

# Unbanked Ranks to Grow, Wal-Mart and Green Dot Lead

Companies: BBY, GDOT, NTSP, MGI, SHLD, TYO:3382 WMT, WU

March 24, 2011

## Research Question:

**Which retailers will lead in developing financial services for the growing number of “unbanked” customers, and which alternative financial companies will benefit?**

## Summary of Findings

- Demand for alternative financial services for the unbanked and underbanked is growing, as much as 5% per year for some sources.
- [Wal-Mart Stores Inc.](#) (WMT) and Seven & i Holdings Co. Ltd.'s (TYO:3382) [7-Eleven](#) are the retail service leaders in the provision of financial services to the unbanked and underbanked. One expert said Wal-Mart is responsible for cashing 25% to 30% of all the checks processed on behalf of the market segment.
- [Green Dot Corp.](#) (GDOT), [NetSpend Holdings Inc.](#) (NTSP) [MoneyGram International Inc.](#) (MGI) and [The Western Union Co.](#) (WU) are the leading service providers of prepaid debit cards and money transfers.
- Mobile financial services are in their infancy but are expected to be adopted by the unbanked and underbanked. Many companies discussed in this report have launched some form of service accessible via mobile phones. PayPal in particular is well-positioned in mobile banking services.

## Silo Summaries

### 1) RETAIL STORE STAFF

Four of the five sources said their store's financial services are more of a convenience for customers than an active profit center. The remaining source, representing a Wal-Mart Money Center, reported servicing hundreds of customers every day. Green Dot and Western Union were frequently mentioned providing popular financial services. One 7-Eleven manager said that on Jan. 1 the company stopped issuing paper checks to its employees and franchisees and now issues prepaid Green Dot cards.

### 2) FINANCIAL SERVICE STAFF

All three sources said demand for their services is increasing and that banks are not interested in servicing the customer group that utilizes their products. Mobile financial services are expected to be popular with the unbanked. One source said PayPal is offering interesting solutions and is acting like an online bank. Kmart and Wal-Mart are strong players in offering nonbank financial services, and MoneyGram and Western Union are leading service providers.

### 3) INDUSTRY EXPERTS

All three sources said the alternative financial service industry is growing rapidly. Two sources pegged the growth rate at 5% per year. Wal-Mart and 7-Eleven were named as leading retailers. Green Dot, MoneyGram and Western Union are the leading financial service providers in the industry. NetSpend and Tio were also discussed.

### 4) BANK STAFF

Two of three sources said their fees are rising. Banks' general attitude is that people using retailers' financial services are being taken advantage of. Sources did acknowledge that their minimum requirements may be a hurdle for the unbanked. One said 7-Eleven is among one of the biggest providers of services to the unbanked while another mentioned Wal-Mart's check cashing service.

### 5) UNDERBANKED

Both underbanked customers are becoming more knowledgeable of all the mobile payment options they have on their smartphones. Services utilized include mobile phone purchase from Starbucks, bill paying via a JPMorgan Chase bank, eBay purchases and stock trading. One of the two sources was aware of financial services being offered at retailers. This source, who saw a Money Center in Wal-Mart, expects the company to become an industry leader in servicing the unbanked and underbanked.

	Unbanked Market Growth	Wal-Mart and 7-Eleven Retail Leaders	Green Dot, MoneyGram, Western Union Service Leaders
Retail Store Staff	↑	↑	↑
Financial Service Staff	↑	↑	↑
Industry Experts	↑	↑	↑
Bank Staff	↑	➔	N/A
Underbanked	↑	➔	N/A

# Financial Services for the “Unbanked”

## Background

The poor and those disillusioned with the banking industry are seeking traditional banking services, such as check cashing, money transfers, prepaid cards and bill payments, from retailers and convenience stores. The alternative financial services business is estimated to be worth [\\$320 billion](#) and growing.

### CURRENT RESEARCH

Blueshift will assess which retailers are leading in the provision of banking services and which financial support companies are emerging as market leaders. We employed our pattern mining approach to establish and interview sources in six independent silos:

- 1) Retail store staff (5)
- 2) Financial support companies (3)
- 3) Industry experts (3)
- 4) Bank personnel (3)
- 5) Unbanked/underbanked customers (2)
- 6) Secondary sources (4)

Blueshift interviewed 16 primary sources and included four of the most relevant secondary sources focused on the alternative payment and services for the unbanked and underbanked industry.

## Silos

### 1) EMPLOYEES OF STORES OFFERING FINANCIAL SERVICES

Four of the five sources said their store’s financial services are more of a convenience for customers than an active profit center. The remaining source, representing a Wal-Mart Money Center, reported servicing hundreds of customers every day. Green Dot and Western Union were frequently mentioned providing popular financial services. One 7-Eleven manager said that on Jan. 1 the company stopped issuing paper checks to its employees and franchisees and now issues prepaid Green Dot cards.

#### ➤ Money Center manager for a Wal-Mart store near Chicago

This source said the Money Center serves hundreds of customers every day. Their customers are more comfortable conducting financial transactions at Wal-Mart because they do not understand how a bank operates. They like Wal-Mart as a company, and they like the convenience and low financing fees. This department sells more money orders than it cashes checks. Customers also like to use the MoneyGram service to pay their utilities.

- “I know that we serve hundreds of customers every day. The weekends are out of control. There is always a line, but on the weekends, the lines can be outrageously long.”
- “We cash a lot of checks. I can’t even estimate how many we do per week, and I don’t think I am allowed to say legally. It is really popular because it costs a lot less to cash a check here than it does at a currency exchange.”
- “I think the primary reason customers do their banking at Wal-Mart is because they think banks charge too much. Also, I feel a lot of our customers don’t know how banks really work, so it is easier and more comfortable for them to come here. The banks cannot compete with us since we don’t charge much to cash checks or for a money order.”
- “Another reason the Money Center is so popular is people just really like Wal-Mart. They shop here all the time and if they can also get their banking done while they are here, they figure why not.”
- “We do more money orders than cashing checks. We sell about 40 to 50 money orders per day at this store. We actually sell more money orders on Friday’s, when people get their payroll checks.”

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*Manager, Money Center for Wal-mart  
Chicago, IL*

# Financial Services for the “Unbanked”

- “When we cash a check from \$300 to \$1,000 we only charge the customer \$3, and anything over \$1,000 to \$5,000 is \$6. We don’t cash checks over \$5,000. I have been working here over five years, and we have been cashing checks at least that long.”
- “Our sales of money orders and prepaid cards have been steady for the last few months. They might go up a little in the next three months. The prepaid card business is stable throughout the year. We do not sell them at or from the Money Center. They are rung at the checkout registers so I cannot really say how many we sell since I am not over there.”
- “You can pay bills at Wal-Mart through the [CheckFree Pay](#) system when you bring in your bill and we set it up to pay or you can send money for your bills through MoneyGram. Customers like this because they can pay all their utilities here in one trip.”
- “Some of our stores do not have a separate Money Center. In that case, they do their financial transactions at their customer service desk.”

*Reporter’s Observations:* Six to eight people were waiting in line at the Money Center. They were holding checks to cash. Also, a few people were waiting at each of the 10 open checkout registers.

## ➤ Assistant manager at a Kmart (Sears Holdings Corp./SHLD) in a blue-collar neighborhood in Chicago

This source stated prepaid cards are not a big part of Kmart’s business but simply carried as a courtesy to its customers. Unlike bigger Kmart stores, this location does not cash checks. Instead, it offers Western Union services twice a month. He has heard talk, but no definitive details, of Kmart expanding its financial service offerings.

- “We sell prepaid Visa cards but we do not sell too many of them. It is not a big draw for our customers. It is not why they are coming into the store. We just carry the prepaid as a courtesy to our customers. We are not making any money off of them, nor do we expect to in the near future.”
- “We are selling the same amount of prepaid cards that we were six months ago. We expect their sales to stay the same for the rest of this year.”
- “The only financial service we really offer is Western Union. We have been doing it for years. I think Kmart has a contract with them so we are not allowed to use any other companies. We do Western Union transactions approximately two times a month.”
- “We don’t cash checks at this store. There are some Kmart stores that do cash checks. It is usually the bigger stores.”
- “I know that some competitor stores offer more extensive financial services than Kmart. I know some Wal-Mart stores have money centers where you can cash a check and do other banking we don’t offer. I hear talk of Kmart expanding their financial service offerings, but it has only been talk. I cannot say when it will happen, where it will happen in terms of which stores or to what extent it will happen.”

*Reporter’s Observation:* Five to eight customers ages 30 to 70 were browsing. Two men, one age 25, the other age 65, were repairing their cars in the Kmart parking lot with parts they had just bought. Two associates were at the registers and two others were at the customer service counter. The store looks dated.

## ➤ Assistant manager at 7-Eleven store in a blue-collar neighborhood in Chicago

This source reported selling prepaid cards daily and phone cards every other day. Prepaid cards’ popularity has increased incrementally in the last six months, and demand is expected to grow at the same rate in 2011. Certain customers regularly purchase the prepaid cards to use for online purchases. He prefers getting his 7-Eleven pay check on a Green Dot card than in paper form.

- “In the last six months, we have seen a small increase in the sales of prepaid and phone cards. We estimate this business to grow this year a bit but not dramatically; probably at the same rate it has been growing.”
- “Our prepaid cards and phone cards are very popular. I sell at least one prepaid card every time I work and a phone card every other time I work. I am typically here weekdays, Monday to Friday.”
- “The customers that buy them are people that do not have credit cards. They either don’t have good credit to get a credit card or they don’t have the identifications it takes to get a credit card. Our customers are a mix of blue collar Hispanics and Caucasians.”

Another segment of our customers buy the prepaid cards for online purchases. They are safer and much better than using your credit card so your identity is not stolen.

*Assistant Manager, 7-Eleven  
Chicago, IL*

# Financial Services for the “Unbanked”

- “Another segment of our customers buy the prepaid cards for online purchases. They are safer and much better than using your credit card so your identity is not stolen.”
- “I prefer using the Green Dot card myself for online purchases. I recently had my credit card compromised by an online retailer, and I am not going to use my credit card for an online purchase ever again.”
- “We definitely make some money from selling the prepaid and phone cards. Why else would we carry them? ... The fee for both prepaids we carry, the Green Dot and the Visa one, is \$4.95. ... Most of our profit is from alcohol sales.”
- “We don’t cash checks here.”
- “I like the fact that we are not getting paper paychecks anymore. They just started that this year. I prefer getting paid through the Green Dot card. It is easier. You can use it on whatever you want, wherever you want. You cannot do that with a check. You cannot just take a check anywhere. It also saves me a trip of having to cash the check. I really like the convenience of the prepaid cards.”

*Reporter’s Observation:* We did not observe anyone purchasing a prepaid card or phone card during our visit.

## ➤ **Co-owner of a 7-Eleven located in a predominately Hispanic neighborhood on the south side of Chicago**

This source said 7-Eleven’s goal is to provide equal financial services to its customers, most of whom are not U.S. citizens and do not have good credit. These customers use 7-Eleven to purchase money orders to pay their bills and use prepaid cards as a credit card substitute. This store sells a money order daily, a phone card approximately every other day and a prepaid card once or twice a week. Sales from these products currently are a negligible part of profits but are used to draw customers in who purchase other items while in the store.

- “I will confirm 7-Eleven is trying to make financial services for the unbanked a bigger part of their business model. The majority of 7-Eleven’s clients do not have good credit or they are not a United States citizen and have to stay under the radar. 7-Eleven’s target is to provide equal services to those people.”
- “Banks require their customers to have a social security number and a driver’s license or ID card. Many of the people in the neighborhood do not have that so they cannot open a bank account. They pay their bills in cash or with a money order. They cannot get a credit card either without ID, so the prepaid card is a great substitute for them.”
- “We sell five to 10 prepaid cards per month, 10 to 20 mobile cards per month, and five to 10 money orders per week, so we sell more money orders than anything else. Sales of all of these happen more on the weekends when working people are running errands or at the beginning and middle of the month when people get paid or when they get their checks from the state.”
- “We do use the prepaid cards somewhat as a draw for customers to come into the store. If they come in and buy a card, they will probably buy something else. But we do not make any money from them. They do not drive our business in any way. It is a convenience for our customers as well.”
- “Sales of prepaid cards have stayed the same over the past three to six months. We don’t expect it to increase much, if at all. It is not a big part of our business. The money we make from it is negligible for now.”
- “Most of the customers who purchase our prepaid cards are Hispanic. They can put up to \$500 on their card and use it wherever they want just like they have a credit card. The customer gives the cash to us; we load up the card and charge the \$4.95 activation fee. Also, most of the phone cards we sell are specifically for Latin American countries, mostly Mexico.”
- “I think Western Union does the best business among the unbanked with their check cashing and money orders. They will do these services for anyone, regardless if they have the proper ID or not. They have been in business a long time and have many locations in the city, too.”
- “We charge 99¢ for a money order and we get the full 99¢. Some 7-Eleven’s charge 69¢. It depends on where you are.”
- “We do money orders but we do not cash checks. We have never cashed checks here.”

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*Co-owner of a 7-Eleven  
Chicago, IL*

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*Reporter's Observation:* No purchases of financial services or products were observed during Blueshift's visit.

➤ **Owner of a 7-Eleven located in a predominately Hispanic neighborhood on the south side of Chicago**

This source was unaware of the Wal-Mart Money Centers but believes these will be successful for the company. Sales of prepaid cards and money orders are not profitable and have been sold consistently for years. The store sells phone cards daily compared with money orders, which sell about every other day, or prepaid cards, which sell one a month. Ninety percent of sold phone cards are for calling Mexico. 7-Eleven stopped issuing paper paychecks to its franchises and employees starting Jan. 1, and now only offers payments through direct deposit or a Green Dot card.

- “I have not heard about the Wal-Mart Money Centers but they should do well. Wal-Mart does very well with everything they do so I don't see why it would not be successful.”
- “Sales from the prepaid and money orders are not a primary part of our profits. It is negligible compared to what we make off our beer sales, for example. We are not even making \$100 off it in a month's time. It may even be as low as \$50 a month. We carry them in the store as a way to get the customer in our door.”
- “Sales of money orders and prepaid cards are at the same level they were three months ago, and I expect that it will stay at the same level in the next three months, too. We have sold them for so long now and the sales have been very consistent. I just don't really see them going anywhere.”
- “We have never cashed checks for customers. We used to occasionally cash an employee's check, but we do not get paper checks anymore. Beginning Jan. 1 of this year, all employees, including me, the owner of the store, get their money over a Green Dot card or they can get direct deposit into their account. Corporate decided on the Green Dot card specifically, and you cannot get another type of card. Green Dot is it. I even get paid my franchisee payments on the Green Dot. ... I am OK with the change.”
- “I think the customers who use the most money orders are the older people. The primary reason is they are scared of banks and they feel safer just using money orders to pay their bills.”
- “Many of our customers who purchase the prepaid cards are illegals. They don't have bank accounts so they use the prepaid cards instead. They also buy money orders because when they buy one, we don't ask any questions like a bank would. We just sell it to them, regardless if they are legally in this country or not.”
- “We rarely sell prepaid cards. I estimate one a week.”
- “Our money order sales are more consistent than prepaid card sales. Some days we sell four or five, but then others we sell none. We sell more money orders at the end of the month, after the bills come in and are due.”
- “We sell more phone cards than anything in the way of our card offerings. Usually someone buys a phone card every day. We sell more cards that are country specific. I would say 90% of the phone cards we sell are for calling Mexico. We are in a predominately Hispanic area.”
- “I believe people purchase more money orders at banks than they do at 7-Elevens. It is just not a huge part of the business currently. It has not been in the 15 years I have owned this store, and I don't anticipate that it will be.”

*Reporter's Observation:* During Blueshift's visit, we did not witness any sales of prepaid Visa cards or money orders.

## 2) EMPLOYEES OF NONBANK FINANCIAL SUPPORT COMPANIES

All three sources said demand for their services is increasing and that banks are not interested in servicing the customer group that utilizes their products. One startup debit card company said their profits rose 80% year to year, while an international money transfer service source said sales are up 8% year to year overall and 30% year to year in the United States. Mobile financial services are expected to be popular with the unbanked. One source said eBay Inc.'s (EBAY) [PayPal](#) is offering interesting solutions and is acting like an online bank. Kmart and Wal-Mart are strong players in offering nonbank financial services, and MoneyGram and Western Union are leading service providers.

➤ **Representative for a nonbank financial services company with 40,000 U.S. locations**

This source said business is growing and positive results are expected to

When Wal-Mart, one of our partners, offered a reduced price to send money transfers of \$200 anywhere in the U.S. or internationally for \$7 instead of the usual \$9 for international transfers and \$11 for U.S. transfers, we lost money.

*Representative  
Nonbank Financial Services Company*

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continue in 2011. The company’s relationship with Wal-Mart is lucrative, but overall profits are hurt when a Wal-Mart promotion reduces the fee for sending money in the United States and abroad. She suggests such a promotion could signal tighter controls being placed on the relationship with the retailer by the financial service to ensure that this does not happen again.

- “It has not been perfect. There were some losses, especially as fewer people are sending money to Mexico and competition has increased. But we have a net income of \$16 million for the past quarter [up to Dec. 31, 2010]. Profits are up 105% [\$7.9 million] on the same time last year. We expect good results this year. We expect profits to keep going up.”
- “Money transfers are our company’s most popular services, but when Wal-Mart, one of our partners, offered a reduced price to send money transfers of \$200 anywhere in the U.S. or internationally for \$7 instead of the usual \$9 for international transfers and \$11 for U.S. transfers, we lost money.”
- “Wal-Mart is doing very well with services like cashing checks and other services. Wal-Mart is making it easy to get all of these services in one.”
- “[For the unbanked] MoneyGram and PayPal are leaders in mobile banking services.”
- “Mobile banking is the future as it becomes more mainstream and people do more on their phones, including banking, and of course the unbanked will use it.”
- “Customers can use our cash-to-a-mobile-phone service to receive or send money.”

## ► Financial services company representative for global payment system

This source said his company is a true leader in the industry because it has been offering money transfers worldwide for many years. Its global domination and number of U.S. outlets in 2,115 Kmart stores could make it one of the most popular services to benefit from the growing need for alternative payment schemes among the unbanked.

- “[The company] is growing all of the time offering international services to help people send money worldwide. Our net income was \$242 million, up from \$232 million a year ago. The number of transactions done by the company is also up by 9%.”
- “Sales are expected to continue to rise over the next six months because the services are so popular. Most recently in 2011, our business expanded to include services with local banks in Russia, central Europe and Italy. After the recent earthquake in Japan, we have even begun offering no-fee money transfers to Japan to help.”
- “Our most popular services are person-to-person transactions. They are up by 8%. They account for 85% of all business. And here [in the U.S.] our person-to-person money transfer transactions rose by 30%.”
- “We are definitely the leader as we have been offering these services for many years and we also have prepaid credit cards on offer with no bank account required and no monthly maintenance fees and no overdraft or late payment fees.”
- “We are everywhere in many stores, including Kmart. Wal-Mart may be trying to compete with the [MoneyCard](#), but our prepaid card is still more popular.”
- “Banks are not interested in the type of customer who may turn to our services to send money. That is why we exist.”
- “Mobile banking is a way for our customers to send money by phone. It is quick and easy and with smartphones or a PC. [Our] users can log on and send money online to 200 countries.”
- “We have a brand new business service that allows business owners to send global payment solutions from their iPhone [Apple Inc./AAPL], BlackBerry [Research In Motion Ltd./TSE:RIM/RIMM] or Android [Google Inc./GOOG] devices to their suppliers or business partners. [This company] is definitely one of the best providers of mobile solutions.”
- “I see PayPal as doing interesting things and almost acting like an online bank with the increasing use of smartphones.”

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*Representative  
Financial Services Company*

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*Representative  
Financial Services Company*

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## ➤ Prepaid debit card company representative

This source said net profits had shot up by at least 80% for services as the company serves the unbanked and underbanked with prepaid debit cards. He predicted a further revenue increase for the next six months as his company becomes more popular.

- “[This company] had profits of \$6.3 million in the last quarter of 2010, compared to the same time in 2009 when it was \$3.5 million.”
- “Traditional banks and credit card companies don’t touch people with bad credit. Those kinds of people end up using us. I don’t think the banks care about the unbanked. We do. That’s why our company started.”
- “We are proud to be the only debit company that had the highest number of ‘loads’ in one month amounting to \$1 billion in February 2010. I think that transactions could double in the next six months as more people hear about us.”
- “Loading up prepaid debit cards is our big winner.”
- “We’re the first prepaid debit card company to tie a savings account to a card. We offer a high yield of 5% APY. That was unheard of before. We are definitely giving customers the chance to spend and save.”
- “Mobile banking is great. With so many unbanked folks out there, they’ll definitely turn to mobile payments and mobile applications because they may not have a bank account but they will own a phone. We’re still working on and developing our mobile services platform.”

## 3) INDUSTRY EXPERTS

All three sources said the alternative financial service industry is growing rapidly. Two sources pegged the growth rate at 5% per year. Wal-Mart and 7-Eleven were named as leading retailers. One source said Wal-Mart cashes 25% to 30% of all the checks processed for the unbanked. Green Dot, MoneyGram and Western Union are the leading financial service providers in the industry. [NetSpend Holdings Inc.](#) (NTSP) and [Tio Networks Corp.](#) (CVE:TNC) were also discussed.

## ➤ Financial advisor to low-income families in New York

This source said the number of people using alternative services is growing and that 7-Eleven and Wal-Mart are poised to benefit from offering financial services.

- “I think this could be one of the biggest years yet for the revenue related to the alternative financial services industry and the unbanked. It used to be an issue that we saw as affecting mostly low-income communities and some Hispanic communities, particularly in cities like New York and Chicago, but now many people are actually choosing to cash their checks, pay their bills and do their banking in alternative ways. I think it is because the fees at banks keep going up and people do not trust the banks anymore.”
- “I believe the annual revenue for this alternative financial services industry is at \$25 billion, I expect that it will grow expeditiously. Over the next six months, it will leap five% probably.”
- “I think that [Pay O Matic](#) is doing well. I also think with stores like Wal-Mart, it has its target group well-organized, and they are already in store to save money on goods. If they can advertise to this group a certain brand of card or the ability to cash a check quickly, they really stand to do well.”
- “I think NetSpend and Green Dot are the most notable companies providing support to retailers with financial services.”
- “I think that the most popular services are prepaid debit cards and advance payday loans. It is important for many people to have access to their money right now and they cannot wait for that pay date. It’s about immediacy.”
- “I see mobile banking as a key strategy in providing alternative financial choices to people without access to traditional banks. I say this because mobile banking can be just the ability to log on to a service using a phone to pay bills, access accounts, etc., but through SMS [short message service] a company can market itself and stay in touch with customers so it can work in many ways.”

**The banks will not want to lose out, and I think that they realize that they are. You may see the banks begin to join forces with other services when they figure out what to do with the unbanked.**

*Financial Advisor to Low Income Families*

# Financial Services for the “Unbanked”

- “The banks will not want to lose out, and I think that they realize that they are. You may see the banks begin to join forces with other services when they figure out what to do with the unbanked.”

## ➤ Spokesperson for a financial services trade association

This source said alternative financial services are growing and many people are opting to use this method for ease and transparency of fees. He said Wal-Mart and Green Dot in particular are poised to dominate the market.

- “It is clearly an area of tremendous growth as more people chose not to use banks in their everyday transactions. This is why we literally represent a huge portion of this by representing check cashers. But we need to be careful. Here is an interesting statistic: 58% of all people who use check cashers do own a bank account but choose not to cash checks with banks.”
- “Revenues for check cashing alone is expected to go up by at least 5% in the next six months. There are hundreds of thousands of New Yorkers who rely upon check cashers instead of banks and credit unions. And one in five New York households is considered ‘underbanked,’ meaning they have a bank account but use alternative methods of banking. At least 50 million rely on check cashers.”
- “Check cashing and payday advances are the most popular form of service that we see being performed on an hourly and daily basis. There is increased transparency. That’s what people like. People pay fees upfront in advance; there are no hidden fees, no extras, and like many banks, this is why it is popular. It is like going in and seeing a menu from McDonald’s. It’s right there in front of you.”
- “I think that Wal-Mart is stepping up as the biggest leader. Wal-Mart estimates it can target 25% of the entire U.S. population with its debit cards. They are also offering check cashing in their stores, and we know it is taking off.”
- “I would suggest that PayPal is pretty good as an alternative mobile banking service, especially as it has been around long enough for people to feel safe and comfortable with it.”
- “I think that Green Dot—the one working with Wal-Mart—is probably one of the better-known companies providing support to retailers with financial services.”
- “Mobile banking is still in its infancy, and we have yet to see whether or not it will take off. I suspect it will because of the advances happening. I think that mobile banking could be eclipsed by the cash checkers who are right there in the neighborhood with the ability to cash checks day or night, 24 hours a day seven days a week.”
- “Banks are out there on their own. They have a business model and like most businesses, it is difficult to diversify. They do not want to change their model; they want things to stay the same. They cannot compete with Payday loan places and check cashers. They cannot have that presence in the heart of an area. But, and it is a big ‘but,’ banks simply cannot compete with the local area neighborhood check cashers because they are not everywhere, especially in New York. The local check cashier is the local financial services location for all transactions in many places.”

“Mobile banking is still in its infancy, and we have yet to see whether or not it will take off. I suspect it will because of the advances happening. I think that mobile banking could be eclipsed by the cash checkers who are right there in the neighborhood.”

*Spokesperson  
Financial Services Trade Association*

## ➤ Leading blogger on financial services offered to people without bank accounts

This source said Wal-Mart is the most dominant and most successful company to create services for this demographic. Mobile payment platforms herald the future of transactions carried out for this group, and companies rolling out these services will benefit greatly.

- “The state of the financial services industry for the unbanked is that it is growing at an incredible rate. The demographics are there for the unbanked, the technology is supporting this growth, and prepaid cards, government changes and the ability to cash checks at so many locations is another factor making this industry grow this year on last.”
- “Analysts would give a better figure than I could; however, the performance of companies like Green dot, MoneyGram and Western Union is huge. Their performance is as strong as ever. I expect there will be a possible increase of a few percent ... just because they are tapping into different segments of the market.”

“Wal-Mart is the biggest. ... They appear to be dominating the market already, and this business is only just getting started.”

*Leading Blogger on Financial Services*

# Financial Services for the “Unbanked”

- “The most popular service for the unbanked? Well, that has to be payday advances and check cashing. The largest retailers-Wal-Mart, Kmart, 7-Eleven-are doing all this. These are the people to watch. This is where the seismic shift is really occurring. Wal-Mart is the biggest. Just to illustrate that, I heard a statistic the other day that 25% to 30% of all check cashing being done for the unbanked is being done by Wal-Mart. That is clearly something of major importance. They appear to be dominating the market already, and this business is only just getting started.”
- “The leaders in providing support to retailers with financial services are Green Dot for Wal-Mart and Tio Networks at [Best Buy \[Co. Inc./BBY\]](#). They allow retailers payroll, check cashing and, MoneyGram is a service that is becoming so much more mainstream, allowing money transfers through supermarkets making it easier.”
- “I recently wrote a piece on my blog that showed that African Americans, Hispanics and other immigrant communities are using their cell phones for far more than the usual calls and Internet access. Soon everyone will have a smartphone and within these communities, those who are not banking with a traditional bank will use this to access money and pay bills. Larger retail banks are missing a key area here where they could get these people onboard. The unbanked are underserved. Their phone will be the primary tool they use to access services. Another thing is that mobile commerce in general is very popular and this will be an extension of this. In the prepaid business model customers are already using cash. This is what’s going on.”
- “The banks do not stand anywhere with this as they are ignoring the unbanked problem completely. They are missing this customer base altogether. They are not worried about competition from Wal-Mart because they’re not providing any services to the unbanked for Wal-Mart to pose a challenge to. Anyway, Wal-Mart cannot actually compete with the banks.”

Larger retail banks are missing a key area here where they could get these people onboard. The unbanked are underserved. Their phone will be the primary tool they use to access services.

*Leading Blogger on Financial Services*

## 4) EMPLOYEES OF MAJOR INTERNATIONAL BANKS IN NEW YORK

Two of three sources said their fees are rising. Banks’ general attitude is that people using retailers’ financial services are being taken advantage of. Sources did acknowledge that their minimum requirements may be a hurdle for the unbanked. One said 7-Eleven is among one of the biggest providers of services to the unbanked while another mentioned Wal-Mart’s check cashing service.

### ➤ Brooklyn bank clerk

This source said bank fees have increased, but so has good customer service. The bank is not worried about big name stores offering financial services to the unbanked, but it would like to find out what more could it could do to serve this demographic.

- “It is a problem that so many working people haven’t got a bank account. Often, we are backed into a corner when we want to help this group only because they may have bad credit histories or a rocky past, bankruptcies or debt. We are apparently interested in serving those people; we’re not sure how. Once they get their credit score sorted out, we can offer them more.”
- “I think Wal-Mart is the biggest out of the lot. They already offer so much. This is just another service they can give to customers. We have no relationship with Wal-Mart.”
- “They [the retailers] will likely fail. They should stick to what they do best: selling stuff, not banking. Their fees are ridiculous. It can be \$1 for a prepaid card fee, \$30 to cash a paycheck. We offer those services for free! With Green Dot you have to pay \$4.95 just to reload the card! It costs more to live this way in the long run; that’s why many people eventually find a way to come back to banks and get a credit card and account from us.”
- “The stores are not equipped to compete with us. Credit unions already work with those without checking accounts to give them free or low-cost bank accounts. But you cannot beat the bank.”
- “Our student bank accounts cost \$25 to open, no monthly fee if a parent’s account is linked, you do not need a minimum balance. ... We have not increased the minimum requirements. Why would we? It would put customers off.”

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- “[My bank] sees mobile banking as a partner to our branches across the country. We offers a free mobile app, which lets you take a picture of a check with your iPhone or Android, and then allows you to deposit that check in your account without going to the bank! You basically take a picture of the front and back of the check. It is safe because you get confirmation that it has uploaded and has been accepted. We are the first to do this. We are the leader in mobile payments to make things more convenient. We also ... offer the opportunity to pay individuals with just an e-mail and a name from your own online bank.”

## ➤ Brooklyn bank clerk

This source’s bank recently increased fees. The clerk said most people cannot avoid banks completely and may find that alternative financial services cost more than a traditional bank in the long run.

- “I know 7-Eleven has [PayNearMe](#). They have a type of cash service, which can be used online, and I know that it is a big deal. I have heard of [Mozido](#) [LLC]; it offers mobile service banking and online. I’m hearing of [Kwedit](#). I am not hearing that much about Wal-Mart or Kmart services here in New York mostly because a lot of places offer check cashing services here whereby you do not need a credit, debit or bank account to buy goods. And in certain areas in New York that’s the way it’s been for immigrant communities in, for example, Spanish Harlem for years. Yes, there are the traditional banks Uptown, but alongside them there are many cash services too and 7-Eleven’s one is among the biggest.”
- “These retailers are seeing a gap and exploiting it. What people need to remember is that their fees can be more than those at the banks. People can get stung. Wal-Mart and Kmart and Best Buy are not banks. You can run up over \$1,200 in fees with these places in a year. So when people with damaged credit or who think-wrongly-that they cannot open an account with a bank there, they can get hurt. They should come to us.”
- “[My bank] has increased its fees and minimum balance requirements in light of all that we give customers. But we do waive fees in [a certain] checking account if you have a direct deposit going into your account. We like customers to maintain a minimum balance of \$750 in an account. We do not expect this fee hike to have any effect on customers because our services allow customers free online banking, telephone banking, and good service.”
- “It does not seem that there are really that many people who can avoid banks completely. Yes, we acknowledge that some people do not have bank accounts, but it is the best way to manage your money. Our local branches have no solid plans to start offering services to those folks [the unbanked].”
- “There really isn’t the need for us to offer these services. We’ll lose out. The point of minimum balances and fees is to provide the type of service that people take for granted. Our profits come from deposits, and other services like loans, credit cards and mortgages.”
- “[We have] excellent mobile services where you can transfer money, keep up to date with balances on your smartphone and do everyday banking. We send customers their balance by text. We also accept texts to check information, which I’m not too sure too many other banks do. We have ... a service which requires a customer to receive a six-digit pass code before they can authorize transactions over a certain amount of money. This pass code fights identity theft and fraud. We’re the first to do that.”

“These retailers are seeing a gap and exploiting it. What people need to remember is that their fees can be more than those at the banks. People can get stung. Wal-Mart and Kmart and Best Buy are not banks.”

*Bank Clerk  
Brooklyn, NY*

## ➤ New York clerk for a major international bank

This source said her bank is eager to learn why so many people are choosing not to use banks. The clerk revealed that her bank is not offering any services to those without bank accounts at present, but for now it is not worried about competition from retailers, which are offering services to cater toward those who need checks cashed or want prepaid debit cards.

- “[My bank] is always keen to work with customers. But if you have a checking account, then, yes, you do need to maintain a certain amount in your account depending on the banking package that you have. So, for now, we offer a high end service, which costs \$500 to open, and you must have an average combined minimum balance of \$50,000 or it’s \$30 a month. Then there is [regular account], which requires a combined minimum average balance of \$6,000 or it’s \$20 a month. Or another account with an \$8 fee. But there are a variety of different

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products in our checking range and we are currently offering a wide range of checking from basic upwards to those who have different needs. With the basic account, you just need to use a debit card, say five times a month to qualify for fee free bank accounts. That way we keep our customers happy.”

- “They are choosing other ways to cash checks for a reason, aren’t they? Those people are avoiding banks for a reason. So, we see it is our duty to find out why and see how we can help.”
- “I hear a lot about Wal-Mart’s check cashing services.”
- “Look, it’s a business. I think this idea really took off after the recession hit. Some banks have very high fees and it’s literally driving business to these other places. Banks will lose out if they do not offer an account that everyone can afford, including a ‘basic’ account with no fees if you use your debit card a lot, which we find most people do.”
- “The retailers are not competition to the banks because we offer so much from mortgages, accounts savings, and ways to plan for the future. The retailers cannot compete on our level. They cannot offer the full range of services that we can. We’re not worried.”
- “[My bank] was one of the first to offer mobile banking because we recognized it as the new way to bank. It is free. It is convenient and lets customers pay bills and transfer funds. It is complementary to our banking services. It’s a way for customers to monitor accounts and feel in-charge of their banking. Mobile banking with this bank allows you to access your accounts through your phone without the need of going on a computer, calling in, or visiting an ATM machine.”
- “I think [this bank] is one of the leaders [in mobile banking] because we offer a lot of services on cell phones and all smartphones. iPhone, Androids and BlackBerry can work with [our] mobile banking.”

**The retailers are not competition to the banks because we offer so much from mortgages, accounts savings, and ways to plan for the future. The retailers cannot compete on our level. They cannot offer the full range of services that we can. We’re not worried.**

*Major International Bank Clerk  
New York*

## 5) UNBANKED/UNDERBANKED CUSTOMERS

**Both underbanked customers are becoming more knowledgeable of all the mobile payment options they have on their smartphones. Services utilized include mobile phone purchase of coffee from Starbucks Corp. (SBUX), bill paying via a JPMorgan Chase & Co. (JPM) bank Android phone application, eBay purchases and stock trading via TD Ameritrade Holding Corp. (AMTD) app. One of the two sources was aware of financial services being offered at retailers. This source, who saw a Money Center in Wal-Mart, expects the company to become an industry leader in servicing the unbanked and underbanked.**

### ➤ Middle-aged female in Chicago who uses an Android app at Starbucks and other retail outlets

This source uses her Android Smartphone for a variety of applications, including using her Discover Financial Services (DFS) card app to load up her “My Coffee” account she uses weekly at Starbucks. She checks the [Android Market](#) daily for new applications. Although she loves the convenience of phone apps, they will never replace her traditional bank. She is an infrequent user of PayPal, and does not currently utilize any of the other alternative financial services options like money orders or prepaid Visa cards. She saw the Money Center at Wal-Mart while on a recent shopping trip but does not expect to use the services unless it starts to offer Chicago Transit Association passes. Still, she said Wal-Mart will be the leader in servicing the unbanked because of its massive customer base and ever-expanding stores.

- “I still have a traditional bank and I don’t envision ever getting rid of them all together. If I stop going to the bank, then people would lose their jobs. I know all the tellers and have been going to that bank for years and will continue to. I would rather walk into the bank than doing financial business over my phone. The phone will never replace the people as far as I am concerned.”
- “I think my use of financial service phone applications will increase over the next three months because of the convenience. And I am using them more than I did three months ago. There are so many things I can do. For example, I can scan barcodes on products in a store to find a merchant that carries the same product for a lower price. With food prices going up even more, I will be using that application a lot more often. I check the Android Market every day for new apps or to find what else I can use on my phone.”
- “I go to Starbucks about once a week, sometimes twice. I like the phone app because I don’t need to get out my Starbucks card every time I make a purchase. Now I make my selection, get my phone out, load up the application in line and at the register, they have a scanner that I put my phone up to. The phone application is

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replacing my Starbucks Gold Card. If you have a Starbucks card, you can register online and after 15 beverages, you get a free beverage, any size, whatever you want. You also get a free beverage on your birthday and they send you coupons and special offers. Now, I get all that over my phone.”

- “I use my Discover card phone application to load my ‘My Coffee’ account. I normally reload it \$10 to \$15 at a time approximately twice a month. I actually reload two to three cards at a time. I reload two traditional Starbucks cards from my phone for my nieces when I do mine. I reload one niece’s card one once a month and the others about every other month.”
- “I started using the Starbucks application on my phone a month ago. It is free to download the application. I found out about it at the Android Market because I have an Android smartphone. I have had a smartphone for almost a year now.”
- “I cannot say who the leader is in financial phone applications. There are a lot of developers out there. You can use your phone a lot of ways. I can pay my Discover card using my phone. I can purchase Groupons using my phone. There is an app for Living Social, which is similar to Groupon.”
- “I get cash back from my purchases on Discover so that is why I prefer them.”
- “I use PayPal to make contributions to online communities but not often. For instance, I made a contribution to Internet radio and an organization called Big Brother. I still use my computer for that and not my Smartphone. I have only used PayPal about three times in five years.”
- “I have never used a prepaid card and I have never bought a phone card. I have not done Western Union in nearly 20 years.”
- “When I was at Wal-Mart this past Friday, I found out about the Money Center. I noticed about six people in line near the registers and that is the only reason I saw it. I did not walk over there, but I know that it is new to the store because they recently remodeled. Unless Wal-Mart sells CTA passes at their Money Centers, I will not be checking them out.”
- “I feel Wal-Mart will be a leader in servicing the unbanked since there are so many shoppers and they are always expanding. And since the city is allowing them to build three to four new stores within city limits, their popularity and customer base will increase greatly in Chicago. They also have more full service stores with fresh groceries now and they will probably start to put Money Centers in all their stores. They have so many customers in their stores that whatever they decide to put in their stores will be used and seen by millions of people.”

**[Wal-Mart] They will probably start to put Money Centers in all their stores. They have so many customers in their stores that whatever they decide to put in their stores will be used and seen by millions of people.**

*Underbanked Customer*

## ➤ **45-year-old male who uses phone to pay bills through a Chase app, PayPal payments and TD Ameritrade trades**

This source has been paying bills through his Google-enabled phone for six months. He was not aware that Wal-Mart and Kmart offer alternative financial services and probably will not utilize them in the future. His use of the Chase bank app will stay the same during the next six months unless it is updated to enable paying more than one bill at a time. He uses his phone applications to pass down time at work or if he forgets to pay a bill. He also used PayPal on his phone to pay for eBay purchases and he also buys and sells stocks on his phone using a TD Ameritrade app.

- “I have been paying bills on my phone since I got my phone last fall. I pay some bills through the application I downloaded from my bank, Chase. I can only pay one bill at a time on my phone so it takes a lot longer than just doing from my laptop.”
- “I was not aware that you can cash a check at Wal-Mart or Kmart. I would not really have a use for that and probably will not use it in the future. I rarely, if, never have the need to cash a paper check. I get paid through direct deposit and if I need cash, I use my debit card.”
- “My use of Chase’s banking application will be the same in the next three to six months because it is still more cumbersome to pay each bill separately. I only do it if something is due that I forgot about or if I am bored at work. Online, I can pay all my bills online in a tenth of the time that it would take me to do it through my phone. If I could pay more than one at a time, I would use my phone app more often.”
- “I have a Google enabled phone, and I use my phone to pay through PayPal as well. When paying things through PayPal, it is usually for eBay purchases. On eBay, I buy gym stuff, books, clothes and other work-related or educational materials I use at school. I also buy stuff from Amazon[.com Inc./AMZN] and pay for it on my phone. On Amazon, it runs right through my credit card. I buy more from Amazon than I do from eBay on my phone.”

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- “I also have app on my phone that I use from TD Ameritrade. I buy and sell stocks from my phone. I use that application bi-monthly.”
- “There is no charge from Chase to pay bills through my phone, and the application is free too.”
- “I still write paper checks, but they are for my rent only. But I do write virtual checks from my phone to pay some bills. I write virtual checks a couple times a month.”
- “I used to do layaway all the time, when it was readily available, but that was probably 20 years ago. I have not done it for years and I don’t purchase money orders or prepaid cards.”

## Secondary Sources

A review of secondary sources revealed that giant retailers Wal-Mart Kmart and Best Buy are jumping on the band wagon to offer financial services to their customers. The major banks do not want to be left out so they are starting to offer services to customers that they traditionally would turndown via prepaid debit cards that could lead to traditional accounts. The ranks of the unbanked and underbanked may swell as a result of the Durbin Amendment. Economists say as many as 1 million Americans with small balance accounts may drop out of traditional banking because of rising fees.

### ➤ A March 2 post on The Shriver Brief

In a posting titled *Wal-Mart Is Now Wal-Bank?* Retail giants Wal-Mart, Kmart and Best Buy were reported as jumping on the bandwagon to provide financial services to the unbanked in their stores. Wal-Mart is seen as the leader and is expanding with equity interest in Green Dot and partnering with Jackson Hewitt.

<http://www.theshriverbrief.org/2011/03/articles/asset-building/walmart-is-now-walbank/>

- “These retailers are bringing a \$320 billion industry of alternative financial services out of the shadow of the formal bank system under the radar of federal regulators.”
- “ The biggest player of all retailers offering financial services is Wal-Mart. According to a [September 2010 US Banker](#) story, Wal-Mart has [MoneyCenters](#) in about 40% of its nearly 3,000 SuperCenters. Through economies of scale, Wal-Mart is able to offer lower fees—\$3 for check cashing and another \$3 for prepaid cards—than other smaller players that have dominated the market in the past.
- “[Wal-Mart’s presence in financial services is not limited to its own stores](#). The company’s Sam’s Club subsidiary has a partnership with Superior Financial Group, a nonbank lender, to offer online loans of up to \$25,000 to small-business owners at a 7.5% interest rate over 10 years. Moreover, Wal-Mart recently acquired an equity interest in Green Dot, a marketer of prepaid cards that filed an application to be a bank holding company after acquiring Bonneville Bancorp of Provo, Utah. Wal-Mart is also partnering with Jackson Hewitt to offer tax filing advice to in-store consumers.”

### ➤ A March 11 posting on Inside the Underbanked blog

A blogger indicated that a month ago BB&T Merchant Bank had launched a pre-paid card account targeted at the underbanked. Several banks were said to have approached Green Dot and banks were spotted trolling the floor at a recent pre-paid trade show.

<http://blog.corevc.com/>

- “Banks can have several roles with prepaid, of course. They could simply “issue” the card, meaning they’re just the bank of record behind any card accounts, regardless of where a person gets the card. The bank could also distribute the card - usually this is in the form of a payroll program. Banks like US Bank and Citi will go to their commercial customers and offer it to them for employees who don’t use direct deposit or to disburse benefits and rewards and such.”
- “Finally, banks could also distribute a prepaid account directly to its retail customers, as what is often derisively called a “turndown” option: Customer walks into bank and requests a checking account, or credit card. Bank does some mumbo jumbo and says no for some reason (the turn-down). My friends at CFSI have long argued that this is a great time to offer a prepaid account instead. Until just a month ago or so, banks haven’t seen the wisdom of this, “why offer someone a turndown product?” (aka “why serve the underbanked?”)
- “Today is a much different world than 3 years ago, and with customers hemorrhaging from banks, not to mention much greater acceptance and awareness of prepaid accounts, we’re hearing a different tune. It goes something like this, “Congratulations Ms. Soandso, you qualify for this advanced new checkless checking

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account.” The lower cost and feature rich open loop prepaid account behind it is a way the bank can say YES to virtually anyone who walks into the lobby (or applies for a credit card). They can migrate customers to a normal checking account or credit card later on, with more known about the user, and the world is a slightly happier place.”

## ➤ A March 1 posting on Inside Microfinance

The new debit card fees and increasing bank fees brought about in part by the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act could swell the ranks of the unbanked.

<http://www.insidemicrofinance.com/cms/blogs/InterchangeUnbanked>

- “Now, as reality sets in, there's a growing sense that the so-called Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act, does anything **but** protect consumers - that it might actually push more Americans away from the financial mainstream and swell the ranks of unbanked.”
- “In anticipation of a huge drop in revenues (financial institutions collected about \$12 billion in interchange last year, according to several sources), executives at financial institutions are looking for new revenue opportunities. The conclusion that most have reached is that they'll need to start re-pricing checking account and debit card services. And that, in turn, is apt to chase low-balance and cost-conscious consumers out of the banking system.”
- “A group of respected economists, collaborating on an economic analysis of the pending Fed proposal has predicted that as many as 1 million Americans will join the ranks of the unbanked if banks and credit unions try to compensate for lost interchange revenues with new account holder fees. These are folks who generally maintain small balances; many simply don't have enough income to support new monthly bank charges.”

## ➤ A Jan. 11 posting on Chicago breaking Business website

This posting reported that Kmart is testing money centers in 23 stores.

<http://chicagobreakingbusiness.com/2011/01/kmart-testing-financial-centers-in-illinois.html>

- “Twenty-three Kmart stores in Illinois and three other markets are testing financial centers where shoppers can cash checks, pay bills, place money orders and transfer money.”
- “Kmart, which is owned by Hoffman Estates-based Sears Holdings Corp., will join other big retailers that provide financial services to the nation's underbanked and unbanked. Retail giant Wal-Mart, for example, has money centers in many of its stores, offering money transfer, bill pay and check cashing, among other things.”
- “Some estimates indicate that up to 10 percent of American families are unbanked and that a substantial share of the population may be underbanked, according to a Federal Deposit Insurance Corp. study released last year. The Federal Reserve has reported that 9 percent to 13 percent of U.S. households lack “transaction accounts,” and Chicago-based Center for Financial Services Innovation has estimated that 40 million U.S. households are underbanked, the FDIC recounted in its report.”

## Next Steps

Blueshift will research how the financial companies servicing the retailers targeting the underbanked and unbanked are performing. Which companies are performing well and which companies are losing? We will look at the use of mobile solutions and see if there are any services emerging that are specifically designed to target the unbanked and underbanked. Finally we will try to determine what kind of impact this rapidly emerging market will have on the retailer's bottom line.

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Additional research by Belinda Robinson and Tina Strasser

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