



## **Fact Sheet: The Unbanked and Underbanked**

Unbanked and underbanked consumers constitute a largely untapped market for financial services. Financial institutions can serve this market in ways that are profitable for both company and customer.

### **Market Definition**

“Unbanked” consumers and households are those that lack a transaction account at a mainstream financial institution. “Underbanked” consumers and households use a mixture of mainstream and alternative providers, such as check cashers and payday lenders, to satisfy their financial services needs.

### **Market Size**

- **20%** of U.S. households are **unbanked**, equivalent to 22.2 million families in which no one has an account.  
*Source: “Electronic Transfers,” General Accounting Office: 2002.*
- **19.4%** of U.S. households are considered **underbanked**, representing an additional 22 million families.  
*Source: BearingPoint/Visa: 2006.*
- Each year, Americans spend at least **\$13 billion** on more than **340 million** alternative financial services transactions.  
*Source: Estimate based on the following sources: James Carr and Jenny Schuetz, Financial Services in Distressed Communities, Fannie Mae Foundation: 2001; Financial Service Centers of America website: 2006; Center for Responsible Lending: 2006; National Pawnbrokers Association website: 2006; First Cash Financial Services website: 2006; EZCORP Inc. 2005 10-K SEC filing; RentWay Inc. 2005 10-K SEC filing; Association of Progressive Rental Organizations website, 2006; Tennessee Department of Financial Institutions: 2006; National Consumer Law Center/Consumer Federation of America: 2005.*

### **Market Characteristics**

- Nonwhite families are four times more likely to be unbanked than white families.  
*Source: Survey of Consumer Finances, Federal Reserve: 2004.*
- 35% of all Latinos in the U. S. are unbanked; 53% of Mexican immigrants are unbanked.  
*Source: National Survey of Latinos, Pew Hispanic Center/Kaiser Family Foundation: 2002; Survey of Income Program Participation, 2000.*
- The underbanked tend to be younger, have lower incomes and have less education than the general population.  
*Source: Ellen Seidman, et al., Financial Services Survey (Chicago, L.A., and Washington, DC), CFSI: 2004.*

### **Barriers to Entry**

- Cultural barriers within financial institutions and among potential clients
- Inadequate market data and knowledge
- Need for high volume to cover costs
- Difficulty of forming partnerships to facilitate service delivery
- Regulatory constraints

### **Market Opportunities**

- **Technological innovations** have made underserved markets easier to reach by reducing transaction costs and creating new channels for banking.
- The continuing **growth in alternative financial services** demonstrates the demand for financial services among the underbanked.
- **Demographic shifts** have spurred the growth of the underbanked segment.
- **Government programs and policies** favor the development of new methods for banking the underbanked.