

CONFIDENCIAL

# Profitably Serving Low Income Bank Customers: International Examples

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# KEY MESSAGES

## **International best-practices show that the low income can be served profitably**

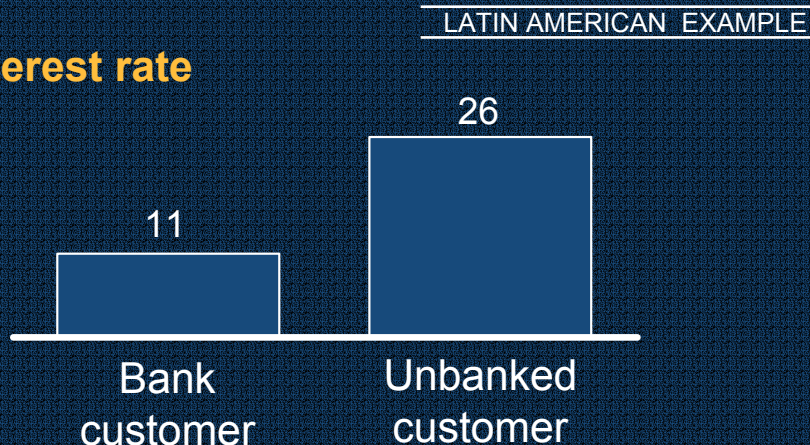
- Credit represents the main opportunity to serve this segment profitably
- For non-credit takers a transformation of the product and channel offer is needed
- Banks should consider reviewing their value proposition to the low income, given current levels of value destruction and growth potential from the segment

# CREDIT REPRESENTS THE BIGGEST OPPORTUNITY

## Credit is the main opportunity

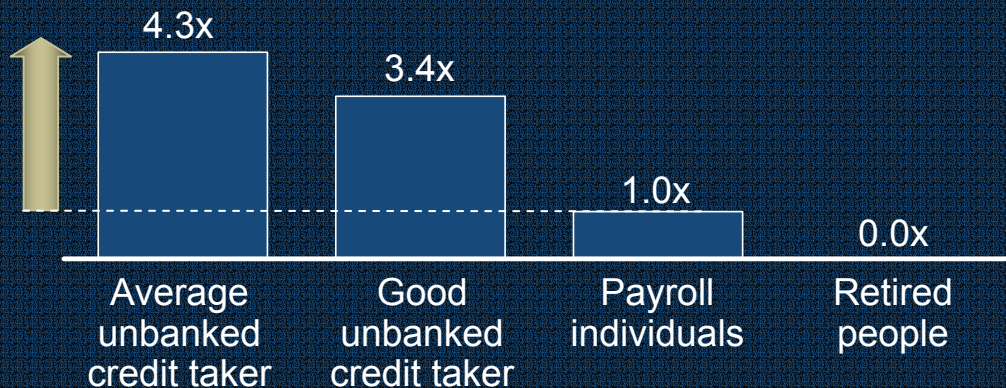
### Average interest rate

Percentage



### Credit losses

Times relative to credit losses of payroll individuals



## Skills needed

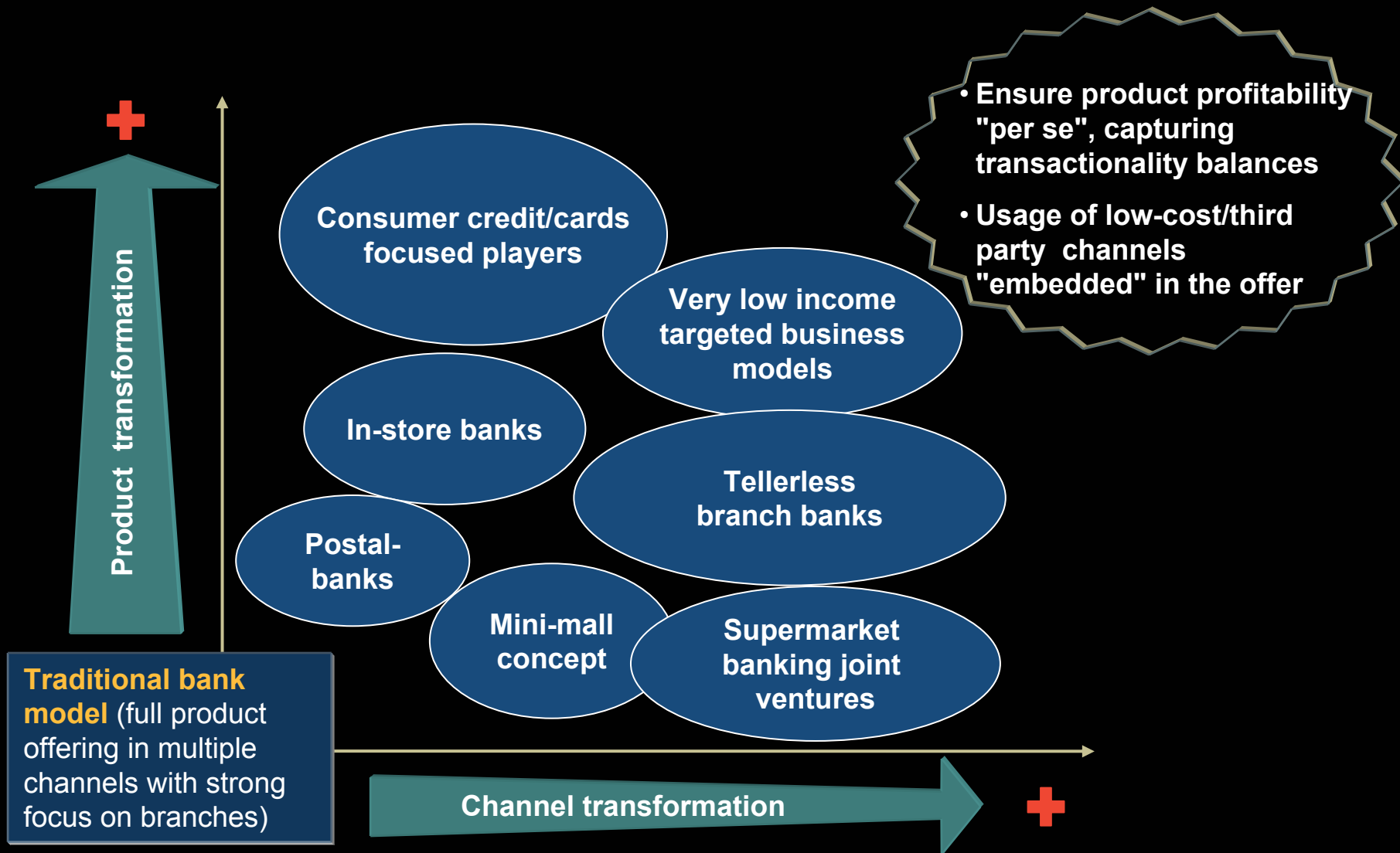
Superior credit risk management

Superior collection model

Low cost decision process

Low cost acquisition model

# FOR NON-CREDIT TAKERS A TRANSFORMATION OF THE PRODUCT AND CHANNEL OFFER IS NEEDED



# ENSURING A LOW COST SERVICING CHANNEL IS KEY

	<b>Characteristics</b>	<b>International experience</b>
<b>Branch based</b>	<ul style="list-style-type: none"> <li>• Proprietary network of low cost branches with high capillarity</li> </ul>	<ul style="list-style-type: none"> <li>• NovaRede (Portugal)</li> </ul>
<b>Financial stores</b>	<ul style="list-style-type: none"> <li>• Moderate capillarity offering with limited transaction/payment capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Standard Bank (South Africa)</li> </ul>
<b>Third party channels</b>	<ul style="list-style-type: none"> <li>• Share distribution networks with 3rd parties for specific financial products / transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Wells Fargo (United States)</li> <li>• Caixa (Brazil)</li> <li>• Post-bank (Germany)</li> </ul>
<b>Remote banking</b>	<ul style="list-style-type: none"> <li>• No physical distribution channels</li> </ul>	<ul style="list-style-type: none"> <li>• Citibank (India)</li> </ul>

# FINANCIAL STORES: STANDARD BANK (SOUTH AFRICA)

## Sales finance and private label operations

- Sourcing and filtering of clients

Leads

## Low income customers

## Financial stores

- No-frill outlets with flexible working hours and with non-managed personnel

## Product offering

- Active cross-selling to extend active customer life



Standard Bank

- 2.6 million customers in 5 years, growing at 50 thousand customers per month
- Contribution per account U.S. \$13



# THIRD-PARTY CHANNELS: WELLS FARGO (US)

**WELLS  
FARGO**

## Clients

- 8.9 million debit card holders
- 4.5 million credit card
- Average products per banking household: 3.4

## Products

- Retail financial services
- Insurance and securities brokerage through affiliates

## Channels

- 3092 branches, including 836 ISB\*
- Traditional branches (600 m<sup>2</sup>)
- In store full service branches (40m<sup>2</sup>)
- In store branch centers (4 m<sup>2</sup>)
- 24 hs telephone banking
- Now experimenting with other non-supermarket partners (pharmacies, copying centers, dry cleaners, failed Starbucks operation)



**Biggest supermarket  
banking operation  
in U.S.**

\* Community banking

Source: Annual reports; web site, interviews; team analysis



# THIRD-PARTY CHANNELS: CAIXA (BRAZIL)



## Agreement

- Caixa as financial service provider and lottery agencies as distribution channel
- Exclusive agreement
- Caixa pays R\$0.27 per each transaction

## Products

- Service (utilities) and federal payments
- Deposits and withdraws from checking and saving accounts
- Caixa requested permission from Central Bank to allow account opening from these agencies

## Channels

- Geographical extension – target 3,500 cities, 8,500 lottery agencies\*
- Extended hours of operation, austere environment

Utility payments through lottery agencies is larger than through financial institutions\*\*

\* Currently about 6000 point of sales opened at lottery agencies

\*\* Aug 2000; 51.2 million through lottery agency, 51 million through financial institutions



# REMOTE BANKING: CITIBANK (INDIA)

**Citibank Suvidha**  
India

- Citibank has created a separated branding for this new offering "Citibank Convenience"

**Leverage on remote channels (ATMs, call centers, Internet) without the support of a physical network**

**Clients**

- Pilot in Bangalore obtained 1.4 million retail customers

**Products**

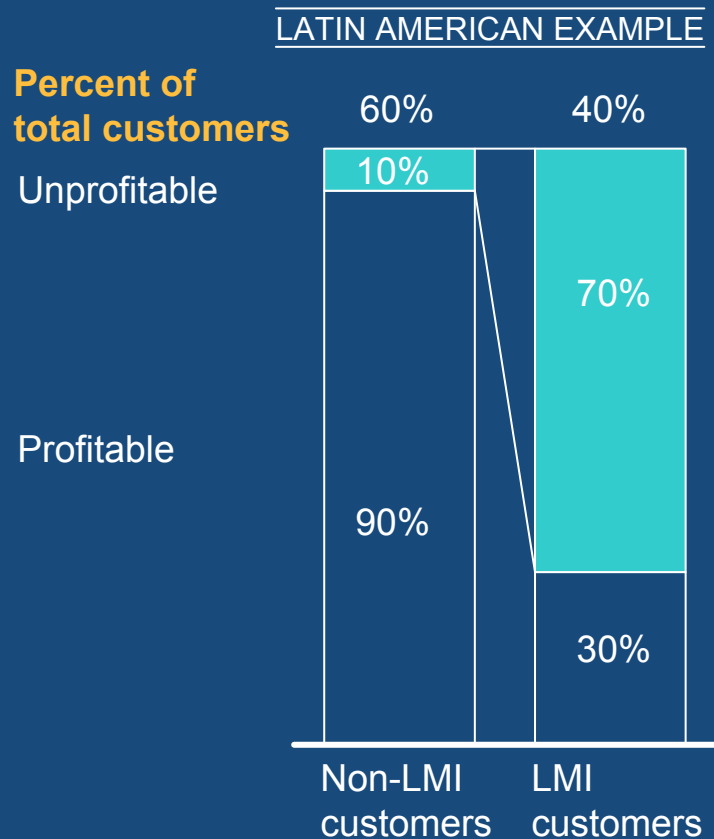
- Saving account
- Check book
- Personal loans
- Online utility payments
- Debit payment
- Credit card
- Insurance

**Channels**

- Network of 44 ATMs in Bangalore
- Also offer Internet and phone banking, no physical branch
- Rolling out Mumbai & New Delhi

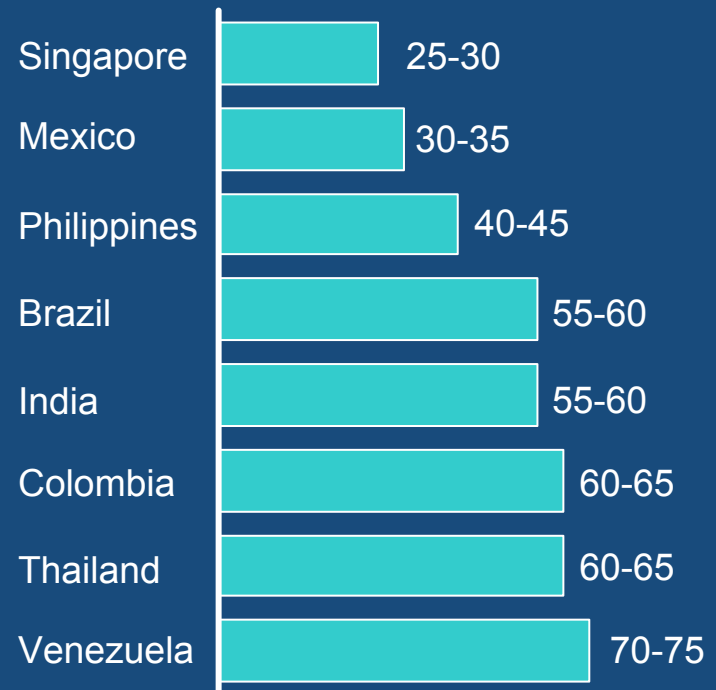
# BANKS SHOULD REVISE THEIR SERVICE MODEL FOR LOW INCOME CUSTOMERS

## Current service model is unprofitable

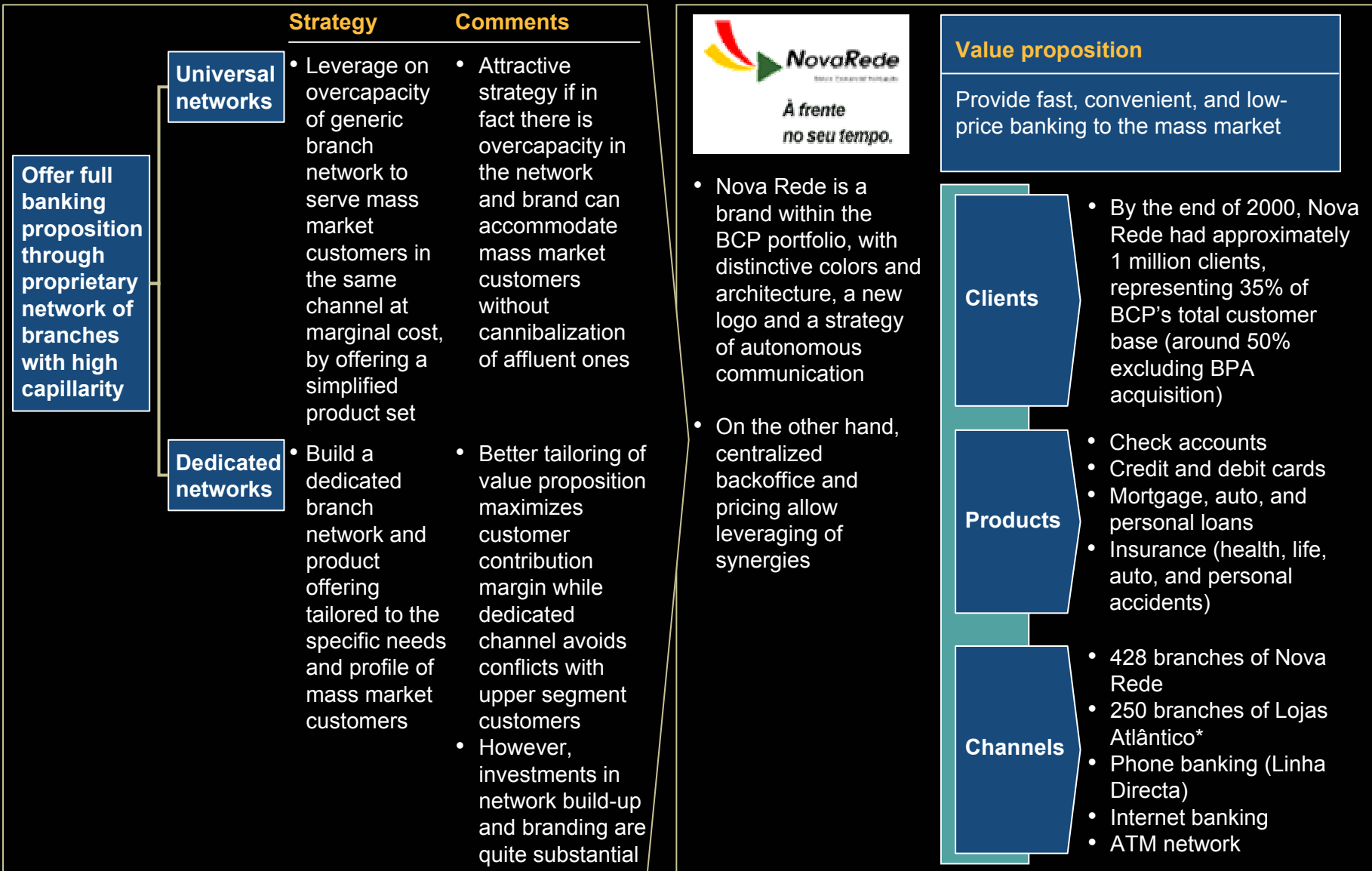


## Low income customers provides an interesting growth option

### Percent of LMI among unbanked



# BRANCH-BASED STRATEGIES: NOVAREDE (PORTUGAL)



\* "Mini branches" from Banco Português Atlântico