New Information Has Come to Light

USING DATA TO IMPROVE FINANCIAL INCLUSION
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Serving Unbanked & Underbanked Consumers with New & Alternative Data

Across the world, huge numbers of individuals lack access to basic banking services. A recent report from the World Bank shows that “[g]lobally, 1.7 billion adults remain unbanked.” In many cases these people have the same money management and credit needs as those who have access to bank services, but they face challenges meeting those needs.

In the US, the underbanked and unbanked (U/U) demographic is just under a quarter of the population. That equates to almost 75 million Americans who have no bank services, or who are using alternative means (like payday loans, check cashing services or other products) to manage their financial lives.

Whether those folks are consciously avoiding banks, or simply unable to obtain access to the account and credit products they need, financial institutions (FIs) have options available to work with them. And when it comes to engaging with and providing services to this population, data is the key – access to emerging, alternative and unconventional data.

75 Million

Americans have no bank services or are using alternative means to manage their financial lives.
In the US, FIs rely heavily on traditional credit bureau data to make decisions about whether to approve consumer credit applications, provide account services or market their products. Roughly 57% of Americans have a FICO credit score of 700 or higher, placing them in the near-prime, prime and super-prime categories. For FIs, engaging with these consumers represents a low risk approach with good potential return, creating little need to obtain additional data to make an approve/decline decision.

These consumers represent the “known entities” of the financial world. They have an established credit history and readily accessible bureau data. Banks can use this traditional information, including credit score, to make their decisions. However, for the remainder of the population, getting access to the financial products they need can be much more challenging.

What about these “unknown entities” of the financial world? Those 75 million Americans who are unbanked, or do not have the full suite of financial products they need to go about their daily lives? Those individuals stand in stark contrast to the top tiers of known consumers.

Unbanked and underbanked consumers are disproportionately likely to be from minority groups. Across the US, 5% of the population is unbanked, while 18% is underbanked. When broken out on ethnic lines, the numbers shift dramatically. The following table, compiled with data from the 2017 FDIC Report on Economic Well-Being of US Households and a 2015 FDIC survey, shows the disparity in financial inclusion when it comes to minority populations:
Minorities are not the only demographic groups struggling to access the financial services they need. Millennials are also “among the most likely to be underbanked,” with estimates ranging as high as 55% of the millennial population lacking adequate access to financial products and services.

New-to-country immigrants are also facing financial hurdles when they arrive in the US. A recent American Banker article notes, “there are 10 million immigrants...who are very likely to be prime to super prime, but are captured by U.S. credit bureaus as thin files at best.” This population often includes professionals with a robust credit history in their home country, but not in the US. These individuals could be excellent new customers for FIs, but without access to historical data, an organization is unlikely to court or win them.

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<thead>
<tr>
<th></th>
<th>UNBANKED</th>
<th>UNDERBANKED</th>
<th>TOTAL EXCLUSION</th>
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<tbody>
<tr>
<td>Overall</td>
<td>5%</td>
<td>18%</td>
<td>23%</td>
</tr>
<tr>
<td>Black</td>
<td>11%</td>
<td>36%</td>
<td>47%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>11%</td>
<td>26%</td>
<td>37%</td>
</tr>
<tr>
<td>Asian</td>
<td>4%</td>
<td>21%</td>
<td>25%</td>
</tr>
<tr>
<td>White</td>
<td>3%</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>11.1%</td>
<td>27.5%</td>
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"[T]here are 10 million immigrants...who are very likely to be prime to super prime, but are captured by U.S. credit bureaus as thin files at best."

**DISPARITY OF FINANCIAL INCLUSION IN MINORITY POPULATIONS**

**Minority Breakdown**: According to a study by the Federal Reserve, the disparity in financial inclusion is most pronounced among certain minority groups. The table below illustrates the percentage of each minority group that is unbanked, underbanked, or excluded from financial services.

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<th>Minority</th>
<th>Unbanked</th>
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**Notes**:
- Minorities are not the only demographic groups struggling to access the financial services they need. Millennials are also “among the most likely to be underbanked,” with estimates ranging as high as 55% of the millennial population lacking adequate access to financial products and services.
- New-to-country immigrants are also facing financial hurdles when they arrive in the US. A recent American Banker article notes, “there are 10 million immigrants...who are very likely to be prime to super prime, but are captured by U.S. credit bureaus as thin files at best.” This population often includes professionals with a robust credit history in their home country, but not in the US. These individuals could be excellent new customers for FIs, but without access to historical data, an organization is unlikely to court or win them.
Credit Products For Unbanked & Underbanked Consumers

U/U consumers are are not necessarily avoiding banks and credit products intentionally. The majority are in need of credit products and banking services. These folks will frequently turn to alternative financial services to manage their daily lives, often at exorbitant costs.

One of the primary reasons that individuals cite for not having a bank account is that they simply do not have the funds to open one. In a 2015 survey of U/U households, the FDIC found that “more than one-third of households” do not have accounts because “they don’t have enough money”.

These people still have financial lives, and they will pursue several different avenues — and types of alternative financial products — to meet their needs. From pawn shops to prepaid debit cards, money orders to retail credit cards, these consumers will use whatever means available to transact.

Many of these kinds of products represent the only available alternatives for U/U consumers. For a majority (74%), money orders are a key way to send and receive funds. 34% use check cashing services, while 22% use pawn shops/payday lenders/auto title loan services.

Many more rely on retail credit cards to conduct the daily business of living. A recent report showed that retail credit cards “are the most ubiquitous credit card option for those with FICO scores below 700” and that “consumers spent $33.2 billion” on retail cards in 2016.

The reality for U/U consumers is that “[c]ertain transactions need to happen, but for unbanked consumers, they don’t happen through a bank.” By relying on alternative financial channels, these consumers can conduct their business — but at a cost.

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<th>Percent Using Alternative Financial Products</th>
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The High Cost of Being Unbanked & Underbanked

U/U consumers “pay anywhere from 1 to 5 percent in fees to cash a check.” Annual totals for households that use check cashing services can exceed $1,000, which is a large chunk of “an annual salary of $22,000, the average for unbanked households”.

For consumers who use products like prepaid debit cards, the costs of obtaining and using those can range from roughly $200-$300 per year, “depending on whether the card comes with a free direct-deposit service.”

Payday lending services are another high-cost alternative financial product. Payday loan amounts generally range from “$100 to $1,000, depending on state legal maximums” and loan terms average around 14 days. Consumers who take out these short-term loans are often saddled with interest rates that “typically cost 400%...or more” and can be paying finance charges that range anywhere “from 390 to 780% APR.”

With money orders, consumers are faced with per-transaction fees. Those tend to be on the lower range, however, and can vary from $0.70 to $5, with caps on the total amount someone can send/receive.

But for the U/U population, those hard figures only tell half the story. While the fees and interest rates add up, there are other impacts that can have detrimental effects. These include:

**LOST TIME**

An individual without a bank account has to conduct their business on someone else’s schedule, rather than through an online or mobile interface. This can “force people to miss work, hurting their paychecks”.

**INABILITY TO BUILD CREDIT**

Few alternative financial service providers are required to report on consumer behavior to traditional credit bureaus. Without that data, a bureau will not be able to create a credit report on an individual, potentially “harming their ability to take out auto loans, get credit cards and even start a business.”

**TRANSPORTATION & GAS**

Without access to online/mobile services associated with traditional financial institutions, an individual may have to travel to take care of their monetary transactions.
Opportunity Hiding In Plain Sight

U/U populations, when combined, represent a tremendous opportunity for FIs willing to invest in them. Estimates for the market size of U/U consumers range from $188 billion\(^\text{18}\) to “a whopping $380 billion”.\(^\text{19}\) With hundreds of billions of dollars at stake, FIs that can identify the best potential customers from these groups can win new business and earn loyalty from people who need financial inclusion.

For FIs, one of the first steps towards capitalizing on this opportunity is to acknowledge that a consumer with a thin credit file, or no credit file, does not automatically represent bad risk. When FIs are not able to pull traditional data to vet an applicant, they can turn to alternative data for a different picture.

Alternative data can open a window into consumer risk profiles that simply did not exist until recently. With the increase in available information, as well as the ability for FIs to access, interpret and decision on this data, organizations have a “more complete, thorough perspective of...applicants, who may otherwise go overlooked.”\(^\text{20}\)

The list below is just a sampling of the kind of information that exists outside traditional bureau data. Several bureaus and other organizations are also producing specific alternative credit scores, offering a succinct and effective alternative to traditional scores. By using this data in a credit decision, a company can begin to peel back the curtain on U/U consumers and identify those who represent good investments.

Types of info that constitute alternative data may include\(^\text{21}\):

- **DRIVER’S LICENSES**
- **DRIVING RECORDS**
- **EMPLOYMENT HISTORY**
- **REAL ESTATE OWNERSHIP & LIENS**
- **UTILITIES PAYMENTS HISTORY**
- **RENTAL RECORDS** *including payment history and length of lease*
- **TELECOM/MOBILE PAYMENTS RECORDS**
- **INTERNATIONAL CREDIT REPORTS/HISTORIES**
FIs can use alternative data in lieu of a traditional credit report, if a consumer has no file with one of the major bureaus. FIs that have access to alternative data points can use that information to proactively target and win new customers that have immediate needs for their products and services. Alternative data can also supplement a thin file from a bureau, or complement a traditional report to provide even more detailed insight about an individual.

One example of the positive impact of alternative data comes from GM Financial. Steve Bowman, Chief Credit and Risk Officer, reported to the Post that “by being able to pull a wider set of consumer data, his organization can sometimes lower the interest rate charges on a loan by 2 percentage points.”

With that kind of impact, alternative data has benefits that are as significant as they are straightforward, including new customers, loyal customers and more profit. As mentioned earlier, U/U consumers represent a potential market opportunity of hundreds of billions of dollars, so FIs that actively pursue these populations can dramatically increase their business.

Benefits for Consumers

The range of potential benefits for consumers is also significant. When FIs use new and alternative data to supplement or supplant traditional credit reports, U/U consumers reap rewards.

These can include lower interest rates on loans, like the two percentage point reduction GM Financial was able to provide. That can make a huge difference to a family or an individual that is relying on every dollar for their financial well-being. Other benefits can include access to traditional checking and savings accounts, credit cards, auto loans and mortgages.

With access to these kinds of traditional financial products, U/U consumers would finally have the ability to build a credit history. That file can then be the springboard to financial inclusion, letting individuals achieve milestones like car and home ownership, college funding, business development and more. When FIs using alternative data can help folks realize their life goals, everybody walks away happy.
For both FIs and U/U consumers, access to the wealth of available data represents significant opportunities. For consumers, data can mean the difference between financial exclusion and financial inclusion.

And, data is the key to good growth for an organization. With real time access to traditional and alternative data, companies can make the best, risk-appropriate decisions about populations that they might not otherwise engage. Having the ability to pull data from virtually any source and plug it into credit and account decisions is a powerful differentiator for FIs, and can drive enhanced customer experiences, increase customer acquisition and improve overall profitability.

Readily available data is power, for the organization and for the individual. The most significant challenges are knowing where to find actionable data, then accessing and understanding it.

With the right partner an FI can easily integrate and act on data from virtually anywhere. The right partner will facilitate an enterprise-wide, data-agnostic approach. And the right partner will have connections available, or be able to connect to data from any internal or external source.

The right partner will also be able to seamlessly feed that data into a decision process to drive efficiency and efficacy. And the best partner will have decades of experience with data connections –and the existing relationships to get to market faster than the competition.

Looking for that right partner? With nearly 30 years of data acquisition experience for some of the largest FIs in the world, Zoot can help any organization achieve its goals and help provide financial inclusion for U/U populations.

Data acquisition is the key to the kingdom.

Data can mean the difference between financial exclusion and financial inclusion.
ABOUT ZOOT

Zoot Enterprises is a global provider of advanced origination, acquisition and decision management solutions for financial institutions. We offer comprehensive and flexible platforms for specific business needs that include loan origination, fraud detection and prevention, data acquisition, and more.

Zoot is a leader in the financial technology industry. We enable clients to access hundreds of cutting-edge data sources in real time, and provide business user control that empowers our clients to adapt to their evolving strategies. Our cloud-based, secure processing environment delivers decisions in milliseconds and has the capacity to deliver billions of real time decisions annually.

For more than 25 years, we have launched solutions to market faster than the competition. We have partnered with influential U.S. and international organizations including major financial institutions, retailers and payment providers to foster excellence in the financial services industry.

At Zoot, our promise is simple: To make our clients successful. We work closely with the top financial institutions in the world to deliver state-of-the-art solutions that satisfy the most demanding decisioning needs.

Contact Zoot today to learn more about how our proven solutions solve the most complex credit decisioning and loan origination needs and deliver ROI, while helping mitigate risk.

(406) 556-7555

ZootSolutions.com/contact
ENDNOTES


