to people who lack access to traditional credit. Customers can select the amount to borrow and the time to pay back the loan. Underwriting uses proprietary, automated models, and funds are delivered electronically. ZestCash positions its product as a

lower-cost alternative to traditional payday lending and maintains that structuring short-term credit as installment loans aligns its interests with those of borrowers.

- **BillFloat** works with more than 3,500 billers nationwide to provide consumers a 30-day extension on bill payments. BillFloat pays the bill upfront for the consumer, who in turn is expected to pay BillFloat within 30 days. Customers pay 3 percent interest for the month and up to \$14.99 for the bill-pay service. BillFloat is designed to help consumers avoid late fees, overdraft charges, service termination, and higher-cost payday loans.
- **On Deck Capital** helps small business owners with poor or limited credit history to identify and access financing for their business. On Deck assesses credit risk based on the business's cash flow, often making decisions on loans in two days and funding the loan in as few as seven days. The company hopes to create an inclusive marketplace where underbanked business owners can find fairly priced capital to grow their businesses.
- **Galileo** can deliver a prepaid card and secured card in one product. Underwriting for the secured card can move beyond a simple credit score, taking into account the cash flow transacted on the card. If successful, Galileo's features will improve access for underbanked consumers to secured credit cards and the lower-cost credit they provide.

In payment services, companies hope to use technology to improve convenience and provide new functionality in transactions:

- **PayNearMe** helps customers who may not have a credit card or bank account to conduct transactions at convenience stores such as 7-Eleven. Customers can pay for online purchases, fund money transfers, and pay bills such as utilities, rent, and mortgage. (PayNearMe competed in the Core Underbanked Innovation Challenge; see accompanying article on the competition for more information.)
- **Tio Networks** provides self-service kiosks that allow customers to use cash to pay bills and send remittances, offering convenience for customers who prefer cash and saving billers the expense of establishing a new branch.

In the deposit realm, providers are developing more

consumer-friendly products and rethinking traditional offerings to reflect a behavioral economics point of view:

- **Bank of America** has overhauled its approach to checking accounts, with a tiered approach that offers accounts ranging from simple, flat-fee transactional accounts to premium accounts with more advanced features. The bank also noted that ending fees on overdrafts had paid off in fewer account closures, increased balances, and fewer customer complaints.
- **Huntington Bank** shared information about its "Asterisk-Free Checking." This product seeks to simplify checking accounts and provides features such as no minimum balance and no monthly fees. The bank also provides customers with a 24-hour grace period on overdrafts. This product required the company to look beyond a short-term view of customer profitability toward a long-term relationship.

## Develop Inclusive Distribution Channels

Providers continue to develop ways to deliver financial services more conveniently and with lower prices through inclusive distribution channels, such as retailers, convenience stores, nonprofit partners, prepaid cards, and micro-branches.

In one of her last public appearances as **president of Financial Services at Walmart**, **Jane Thompson** shared lessons from founding and leading Walmart's Financial Services division. A leader in retail financial services for underserved populations, Walmart serves the unbanked, underbanked, and "unhappily banked." Walmart focuses first on respecting customers' needs, being transparent, and keeping prices low, with the goal of delivering not just a quality product but quality practices. Early in building the division, Thompson asked a staff member to survey market practices that she called "legal but unfair." She wanted Walmart practices to meet a higher standard. Delivering quality financial services, she said, creates a virtuous cycle for Walmart. Meeting the customer's needs leads to increased foot traffic and sales. Increased foot traffic and sales lead to reduced cost of services. Reduced cost of services leads back to meeting the customer's needs. At a panel focusing on retailers, **Keith Brand** of **Sears Holding Corporation** and **Darren Beyer** of **Blackhawk Network** shared lessons learned from serving the underbanked where they shop. Both speakers suggested

## Spotlight: Core Underbanked Innovators Challenge:

### **Congratulations to GoalMine! Winner of the Core Underbanked Innovation Challenge**

Four innovations took center stage at this year's Underbanked Forum when Core Innovation Capital hosted top nominees for the best underbanked innovations of 2011. A strategic partner of CFSI, Core Innovation Capital invests in the most innovative companies serving underbanked American consumers. Nominees provided fast-paced demonstrations of their products and answered audience questions via Twitter. Voting by text messaging, the audience chose GoalMine as the \$10,000 prize winner. Here is what this year's competitors shared:

**GoalMine:** Rimmy Malhotra and Yaron Ben-Zvi from GoalMine, part of MPOWER Labs, previewed GoalMine's latest feature to allow low- and moderate-income customers to invest in bond and mutual funds with the help of an impulse savings feature and support from friends on Facebook. GoalMine allows customers using MPOWER's Mango MasterCard prepaid card to enroll online in savings and investing programs, and easily set up automatic contributions from the card. With their impulse savings feature, a decision to skip that morning coffee can quickly be converted into a small deposit in a GoalMine savings or investing product with the touch of a button. Progress toward a goal can be viewed on a smart phone and shared with friends on Facebook.

**PayNearMe:** Danny Shader and John Minor demonstrated PayNearMe's ability to allow underbanked consumers to use cash to buy goods online, pay bills such as mortgages and utilities, and conduct other transactions such as money transfers all at a nearby convenience store. The platform enables clerks at a 7-Eleven to seamlessly accept cash payments for a financial transaction just as if they were ringing up a bag of chips. To complete a transaction, a customer can bring in a PayNearMe barcode printed from a computer or included in a monthly invoice mailed by a biller. The store clerk simply scans the barcode and accepts payment. The billing merchant is alerted of the payment in

real-time. For underbanked consumers without a credit or debit card or those who prefer to use cash, PayNearMe transforms a neighborhood convenience store into an outlet to pay for more goods and services.



**FIS:** Kamila Kibilda and Ijaz Anwar from FIS, the financial services technology and payment firm, demonstrated remote deposit capture, a new feature that allows customers to take a picture of their checks, have the check deposited into their prepaid or bank account, and get instant access to the funds. The adoption of this feature by a large prepaid processor like FIS means that many more underbanked consumers may soon see this convenience coming to their prepaid cards.

**Flexwage:** Frank Dombroski and Rocco Laterzo introduced Flexwage's payroll card solution that provides employees access to their earned wages before the next payday via a prepaid card. It is envisioned as a lower-cost and more convenient alternative to payday lending.

Congratulations to GoalMine and all of the finalists. Details about the 2012 Core Underbanked Innovation Challenge will be available at [www.corevc.com](http://www.corevc.com) in early 2012.

that retailers are well positioned to serve the needs of underbanked consumers because they already interact with them regularly and maintain convenient locations. And because retail sales are their primary profit center, retailers do not need to make a huge profit on financial products. The timing for retail entry into financial services may be ideal, given that some consumers are seeing bank fees rise in the face of increasing regulation and may be more open to lower-cost alternatives.

Some banks and credit unions are expanding their product suites and deploying branches similar to check-cashing shops to reach underbanked consumers in new ways. **Haydee Moreno, director of Self-Help Federal Credit Union's microbranch initiative**, shared lessons about combining traditional banking services and alternative financial services. She urged providers to "temper the expectation" that they can get beyond everyday financial needs and start building assets. "Our core customer has a set wage, a set family structure," she said. To have an impact, "it may be enough for us to help create financial stability and well-priced services." Like other speakers, Moreno suggested that banks interested in offering alternative financial services invest in customer research, then build their offering to meet customers' need for hours, location, and product suite. Staff members also need to be trained to understand what is realistic for their customers. About 20 percent of microbranch clients have gone on to become full members of Self-Help Federal Credit Union, with savings accounts a good bridge product for many traditional check-cashing customers.

**George Hodges, managing partner at New Market Partners** and a strategic partner for Self-Help's microbranch project, recommends that, before making the leap to alternative financial services, banks have strong executive buy-in and invest time socializing the initiative within the bank. In his experience, he said, financial service providers can realize a quick payback by adding alternative transactional services to existing branches.

**Leigh Phillips from San Francisco's Office of Financial Empowerment** described the city's efforts to help students start saving early, showing how local government might partner in the distribution of financial products. Under the program, every kindergartener automatically receives a Citibank account with an opening deposit of \$50 from the city of San Francisco. Families can contribute to the

account over time and use the accumulated savings to pay for college expenses. The goal is to build a culture where college attendance is expected, and to capitalize on research that shows students with college savings accounts are much more likely to go to college.

In a session focused on government distribution of prepaid cards, **Josh Wright from the Office of Financial Education and Financial Access at the U.S. Treasury Department** and **Kirstin Trusko from the Network Branded Prepaid Card Association** provided an overview of the Treasury Department's MyAccountCard pilot. The program allows a small group of low- and moderate-income tax filers to receive their tax refunds through a prepaid card. The pilot is designed to show that prepaid cards can boost efficiency through lower costs and fewer stolen checks, improve service with faster benefits delivery, and increase access to financial services. Wright estimated that the Treasury Department issued 45 million checks in 2010. If all of them had been delivered electronically through prepaid cards, the government could have saved an estimated \$45 million. According to a consumer survey Trusko presented, consumers consider the following to be the top benefits of prepaid cards: safety and security if the card is lost, avoidance of overdraft, and the ability to access many of the services of the mainstream banking system.

## Build a Healthy Marketplace

To give underbanked consumers better access to high-quality products while generating positive returns for businesses and encouraging innovation, industry leaders want to balance competition, regulation, and industry standards. The recent launch of the Consumer Financial Protection Bureau, in addition to increased regulatory activity by the Federal Reserve, FDIC, and Treasury, has created a great deal of uncertainty, and many segments in the underbanked marketplace are bracing for more regulation. But industry leaders remain optimistic that the industry can find healthy ways to compete, deliver high-quality products, and set high practice standards. Providers also are concerned that a few bad actors can harm perception of the industry.

A keynote delivered by **Chris McWilton, president of U.S. Markets for MasterCard Worldwide**, focused both on the opportunity and responsibility of financial service providers when serving the underbanked. McWilton

urged conference participants to reflect on the excesses that led up to the recent financial crisis: the lure of fast money, easy credit, excessive fees, balance shell games, and penalties hidden in fine print. “The industry cannot afford another black eye. It cannot issue another invitation for government intervention and another round of legal challenges,” McWilton said. He encouraged providers to empower their customers with options and choices and not to rely on “gotcha” pricing. At the same time, he said, the industry should not shy away from charging for products and features that provide real value for customers.

The Forum hosted a variety of panels on the unique market and regulatory issues facing specific segments of the underbanked market. **Netspend CEO Dan Henry, AARP Foundation President Jo Ann Jenkins, Sunrise Community Banks CEO David Reiling, and National Consumer Law Center Managing Attorney Lauren Saunders** participated in a lively panel discussing what makes a “good” prepaid card and how proponents should respond to negative press about prepaid. Most panelists seemed to agree that prepaid products should be transparent. Fees should be clear and upfront for the customer. Saunders suggested card companies consider providing annual summaries of fees incurred so consumers will be informed. Henry and Reiling both urged the use of technology to ensure timely delivery of information and give consumers tools for using the product successfully.

Panelists expressed varying views about credit. Saunders sounded a note of caution on the extension of credit through prepaid cards: “Debt is not a substitute for income,” she said. “Tying credit to deposit accounts can be dangerous for consumers and lead to sloppy underwriting. You should extend credit to people you know can afford to repay it.” To illustrate better practices in the marketplace, Henry described Netspend’s revised overdraft product, which provides wireless alerts to customers, allows \$10 in free overdraft, and limits customers to only three overdrafts in a month.

Disagreement on quality practices and regulatory uncertainty complicate the marketplace for small-dollar credit. In a session focused on better borrowing through innovation, **Douglas Merrill, founder and CEO of ZestCash, and Trent Sorbe, president of Insight Credit Solutions,** discussed the best way to design small-dollar loans to be sustainable while protecting the borrower’s financial

well-being. Sorbe highlighted small-dollar features that he would like to see, such as simple terms, convenient delivery, and credit bureau reporting. At the same time, he noted challenges for which the industry would need to find innovative solutions, such as limiting credit dependency among customers, allowing customers to graduate to other credit products, and enabling customers to save for future emergencies.

ZestCash is designing a small-dollar loan program to help consumers move toward long-term prosperity, Merrill said. ZestCash can offer loans at lower cost because of its low-cost online storefront, with fewer defaults because of its proprietary underwriting, and with closer alignment of interests between borrower and lender because of its use of amortizing loans. Merrill hopes that over time, one regulatory approach will emerge for small-dollar credit so providers can compete on a single, fair, and level playing field across the industry.

Taking a bigger-picture look at the regulatory environment, a preconference workshop on the impact of Dodd-Frank and the CFPB featured financial service experts **Bob Hunt** from the **Federal Reserve Bank of Philadelphia, Barak Sanford** from **Promontory Financial Group,** and **John Ryan** from the **Conference of State Banking Supervisors.** The panelists noted the uncertainty created by the launch of the CFPB but also suggested there could be positives once the CFPB is fully operational. The enabling legislation for the CFPB specifically calls for promoting access, and with full ownership of the issues of safety and access, the CFPB may be able to address issues that other regulators cannot. The agency may also be likelier to collect data, study issues, and work with industry to find solutions. While the CFPB could create gains for the underbanked, panelists noted a risk that the CFPB will drive up the cost of compliance, change the minimum efficient scale for banks to operate, and ultimately shrink the marketplace for financial services.

## Spotlight: A New Initiative for Quality

In her opening remarks, CFSI President and CEO Jennifer Tescher introduced CFSI's latest initiative, the Compass Principles. These guidelines for the U.S. financial services industry affirm standards of excellence in the design and delivery of the basic tools that people use to manage their daily financial lives.

There are four principles:

### 1. Embrace Inclusion:

*Responsibly Expand Access*

Consumers, including those from traditionally underserved groups or communities, are creatively reached and well served with a relevant suite of quality, affordable financial services, provided in a dignified, comfortable, and convenient manner.

### 2. Build Trust:

*Deliver Clear and Consistent Value*

Consumers can clearly understand and derive value, without pitfalls, from their financial products and services.

### 3. Promote Success:

*Link Smart Design with Actionable Guidance*

Consumers are empowered to make wise money choices via both smart product/service design and also guidance that is relevant to their specific concerns and financial situations, coincides in a timely fashion with key life events and decisions, and is immediately actionable.

### 4. Create Opportunity:

*Provide Options for Upward Mobility*

Consumers have appropriate options that create opportunities for increased financial prosperity, and they are actively encouraged to pursue those opportunities.



The Compass Principles are currently in the feedback phase. CFSI is soliciting input from providers, consumer advocates, and experts to ensure that the principles are as robust, comprehensive, and effective as possible. "Our vision for the future is that the supply and usage of financial services that meet the principles will grow," Tescher said, "enabling Americans to transact, save, borrow, and plan in ways that improve their financial well-being."

For more information about the Compass Principles, visit [www.compassprinciples.com](http://www.compassprinciples.com).

## CONCLUSION

With American consumers still unsettled by the economic downturn, the financial services industry is at an inflection point. Underbanked consumers want more value and quality from their financial products. They want providers they can trust. Providers want the marketplace to find the right balance of competition, regulation, and industry standards that enable customers to succeed and the industry to flourish. Industry leaders continue to focus on building a high-quality marketplace driven by consumer needs, inclusive of more customers, and robust with products that deliver value. This year's Forum reflected that ongoing dialogue.



Next year's conference will continue the conversation while again presenting the most cutting-edge solutions to serve underbanked consumers. Anticipated highlights from next year's conference include:

- Updates from a year's work of engagement and feedback on the Compass Principles
- The 2nd Annual Core Underbanked Innovators Challenge showcasing the most promising innovators in the underbanked market
- The latest consumer research from around the industry, including CFSI's own work on small-dollar credit
- New results from CFSI's Financial Capability grantees, all of whom will have nearly two years of serving the underbanked with services that combine financial education and access to financial products.



**We look forward to seeing you at the 2012 Forum.  
Join us at the Seventh Annual Underbanked Financial  
Services Forum!**

**June 13–15, 2012**

**Westin St. Francis—San Francisco, California**

**<http://www.americanbanker.com/conferences/cfsi/>**

## About CFSI:

The Center for Financial Services Innovation (CFSI) is the nation's leading authority on financial services for financially underserved consumers. Through insights gained by producing original research; promoting cross sector collaboration; advising organizations and companies by offering specialized consulting services; shaping public policy; and investing in nonprofit organizations and start-ups, CFSI delivers a deeply interconnected suite of services benefiting underserved consumers. Since 2004, CFSI has worked with leaders and innovators in the business, government and nonprofit sectors to transform the financial services landscape.

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