Asset Building Program Working Paper

Beyond Barriers

Designing Attractive Savings Accounts for Lower-Income Consumers

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November 2011

Every cloud has a silver lining. In the case of the Great Recession, that silver lining is an increased awareness that Americans—especially those in lower-income households—are better off when they have access to a stock of liquid savings to weather unexpected events. Without these precautionary savings, families are economically insecure. The process of building up these savings largely depends on access to an array of financial products and services, such as low-cost and high-quality savings accounts. Traditionally offered by banks and credit unions, these accounts are designed to allow the consumer to save a portion of their liquid assets. Unfortunately, there are barriers which prevent many families from opening and maintaining savings accounts, such as high minimum-opening deposit, minimum balance, or direct deposit requirements.

In recent years, lower-cost savings products have emerged in response to the growing recognition of the barriers low-income families face when trying to build precautionary savings. Three pilot programs are especially notable in this effort. The first is the FDIC's Model Safe Accounts pilot which created a template of account terms for banks to follow. The second is the SaveUSA demonstration (a pilot based upon a similar program in New York City) which works with banks to create savings accounts at free tax preparations sites so that lower-income households can deposit a portion of their refunds into savings with an additional match to reward the savings. The third is the AutoSave pilot, a workplace savings pilot conducted by the New America Foundation and MDRC, that partner with banks and employers to provide savings accounts and an automatic savings program to employees. Through a range of approaches, these "small-dollar savings account" pilots are identifying promising ways to overcome the barriers to savings account ownership for lower-income consumers. They are also helping to sharpen focus on the range of savings account product characteristics that make them more attractive for this targeted market to acquire and maintain. Building on lessons learned from these pilot efforts, this paper presents an analysis of product features to be considered in designing attractive saving accounts for lower-income consumers.

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To frame this discussion, the paper utilizes a consumer insights approach. An exploration of consumer insights and preferences is valuable as a means to understand the needs of a target market which can in turn, shape product design. This approach identifies specific consumer types and their needs to aid in evaluating the market potential of different account offerings. Using a consumer insights approach, the latent demand for small-dollar savings accounts is identified, and key points of consideration for designing and making decisions on the potential offerings are extracted. Given the limited availability of direct market research for this targeted segment, this exercise is not intended to directly inform a savings product for in-market use. Rather, the goal is to compile as much information presently available through public means to inform more targeted research when developing savings product and program concepts.[1]

The analysis in this paper is laid out in multiple parts. First, an overview of the small-dollar savings accounts and the challenges and opportunity for banks in the emerging market is reviewed. Second, the target market of lower-income consumers is defined in order to understand the basic needs small-dollar savings accounts can fill. Third, product features are identified and categorized by consumer preferences to help product designers formulate ideas for their offerings. Fourth, considerations for pricing, places for distribution of the account and promotional activities are identified. Finally, implications to expand the small-dollar savings account category among lower-income consumers, including the roles for public, corporate and non-profit actors, are provided. While this paper focuses on small-dollar savings accounts offered by banks and credit unions, the consumer insights and recommendations are likely to be applicable to prepaid card and other non-bank savings account providers.

Provider Challenges and Opportunities for Small-Dollar Savings Accounts

A savings account allows a consumer to hold highly liquid assets in a bank or credit union (referred to collectively as "banks" in the rest of the paper) account that usually pays interest. To slow the depletion of funds from the account and to distinguish it from transaction accounts, the number of withdrawals from a savings account is limited to six per month by federal law.[2] The most commonly available savings account products typically have $25–100 opening deposit requirements and minimum balances of $300 or direct deposit requirements of $25 each month from a checking account at the same institution to avoid paying a $5 monthly fee for the account. These "mass market savings accounts" are often not accessible to many lower-income consumers because they are too costly.[3] This gap in the savings account market has drawn the attention of policymakers and researchers, who have supported a series of pilot efforts to explore ways to connect lower-income consumers with appropriate savings account products.[4] As an alternative to mass market savings accounts, some prepaid products feature savings pockets

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[1] In an ideal world, the information available for a market research and consumer insight analysis would be more representative of target market. None of the sources utilized in this paper provide perfect information on lower-income consumers as they are all based on studies and survey in limited geographic areas, utilizing different samples, with varying objectives and often small base sizes. To assess the generalizability of individual study results, comparisons across studies are made when possible, and all commentary from this analysis is subject to further research and exploration.

[2] Federal law (FRB 12 CFR §204.2(d)(2)) limits the number of withdrawals on a savings account to six per month. After six withdrawals, the bank may stop any further withdrawals from the account for the month or charge a fee to the account holder (usually $12–15 per withdrawal over the federal limit) and agree to close or convert the account if the account holder consistently violates the six withdrawal limit. Some banks reduce the number of free withdrawals further, charging a small fee ($3–4) for each withdrawal between the bank's free withdrawal limit and the federal limit.

[3] (Berry, 2005; Brobeck, The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergency, 2008; Hachikian, 2009).

[4] These include FDIC Safe Accounts, the AutoSave initiative conducted by the New America Foundation and MDRC, and Municipal efforts in New York City, Newark, San Antonio and Tulsa through the SaveUSA program. Of note, a limited number of community banks and credit unions provide low-cost savings accounts that have terms somewhere between mass market and small-dollar savings accounts that attempt to meet the needs of lower-income consumers.

that are nearly identical to small-dollar savings accounts, but offered exclusively as an add-on to prepaid card products. Figure 1 provides a comparison of mass market savings accounts, small-dollar savings accounts and prepaid savings pockets.

Figure 1: Types of Savings Products

	Mass Market Savings Account	**(Piloted) Small-dollar Savings Account**	**Prepaid Savings Pocket**
Financial Service Provider	Banks and Credit Union	Banks and Credit Unions	Prepaid Card Companies
Account Structure	Individual deposit account	Individual deposit account	Individual deposit account or part of pooled account
Primary target market	Higher income consumers, who usually hold other products with the institution	Lower-income consumers who are typically excluded from bank and credit union accounts	Lower-income consumers who use prepaid card products
Product Features	• Minimum opening deposit requirement • Minimum balance requirement or direct deposit arrangement from a checking account at the same institution • Interest rate set by market • Maximum of 6 withdrawals a month • FDIC Insured	• Usually a low or no minimum opening deposit requirement • Minimum balance requirement or direct deposit arrangement • Interest rate set by market, some do not pay interest • Maximum of 6 withdrawals a month • FDIC Insured	• Usually no minimum opening deposit requirement • No minimum balance or direct deposit requirements, but some have maximum balance limitations • Some offer very high interest rates • Maximum of 6 withdrawals a month • FDIC Insured (unless pooled accounting practices not followed)
Pricing & Fees	$5 per month unless there is $300 minimum balance or direct deposit of $25/month	$5 per month unless there is a $5 or less minimum balance or direct deposit of any amount per month	None, but must maintain fees on attached prepaid card
Places Available	Nearly all banks & credit unions, either at the branch, online or a specially arranged distribution point (e.g. workplace)	At a limited number (estimated less than 25 across the US) banks & credit unions, either at the branch, online or a specially arranged distribution point (e.g. workplace, free tax center)	The prepaid card is available at retail outlets and alternative financial services centers, but the savings pocket must be access through the prepaid company's internet portal
Promotional Activity	Varies by provider	Nearly none	Varies by provider, but usually limited to a mention in the materials that come with the prepaid card

While some banks recognize the potential benefits of offering small-dollar savings accounts to a new market of lower-income consumers, they are skeptical of the accounts' profitability.[5] Many banks do not believe there is enough demand for savings products because saving is too challenging for lower-income consumers. Others argue that the cost to service accounts with low balances makes it difficult to offer such accounts. A 1999 report from the Federal Reserve reported that the average cost to service a mass market savings account is $70 per year.[6] Another more contemporary analysis by the Consumer Federation of America suggests that maintenance costs may be lower (estimated $15 per year not including customer service costs) with the advent of lower cost electronic funds transfers.[7] As a result, there is a perception that small-dollar savings accounts are unsustainable because many lower-income consumers cannot save. However, over two decades of research challenges this perspective and shows that lower-income consumers can and do save, especially when the appropriate structures (e.g. accessible savings products) are in place.[8]

Not surprisingly, some banks are willing to offer small-dollar savings accounts even if they are a loss leader. Others are dissuaded due to concerns about the additional investment needed to gain new customers in the lower-income consumer segment. After all, marketing to this segment is likely more expensive than reaching higher-income consumers.[9] For example, negotiations with potential bank partners for the AutoSave pilot revealed that some banks were willing to offer small-dollar savings accounts, but only if they could minimize customer acquisition costs (e.g. marketing research, promotion, and advertising). This determination creates a situation that appears to be an unresolvable catch-22 where demand for the accounts is not likely to materialize. Without market research, banks are unlikely to recognize and meet the need and desire for small-dollar savings accounts among lower-income consumers. Without adequate promotion, lower-income consumers are unlikely to build substantial awareness to express demand in market for the accounts.

The small-dollar savings account pilots attempt to break the catch-22 cycle, and to date, these efforts have been most successful at removing the barriers to access by reducing the costs of accounts and generating initial interest among select providers to offer the accounts. For example, the small-dollar savings account features recommended in the FDIC Model Safe Accounts pilot reduces the opening deposit and minimum balance requirements to $5 and eliminates monthly fees when the minimum balance is met.[10] No other recommended product features and terms of the Safe Accounts model veered from mass market savings accounts. To further expand Safe Accounts and other pilots' efforts to improve the fit of savings accounts for lower-income consumers, more attention should be given to understanding what else could drive demand for the accounts.[11] Policies that help people overcome barriers to accessing financial services are certainly useful, but additional attention must be paid to designing an offering attractive enough for lower-income consumers to open accounts and start saving. While taking a consumer insights approach to the development of financial services is not the traditional mode for banks, there is an opportunity to shift practices, particularly when developing financial services for lower-income consumers.[12] In fact, the success

[5] (Brobeck, The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergency, 2008; CFSI, 2010; Hachikian, 2009; Schneider & Tufano, 2007).
[6] (Hachikian, 2009).
[7] (Brobeck, The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergency, 2008).
[8] (Sherraden & Barr, 2005).
[9] (Schneider & Tufano, 2007).
[10] (FDIC, 2010).
[11] (R2S Initative, 2011).
[12] A consumer insights approach has been suggested for the development of microfinance products in low-income communities in the US and in developing countries for many years. For more, see (Moreno, 2011; Wright, 2010).

of the alternative financial services industry is attributed to understanding their customers' needs and preferences, suggesting that a consumer insights approach can be used to turn the lower-income consumer segment into a viable customer base for banks.[13]

Lower-Income Consumers as Target Markets

The keystone to a consumer insights approach is to first understand the needs of the target market so that an offering can be developed to meet those needs. Saving on a low income is challenging, especially without access to a secure savings account. Despite this challenge, the evidence discussed in this section suggests that approximately half of lower-income households are saving, even though not all currently have a mass market savings account. This indicates that there is a market potential among those that do not currently have savings accounts. An estimated market potential for small-dollar savings account among lower-income consumers is 15–25 percent and translates to a range of 8.8–14.7 million households or 8–13 percent of all US households.[14]

Saving Attitudes and Behavior

Consumers across the lower-income segment consistently value savings and strive to save. In a Detroit-area study on residents of lower-income neighborhoods (the "Detroit Study"), 83 percent of those surveyed disagree with the statement "savings is not worth it."[15] Valuing savings is often passed from parents to children, who carry the value through adulthood, in lower-income households.[16] Saving for precautionary purposes is the primary motivator for saving among lower-income consumers, especially among those with the lowest incomes.[17] Targeted savings opportunities, like savings for special events, home improvements or home items, are the next most important reasons to save. Retirement is considered as important as the targeted savings opportunities for consumers with more moderate incomes, but is not very important to those in the lowest-income group because people with less income are more worried about more immediate problems and aspirations.

Despite the aspiration to save, it is difficult for most lower-income consumers to save because making ends meet on low-incomes renders extremely tight margins. In the Detroit Study, 85 percent of surveyed lower-income consumers agree that it is hard to save because most of their money goes toward basic necessities, such as food, rent and housing.[18] Focus groups in other areas of the country concur as many respondents report their inability to save or to save consistently is due to the demands of everyday life that have them committing every penny that comes in.[19] This is especially true for those with the lowest incomes (usually below $25,000).[20] More moderate income households are able to save, but many may have debt payments to service

[13] For examples of how alternative service providers have utilized market research and consumer insights to achieve in-market success, see (Bochicchio, 2007; FisCA, 2007; Rivlin, 2010).
[14] Three different estimates were done to roughly estimate the size of the small-dollar savings account market. The estimates only look at consumers currently without a savings account. It is possible that current holders of mass market savings accounts will want to switch to small-dollar savings accounts. This analysis is available in Appendix 1 for this paper (available online).
[15]Agreement on the value of saving is consistent across both the lower-income unbanked and moderate income underbanked groups. (Barr, 2009).
[16] (Sherraden & McBride, 2010).
[17] (Barr, 2009; Federal Reserve Bank of Kansas City, 2010). For more on precautionary savings and its benefits see, (Lopez-Fernandini, 2010; Hacker, Rehm, & Schlesinger, 2010; McKernan, Ratcliffe, & Vinopal, 2009; Mills & Amick, 2010; Rothwell & Goren, 2011).
[18] (Barr, 2009).
[19] (Shoua-Glusberg, 2007).
[20] (CFA, 2011; Bucks, Kennickell, Mach, & Moore, 2009).

which limits the amount available for saving.[21] A study by The Pew Charitable Trusts of residents in lower-income areas of Los Angeles (the "Pew Study") and a focus group evaluation of the American Dream Demonstration provide aggregate income and expenditure information which help illustrate the tight margins lower-income consumers face when trying to make ends meet each month.[22] According to behavioral economists, the constant stress brought on by scarcity may make it even harder for lower-income consumers to exert the willpower necessary to save.[23] The Detroit survey revealed that 65 percent of respondents agree that is hard to resist spending.[24] If a household is not able to accumulate precautionary savings that are readily available, they may seek other sources such as borrowing from friends and family, or taking out payday loans when faced with an unexpected expense or drop in income.[25]

Even in the face of seemingly insurmountable challenges to saving, many lower-income consumers are finding a way to overcome the odds. According to several national surveys, about half of lower-income households are saving. The Consumer Federation of America reports that 58% of respondents who make under $50,000 are saving and the Detroit Study reports that 54% of respondents said they contributed to savings in the past year.[26] Many are also able to accumulate a significant pool of asset over the long term. A recent study by the Urban Institute found that 44 percent of families with low incomes and low assets were able to accumulate enough 12 years later to escape asset poverty (having at least three months of expenses at the poverty line in net worth).[27] Over half of those families were still living on low-incomes (below 200% of the US poverty line) though they were no longer asset poor. Another 43 percent had improved their situation though they were still asset poor and low-income after 12 years. The findings from these studies support two decades of academic literature that assert that those on low-incomes can and do save.[28]

Savings Account Ownership and Desirability

While a significant proportion of lower-income consumers are saving, not all currently own savings accounts. An estimate based on a survey by the Consumer Federation of America reveals that 42 percent of lower-income households have savings accounts.[29] This includes 27 percent of respondents with household incomes under $25,000 per year and 52 percent of respondents with household incomes of $25,000 to $50,000 per year. Savings accounts are the predominant savings product

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[21] The 2007 Survey of Consumer Finance showed that households in the second income group has both a greater proportion and a greater debt holding than those in the bottom income group. (Bucks, Kennickell, Mach, & Moore, 2009) While it is possible that the distribution of debt may have shifted since 2007, a quick look at the 2010 Consumer Federation of America Debt and Savings survey, which asks about revolving credit card balances, yield comparable results to the Survey of Consumer Finances. (CFA, 2010).

[22] (Pew, 2010; Sherraden & McBride, 2010). More detailed information on the financial lives of lower-income families is forthcoming through the Financial Diaries Project, which is primarily housed at New York University.

[23] (Brooks, 2011; Holmes, 2011).

[24] (Barr, 2009).

[25] (Chase, Gjertson, & Collins, 2011; Sherraden & McBride, 2010).

[26] (Barr, 2009; CFA, 2011). Of note the Survey of Consumer Finance suggests that the percent of lower-income consumer who are saving in the bottom three income quintiles range from 34-58%.

[27] (McKernan, Ratcliffe, & Shanks, 2011). Of note, assets considered in this study include both tangible assets (e.g. vehicle and home) and financial assets. While it is unclear if the increase in net worth is due to the appreciation of assets, the fact that most of the wealth held by lower-income consumers include liquid assets in bank account and their vehicles (which is a depreciating asset) implies that the increase in net worth for these households is due to an increase in financial assets and not just an appreciation of tangible assets.

[28] (Sherraden & Barr, 2005).

[29] Estimation of respondents with savings account is based on the question "What is the balance of your savings account at your bank or credit union? If you do not have a savings account, please say so," and include a proportion of those that responded "don't know" or "refused." (CFA, 2010). The national estimate from the Consumer Federation of America survey lines up well with the MetroEdge, Detroit, NYC neighborhoods and CFSI Underbanked studies.

currently held by lower-income consumers.[30] People with savings accounts are more likely to have more income.[31] They also have achieved higher levels of education and have households with more adults and fewer children, which may explain the higher levels of income and ability to accumulate more savings.[32] Once banked, lower-income consumers have the potential to maintain long-term relationships with the bank that holds their account(s). The Pew Study found that two-thirds of those surveyed were banked for five years or more, overwhelmingly with a single institution.[33]

Though not all savers own savings accounts, savings accounts are desirable among lower-income consumers. When asked if a bank account helps with saving, 82 percent of banked respondents believed that a bank account helped them save, and 67 percent of unbanked respondents agree that a bank account would help them to save.[34] Lower-income consumers often have a stronger preference for savings accounts than for transaction accounts when it comes to bank products.[35] In a study of unbanked federal benefits recipients for Electronic Transfer Accounts (the "ETA Study"), 10 percent said they will use a savings account in the future compared to 6 percent who said they will use a checking account in the future.[36] The security brought by having a savings account is reflected in the attitudes of savings account owners. Some consumers with savings accounts are more likely to feel financially secure and disagree with the statement "I am no good at saving money."[37] While savings account ownership, in itself, does not lead to more savings, it is certainly a vehicle to build savings.[38] As many low-income consumers recognize the benefits of savings account but don't currently own such accounts, there is a prime market opportunity to be seized, especially if the product can be designed to meet the needs of these particular households.

Product Features for Small-Dollar Savings Accounts

Creating a sustainable product requires an understanding of the critical features that generate the most value to consumers while keeping costs to a reasonable level. In pursuit of an optimal product, providers must consider consumer preferences to ensure the inclusion of important features that are necessary to draw a critical base of consumers, but avoid including too many extra features that drive up prices.[39] To help product developers understand the impact of different features on customer satisfaction, and in turn consumer purchase, product features can be divided into three mutually exclusive types by their effect on customer satisfaction.[40] "Must Have" features are the minimum requirements to participate in the market. "One-Dimensional" features are those that have a positive, direct impact on customer satisfaction. "Delighters" are features that do not decrease consumer satisfaction when omitted, but can powerfully increase customer satisfaction when introduced.

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[30] (Barr, 2009; OFE, 2008).
[31] (Berry, 2005).
[32] They are also slightly more likely to be older. (Berry, 2005).
[33] (Pew, 2010).
[34] (Barr, 2009).
[35] (Federal Reserve Bank of Kansas City, 2010).
[36] Respondents in this study mostly concentrated in the $6,000-15,000 income range. While savings accounts have an advantage over checking accounts in the percentage of respondents that expect they will use the account in the future, the combined top-two box responses for both savings and checking account are equal (38% will or might use). (Bachelder & Aguerre, 1999). This indicates that unbanked consumers are somewhat divided on their preferred entry bank product, though savings products may have a slight advantage.
[37] The consumers surveyed in this study were considered "Underbanked," meaning that they had bank accounts, but still utilized alternative financial services. (Hachikian, 2009).
[38] (Sherraden & Barr, 2005). Valuing savings and desiring a bank account does not automatically translate into actual savings and usage of savings products. For more information on the barriers to precautionary savings, see, (Lopez-Fernandini, 2010).
[39] (Schieffer, 2005).
[40] (Schieffer, 2005) citing Kano, N., & et al. (1984). Attractive Quality and Must-Be Quality. *Quality*, 14(No. 2).

Prioritizing the features allows product developers to distinguish those that must be included from those which can be used to differentiate one offering from another in market. In turn, developers can conceptualize a product offering that would work for their organization without ignoring the needs and preferences of the target consumers. Figure 2 summarizes the categories of small-dollar savings account features and provides recommendations for designing the features. Of note, features can shift from one category to another over time. Since Delighters may eventually become Must Have features, providers should continually evaluate how product features drive consumer satisfaction.[41]

Figure 2: Hypothesized Preferences & Recommendations for Small-Dollar Savings Products

	Small-Dollar Savings Products Features	Recommendations for Product Development
Must Have Features	Cost Reduction Features	• Avoid hardline restrictions like opening minimum deposit and minimum balance requirements. • Consider providing several, low-value (<$10/month) automatic contribution options, if a restriction is necessary to offer the product.
	Convenience Features	• Increase the accessibility of places where lower-income consumers can make deposits. • Expand physical deposit locations (branches/stores or ATMs) directly where target consumers are frequently located or consider innovative deposit locations like retailers or the workplace.
	Security Features & Consumer Protections	• Include the same standard protections on mass market savings accounts (FDIC and Regulation E). • Ensure consumers' perception of the account's safety is sound by providing a means for the consumer to track account activities, fees and balance.
One-Dimensional Features	Savings Incentives	• Avoid generalizing an incentive scheme for the entire lower-income consumer market as there are a very diverse set of needs and preferences across the group. • Determine what incentive scheme may be most appealing to the specific client population, paying special attention to the type, amount or cap for the incentive to be offered. • Should the product offering forgo a savings incentive, it will need to focus on providing other product features to generate consumer appeal.
Delighter Features	Customer Service Efficiency	• Pay attention to the efficiency of services by automating deposit, balance inquiries and withdrawals or improving the delivery of services by store personnel. • Remember that efficient customer services is important when developing new services.
	Withdrawal Restrictions	• Reduce the number of free withdrawals drastically to once a month or less.
	Financial Management Assistance	• Develop more ways to support customers in their financial management planning and goals. • Until internet access and related technology is widely available to lower-income consumers, provide the services through a physical location or phone. • Consider partnering with a non-profit organization that offer financial counseling services to ensure financial management assistant is well-tailor to lower-income households.

[41] (Schieffer, 2005).

While there are not public studies on drivers of lower-income consumer demand and preference for savings accounts, consumer preference studies for other deposit accounts can help to identify which small-dollar savings product features are Must Have, One-Dimensional or Delighter features. The following analysis hypothesizes small-dollar savings product design preferences based on available studies with respect to financial services in general, financial services and lower-income consumers, and savings and lower-income consumers.[42] These observed trends can serve as a starting point for formal market research focused on the development of small-dollar savings accounts.

"Must Have" Features

"Must Have" features are the core product features every offering in the category must have in order to participate in the market.[43] A product that lacks these features will have very low customer satisfaction. However, exceeding consumer expectations on Must Have features does not increase customer satisfaction substantially so product developers do not need to focus too much on perfecting these features once they are adequately established. An easy way to identify Must Have features is to look for features that consumers explicitly identify as appealing or desirable to include. For small-dollar savings products, Must Have features are those that make it possible for a consumer to have a safe place to store and build their savings. Currently, mass market savings accounts are safe savings vehicles, but are economically unattainable and inconvenient for lower-income consumers. To make small-dollar savings accounts a viable proposition for this group, the Must Have features to be included are ones that reduce economic barriers, make saving more convenient, and keep the funds protected.

Cost Reduction Features

Features that remove economic barriers to entry are among the most important in influencing a consumer's decision to open and utilize a small-dollar savings account. Mainstream basic savings account features that drive up the costs of entry for consumers include minimum opening deposit, minimum balance or automatic contribution requirements. These requirements are often used for mainstream basic savings accounts as a way to ensure there are enough funds in the account to justify opening and maintaining the account free of charge to the consumer.[44] Consumers must be able to meet the requirements to qualify for savings accounts free of monthly fees. While imposing these features may also offer a benefit to consumers by imposing incentives to keep higher levels of savings in the account, the low and often uncertain cash flows for lower-income consumers can make it difficult to comply with these restrictions.

According to a study on residents of low- and moderate-income neighborhoods in Chicago, Los Angeles and D.C. (the "MetroEdge Study"), 22 percent of lower-income consumers that don't have a savings account said that one of the main reasons for not having a savings account is because they "do not have the amount of money that banks require to open an account."[45] Not having enough money is the primary reason for being unbanked.[46] The removal of economic barriers is likely to induce

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[42] The categorization of product features was done in two steps. The first step looked at the top drivers for financial services among different lower-income consumers. The second step grouped savings account features into the Kano model categories. See the Appendix 2 for the full analysis (available online).

[43] (Schieffer, 2005).

[44] (Brobeck, The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergency, 2008; Hachikian, 2009; Schneider & Tufano, 2007).

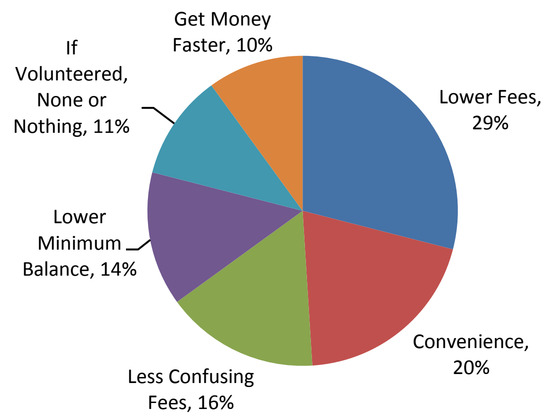
[45] (Berry, 2005). Of note, despite the open-ended opportunity to provide a reason for not having a savings account, respondents gave an average of 1.06 reasons per respondent though they could have given multiple responses. The wide range of reported barriers shows how the diversity of issues facing lower-income consumers will render it nearly impossible to create a one-size-fits-all savings account solution.

[46] (FDIC, 2009; Barr, 2009; Berry, 2005).

lower-income consumers to open a bank account, in general. In the Detroit survey, twenty-nine percent (29 percent) of unbanked respondents said lower fees would help induce them to open a bank account (see Figure 3).

An additional 14 percent said that lowering the minimum balance would help.[47] Two pilot programs where low-income tax filers were given the opportunity to open a new savings account without initial deposit, minimum balance or automatic transfer requirements and split a portion of their tax refund into the account indicate that the Detroit Study results are directly applicable to savings accounts. In the Extra Credit Savings program, 24 percent said "no fees" was most important to their decision, making it the strongest driver of interest for the account. An additional 12 percent said the waiver of a minimum balance was the most important feature that tipped them into using the savings account.[48] In the Refunds to Assets programs, 26 percent cited the waiver of fees and the of minimum balance requirements as the primary reason they opened a savings account at tax time.[49]

Figure 3: Desired Account Changes that Would Induce the Unbanked to Open a Bank Account



Source: (Barr, 2009).
Note: The question was asked of 270 unbanked residents of low- and moderate-income areas of Detroit.

Small-dollar savings products, on the other hand, could be created without any of these requirements or monthly fees to ensure the accounts are accessible to everyone. While offering an account without any economic restrictions may not be plausible for financial providers, lowering the requirements is absolutely necessary to secure broad consumer interest in the small-dollar savings product. This section looks at typical cost reduction features and considers whether or not there is an acceptable range of opening deposit, minimum balance, or automatic contribution requirements for small-dollar savings products.

The **minimum opening deposit** is the first eligibility requirement for opening a savings account. Mainstream savings accounts typically require a $25—$100 initial deposit to open an account which may be more than lower-income consumers have to spare at the time.[50] While there is not data available that indicates how much lower-income consumers without savings accounts have available to open a savings account, two measures can serve as general reference points. In the New York City Neighborhoods study, unbanked residents reported an average savings of $25.[51] In the American Dream Demonstration, participants with checking accounts (66 percent of the total sample) had a median balance of $50.[52]

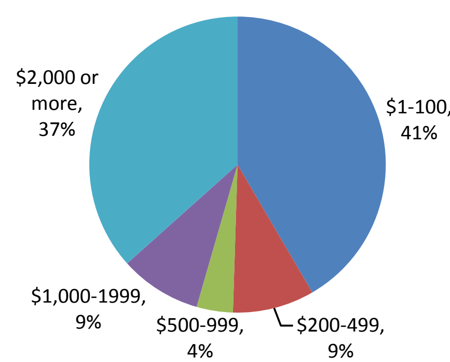
[47] (Barr, 2009).
[48] (Beverly, Tescher, Romich, & Marzahl, 2001).
[49] (Beverly, Schneider, & Tufano, 2006).
[50] (Hachikian, 2009).
[51] (OFE, 2008).
[52] (Schreiner & Sherraden, 2007).

These reference points suggest that lower-income consumers without savings accounts are unlikely to have a sum exceeding $25-50 available to open a savings account outside of times when an extra and near certain infusion of funds, like a tax refund, is available. To accommodate typical accumulated savings available to seed an account, small-dollar savings products should not have a minimum opening requirement and, if one is included, it should be below $25-50. Removing minimum opening requirements should be strongly considered to avoid limiting the product's market potential from the first potential point of entry for the target market. If economic requirements are necessary for product development, other options that are tailored to the needs of lower-income consumers may be more productive than imposing a minimum opening deposit requirement.

Another feature typical of mass market savings accounts is a **minimum balance requirement** of $300 to waive monthly fees.[53] However, only 8 percent of people making under $25,000 and approximately 28 percent of those making $25,000 to $50,000 currently have enough in their savings account to meet the minimum balance, and as a result, it is probably very important for small-dollar savings products to avoid having a minimum balance requirement.[54]

In general, bank account balances for lower-income consumers that already have savings accounts are low, and likely represent the high end of potential savings accumulation among the lower-income market, at least in the short term. Over half of lower-income consumers have less than $500 in their savings account with the majority maintaining balances of under $200 (see Figure 4).[55] Two studies from the American Dream Demonstration found the majority of participants with savings accounts had balances near zero, suggesting many lower-income consumers, particularly those in the lowest income level, historically retain little in their savings account.[56]

Figure 4: Current Savings Account Balances



Source: (CFA, 2010).
Note: The question asked was "what is the balance of your savings account at your bank or credit union?"
Results were reapportioned to show percentage among respondents with savings accounts among 343 respondents who have household incomes under $50,000 annually.

Low savings balances are most likely due to irregular income flows and unanticipated expenses that require lower-income consumers to pull from their savings, though they may initially build up a substantial nest egg to deposit into a savings account. Families who go through troubled times fall back on accumulated savings, even if it means paying significant penalties to savings that are restricted in a retirement or life insurance plan.[57] The Detroit Study indicates that about 90 percent of lower-income households experience at least one hardship such as a medical expense, phone disconnection, or inability to pay living expenses over the course of a year.[58] Once the nest egg is used, there are not structures in place to help replenish the funds after the

[53] (Brobeck, The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergency, 2008; Hachikian, 2009).
[54] (CFA, 2010).
[55] (CFA, 2010). Similar balances in savings products were observed in the New York City Neighborhoods study and a study of Netspend prepaid card customers. (OFE, 2008; Gordon, Romich, & Waithaka, 2009).
[56] (Schreiner & Sherraden, 2007; Sherraden & McBride, 2010).
[57] (Sherraden & McBride, 2010; Chase, Gjertson, & Collins, 2011).
[58] (Barr, 2009).

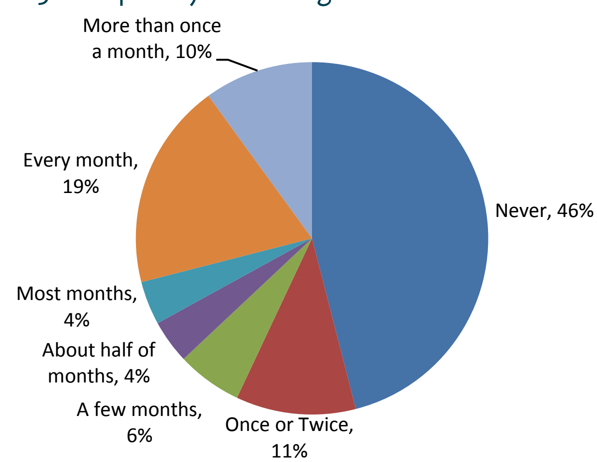
hardship is over.[59] An expectation of the same repeated experience in the future likely underlies the hesitation to open savings accounts with a minimum balance requirement.

The third feature typical of mass market savings accounts are **automatic contribution requirements** where the account holder must enroll in a program with automatic contributions of $25 per month to avoid monthly account fees. This feature recently emerged with improved technology that allows for inexpensive electronic transfers of funds. The automatic contribution requirement usually restricts account-holders to transfers of funds from another account with the same financial provider. The required contribution may be more than the consumer can afford or more frequent than possible for the consumer. It could also be limiting to restrict the source of the deposit as some consumers only have a savings account at the financial institution.

Due to the potential barriers, automatic contribution requirements need to be flexible in both the timing and amount of transfer to accommodate the wide variety of different financial situations encountered by lower-income consumers. Opportunities for lower-income consumers to save are inconsistent throughout year (see Figure 5).[60] A majority of lower-income savers save on a monthly basis or more, but a substantial portion save only once or twice a year, likely when they receive a tax refund.[61]

Potential savings contributions also vary widely across lower-income consumers. Twenty-one percent (21 percent) save between 1-5 percent of their income.[62] Another 22 percent save between 5-10 percent of their income. As expected, the majority of lower-income consumers contributing 5-10 percent of their income to savings have moderate incomes between $25,000-50,000. The reported savings contributions suggest that a maximum contribution range of $10-52 per month for consumers with household incomes under $25,000.[63] Because households with moderate incomes ($25,000-50,000) have a much wider range of reported savings, the potential contributions for a majority of moderate income households that are saving ranges from $31-312 per month.[64] The ranges of savings contributions provided above

Figure 5: Frequency of Saving Over the Past Year



Source: (Barr, 2009).
Note: Question asked among 938 residents of low- and moderate-income areas of Detroit.

[59] (Sherraden & McBride, 2010).
[60] (Sherraden & McBride, 2010; Chase, Gjertson, & Collins, 2011; Barr, 2009).
[61] (Barr, 2009).
[62] (CFA, 2011).
[63] This estimate assumes an annual income of $12,500 contributing 1% or 5% of income to savings. (CFA, 2011). This is in line with the Detroit Study savings contribution from unbanked respondents, the ADD where savings were matched and the $aveNYC program. (Barr, 2009; Schreiner & Sherraden, 2007; OFE, 2010).
[64] This estimate assumes an annual income of $37,500 contributing 1% or 10% of income to savings. (CFA, 2011). This is in line with the Detroit Study savings contributions for banked households. (Barr, 2009).

should be considered a ceiling as it assumes that all the savings contributions from the household will go to a basic savings product. In reality, a household may want to split some of their savings into other savings products (like a retirement or college account) or keep some of it on hand at home.[65]

Based on the current savings contribution data, it is possible to conclude that short of very low and flexible requirements it is very difficult to pin down an economic requirement features package that would meet the needs of most lower-income consumers. A previous assessment on the accessibility of mainstream savings accounts by the Consumer Federation of America, suggests that the $25 automatic contribution fee waiver feature on mainstream savings accounts is likely acceptable to a large portion of moderate income consumers.[66] Low take-up of mainstream savings accounts among moderate income consumers may reflect poor promotion of the accessibility of the accounts or incompatibility with transfer from a checking account with the same bank.[67] For those in the lowest income group, the potential contribution is unlikely to be more than $25, so a fee waiver requirement that meets this segment's needs would be lower than what is currently available for mainstream savings accounts. To help differentiate small-dollar savings products from mainstream savings account and to capture more of the population currently excluded from access to mainstream savings accounts, an automatic contribution requirement, if imposed, should not exceed $10 a month and should provide several contribution time frames (e.g. $10 a month, $60 twice a year, $120 once a year).

Interestingly, in addition to being a good way to minimize the risk of offering an account that will not be used, automatic contributions may actually be desirable from the consumers' perspective.[68] Focus-group participants in the NYC Neighborhoods study cited automatic deduction and automated transfers as appealing savings strategies because funds were deducted before they had a chance to spend the money.[69] The participants characterized deferred compensation plans (like 401(k) plans) as "not counting" as savings because of their ease.[70] A study on consumers using the savings pocket of a prepaid card reported that customers who set up defaults or automatic transfers into their savings accounts had more success accumulating savings and recommended building more automatic features into the product design.[71]

Notably, there seems to be a preference for making the automated savings a default option on the savings product. A conjoint analysis of the Detroit survey results showed that lower-income households prefer a prepaid card with an automatic savings feature that apportions some money from every paycheck into a savings account that is separate from the prepaid card's transaction funds.[72] Defaulted savings options that divert a small percentage of income to a savings pocket were preferred by six focus groups of 45 low-income individuals in Oklahoma, New York, and Connecticut.[73] Currently, most automatic savings tools

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[65] (Federal Reserve Bank of Kansas City, 2010).
[66] (Brobeck, The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergency, 2008).
[67] Some additional investigation should be done to see how often lower-income consumers have transaction and savings account with the same financial service provider.
[68] (Sherraden & McBride, 2010).
[69] (OFE, 2008).
[70] Survey respondents who make automatic contributions to their savings accounts (16% of respondents, averaging $37,000) have $3,000 in average savings versus $920 in average savings for those that do not save automatically (84% of respondents, averaging $19,000 in income). (OFE, 2008). Note that respondents who do automatic savings transfers have nearly twice the income of those who do not do automatic savings.
[71] (Gordon, Romich, & Waithaka, 2009).
[72] The amount to be apportioned into savings is set by the cardholder. (Barr, 2009; Barr & Dokko, 2007).
[73] (Shoua-Glusberg, 2007).

require the account holder to sign up for the program. To help meet the potential consumer demand for automated savings and assure banks build savings products that will be maintained, several low automatic contribution requirements could be imposed instead of minimum opening or balance requirements. Alternatively, since automatic contribution from sources other than a linked checking account or direct deposit may be difficult to track, banks could consider a savings commitment option in lieu of an automatic contribution requirement. For example, the District Government Employees Federal Credit Union in Washington, DC offers the Super Saver CD which has a low minimum initial deposit and requires a pledge to continue adding to the account for at least three months. If the pledge is broken, the customer pays a penalty of $15 and accrued interest.[74]

Convenience Features

Convenience is often just as important as cost to lower-income consumers as cost, thus the location of the financial services transaction matters. The location of banks is often dismissed as being a major reason why consumers do not have bank accounts and utilize alternative financial services.[75] However, alternative financial service providers nearly always claim that their services are preferred because they are convenient.[76] The discrepancies between the two sides may be explained in two ways. First, a small portion of lower-income consumers will choose a financial service because of its location, even if it costs more, suggesting that location and time convenience may be a strong preference for a portion of the lower-income consumer market.[77] For example, in the MetroEdge survey, around 20 percent of respondents chose to use a check casher instead of a bank because the location was more convenient, had better hours or allowed the consumer to take care of other business at the same time.[78] Second, though banks and credit unions are often not located far from alternative financial service providers, a heightened preference for more closely located stores may cause a mile's distance to be too far in the eyes of lower-income consumers.

In the Pew study, the location of the financial service provider significantly determined selection of the provider.[79] Sixty percent (60 percent) of banks respondents and 84 percent of unbanked respondents selected "located close to where I live/work." The next closest responses were 27 percent of banked consumers said "has a lot of branches" and 16 percent of unbanked respondents said "open at convenient hours." In the Detroit Study, 20 percent of unbanked lower-income consumers cited convenience (more convenient bank hours and locations) as the second most desired account change that would induce them to open a bank.[80] The ability to transact at a variety of locations (e.g. ATM and stores) and hours are especially important to lower-income consumers.[81] In the ETA Study, researchers found that the number of access points to funds was the most important feature, factoring for 27 percent of the decision. [82] Access points located at retail stores stand out as a key location for cash

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[74] (Stewart, 2011).
[75] One argument is that consumers do not explicitly state that inconvenient bank locations or operating hours are important reasons for not having a checking or savings account. (Berry, 2005). Another common argument is that alternative financial service providers are nearly always within one mile of banks and credit unions, even in lower-income communities. (Fellowes & Mabanta, 2008).
[76] (FisCA, 2007; Gordon, Romich, & Waithaka, 2009).
[77] (Berry, 2005).
[78] An estimated 57% of consumers that used a check casher said that they preferred the check casher because its location, hours or multi-purpose function was more convenient. Respondents were allowed to pick multiple reasons for preferring a check cashing outlet. 32% of the respondent sample used a cash checking outlet to cash a check. (Berry, 2005).
[79] (Pew, 2010).
[80] (Barr, 2009).
[81] For example, prepaid users consistently like the convenience of being able to make purchases and access funds at many locations and all hours of the day. (Gordon, Romich, & Waithaka, 2009).
[82] The consumers in the ETA Study were given the options to transact at an ATM only, a store cashier or ATM or at a bank teller, store cashier or ATM. (Bachelder & Aguerre, 1999).

access.[83] This is probably because lower-income consumers are unlikely to travel far to go to a bank branch. A model measuring drivers of consumer demand found that lower-income consumers are more sensitive to the number of bank branches in an area, which is used as a proxy for convenience of location in the study.[84]

As most of the evidence on consumer preferences and convenience is from studies on transaction products, it is hard to tell how access issues translate for savings accounts.[85] One way to think about what features can make an account more convenient to consumers is to think about why convenience was important for other types of financial services. For example, for checking accounts and prepaid products, the underlying reason for consumers appreciating an ATM card is that it made conducting transactions easier. In other words, the purpose of the transaction product was achieved more easily. In the same way, savings accounts should have features that make it convenient for lower-income consumers to save.

Convenience features for small-dollar savings accounts should be designed to either make it easy for lower-income consumers to save or make it hard not to save.[86] The traditional method of improving convenience is to expand the providers' physical locations (branches/stores and ATM network) into areas where consumers are located. For lower-income consumers, this may mean looking at locations within blocks of places the consumer frequents. Beyond traditional methods, convenience features for small-dollar savings products provide a lot of room for innovation. One way to make it easy for consumers to save is to offer small-dollar savings products through a workplace so that automatic deductions or pre-committed pay raises can be used to fund the account. The AutoSave pilot is investigating how to scale automatic, non-retirement savings among employees at participating work sites.[87] Employees who do not direct a portion of their pay to their own savings account are enrolled in a small-dollar savings product offered through the employer. Another way to make it easy for consumers to save is to consider expanding deposit opportunities to retail stores.[88] Safaricom, a mobile phone provider in Kenya, recently launched the first branchless deposit account called M-KESHO. Consumers can open interest-bearing savings accounts through the provider and make deposits at any Safaricom licensed agent, a network that includes many retailers around the country.[89] Bundling a small-dollar savings account with a credit product so that the consumer is required to contribute a portion of their debt payment to the small-dollar savings product is another opportunity for exploration.[90] The time to consider how to make services more convenient for lower-income consumers may be now as banks are evaluating how to deliver all their retail products. Looping in

[83] In the Detroit-area study, consumers said cash access points was the least important attribute for payment cards factoring less than 1% of the decision. However, in this study, consumers were given the choice to get cash at a participating ATM and stores or at ATM, bank tellers and stores. (Barr, 2009; Barr, Dokko, & Feit, 2011). It is likely that consumers are satisfied once given the options to access cash at stores and ATMs, thus the difference in access points becomes less important when they are not faced with an option that excludes store access. The ETA Study corroborates this hypothesis by showing that unbanked federal benefits recipients have a preference for store and ATM access points over bank teller and ATM access points. (Bachelder & Aguerre, 1999).

[84] The sensitivity model also found that consumers in urban areas are more sensitive to the number of bank branches in the area. (Dick, 2001).

[85] Some studies report that there are consumers who prefer to have savings accounts that are inconvenient, but are more likely reflective of a desire for more restrictions to avoid temptations to spend the money as discussed later in the paper in the "Withdrawal Restrictions" section.

[86] (Tufano & Schneider, 2009).

[87] For more information on the AutoSave pilot program, see http://assets.newamerica.net/autosave_overview.

[88] (Tufano & Schneider, 2009). The suggestion to bundle a small-dollar savings account with a credit product envisions a product that is asset-building rather than asset depleting. This is a very tricky area because consumer lending, while it may be helpful to help bridge a family's finances at certain times, also has the potential to trap consumers if the lending is done in an irresponsible manner. As a result, bundled savings and credit products should leverage the potential for deposit opportunities and not as a the primary means to make lending determinations.

[89] For more on branchless banking and the Safaricom M-KESHO savings product, see, (Ehrbeck & Tarazi, 2011).

[90] (Tufano & Schneider, 2009).

strategies to make savings products more convenient for lower-income consumers can help to make the savings product more useful to them.

Consumer Protection Features

Consumer protection features build confidence in the product as a secure way to store money. They assure consumers that their funds are secure from loss, theft, fraud and economic deterioration. All mass market savings accounts provide FDIC insurance and electronic funds transfer protections as standard account features. Small-dollar savings accounts should offer the same level of protection, at minimum, as consumers are likely to expect comparable security protections, even if they do not know the benefits by name. Lower-income consumers in the Detroit Study considered federal protection for lost cards the second most important attribute in choice of product for payment cards, factoring for 21 percent of the decision. The federal protection offered was equivalent to the protection that governs electronic bank transfers and was explained to protect the holder of the card with a $50 limit on losses if the issuer notified within 48 hours that it has been lost or stolen (commonly called Regulation E protections for electronic funds transfers).[91] In another study surveying lower-income users of check cashers, respondents (who have cashed at least one check outside a bank or credit union in the last six months) said "my information is kept confidential" was the most important experience element for choosing a check casher.[92] The high priority placed on security is not surprising as lower-income consumers are especially vulnerable to inferior financial services and scams and are often looking for opportunities to secure their funds.[93]

On a related note, the perception of security among lower-income consumers by transparent reporting on the account is likely just as important as the actual protections on the account. In the past, distrust with banking institutions arose because consumers did not understand the fees charged on their accounts.[94] Small-dollar savings products should also provide a means for the consumer to monitor the activity in their accounts and any fees deducted from the account should be clearly explained.

One-Dimensional Features

One-Dimensional features will increase consumer satisfaction in the product as the level of the feature is raised. They may be identified as those that have limited appeal when a low level of the feature is offered, but will see a dramatic increase in appeal when an exceptionally high level of the feature is offered. Incentives are One-Dimensional features for small-dollar savings accounts. They are rewards paid to the consumer for saving in the account. The more the consumer saves, the more they are rewarded. Incentives can take many forms. The most common incentive currently in market for saving is interest paid on the account, which can be viewed as a very low match where consumers are rewarded a few pennies for every dollar saved. Other

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[91] (Barr, 2009; Barr, Dokko, & Feit, 2011).

[92] (Sawady & Tescher, 2008). The authors of the check cashers study noted that security and customer service elements were rated higher than price and location elements as being important in the decision for choosing a service provider. (Sawady & Tescher, 2008). A researcher evaluating the MetroEdge survey hypothesized that consumers that use check cashers may have a higher preference for the convenience of the service above other factors like price or security. (Berry, 2005). Given this assessment, when making a choice across check cashers, consumers are likely no longer factoring price and location since those are probably not very differentiated across different check cashers available to them. Additionally, simply asking respondents to rank importance of features individually does not provide a very accurate representation of consumer preference when they are features that are usually offered in a package. (Schieffer, 2005).

[93] (Sherraden & McBride, 2010). In fact, Daniel Schneider mentioned that forthcoming research from Peter Tufano, Dean of Saïd Business School at Oxford University, reportedly found that consumers feel less financially stable when they do not feel their financial products are protected. (Schneider, Rebuilding the Road to Financial Security Event, 2011).

[94] (FDIC, 2009; Federal Reserve Bank of Kansas City, 2010).

examples include a rewards program where raffle tickets for prizes are given for saving, a one-time bonus for signing up for the account and a dollar-for-dollar match on funds in the account.

Benefits of Including Incentive Features

Incentives can increase consumer interest in savings products in a more cost-effective manner than some higher-touch alternatives like basic financial education classes.[95] In the ETA Study, a 2 percent interest rate interest (explicitly posed in the survey as "$2 annually on a $100 deposit") was the third most important feature accounting for approximately 18 percent of the typical respondent's decision on whether to enroll in the ETA.[96] An increase in the value of the incentive has positive effect on take-up. An experiment at 60 H&R Blocks in St. Louis demonstrates this relationship.[97] The experiment looked at the contributions to an H&R Block's Express IRA product with part or all of their tax refunds randomly assigned to one of three match rates—0, 20 percent, or 50 percent. Take-up rates increased 7 percent for the 20 percent match category, and 14 percent for the 50 percent match category versus the control group that did not receive a match. Not surprisingly, an incentive must be meaningful to consumers. Focus group sessions on savings accounts reveal that for lower-income consumers a low interest rate is not much of a concern because it provides too small of a return (likely because their account balances are low to start) and because they have a stronger preference for financial products with low or no risk.[98]

Incentives can also change consumer saving behavior. In the H&R Block experiment, the match incentive increased the amount of money contributed to the account. Customers receiving a 20 percent match deposited five times more, and customers receiving a 50 percent match deposited 11 times more than customers with no match.[99] However, the influence of an incentive on consumer behavior can be a double-edged sword as there may be a point where the match may start to become less productive.[100] In the American Dream Demonstration, the monthly net IDA contributions was lower for those that received the 2:1 match compared to those with a 1:1 match. For those with a net IDA savings of $100 or more, the participants with a 2:1 match contributed $4.03 less than those with the 1:1. For those with less than $100 net IDA saving, the contributions were lower by $0.19.[101] This counter-intuitive dissaving seen with very high matches may be due to consumers feeling like they can reach their savings goals with the match instead of their own contributions.

Potential Pitfalls of Including an Incentive Feature

While incentives can be very effective in both drawing appeal and shaping usage of the account, the cost of maintaining such a program is often a concern for banks. As a result, incentive programs with a cap on the benefits may be used. For example, the Wells Fargo Way to Save savings account offers a premium interest rate of 3 percent (compared to the standard interest rate of 0.05 percent) for the first $500 in the account.[102] As with any feature, there are tradeoffs and the incentive cap may become a

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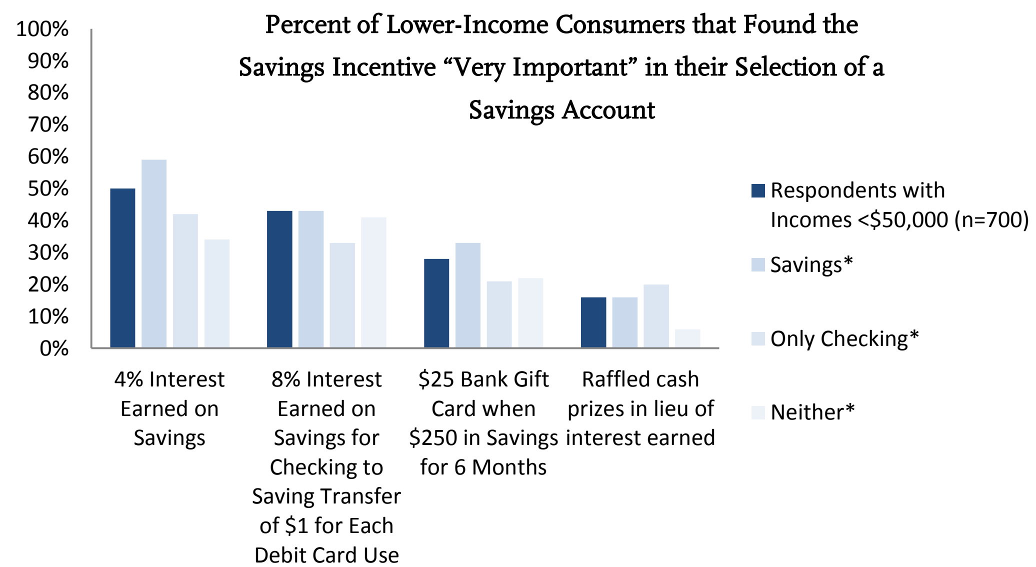
[95] (Cole, Sampson, & Bilal, 2009).
[96] Of note, though the 2% interest rate was the third most important feature in the respondents' decision, the level of interest generated by the interest rate fell far below the interest generated by the level of interest generated by the monthly fee (25%) and number of access points (27%). (Bachelder & Aguerre, 1999). This helps to show that though an incentive does draw some interest, it is not the primary focus in a consumer's decision process.
[97] (Duflo, Gale, Liebman, Orszag, & Saez, 2005 (Revised 2006)).
[98] (Shoua-Glusberg, 2007; OFE, 2008).
[99] (Duflo, Gale, Liebman, Orszag, & Saez, 2005 (Revised 2006)).
[100] (Grinstein-Weiss, Wagner, & Ssewamala, 2005).
[101] (Schreiner & Sherraden, 2007).
[102] The bonus interest rate is only offered for the first year the account is opened. (Wells Fargo).

savings target for the consumer, lowering the potential for asset accumulation if it is lower than what the consumer would save without the incentive.[103] The American Dream Demonstration observed this and concluded that in designing an incentive program with resource constraints, if the take-up rate is more important, the incentive program should have a higher incentive amount and a lower incentive cap.[104] However, if accumulation of funds in the account is more important, the reverse tactic should be used.

Designing the right incentive for lower-income consumers is challenging. It is easy to assume that there is a linear relationship between the product offering and customer satisfaction for features in the One-Dimensional category. The actual relationship between the two is likely much more complex. Consumers will have different perceptions on the value of various incentive offers. Risk averse consumers prefer more certain returns of matches or a lump sum bonus while risk seeking consumers may prefer a prize-linked incentive. As a 2008 Consumer Federation of America survey illustrates, none of the common incentive schemes posed to the respondents were attractive to a majority of consumers (see Figure 6).[105] Appeal of incentive programs was especially low for those without a savings account.

Figure 6: Importance of Savings Incentives



Source: (Brobeck, 2008)
Note: The question was asked among 700 respondents with household incomes under $50,000. Sample sizes for the "savings," "only checking," and "neither" subgroups were not reported.

Making the Call on Whether or Not to Include an Incentive Feature

If an incentive is included in the small-dollar savings product offering, the product designer needs to spend some resources determining what may be an appropriate incentive for their clientele as it must be meaningful to the target consumers. Since this is extremely difficult to determine among lower-income consumers and likely to drive up costs for market research significantly, many providers may decide against offering incentives. The MetroEdge Study found that a low incentive is not a barrier to entry for most respondents, suggesting that there is low risk of alienating a large portion of lower-income consumers

[103] (Schreiner & Sherraden, 2007). Of course on the flip side, if the incentive match cap is higher than what the consumer would have saved without the incentive, the match cap can help to increase the amount saved by the consumer.
[104] Another example of the benefits of creating targets for consumers comes from a study on the use of coupons on online grocery shopping. The results of that study suggest that consumers spend an additional $1.59 when redeeming a $10-off coupon than when they make purchases without coupons. (Milkman & Beshears, 2008).
[105] (Brobeck, Understanding the Emergency Savings Needs of Low- and Moderate-Income Households, 2008).

by not including an incentive. As a majority of lower-income consumers may fall in the category of loyal consumers who are not very sensitive to interest rates, a small segment may care a lot about interest rates and reject an account that does not offer any interest. However, there is a possibility that if consumers are aware that other customers are being targeted with a better offer, their sense of fairness may be violated and cause dissatisfaction.[106] While an incentive feature is appealing, but not necessary, product designers might focus on creating other features to capture additional consumer interest and take care to note consumer perceptions on an offering without any incentives before moving forward. [107]

Delighter Features

Delighter features provide an opportunity for companies to anticipate, identify and satisfy latent or unmet customer needs.[108] Because exclusion of Delighter features in a product does not diminish the product's appeal to consumers, they do not have to be included in the product offering to be a market participant. However, including Delighter features can tremendously increase consumer appeal in the product. For small-dollar savings accounts, potential Delighter features are customer service features that enhance efficiency, increased withdrawal restrictions to help curb temptations to spend, and financial management tools that support the consumer in their financial goals and planning.

Customer Service Features that Enhance Efficiency

Though the delivery of efficient services is not typically top of mind for product designers, some consumers shift from one financial service provider to another because customer service is more efficient (e.g. faster, shorter lines).[109] A study surveying what consumers consider when choosing a check casher suggests that customer service (respect, hassle-free, quick) features are among the most important factors when choosing a check casher.[110] This suggests that banks should consider the ways to improve the efficiency of time spent interacting with the account as a way to increase the appeal of their services to lower-income consumers.

Unlike transaction accounts, most consumer interactions with customer service representatives for their savings accounts are for deposits, balance inquiries and occasional withdrawals. How convenience features should be incorporated into savings products depends on how the financial institution manages customer service across all their offerings. Since most interactions for savings accounts may be automated through electronic transfers, it may be easier to satisfy consumers on the efficiency of

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[106] The MetroEdge survey indicates that low interest rates are not a major barrier for most of the population as 3.7% of those who do not have a savings account (less than 2% of the entire lower-income segment) cited either reason as a major reason for not having a savings account. (Berry, 2005). Of note, average interest rate set by the Federal Reserve in June 2003 was 1.00%, the lowest rate in over 50 years. Survey respondents in 2003 experienced a larger drop in interest rates over the preceding year (from 1.56% in the year prior) than consumers in the current year (from 0.20% in April 2010 to 0.1% in April 2011). (Federal Reserve Board, 2011). Given the similar challenges facing consumer in terms of relatively low interest rates in 2003, it is unlikely that lower-income consumers today will consider low interest rates to be a greater barrier to savings accounts than in the MetroEdge survey.

[107] (Solomon, 2011).

[108] (Schieffer, 2005).

[109] (Berry, 2005; Cirillo, 2006).

[110] Three of the top five rated responses are related to customer service. The second most important element was "respect is shown in every employee interaction." The fourth and fifth most important elements are "customer service is hassle free" and "services are delivered quickly." (Sawady & Tescher, 2008). Of note, in this same survey, security attributes such as confidentiality and safety of location also rank highly. Interestingly, the security and customer service attributes were ranked more important that the location or price of the services. This may be because the survey was only conducted among users of cash checkers who are less likely to be price sensitive. As for the location choice, by observation, multiple check cashers are often clustered together so choosing between different check cashers may not require considering the location as much.

services than for transaction accounts, provided that the means of electronic transfer (e.g. direct deposit) is readily accessible by lower-income consumers.[111] When a provider decides to offer financial management assistance features to the savings product, the efficiency of those services may be of importance.

Withdrawal Restrictions

Withdrawal restrictions help to prevent constant depletion of funds and to distinguish a savings account from a transaction account. Currently mass market savings accounts allow four to six free withdrawals a month before charging for subsequent withdrawals.[112] Lower-income consumers appear to have a preference for withdrawal restrictions.[113] Focus groups across the country with different lower-income consumers consistently report that some outside discipline to protect against temptation to spend the savings account is a beneficial feature. [114] Additionally, savings accounts without withdrawal restrictions are not viewed as being useful for savings because they are too easy to access.[115]

Despite the current lack of restrictions on mass market savings accounts in the US, some savvy savers try to impose withdrawal restrictions on their own by making it difficult to access the money. Techniques utilized to prevent withdrawals include putting savings at a totally different financial institution from transaction accounts that is less convenient to get to, utilizing an internet account and declining an ATM card.[116] It is possible that once families withdraw from savings, even contractual savings plans like a retirement plan, the temptation to spend may intensify because the mental barrier that segregated these funds as being untouchable is broken.[117] As a focus group member said in New York City, "I have a savings account that I put at the bank, not the credit union, because I had to get to the bank by 4pm to take it out and I couldn't get there. The payroll deduction does help, but only if you can't get at the money."[118]

Based on the focus group feedback presented, six free withdrawals a month, as allowed by the Federal Reserve, may be too much to create the feeling of a segregated savings account.[119] A consumer in a study on Netspend prepaid cards summed the effect of not having enough restrictions on his savings product. Utilizing the savings pocket attached to his Netspend prepaid card, he was able to accumulate savings when he thought that the terms of the savings account included a limit of six withdrawals in total because he would not transfer anything out of the account. However, when he read that the terms were six withdrawals a month, he depleted the account and said he wished he never read the terms because he probably would still have the money in his account.[120] If six withdrawals are too much to aid saving behavior, are there a number of free withdrawals that would be unacceptable to a majority of lower-income consumers? A 2008 survey by the Consumer Federation of America found that only a third of lower-income consumers (making under $50,000 a year) would consider two free withdrawals a month to be

[111] More exploration on the use of automatic savings tools and direct deposit by lower-income consumers' needs to be done to provide better insights on how to ensure that small-dollar savings accounts are actually more efficient for them to use as opposed to theoretically more efficient because the mechanism are available.
[112] (FRB 12 CFR §204.2(d)(2)), see note 2.
[113] (Moore, et al., 2001; Ashraf, Karlan, & Yin, 2005).
[114] (Gordon, Romich, & Waithaka, 2009; OFE, 2008; Shoua-Glusberg, 2007).
[115] (Gordon, Romich, & Waithaka, 2009; OFE, 2008).
[116] (OFE, 2008; Shoua-Glusberg, 2007).
[117] (Sherraden & McBride, 2010).
[118] (OFE, 2008).
[119] (FRB 12 CFR §204.2(d)(2)), see note 2.
[120] (Gordon, Romich, & Waithaka, 2009).

unattractive. [121] The same survey reported that charging $2 for each withdrawal, meaning there are no free withdrawals on the account, would be considered unattractive by over half of lower-income consumers. These two reference points suggest that while some free withdrawals are desired, the number allowed with the account may be drastically reduced from its current levels.

There are two ways to restrict withdrawals. One way is to limit withdrawals to a specific purpose or goal. Such restrictions may be popular among lower-income consumers, but the restrictions on accounts should still provide flexibility for emergencies or to make ends meet in a lean period. In fact, providing some flexibility, providing an "out" in case of an emergency, may actually encourage consumers to save more.[122] Another way to limit withdrawals is to limit the number of withdrawals within a time period. Here, the key is to figure out the appropriate number of withdrawals over a period of time.

To help put some parameters on a more appropriate number of free withdrawals, evidence on the use of payday loans can help demonstrate the frequency of emergency cash needs. The FDIC Unbanked Survey found that 58 percent of the unbanked and 56 percent of the underbanked use payday lenders 1-2 times a year. [123] An additional 32 percent of unbanked and 36 percent of underbanked go a few times a year.[124] The American Dream Demonstration corroborates the FDIC's suggestion that at worst, lower-income consumers have emergency cash needs a few times a year.[125] In the American Dream Demonstration, participants made, on average, one withdrawal a year. Those that experience financial hardships require more accessibility, averaging a withdrawal every eight months. While the evidence suggests that lower-income consumers only need to access saved funds a few times a year for emergency purposes, whether or not they will like a savings account that is restricted to a few free withdrawals a year needs to be evaluated.

Financial Management Assistance

Few savings products offered by banks include financial management assistance. However, lower-income households express a strong savings aspiration and understand the value of savings but often lack the information to translate those feelings into action.[126] A focus group study on low-income consumers and their feelings toward savings concluded that though lower-income consumers usually identify the goal and the need for savings, when asked to elaborate, they cannot provide details, a plan of action or a road map.[127] This may explain why a large portion of lower-income consumers do not utilize a savings plan or tools like automatic savings transfers. According to the 2010 the Consumer Federation of America savings survey, 47 percent of

[121] (Brobeck, Understanding the Emergency Savings Needs of Low- and Moderate-Income Households, 2008).
[122] In a study on a retirement savings program, being able to take out a loan against 401ks increased contributions, but the estimated degree varies from less than 1 percentage point to a ten point increase. (Tufano & Schneider, 2009). The results of this study are taken to suggest that consumers are more willing to put their money into a savings product when they know they can retrieve it in an emergency.
[123] The FDIC defined unbanked households as those that do not have a checking or savings bank account. Underbanked households are those that do have a bank account, but rely on alternative financial services. (FDIC, 2009).
[124] Some reports on payday lending suggest that some consumer return to payday lenders as much as 9-12 times a year. (Bradley, Burhouse, Gratton, & Miller, 2009; Rivlin, 2010). However, this dynamic may be influenced more by the marketing tactics of some payday lenders than the actual emergency cash needs of most consumers.
[125] Participants in the ADD made an average 2.6 unmatched withdrawals over an average duration of 33.6 months. The researchers believe the withdrawals were often used for short-term subsistence needs (such as paying bills) and that participants tried to take out as little as possible. Participants with financial hardships seem to be hit over and over again. Those that took out an unmatched withdrawal at least once averaged 4.1 unmatched withdrawals. (Schreiner & Sherraden, 2007).
[126] (Barr, 2009; Federal Reserve Bank of Kansas City, 2010; Maynard & Zinsmeyer, 2007).
[127] (Maynard & Zinsmeyer, 2007).

moderate income consumers have a savings plan with specific goals and 53 percent utilize automatic savings transfer outside of work. Only 31 percent of the lowest income sub-group (<$25,000 income) have a savings plan and 20 percent use automatic savings transfer.[128] A lack of formal financial management tools does not mean lower-income consumers fail to think about their household finances. In fact, many do so by imposing very strict budgets and utilizing mental accounting to keep track of their finances perhaps even more than higher-income consumers.[129] However, these techniques are not the most effective tools to overcome the many barriers to saving people face. Lower-income consumers recognize the limits of mental accounting strategies and believe that current transaction management practices are not sufficient to build savings.[130]

Given that observation from consumers themselves, lower-income consumers express a significant interest in having financial management and asset building tools tied with their financial services. The most widespread financial management tool is automatic savings. Other financial management tools are in development for the US market. Most utilize technological innovations like text messages, smart phones, and web-based portals to build financial capability.[131] While these tools have the potential to help users with their financial management, accessibility of the technology remains a hurdle to their effectiveness among lower-income consumers, especially those from more disadvantaged circumstances. Increasing access to web-enabled mobile devices and computers would create new opportunities for innovations that may be "Delighters."

In the meantime, transformation of physical financial provider locations may help to fill the financial management assistance gap for lower-income consumers. An interview with a banking innovations company executive, Kevin Blair, recommends that banks use other innovative delivery channels to draw consumers in to the bank, such as providing more services that engage consumers in education and financial skills.[132] Providing more services like basic financial advising to the mass market may be the way of the future for financial service providers with physical locations.[133] The provision of in-person advising can help to increase take-up of savings products. In the case of Save More for Tomorrow (SMarT), a retirement savings program, the presence of financial advisors on site had twice the take-up rate than when advisors were not present.[134] Interestingly, low-income workers had higher rates of participation in this program than more well-off workers. For providers without a physical retail location or who cannot provide in-person financial assistance, call-in centers may be a substitute for customer assistance, but requires further exploration. Partnership with local non-profit organizations that offer financial counseling services to lower-income consumers for free could also create an opportunity to offer financial management assistance without a large investment by the provider.

Having access to financial management assistance could help lower-income consumers build meaningful savings. A report on two Consumer Federation of America surveys conducted in 2005 and 2007 observed that within an income bracket, households

[128] (CFA, 2010).
[129] (Sherraden & McBride, 2010).
[130] (Federal Reserve Bank of Kansas City, 2010).
[131] (Sledge, Gordon, & Knisley, 2011).
[132] (NewGround, 2010).
[133] (Sullivan, 2011).
[134] (Thaler & Benartzi, 2004). Another study on the take-up of retirement savings products by The Retirement Security Project observed that individuals whose taxes are prepared by an experienced tax preparer exhibited better take-up of matching incentives. While the author acknowledge that the reason for the increased take-up is unknown, they believe it is related to the tax professions' attitude, skill or other traits involved in presenting the product. (Duflo, Gale, Liebman, Orszag, & Saez, 2005 (Revised 2006)).

with less than $500 in savings and those with more than $500 have similar levels of income.[135] The report attributed the difference in savings levels to different money management techniques, which can be changed. In fact, a recent study on the long-term impact of Individual Development Account programs showed that graduates of the program have higher levels of savings long after the program ends in comparison to those that dropped out of the program or never participated.[136] The improved savings outcome is thought to be a result of the program coupling a savings account with one-on-one financial counseling and education and the presence of a tangible social motivator for positive savings outcomes (in particular the desire to save for their children's future). The implication for savings product development is that products for lower-income consumers could be more effective if they are developed with an eye towards improving an accountholder's financial capability. Since presently available savings accounts do not have financial management assistance attached and it is an area identified as a strong consumer need, this could be a real area of innovation in savings products.

Additional Considerations Essential for Creating a Successful Offering

While ensuring that a product is well designed for the target market is a key component of a consumer insights approach, it is not the only one. In order for any offering to be successful in marketing, a product developer also has to consider the pricing, placement, and promotion of the product. In sum, these elements are called the marketing mix. All elements of the marketing mix are tightly integrated and a decision in one area usually impacts all the other areas. Successful marketing that achieves customer satisfaction looks holistically at all elements of the marketing mix and their relationship with the target market by grounding themselves in an intimate understanding of consumer behavior, latent needs, changing requirements and potential dissatisfaction with current alternatives.[137] To help product developers create a full offering that is well-adapted to lower-income consumers, the considerations for the pricing, placement and promotion of small-dollar savings accounts are further explored.

Pricing Considerations for Fees

When it comes to bank accounts, determining the fee structure is incredibly challenging. Banks are providing a service to consumers, but due to the current market price structure, most consumers with accounts do not pay monthly fees. As a result, consumers do not always assign a value to the accounts equal to the costs incurred by banks to maintain the accounts. For savings accounts, banks can sometimes cover the cost of the accounts by making a profit off the deposits in the account. However, that requires having a balance of $300 or more to justify offering the account to consumers for free.[138] The pricing challenge for small-dollar savings accounts is how to structure fees for an account that is unlikely to have a balance sufficient to cover the offering bank's costs while remaining appealing to a highly price sensitive consumer segment.[139] To navigate the challenge of pricing, banks can take one of three approaches with small-dollar savings accounts.

First, banks can offer the accounts at a loss and assume that the lifetime value of the customer will exceed the initial investment of offering the small-dollar savings account as an entry product. Alternatively, the bank could consider the small-dollar savings account offering as part of its community development efforts. These are certainly a viable consideration as banked lower-

[135] (Brobeck, Understanding the Emergency Savings Needs of Low- and Moderate-Income Households, 2008).
[136] (Loibl, Grinstein-Weiss, Zhan, & Red Bird, 2010).
[137] For more on marketing research and consumer insights-driven product development see (KnowThis.com; Schieffer, 2005).
[138] (Hachikian, 2009; Brobeck, The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergency, 2008). This logic helps to explain the current structure of mass market savings accounts.
[139] (Dick, 2001).

income consumers have the potential to be very long term customers.[140] Additionally, this may be an opportunity to work with public or non-profit programs to expand the availability of the accounts by sharing the costs across different partners.

Second, banks can offer a very basic small-dollar savings account that just meets the "Must Have" features required without a monthly fee, but then charge fees based on the usage and behavior of the account (e.g. a withdrawal fee) or on extra-value features (e.g. a fee on a new financial management tool).[141] When pursuing a "fee-for-service" pricing structure, banks should pay careful attention to separating desirable features like an added financial management tool that are identified as Delighters, where the consumers would be happy to pay, from undesirable fees like overdraft fees.

Finally, banks can make the jump and charge a monthly fee for an account that warrants the fee. While the general perception is that customers abhor monthly fees, the ability to charge monthly fees on some prepaid and checking products demonstrates that it is not impossible for lower-income consumers. The key, according to an article on shifting from free to fee checking is to change the product offering so that there are value-added features on the account that make a monthly fee acceptable.[142] This means small-dollar savings accounts that want to charge a monthly fee can do so by delivering exceedingly well on One-Dimensional incentives or Delighter features like financial management tools that are especially acceptable to lower-income consumers.

Regardless of the pricing strategy chosen for a small-dollar savings account, fees should be transparent. Consumers need to recognize the justification for the fee otherwise they are likely to become upset with the provider and reject the service as observed in studies that explored why some consumers no longer have bank accounts.[143] For example, a survey of customers using alternative financial services concluded that the typical alternative financial services customer prefers (or perhaps needs) to manage their financial lives in a "pay as you go" manner where the costs of products and services are immediate and highly visible without surprises or unexpected fees that appear in a statement the arrives several weeks after a transaction has taken place.[144] The importance placed by consumers on understanding the fees charged on their accounts is in-line with the preference for security. Transparency in reporting the fee structure allows consumers to feel that their savings product is secure, beyond the actual security provided by consumer protections like FDIC insurance.

Place-Based Considerations for Distribution Channels

Distribution of a product is critical to the success of the offering as products are only valuable when consumers can obtain them. The distribution location for savings accounts is where a consumer can apply for an account. Currently, small-dollar savings accounts have very limited distribution through community banks and credit unions. While the initiatives from community banks and credit unions to serve lower-income clients are very valuable, their reach to a large proportion of lower-income consumers may be limited. A banking research report by BAI, a financial services industry research group, reported that lower-

[140] (Pew, 2010).
[141] (Giltner, 2011; Defazio & Branton, 2011).
[142] (Defazio & Branton, 2011).
[143] (FDIC, 2009; Federal Reserve Bank of Kansas City, 2010).
[144] (Cirillo, 2006).

income consumers are more likely than other consumer segments to use a large bank.[145] Additionally, many lower-income consumers utilize non-bank outlets for their financial services. According to the CFSI Underbanked Consumer study, underbanked consumers (a group that encompasses 37 percent of lower-income consumers) widely use retail outlets like grocery stores (46 percent), super centers (29 percent), convenience stores (29 percent), department stores (27 percent), drug stores (25 percent) and dollar stores (25 percent) in addition to banks and credit unions.[146] The evidence shows a mismatch between where small-dollar accounts are available and where lower-income consumers are accessing their financial services.

To help bridge the gap between where small-dollar savings products are offered and where consumers are located, several opportunities to innovate are available. First, efforts should be made to increase the adoption of small-dollar savings products at larger banking institutions and to make the services available through smaller community banks and credit unions more known. Second, the small-dollar savings products could be sold at retail outlets through branchless banking or as a reloadable prepaid product.[147] Finally, access to savings accounts should be available at locations where the consumer has incoming resources and may be in the position to think about saving, such as tax preparation sites and the workplace. For example, in an experiment where lower-income tax filers could split a portion of their refund into a free savings account, the most important term (44 percent of respondents) that attracted consumers to the product was the convenience of being able to open the account on site.[148]

Promotion Considerations for Marketing and Advertising

Marketing and advertising can serve several important functions in generating demand for savings accounts among lower-income consumers by building awareness, spurring interest in the offering, and shifting misperceptions on savings ability and their potential to enter the savings market. Promotional activities are essential to build consumer receptivity of savings products. A focus group study with low-income tax filers at free tax sites found that take-up of asset building products and services offered at the tax preparation site would improve if marketing occurred before the tax filers arrived.[149] Another study of volunteer tax sites reported that provider organizations acknowledged they failed to do much marketing, outreach or advertising of asset-building services available at their site and recognized that such activities area important elements of success for service delivery.[150] Unfortunately, due to cost pressures facing financial service providers, little to no funds are dedicated to promotional activities of small-dollar savings accounts.[151] Should that change and more consideration were to be put into the marketing and promotion of small-dollar savings products, several issues related to the messaging and channels of communities require attention.

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145 The category is described as "Struggling Worriers" in the report. (NewGround, 2010). This study did not include very low-income respondents who have household incomes under $25,000. It is unclear if there is a different preference for banks among the lowest income consumer segment.
146 (CFSI, 2008). Underbanked consumers include consumers without a bank account and consumers with a bank account with utilize alternative financial services. 37% of lower-income consumers are underbanked. (FDIC, 2009).
147 A handful of prepaid card providers offer a free small-dollar savings pocket attached to the prepaid transaction account. The prepaid savings pocket is not sold as a standalone product.
148 (Beverly, Schneider, & Tufano, 2006).
149 (Shoua-Glusberg, 2007).
150 (Collins & Baker, 2007).
151 (Brobeck, The Essential Role of Banks and Credit Unions in Facilitating Lower-Income Household Saving for Emergency, 2008; Hachikian, 2009).

Messaging

The necessary message content for lower-income consumers is different from that developed for higher income consumers. An evaluation of advertising materials for savings products at credit unions found that most utilize utilitarian images of money and coins or aspirational images of goals that may seem unattainable or irrelevant to lower-income families rather than utilizing imagery that matched lower-income consumers' perspective of money and savings.[152] To bridge this gap, messages need to either appeal to consumers' product requirements or emotional state.

Before a product can appeal to a consumer, they need to understand the value proposition offered by the product. This requires understanding of what account elements appeal to consumers and a product's competitive advantage in the market.[153] As the small-dollar savings product market is new and underdeveloped, messages featuring product benefits should emphasize the "must-have" core benefits of the product to build awareness that the products are economically accessible, convenient for saving and secure. As the category develops, providers will need to start differentiating themselves from other offerings by highlighting exceptional delivery of One-Dimensional features (e.g. a high value matched savings program) or the inclusion of Delighter features. Once the small-dollar savings product category matures, consumers will have a solid awareness of the core category benefits become more sensitive to the "extra" features.

Another way to target message content is to appeal to how they view their finances or money in general. *The Mind of Low- to Moderate-Income Savers* study on lower-income consumers and their feelings about money and savings found that money was considered both a resource and a destructive force. Moreover, there is no relief from stress about money, especially since families are living paycheck to paycheck, have been through difficult histories and are facing an uncertain future.[154] These feelings of financial stress in turn manifest physically as lost sleep, worse health and less productivity at work, especially among those without a small amount of savings.[155] As a result, advertising messages for small-dollar savings products should include positive encouragement ("money keeps you safe," "money makes you a winner"), empathetic gestures ("we know it's hard to find the right path, but take the first step with us") and motivational statements to avoid situations feared by consumers ("With the right savings plan, you'll be ready").[156]

Channels of Communication

Channels of communication to reach lower-income consumers are difficult to scale. Mainstream communications, such as TV advertising or print ads, are not always the most effective vehicles to reach lower-income consumers. The Network Branded Prepaid Card Association recommended using hands-on, mini-marketing efforts that are sensitive to language and cultural issues and non-traditional parties that are known and trusted by lower-income consumers in a trade publication on consumer

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[152] Examples provided were holidays or vacations, college graduation, shiny, happy people free from financial stress. (Maynard & Zinsmeyer, 2007).

[153] For example, marketing research from the prepaid industry found that lower-income consumers react strongly to the messages that communicate benefits associated with prepaid cards because such messages allow the consumer to understand how the cards can address their unmet payment and financial needs. Messages about security, convenience and control resonated most strongly with lower-income consumers. (Bochicchio, 2007).

[154] (Maynard & Zinsmeyer, 2007).

[155] Lower-income consumers with less than $500 in emergency funds had significantly higher levels of worrying than those with at least $500 in savings. The increased worrying translated to increased level of lost sleep, worse health and less productivity at work. (Brobeck, Understanding the Emergency Savings Needs of Low- and Moderate-Income Households, 2008).

[156] (Maynard & Zinsmeyer, 2007).

attitudes.[157] In the October 2008 Consumer Federation of America survey, personal encouragement from family or friends was the communications vehicle most widely considered very important in starting or adding to a new savings by respondents.[158] Utilizing networks of family and friends consistently comes across as an effective channel driving interest in financial services.[159] This could be because lower-income consumers tend to trust and relate to people who "'speak their language" and "know where they are coming from" as opposed to "people who talk too fast, use too much jargon, overload them with information, and are motivated by a blatant self-interest."[160] Promotional efforts among lower-income consumers should utilize the strength of their social networks and preferred communication styles to be effective.

Going Beyond Barriers to Expand the Small-Dollar Savings Account Market

The consumer insights approach taken in this paper reveals substantial evidence of latent demand for small-dollar savings accounts among lower-income consumers that can be capitalized by financial providers. There is a clear opportunity to re-envision the offerings so that small-dollar savings accounts can go beyond a basic product that eliminates the economic barriers to owning and maintaining an account to a product that is attractive to lower-income consumers. While the challenges to bring the market to scale are great, further development of the small-dollar savings account market is possible.

Turning Small-Dollar Savings Accounts into a Mutually Beneficial Proposition for Banks and Consumers

While a common perception is that small-dollar savings accounts are a good proposition for lower-income consumers, but unhelpful to banks, the analysis in this paper suggests that there may be more common ground than previously assumed. Small-dollar savings accounts can be mutually beneficial. In order to start savings and eventually achieve long-term asset building, lower-income consumers require a product that fits their needs and preference, which are different from higher-income consumers. The most important requirements are lowering the economic barriers by eliminating minimum opening and balance requirements, finding ways to make saving more convenient via improved channels for deposits, and ensuring the safety of a protected account. Beyond these Must-Have requirements, other strategies that make the decision and action to save such as high-value incentives, excellent customer service, restrictions on the number of withdrawals and financial management assistance can attract consumers and help them to maintain the accounts.

For banks, creating a new small-dollar savings account does not have to be overly burdensome. It is important to remember that banks do not have to provide every feature identified in this paper, but still could focus on creating an offering that is valuable to consumers while being achievable for their business. Categorizing the product features into Must-Have, One-Dimensional and Delighter groups offers insight into what value consumers may receive from the different features, allowing banks to prioritize areas to develop. One way to easily create the new small-dollar savings account offering is to start with an existing product. Many banks already offer free minor savings accounts that are very similar to the basic small-dollar savings accounts with the Must-Have features recommended in this paper. Additionally, going beyond the basic product which primarily addresses the economic barriers to account ownership is very much within reach. Some features, such as finding ways to make deposits easier and more consistent and reducing the number of free withdrawals a month should be extremely desirable and achievable from the banks' perspective as they may be built off current bank offerings. Features that do not currently exist, such as improved

[157] (Bochicchio, 2007).
[158] (Brobeck, Understanding the Emergency Savings Needs of Low- and Moderate-Income Households, 2008).
[159] (Applied Research & Consulting LLC, 2009; Bucks, Kennickell, Mach, & Moore, 2009).
[160] (Maynard & Zinsmeyer, 2007).

customer service and financial management assistance, are currently being considered by banks for the mass market and could be designed with functionality for lower-income consumers in mind.

Leverage Partnerships to Expand Access

Given the low profit potential of small-dollar savings accounts as an initial offering, developing the product may require partnerships across banks, non-profits, and government agencies. This is especially true as customer acquisition costs are likely to continue as a prime concern for banks entering the lower-income consumer market. Fortunately, many of the recommendations posed by this paper are already being performed by different actors. National campaigns like BankOn and America Saves continuously create new marketing materials to encourage lower-income consumers to use banks and to save money. Research groups, like universities and think tanks, and government agencies, like the FDIC and the Federal Reserve, conduct research on lower-income consumers to understand their savings needs, behaviors and preferences. Many community groups, like EARN in San Francisco, provide financial counseling services created specifically for lower-income consumers that may be a useful service when provided for small-dollar account holders.[161] Leveraging partnerships in a creative manner can help to meet the needs of the market in a cost-effective way. These efforts, when well-funded and supported, can be very successful, and partnerships across sectors can help to ensure that resources, both monetary and human capital, are efficiently allocated to benefit consumers and service providers.

Improving Targeted Market Research

Nearly all the consumer insights research used in this analysis came from publicly available sources. While some very interesting insights were drawn, it is certainly not done with the specificity that is typically required of market researchers. One big limitation to the current sources is the inability to break out the data by customized subgroups so that responses from all the different studies can provide a more accurate picture of the target group. Some of the data, such as the FDIC Underbanked Survey, the Survey of Consumer Finance and the FINRA Financial Capability survey, is available to researchers who can use the raw data to reconstruct subgroups. Researchers with the appropriate tools to mine the data could help carry out more precise analyses without having to dedicate resources to entirely new efforts that ask the same questions already covered by the current data pool.

In addition to repurposing established data sources, more information on consumer behaviors and experiences also needs to be collected. The evidence presented in this analysis brings some previous assumptions about lower-income consumer preferences to question and highlights why there are service gaps in this consumer market. Sometimes assumptions are incorrect because they are incomplete. The suggestion that convenient locations are very important to consumers is an example of a potentially incomplete conclusion. Previous research mapping the distance between banks showed that banks were usually within a mile of another branch. However, no research was done to see if a mile is considered to be too far from the consumers' perspective. Other times assumptions are wrong because they are true for a small subgroup of the market, but not applicable to a large majority of the market. Assumptions (including the ones drawn in this analysis) should be tested to see if they truly reflect the consumers' reality. Conducting more surveys that collect direct consumers' feedback, behaviors and experiences are an excellent way to help test assumptions made about their needs and preferences to ensure a more truthful identification of ways savings products can be delivered.

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[161] For more on EARN, see http://www.earn.org/.

Using Consumer Insights to Refine the Marketing Mix

While most of the focus of this paper is on designing the small-dollar account products, all four components of the marketing mix must be addressed to maximize consumer demand. These include product design, price strategy, distribution channels, and promotional activities. Small-dollar savings accounts will never build real demand if any of the four components are ignored. For example, a product design may be perfectly matched to consumer needs and preferences and priced correctly, but if it is not widely available in places where the consumers are or not adequately advertised to build awareness of the product, real demand will not materialize. As a result, small-dollar savings account offerings must be sure to consider who they would like to target and how to address the product, pricing, place of account sign-up and promotion before launching in market.

Further Testing of Concepts and Messaging

While the analysis contained in this paper will be useful to develop small-dollar savings account offerings, consumer reactions to the final offerings may differ widely based on how the product, pricing, placement and promotion compare to other offerings in market. As a result, it is often very risky to go through the steps to develop the actual product and conduct test markets. Since suppressing costs in the development of small-dollar savings accounts is essential, an important step major consumer packaged goods companies utilize to refine a product before investing in production is concept testing. The Detroit Study and the ETA study utilized some components of concept testing when they did a conjoint analysis where several product concepts with different features were presented to consumers who were then asked which product they would use. More rigorous concept testing, which also looks at branding, promotional messaging, pricing and distribution channel information as well as competitor concepts, could be used to more realistically mimic the consumer decision process and help banks to better target their offering from the beginning. More needs to be done to explore the potential of bringing lower-cost market research methods like concept testing and development from the consumer packaged goods industry to the financial services industry.

In sum, small-dollar savings accounts can be the first step to a better future for many lower-income consumers. The consumer insights presented in this paper provide evidence that desirable saving account products for lower-income consumers can be created and may even be a better entry product into the financial mainstream than checking accounts. If anything, savings accounts represent an opportunity where the interests of the consumers and the bank provider align as both hope to increase the amount of funds maintained in the account over the long term. With some creative thinking from banks and by leveraging strategic partnerships with government entities and non-profit agencies that seek to bring services to this currently underserved community, creating products to address consumer concerns beyond their economic barriers can make scaling the small-dollar savings account market a real possibility.

Addendum with technical appendices available online at http://assets.newamerica.net.

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