

STANFORD

SOCIAL INNOVATION

review

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A New Take on Tithing

P A G E If the affluent contributed as much money to nonprofits as they could afford, charitable giving in the U.S. would increase by \$100 billion a year – enough to solve many of the world's most pressing problems. *by Claude Rosenberg & Tim Stone*

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From Marble to Formica

How the Union Bank of California attracts lower-income people to traditional banking by Laura Brandin

Cash Today! No Credit Check! Payday Loans! Instant Approval! The signs of check-cashing outlets scream neon along East Anaheim Street in Long Beach, Calif. Their loud colors distract passers-by from a quieter question: Where are the traditional banks in this neighborhood? Where is the Bank of America? The Union Bank of California? The Wells Fargo?

Over the past few decades, check-cashing outlets and payday loan centers have crowded out traditional banks in lower-income neighborhoods. While many banks would like to keep their branches in these communities, their dwindling customer bases mean that they are no longer profitable. As a result, more and more people in America are meeting their banking needs without setting foot in the marble lobby of a traditional bank.

The check-cashing and payday loan business, on the other hand, is booming. These outlets offer low-income customers exactly what they want: immediate access to cash, regardless of one's financial history. But this convenience comes at a price. Check-cashing outlets charge up to 3 percent of the value of a government or payroll check, or 15-20 percent of

the value of a personal check or payday loan, writes Pamela Friedman in a 2005 Finance Project report. Over the long term, these customers not only lose significant amounts of their income to check cashers, but also do not earn interest on their savings, and fail to build credit and credit scores.

What's a community-minded bank to do? In 1993, the Union Bank of California pioneered an answer: a scaled-down banking venue called Cash & Save. Cash & Save combines traditional banking products – savings and checking accounts, loans, and financial advice – with the check-cashing services that low-income customers desire.

There are now 15 Cash & Save locations sprinkled throughout Southern California, serving approximately 20,000 customers. At last count, 45 percent of these customers had transitioned from mere check cashers to fully banked customers, and deposits at Cash & Saves had grown by more than 40 percent, says Thom Branch, the recently retired vice president of alternative financial services at Union Bank. Union Bank has also partnered with Nix Check Cashing to offer account and loan services at 36 of Nix's 57 locations.

Give the People What They Want

The secret to Cash & Save's success is simple. They asked customers what they wanted.

Marketing executives from Union Bank conducted focus groups with residents in lower-income communities in Southern California. Many of these residents, the executives learned, were recent immigrants who distrusted traditional banks because of bad experiences in their home countries. Others held jobs that did not allow them to visit the bank during regular 9 to 5 "bankers' hours." Compounding these problems were banks' practice of not immediately honoring checks drawn on other banks. With next due, and



Cash & Save customers cash checks and make deposits inside a Superior Supermarket in Huntington Park, Calif. The alternative banking center draws underbanked customers.



SERVING THE UNDERSERVED

- Ask customers what they want
- Partner with local businesses
- Generously fund and staff new ideas
- Cultivate an internal champion for the cause

groceries and gas to buy, lower-income people simply could not wait to get their cash.

The most revealing focus group data came when the moderator asked participants to rate their current bank with a thumbs-up, thumbs-down, or neutral hand sign. As the moderator went through a list of traditional banks, the participants responded with a resounding thumbs-down, or at best a neutral consensus. When the moderator mentioned Nix Check Cashing, however, thumbs went up around the room, and one customer stood up and cheered. The focus group lauded Nix for its convenient locations, shorter lines, longer hours, and friendly, personal service.

Union Bank executives were flabbergasted, but the message had hit home. They realized that even if they opened traditional banks in lower-income communities, customers would still not come. The focus group participants didn't want marble lobbies, comfy chairs, free coffee, and regular business hours. For them, Formica countertops were perfectly fine, so long as they could access their money when and where they needed it. What the underbanked customers were looking for was friendly service from tellers who knew their name and helped them out, not a bank that forced them to open an account in order to access their money.

Learn From the Competition

Marketing data in hand, Union Bank next sought out partnerships to understand how to serve lower-income customers. To learn the check-cashing business, the bank enlisted Tom Nix, founder and president of Nix Check Cashing. Nix, an entrepreneur at heart, welcomed the legitimization that a traditional bank would bring to his business. He also valued the banking services that Cash & Save would give his customers. With these benefits in mind, Nix taught 40 representatives from the Union Bank how to provide customers with quick and personal service without unnecessary risk. He also showed them how to evaluate the creditworthiness of nontraditional customers. For example, Nix trained the representatives to verify funds by calling the banks that checks are drawn on, as well as to confirm check holders' identities by contacting their employers.

By partnering with Nix, Union Bank also earned credibility in local communities that had not seen a traditional bank in many years. Like Nix, the bank adopted a policy of hiring from the local community. It also required Cash & Save branch managers to engage the local community through presentations on financial literacy.

With a trial location that looked and felt more like a check-cashing outlet, Cash & Save got its target customers through the door. But Union Bank still wanted customers to enter the traditional banking system.

Here again the bank utilized the power of partnerships and approached Operation Hope, a nonprofit that offers financial literacy training. Once at Cash & Save, customers could pick up Operation Hope brochures and sign up for seminars about the privileges and responsibilities of traditional banking relationships. As Lance Triggs, executive vice president and chief of staff at Operation Hope, states: "We help to create educated and informed consumers who feel comfortable going to the bank. Only then are these customers willing to hear about the traditional services that Union Bank has to offer."

Go Big or Go Home

To give Cash & Save a fair chance at success, Branch understood that Union Bank could not cut corners. This meant opening a full-scale trial Cash & Save branch, developing a plan to open more, and partnering with a trusted industry competitor. "There is a tendency to dip a toe in the water to tell the temperature," Branch says. "You can't know the temperature without getting right in."

The bank invested not only generous financial resources, but also personnel such as Branch, who acted as the concept's advocate from the beginning. Branch doubts that a project as innovative as Cash & Save would have developed legs without a strong internal champion.

Up until his retirement, Branch says that he still had to sell the idea of this nontraditional format within Union Bank. "Traditional bankers can't get over the idea they need a marble lobby," he says.

Nevertheless, several traditional types are replicating the Cash & Save model in their communities. In 2001, for example, the Royal Bank of Canada launched a pilot project in downtown Toronto that mixes check-cashing with traditional services.

Banks in the U.K., France, Japan, Morocco, Nigeria, and Mexico have also expressed their interest to Branch. As he has learned, "the underbanked exist everywhere," and if you build your bank right, your customers will come. □