Qualitative Research on Mobile Financial Services for Underserved Consumers

Presentation to the
FDIC Advisory Committee on
Economic Inclusion

October 30, 2015

Research Objective

Our motivation is to understand underserved consumers' perceptions of the potential of mobile financial services (MFS) to improve access to, sustain, and grow banking relationships as well as to understand the factors limiting its potential.

This document reports findings from the consumer focus groups conducted during the first two phases of this research effort.

Research Methodology

HOW?

- Eighteen (18) focus groups were used to collect qualitative data about:
  - Consumer financial needs
  - Financial product and provider usage and awareness
  - Usage and opinions regarding mobile financial services

WHO?

- 172 total participants
- A mix of unbanked and underbanked
- Smartphone owners
- A mix of current mobile financial services users and non-users
- Mix of English and Spanish speakers
- Mix of other demographic characteristics

WHEN AND WHERE?

- Memphis, TN – May 6-7, 2015
- Los Angeles, CA – May 12-13 and July 14-16, 2015
- Kansas City, MO – July 20-21, 2015

Limitations of Research

- The methodology for the consumer research follows standard industry practices for gathering qualitative feedback. However, there are limitations to these practices.
  - Samples are small and based on convenience sources, which limits the degree to which results can be generalized across the entire population of underserved consumers.
  - Consumers who met precise combinations of criteria were sought out over others.
  - Qualitative data is subject to varying interpretations although this was addressed by involving multiple researchers in the review of findings and the use of qualitative research software to compile and analyze the data.

Consumer Perception

- This report discusses consumer reactions to financial providers and services.
- There may be instances where consumer perception does not accurately reflect the current policies of banks or standards in the financial industry.
- In some instances, consumers may have strong opinions formed from misunderstood facts.
- Researchers did not correct these misunderstandings during data collection but instead aimed to gain insight into how consumers currently view the financial industry.

Needs from Financial Management Methods

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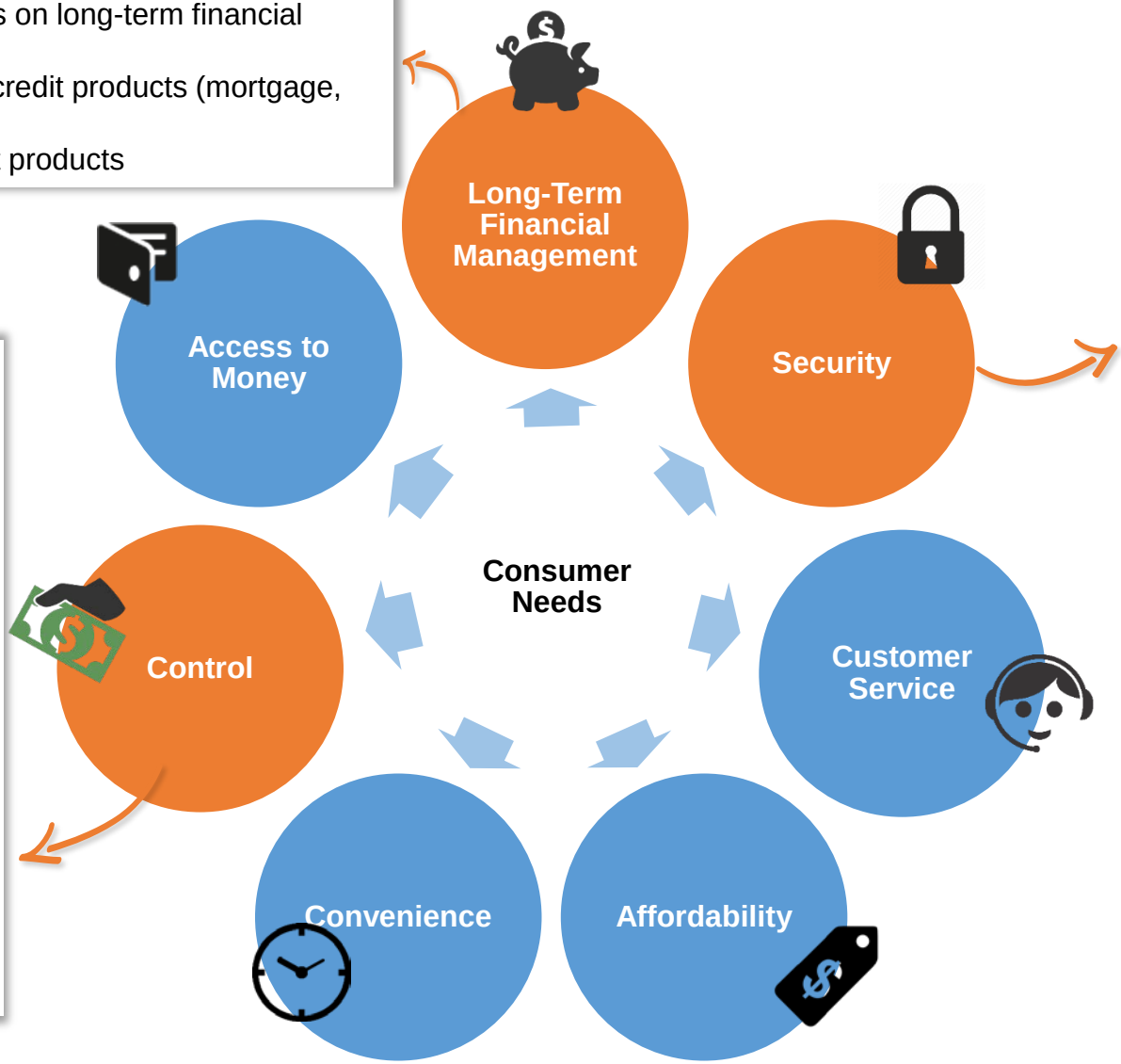
Underserved consumers have fundamental needs of control, security and long-term partnership when it comes to finances

- Advice from providers on long-term financial planning
- Access to long-term credit products (mortgage, auto loans, etc.)
- Access to investment products

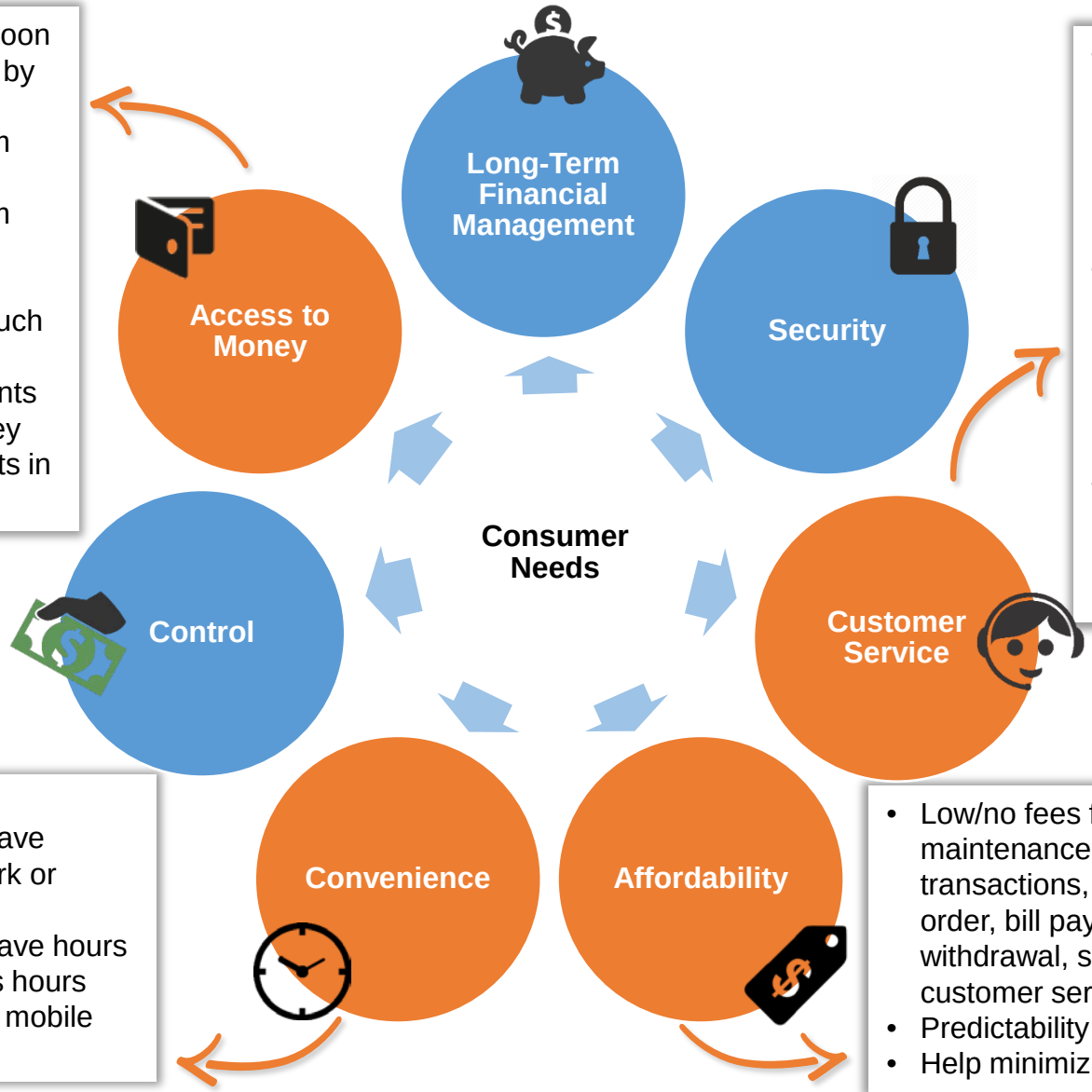
- Knowing exactly when and how money is deposited and withdrawn from accounts
- Confidence that transactions are processed quickly
- Absence of unexpected fees
- Choice in payment methods
- Few restrictions on ATM withdrawals or in-person transactions
- Ease of long-term record keeping



- Broad term used for protection from threats
- Safety against theft, both physically and digitally
- Protection against identity theft and data breaches
- Privacy
- Safeguards against financial institution failure or mistakes

This demographic also has practical needs of access to money convenience, affordability and quality customer service

- Access to funds as soon as they are received by financial provider
- Short hold times from financial provider
- Short hold times from merchants
- Quick resolution of account problems (such as suspected fraud) which freezes accounts
- Quick return of money debited from accounts in error



- Representatives available through consumer preferred channel (varies by consumer)
- Representative available at convenient time to consumer (varies by consumer)
- Lack of excessive wait times to connect with representative

- Saves time or effort
- Financial providers have locations close to work or home
- Financial providers have hours past normal business hours
- Access to online and mobile tools

- Low/no fees for account maintenance, overdraft, individual transactions, check cashing, money order, bill paying, deposits, cash withdrawal, speaking with a customer service agent
- Predictability in fees
- Help minimizing “avoidable” fees

Financial Product s and Providers Used by Underserved Consumers

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Cash has perceived benefits and drawbacks while most consumers see checks as replaceable with newer products

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	Cash	Checks
Benefits	• Widely accepted • Quick access to money and information about funds • Cheap way to conduct transactions • Cannot spend what is not currently available • No risk of identity theft	• Easy and convenient way of payment
Drawbacks	• Easier to spend • Large amounts draw attention • Must physically go to get cash • Lack of records • Can be lost or stolen with little recourse	• Costs money to purchase checks • Takes time to reach recipient • Not universally accepted • Can have long hold time • Can be a delay if payee does not deposit immediately • Checks can bounce

Money orders and prepaid cards are popular with underserved consumers despite certain drawbacks

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	Money Orders	Prepaid Cards
Benefits	• Widely accepted • No threat of bouncing a money order • Payee cannot take more than expected as payment • Creates a record and is traceable • Can be replaced if lost or stolen	• Perceived lower fees than bank accounts • Funds cannot be overdrawn/no overdraft fees • Perceived faster and easier access to money • Perceived protection from identity theft • Useful if customers do not want to disclose bank account numbers
Drawbacks	• Fees to use • Must physically go to pick up money order • Cost to cash out if no longer needed	• Funds not insured the same way as bank funds • Cannot be used with vendors that require additional holds (hotels, rental cars, etc.) • Inadequate customer service

Peer-to-peer payments are used by fewer underserved consumers but very popular with users

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Peer-to-Peer Payments

Benefits

- Easy to use
- Often incorporates mobile technologies
- Can hold money like a bank account
- Minimal information needed for peer-to-peer transfers

Drawbacks

- Funds not insured the same way as bank funds
- Some consumers not comfortable with technology and lack of physical locations

Underserved consumers use a variety of financial providers depending on preferences and circumstances

Banks

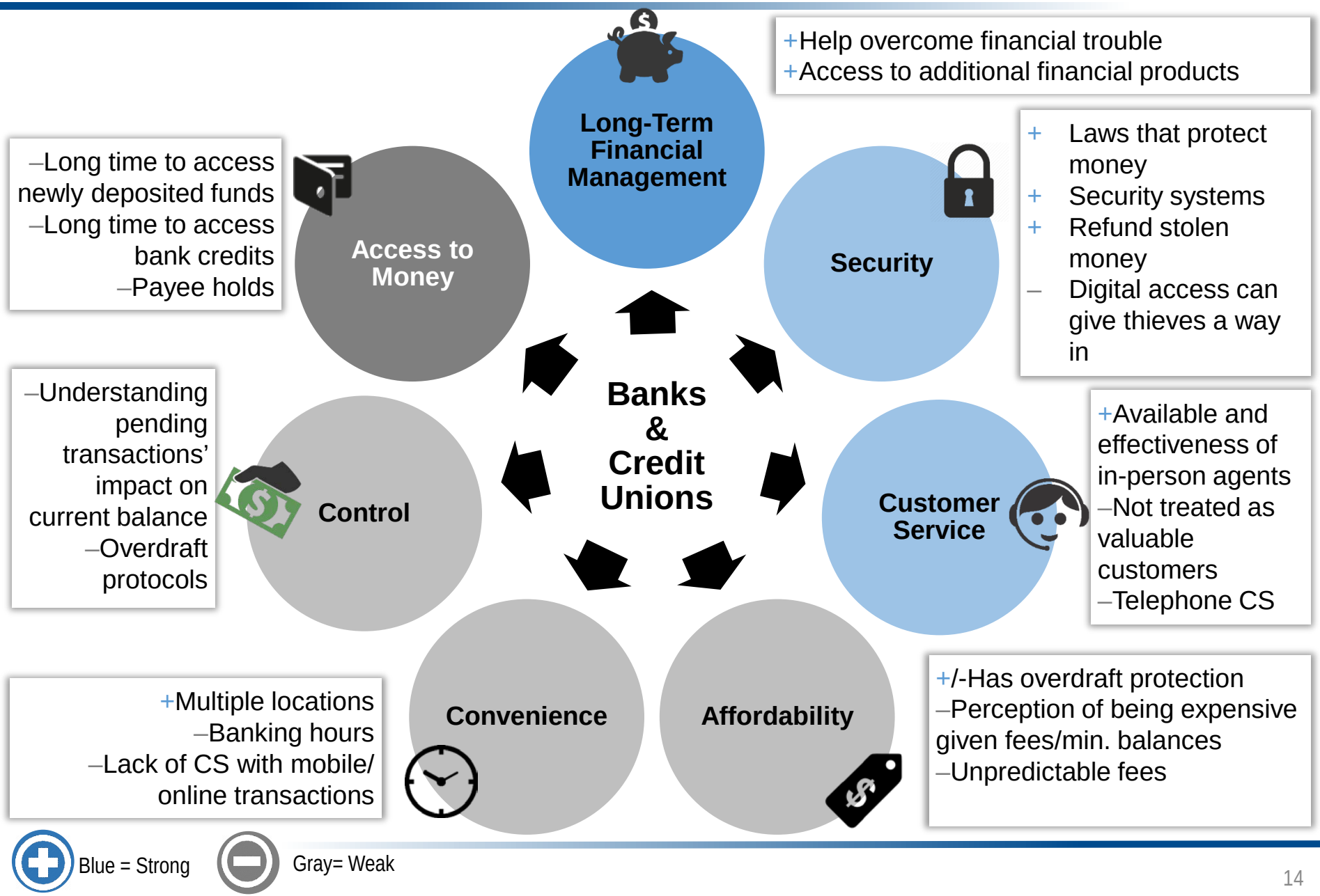
Prepaid card companies

Non-bank deposit account companies, like Paypal

Retailers, such as Walmart

Payday lenders and pawn shops

Bank and Credit Unions are perceived positively regarding financial management, security and customer service.



Prepaid cards maximize the feelings of control for underserved consumers

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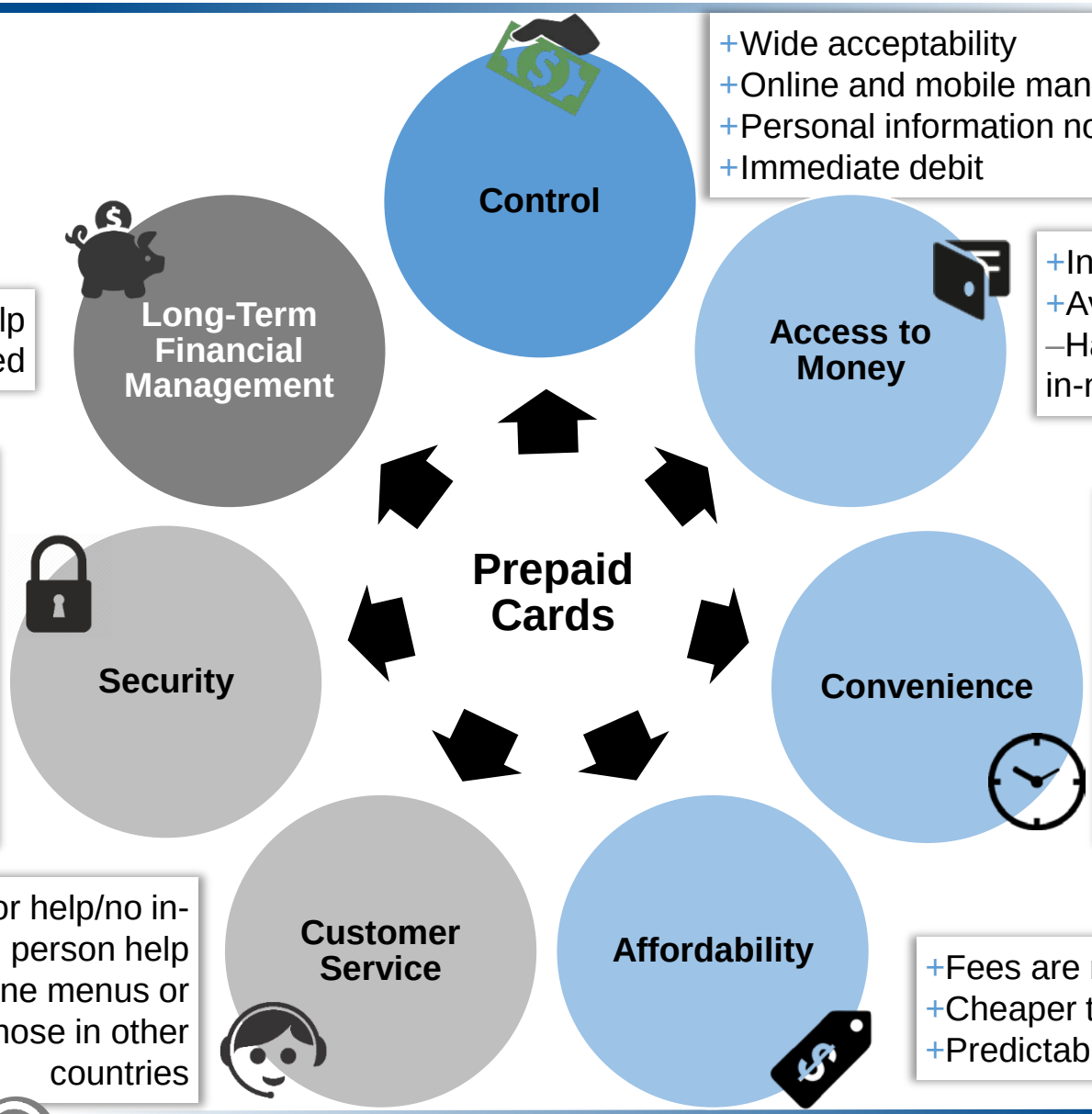

+Wide acceptability
+Online and mobile management features
+Personal information not connected to card
+Immediate debit

+Instant fund availability
+Avoid late fees
–Hard to withdraw cash/ in-network ATMs

+Use for in-person and online transactions
+No need for branch locations and hours
–Merchants requiring holds don't accept PP cards

+Fees are reasonable
+Cheaper than overdraft fees
+Predictable fees

–Need to call for help/no in-person help
–Automated phone menus or staffed by those in other countries

+Temporary place to keep partial funds
–Hard to get refunds on lost/ stolen cards
–Don't have federal consumer protections

–Very little help provided

Blue = Strong

Gray= Weak

Mobile Financial Services

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Providers and word-of-mouth are key sources of MFS information; tech savvy consumers find apps on their own

Financial Services Providers

Consumers learn about app/mobile capabilities at account opening, through emails, the providers website, paper statements, at the branch/physical location, customer service agents, and TV commercials.

Word-of-Mouth

Many consumers first learn about MFS tools through friends and family. They feel comfortable asking friends and family questions and are able to turn to them when they have problems.

Online/ App Store

More technology-ready consumers often find out about the financial apps searching online or in the app store on their phone. These types of consumers are more interested in and have more faith in technology, and look out for new apps.

Checking account balances

Alerts

Bill Pay

Transfer Features

Feature adoption as consumers become more comfortable with MFS

Setup of mobile financial services is straightforward and easy for most consumers

Mobile Financial Services Setup

Mobile Phone

+Convenience

Computer

+Larger screen
+Keyboard
+Security

Branch

+Ensure proper setup
+Secure

Summary of Mobile Financial Services

Mobile Financial Service	Benefits	Consumer Needs Addressed
Checking Balance and Transaction History	• Access to account information anytime and anywhere • Saves time/trips to providers • Helps budget • Helps inform on the spot spending decisions	• Control • Convenience • Long-Term Financial Management
Alerts	• Access to account information • Helps consumers avoid fees • Helps monitor accounts for fraud	• Control • Convenience • Affordability • Security
Bill Pay	• Ensure timely payment • Can save money over other methods • Saves time/trips to providers • Ability to pay bills anytime and anywhere	• Control • Convenience • Affordability
Peer-to-Peer Transfers	• Settle personal debts immediately • Faster than other methods • Saves time/trips to providers	• Control Convenience
Remote Deposit Capture	• Helps deposit money faster • Saves time/trips to providers	• Control • Convenience • Access to Money

Nearly all underserved MFS users check their balances and transactions from their phone frequently

The most common MFS activity is checking balances and transaction histories; many consumers use this feature daily

When do consumers check?

- Right when wake-up
- Just before bed
- After a specific event/purpose
- Before spending money

Why do consumers check?

- To keep track of funds
- Expecting a paycheck to be deposited
- Checking for fraudulent activity
- Verifying there is an issue after getting a message or alert from financial service provider

Underserved consumers have widely adopted alerts which help them effectively manage their finances

Commonly Used Alerts

Daily balance alerts – Low balance alerts – Deposit alerts – Fraud alerts

How consumers receive alerts

Text

- (+) Faster
- (+) Easier to receive
- (+) Attention grabbing
- (+) Quicker and easier to digest
- (−) Texts are for personal communication only

Email

- (+) Greater detail
- (+) Longer-lasting record of financial transactions
- (−) Often overlooked due to quantity of emails received

"Text-it's immediate. Email, you have to go in and actually be checking your email account."
– Underbanked MFS User

Mobile bill pay adds convenience but does not meet needs of last minute payers

- Ability to pay bills through mobile phone, anytime, anywhere
- Typically no charge from payee and no charge from the bank
- There is a record of the transaction if a dispute arises
- Ability to schedule automatic recurring payments

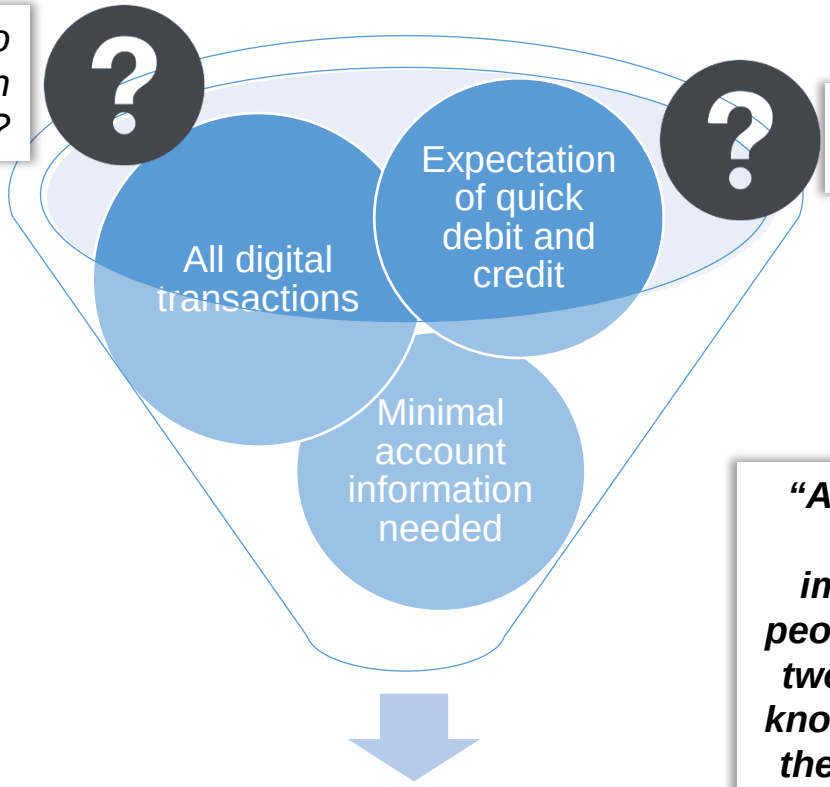
"It seems to me that unless you're changing it frequently, you're just tapping your thumb. Boom, boom, boom, you're done. That's it. It's over with, then. Like I say, if you want to do it at 3:00 in the afternoon, you don't have to wonder if the office is closed."– Underbanked MFS User

"Somebody always magically says that they didn't get paid. So you know I know I can take a screen shot and send it over and let them know its paid." – Underbanked MFS User

- Not good for when need to pay bill quickly, better to go through payee website
- Questions about how long until payment is debited and reaches the payee

Peer-to-Peer transaction providers focus on digital solutions to sending and receiving money

How long does it take to debit an account and reach the recipient?



How secure is this payment method?

"And there's so many other services that will do it immediately that I feel like people aren't going to wait for two days or whatever if they know there's another way that they can get it right away." – Unbanked MFS User

Peer-to-Peer Transfers

Consumers intrigued by mRDC but have many questions

mRDC

- Saves time
- Fewer trips to the bank

"It takes away from having to actually having to go down to the banks. Depending on the time, there's going to be a bunch of people, you're going to be standing in line…"
– Unbanked MFS Non-User

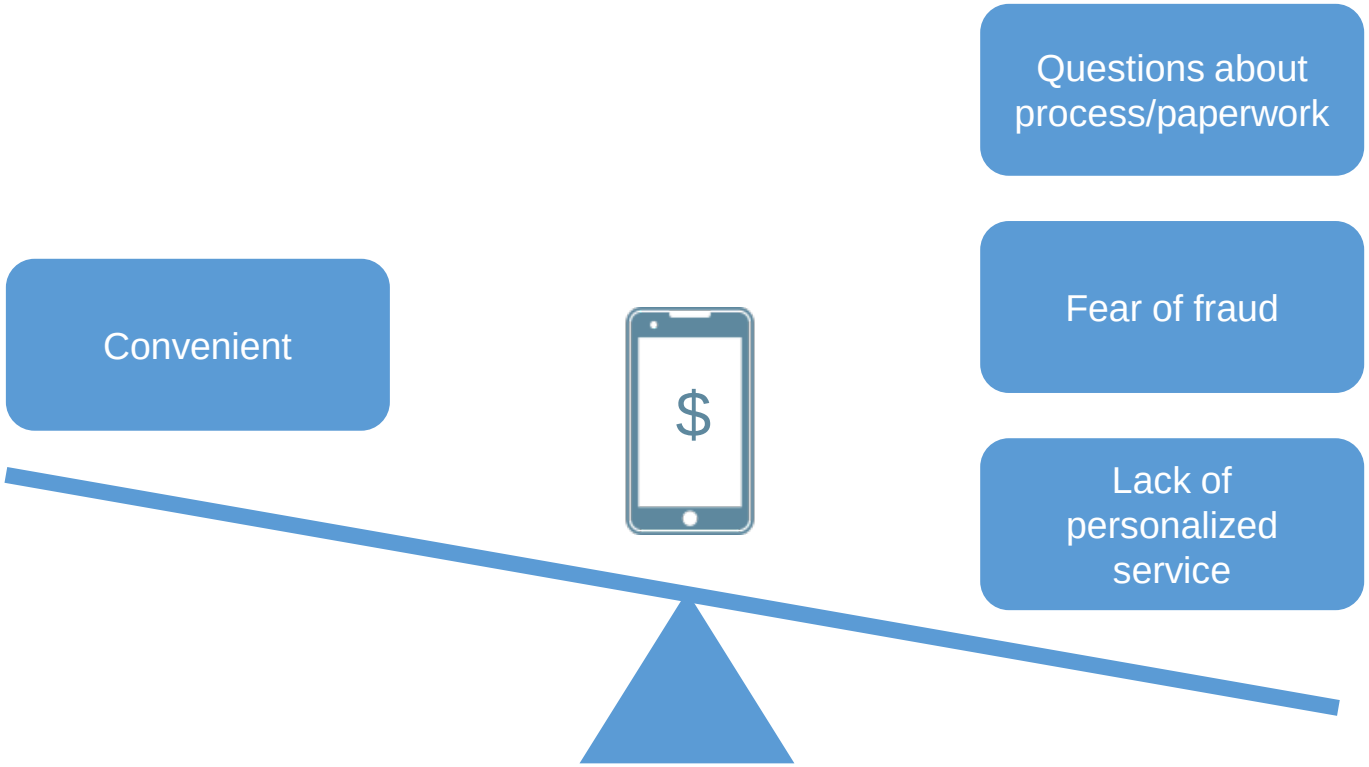
- Where does the image go?
- How fast is it processed?
- What should I do with the check?
- Is it secure?

- Takes too long to credit account
- Unbanked consumers already have ways of accessing money from checks

"Anything over like $500, it takes three business days – otherwise it's the next day. But that's the same in the ATM or anywhere else."– Underbanked MFS User

Most consumers are wary of opening an account from a mobile device

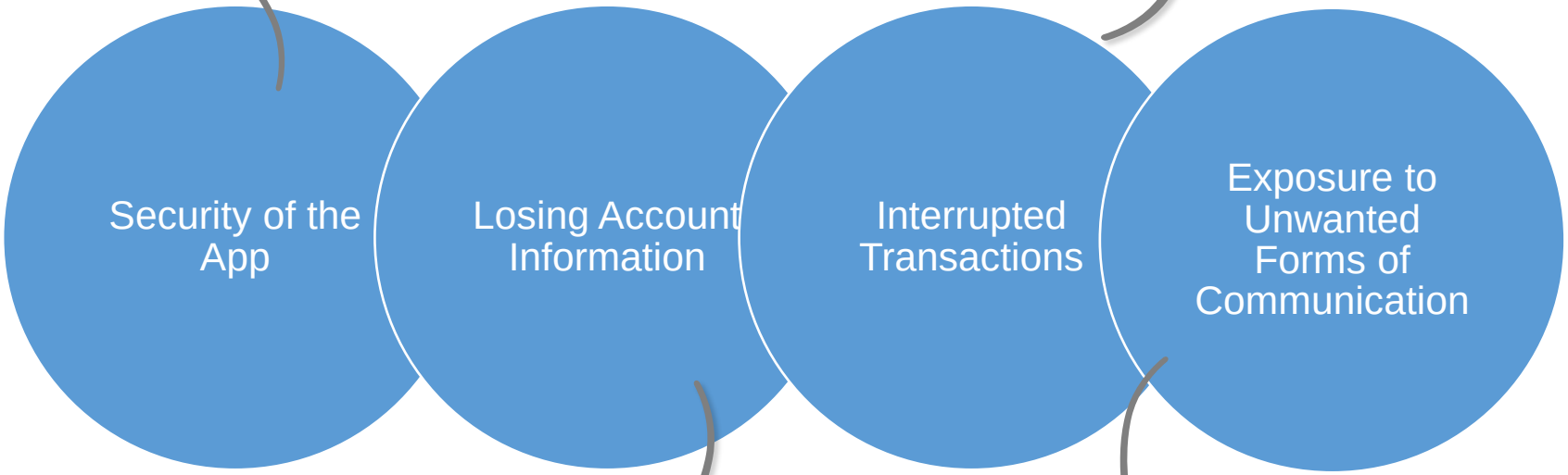
Mobile Account Opening



Security and privacy are the main barriers to adoption of MFS for underserved consumers

Many non-users have concerns about identity theft and fraud. Those that currently use MFS believe though that the benefits outweigh the risks when it comes to security.

There is concern about how unfinished transactions are handled when using MFS.

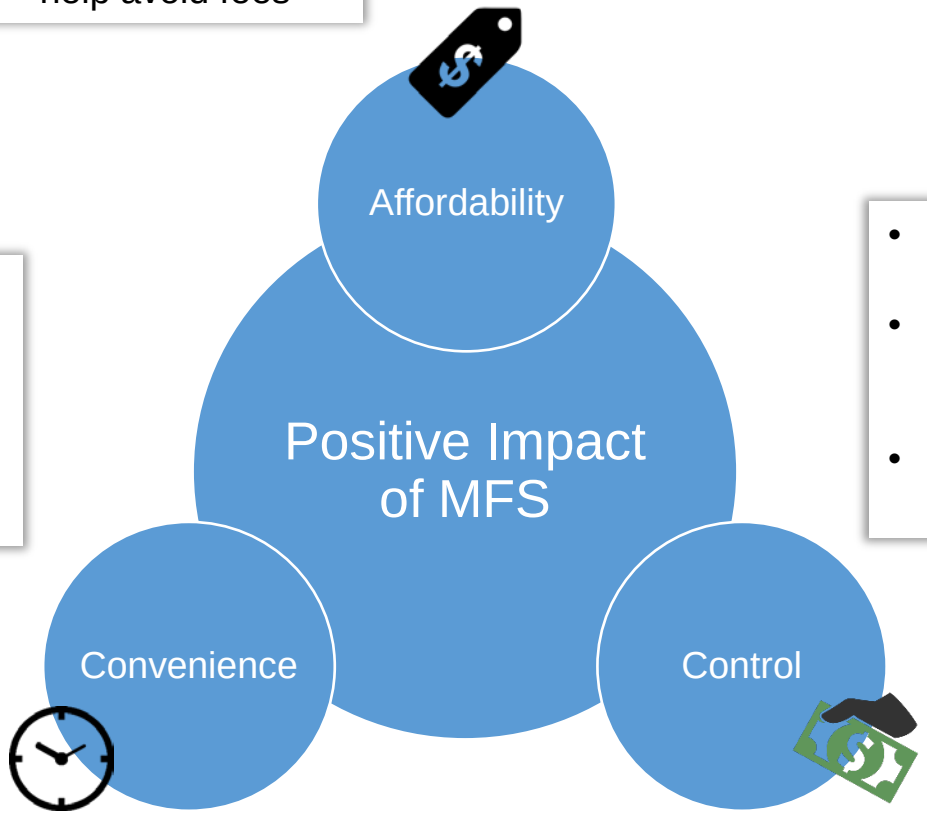


Underserved consumers are concerned about losing account numbers and passwords that are stored in the app, they believe this could open them up to theft and possibly loss of access to their money.

Consumers are aware that personal information is often shared or sold to other companies. They don't want to be exposed to communication they are not interested in receiving.

Mobile financial services have a positive impact on consumers who have adopted them

- Can use greater information to help avoid fees

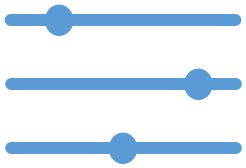


- Fewer in-person visits
- Can view balance and make transactions anytime, anywhere

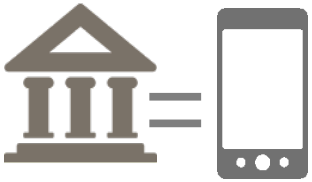
- Real-time access to account information
- Access information more frequently than without MFS
- Gives tools to proactively manage money

Consumers suggested a variety of ways to add more value to mobile financial services

- Visuals and Financial Breakdowns
  - Consumers believe they would benefit from highly visuals summaries of their finances. These tools would help with long-term financial management.



- Increased Customization
  - Most MFS tools are customizable but consumers want the ability to tailor tools even more to their specific needs. Integration with other tools is a big part of this customization.



- Consistency of Information and Features
  - Most users have experience with online and in-person banking and know what can be done in other channels. Consumers want all features to be available on all channels.

- MFS Based Customer Service
  - Current users see opportunities to increase communication and make MFS a two-way channel for getting assistance.

Opportunities for Banks in Mobile Financial Services

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Long-term financial management a strength banks should work to maintain

Consumer Need	Consumer Perception: Banking Services	Consumer Perception: MFS relative to other channels
Long-Term Financial Management	Very Strong	Superior
Control	Weak	Superior
Convenience	Weak	Superior
Affordability	Weak	Superior
Security	Strong	Inferior
Customer Service	Strong	Inferior
Access to Money	Very Weak	Similar

- Bank strength that has the potential to be bolstered further by MFS tools

Control, convenience and affordability are opportunities for banks to better meet consumer needs through MFS

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- Increase control through greater access to account information (record keeping, balance alerts, etc.)

- MFS gives consumers anytime, anyplace access physical branches currently lack

- Greater and more timely access to account information can help consumers avoid fees that lead to the perception of banks being expensive

Banks perform well on security and customer service and will need to protect this image from consumer concerns about MFS generally

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- Outside of MFS banks are seen as secure
- Many consumers fear hacking, fraud or lack of privacy when using MFS

- Banks offer customer service lacking from many other providers
- Consumers believe customer service will be lacking in MFS

MFS will not be able to raise perceptions of access to money through banks without other policy and product changes

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- Banks' ability to provide fast access to money is perceived to be very weak
- MFS does not offer any inherent advantages in this area

Conclusion

Conclusions

1. Underserved consumers select financial products and providers based on needs related to control, convenience, fast access to funds, affordability, security, customer service, and long term financial management.
2. Underserved consumers perceive banks to have weaknesses relative to other options in the areas of control, fast access to funds, affordability, and convenience.
3. MFS has the potential to help address perceived weaknesses and create more sustainable banking relationships.
4. MFS, on its own, is not sufficient to engage underserved consumers in banking.
   - System wide improvements required (real time payments)
   - MFS doesn’t appeal to everyone
   - Many reasons for being unbanked are unrelated to MFS (lack of funds, distrust)

Next Steps

- The next phase of the research will collect information from financial institutions and other industry participants to help us better understand their experiences with and views on the use of MFS as an economic inclusion tool

- Structured interviews will be conducted in late 2015

- Comprehensive project report with implications from both the consumer and industry research will be published in Spring 2016