MARKET DEMAND OF

FINANCIAL SERVICES AND LOWER-INCOME CONSUMERS

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Introduction

Recently there has been a surge of interest in the market potential for financial services firms to serve unbanked and marginally banked consumers. The industry is gradually awakening to the message that there is a huge untapped market among lower-income consumers of financial products and services. It is now time to move beyond the broad message of market opportunity toward the creation of the on-the-ground tools that the industry needs to profitably serve these market segments. In spite of the general recognition of unmet demand among lower-income consumers, important gaps in information about these market segments pose obstacles to conventional financial services firms. Although useful information has been developed through national studies, still relatively little is known about the market potential of *local areas and consumers*, which constitute the relevant trade areas for banks and other financial institutions. The project we propose will create market information and tools financial institutions need in order to serve lower-income consumers, including those who are currently unbanked or marginally banked.

Objectives of the Project

This proposal is guided by a specific set of substantive and methodological objectives.

Substantive Objectives: The goal of this work is improve the ability of financial institutions and others to assess the market potential of lower-income neighborhoods and consumers, with the ultimate goal of enabling and attracting mainstream institutions to meet the unmet demand for financial services in these markets. We intend to focus on developing the capacity to answer three fundamental sets of questions about a local market (e.g., a neighborhood, census tracts or trade area). (1) What is the current pattern of financial product usage among local households? For example, how many households currently have savings, checking, or retirement accounts? How many are unbanked? How many use fringe institutions or informal financial networks? What are the current delivery channels, access points? (2) What are the non-financial characteristics and behaviors of these consumers, and how do they influence and interact with financial decisions? (3) Informed by (1) and (2), what are the distinct market segments and associated consumer preferences in these neighborhoods? The ability to answer these sets of questions about a local market is essential in attracting mainstream institutions and enabling them to better serve the needs of local consumers.

Methodological Objectives: If our goal were merely to answer these questions about a single neighborhood, the project would be relatively straightforward. That is, it is a relatively simple task to design a methodology to measure market potential and consumer behavior within a specified neighborhood or other small geographic area. But the real challenge facing the field is not to understand the market potential of this or that neighborhood, but to develop a *methodology* to better estimate the potential of *any* local neighborhood. Moreover, it is not enough to develop a method that can be *replicated* in many neighborhoods; the solution must be *scalable*. The methodology must achieve economies of scale such that the cost of producing estimates for *n* neighborhoods is not equivalent to *n* times the cost of producing estimates for one neighborhood.[1] If assessing each local neighborhood requires customized data collection of local survey research, the costs, in both time and money, act as a deterrent to mainstream financial institutions. Reliable market intelligence must be easily accessible and affordable in order to attract interest in underserved consumers. Thus, one of our goals is to develop a scalable methodology, one that will improve the accuracy of financial market intelligence for most, if not all, lower-income neighborhoods at a reasonable cost.

[1] This is especially true since the relevant business geographies are usually trade areas, not neighborhoods. Thus the boundaries easily change from one company or project to another.

Before outlining our proposed approach, it will be useful to briefly review the conventional approach to local financial market analysis and explain why it is of limited applicability for lower-income urban neighborhoods.

The Traditional Approach and Why It Will Not Work

The need to size a local market and identify distinct consumer preferences and segments is, of course, not new to the financial services industry or specific to lower-income neighborhoods. In fact, a relatively well-defined methodology, supported by a plethora of specialized data and information products, has evolved for financial institutions evaluating local markets. The conventional approach can be described roughly as follows. After identifying the geographic area of interest (usually a specific trade area or neighborhood, or perhaps an entire city of MSA), the first step is to analyze the market segmentation data available from one of the major national vendors; e.g., Microvision, MOSAIC, PRIZM, P$YCLE, and so forth.[2] From such data, the analyst can identify predominant "lifestyle clusters" in the targeted geographic areas. The analyst then examines the associated consumer profile and estimated "propensity" to use various financial products. From these profiles, product usage percentages and average balances can be computed by block group for the targeted area. Aggregating the data for the targeted area yields estimates of the total size of the market, or demand, for various financial products.

Although appealing in its simplicity and off-the-shelf ease, this conventional approach is of limited applicability for lower-income urban markets. The primary obstacle to applying this method to measure market opportunity in urban areas is that the available systems provide relatively little differentiation among markets segment of lower-income urban consumers. For example, PRIZM, the most widely used system, and the one with the largest number of segments, identifies only six lifestyle segments for lower and middle-income urban consumers. In Chicago, for example, Metro Edge has found that nearly 80% of the lower-income block groups in the city fall into one of only four PRIZM clusters. In contrast, among higher income areas the top four PRIZM clusters account for less than half of the block groups. When linked to consumer profiles of financial product usage, these market segments do not offer a great deal of differentiation. For example, among the four segments that dominate lower-income neighborhoods, the average estimated percentage of households using deposit products, ranges between 80 and 92 percent. In other words, the existing systems fail even to distinguish the unbanked and the marginally banked from other segments of consumers, much less to offer much insight into the various segments that exist within lower-income neighborhoods.[3]

With an understanding of the traditional data sources and methods, we can identify at least three possible reasons why the traditional method fails to capture the market potential of lower-income neighborhoods.

1) *Lack of Focus*: Lower-income consumers have not historically been a major focus for marketers, which partly explains why so few market segments have been identified. In contrast, numerous specialized market segmentation systems exist for the wealth market, such as Donnelly Marketing's "the Truly Affluent." In short, few if any have tried to segment the lower-income market with the same analytical rigor applied to the wealth market. This suggests that, even with existing data and

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[2] Through these and other market segmentation systems, each block group in the nation is assigned to one "lifestyle" type (out of a possible number of types that ranges from about 40 to 60, depending on the system). These lifestyle types have associated profiles that describe consumer behavior and preferences, based on data from national surveys tagged to block group identifiers.

[3] By using PRIZM data for this example, we do not mean to single out this product for criticism. All of the existing off-the-shelf segmentation systems suffer from similar shortcomings. Based on our experience, in fact, PRIZM is among the very best products of this type currently available. In other words, we use PRIZM in this example not because we find it to be the worst offender, but rather to demonstrate the limitations of even the best existing systems.

methods, there is potential to improve segmentation systems for lower-income consumers simply through specialized analysis.

2) *Lack of Coverage*: Lower-income consumers are likely to be underrepresented in both national survey data and household-level databases. To the extent that the national data sources inadequately represent the demographic and/or financial diversity of lower-income consumers, modeled local estimates derived from these data sources are likely to reflect the same limitations.

3) *Lack of Content*: Aside from the issue of whether existing data sources have good coverage of lower-income consumers, their ability to accurately reflect the characteristics, preferences and behavior of these consumers depends on asking the right questions. To the extent that the lower-income market is distinct from other consumer segments, specialized questions may be necessary in order to adequately describe these consumers. For example, if an important determinant of whether one has a bank account is whether one speaks English, but the existing surveys do not capture language data, then the resulting profiles would be deficient.

Given the limitation of the traditional data and methods, a fresh approach is clearly needed. In the following pages, we propose a methodology to develop market intelligence and tools focused specifically on lower-income consumers.

Overview of Proposed Methodology

We propose an ambitious, large-scale project broken into three phases, which could be undertaken (and funded) independently. Phase I begins with original survey research in 3-5 targeted cities. The data are used to profile and segment the lower-income market, resulting in a handbook for financial institutions and community organizations. An optional but exciting extension to Phase I includes the participation of banks operating in the target cities, with the aim of leveraging the survey data to improve profitability measures for lower-income consumer segments. Phase II utilizes the local survey data as a benchmark to evaluate and improve the capacity of national segmentation systems to portray the market potential of lower-income neighborhoods. Outputs of Phase II include a "data report card" on existing national segmentation systems, a set of "adjustment factors" that can be used to improve the accuracy of existing systems for urban neighborhoods, and ultimately a "microsegmentation" of lower-income consumers specifically designed for the financial services industry. Finally, Phase III outlines the potential for even more ambitious work that would supplement *national* data sources with additional observations and variables, facilitating the creation of a new national segmentation system from the ground up.

Background Research

Initial background research will be done to engage future partners and gather key information on industry practices. While this phase is not where we envision engaging many outside critical partners, we do have some key players we are partnering with including NCIF and Claritas. Nic Retsinas is a key player that has already been engaged as an advisor on the survey and analysis phase. It is hoped that he will also assist with the policy convening and paper under Ford's Access to Capital and Policy grant. Initial contact will be made with possible partners in phases 2 and 3 at this stage in order to get them involved in the process.

Through National Community Investment Fund's Retail Financial Services Initiative, we will gain some knowledge about how banks use information and models to measure profitability. This will be important knowledge to inform the types of information we need to collect through our surveying.

We have been consulting with Claritas about existing data from their Market Audit Survey and how to make purchase of interesting data affordable to us. We are also discussing the use of re-contact surveys to

help supplement our own surveying, particularly where Claritas has a large sample size from one of our target cities. More importantly, we continue to partner closely with Claritas so they can help us move the market from the data provider perspective.

Finally, we believe it is important that Metro Edge present itself as a vendor when interfacing with banks and any potential future clients. Therefore, the interviews with financial institutions around data uses and needs and data providers around products, methodologies and users must be conducted by someone else and will be conducted by Jennifer Tescher of SAS. We fortunately have a summer intern working with SAS and Metro Edge this summer who worked at Deloitte for several years.

Phase I: Analysis and Segmentation of Target Markets

The first step of the project will be to select 3-5 cities for in-depth analysis and survey research. This local research effort will serve two purposes. First, the results will stand alone as a market assessment and segmentation of lower-income consumers in the targeted cities, yielding market intelligence, which will be valuable to financial institutions and community organizations operating locally. Second, the results will provide a benchmark for evaluating, and hopefully improving, the ability of market information and segmentation products to adequately capture the market potential of lower-income consumers.

A) Survey

In each of the targeted cities, three neighborhoods will be selected as the target site(s).[4] We plan to launch the survey in three cities by late September. Right now we have six potential cities: Chicago, Los Angeles, DC, New York, Houston and Miami. We have sufficient funding to conduct surveys in three cities and will add additional cities to total five as we work out the funding related to our policy work and with additional potential funding assistance from Fannie Mae local offices. We are able to proceed because Shorebank has agreed to subsidize Metro Edge to complete this important research in at least three cities. In each site, a survey will be conducted to collect information on three topics: (1) current usage of financial products and services, including formal, informal and fringe sectors, (2) demographics and other non-financial characteristics and behavior, and (3) consumer preferences for financial products and services, delivery channels, access points, and institutions, including reasons for choices described in (1).[5]

Conducting neighborhood surveys of this sort is a significant and complex undertaking. Fortunately, groundbreaking work at the University of Chicago and the Chicago Federal Reserve Bank provides a prototype for neighborhood-level surveys of this sort. Specifically, Richard Taub, Marta Tienda and Robert Townsend developed a survey design that was used first in the Little Village neighborhood of Chicago, and has since been replicated in other neighborhoods of the city. The information collected from these surveys has fueled important research and insights into the use of formal and informal financial products and services among lower-income consumers (e.g., Bond and Townsend, 1996; Huck et al, 1999; Toussaint-Comeau and Rhine, 2000). We have engaged several key advisors for this phase. Nic Retsinas

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[4] The costs of this phase of research will depend on how many neighborhoods in each city are selected. At this point, we leave that an open question, pending interest and commitment from funders. Our recommendation, however, is to target at least two neighborhoods in each city, which would allow us to distinguish neighborhood effects from city effects when conducting the analysis.

[5] The inclusion of information on consumer preferences is particularly important. Some current surveys only contain information about product usage, but not preferences. Without information on preferences, it is not possible to know, for example, why certain consumers do not have checking or savings accounts, or what considerations lead to patronage of fringe service providers. Understanding these consumer preferences is essential in developing products and services geared toward these market segments.

has agreed to advise us and we have already had one consultation with him. We are also working to connect with Rob Townsend, who is already an advisor to Metro Edge.

Although a detailed description of the survey methodology is beyond the scope of this outline, the basic approach will be as follows. For each site, the household survey universe will be constructed using a multistage full probability sample model based on Census blocks. That is, first blocks within each site neighborhood will be randomly drawn, and then a sample of households will be constructed by drawing randomly from a complete enumeration of dwellings within these blocks. Interviewers will then conduct face-to-face surveys with these households.[6] Based on past experience (Bond and Townsend, 1996; Toussaint-Comeau and Rhine, 2000), a response rate of 60-75 percent is expected. Metro Edge has the internal capacity to produce the household random sample list for each site. We will partner with other organizations to conduct the interviews in each city. Possible collaborators include a national organization, such as the National Opinion Research Center (NORC) of the University of Chicago, which has the capacity to conduct interviews in all of the target cities, or local organizations, such as universities or community organizations, which could conduct the interviews in their local areas.

B) Analysis and Segmentation

Based on data from the survey, it will be possible to estimate the size and characteristics of the market in each of the target sites. For example, we will be able to estimate the number and proportion of households using various products and services from formal, informal and fringe institutions. In addition, and perhaps more importantly, the data will enable us to produce a market segmentation, based on consumer product usage, preferences, and demographic characteristics. Methodologically, the market segmentation will be based on cluster analysis of the survey data. Advances in model-based cluster analysis in the 1990s (see Bock, 1996), especially the maturation of Bayesian methods, greatly enhance our ability to produce cluster-based market segmentation. Without going too deeply into the technical issues, the first step of any cluster analysis is the selection of the base variables, or *bases*, of classification, in this case, the product usage, preferences, and demographic variables collected from the survey. Next, we will estimate the number of clusters in the data, relying on *Bayesian Information Criterion* (BIC) methods (Banfield and Raftery, 1993; Fraley and Raftery, 1998; Yeung et al., 2001), as well as the "gap statistic" suggested by Tibshriani, Walther, and Hastie (2000). This analysis will indicate the number of distinct market segments in the target neighborhoods. Based on this analysis, the clusters will then be constructed following the classification maximum likelihood approach (Banfield and Raftery, 1993; Fraley and Raftery, 1998; Yeung et al., 2001). Note the data from all of the sites will be pooled for the cluster analysis. The results will indicate which market segments are common across cities, as well as whether there are any market segments unique to a particular city.

Deliverable – Handbook: Based on the results of this cluster analysis, survey households will be grouped into the *n* identified market segments. From this clustering of the data, we will produce profiles of each of the market segments, detailing the product usage, preferences, and demographic characteristics of each segment, and identifying the key features that distinguish the segments from one another. These profiles will then be assembled in the form of a handbook or report for use by financial institutions and community organizations operating in each target city. The handbook would detail the overall size of the market for various financial products and services in each site, as well as a discussion of the market

[6] A less costly method would be to use random-digit dialing phone interviews. However, given that the presence of a phone in the home will be lower for lower-income consumers than for the general population, important segments of the target group may be omitted if telephone interviews are used. Nevertheless, if funding constraints are an issue, it might be possible to develop a methodology that utilizes phone interviews with an oversample of lower-income consumers, or a combination of phone interviews with face-to-face interviews of households without phones.

segments, and suggested approaches for reaching those segments based on their distinct preferences and existing product usage.

The survey and market segmentation proposed for Phase I stand alone as a resource for the target cities, especially financial institutions and local groups seeking to meet the untapped demand of lower-income consumers. In addition, the research conducted in Phase I will provide a benchmark of accurate local data on market potential and segmentation that can be used to evaluate, and ultimately to improve, national market information and segmentation products. The process of evaluating and improving national data on the finances of lower-income consumers is described as Phase II of this project.

Phase I Plus: Bank Participation
(Total Staff Days: 76. Total Cost: $57,050.)

The work described above under Phase I (A) and (B) represents a freestanding project with substantial potential for increasing market intelligence about the demand side of financial services in lower-income neighborhoods. In addition, the value of Phase I could be greatly enhanced by the active participation of financial institutions operating in the target neighborhoods, which would yield additional insights into supply and profitability in the local financial marketplace. Below, we describe how we would leverage the participation of banks to significantly increase the value-added of this phase of the project.

Once the target neighborhoods have been selected, some of the banks serving these markets can be recruited to participate in the project. With their participation, survey data can be linked to bank customer files. We would begin by scanning bank records to identify whether a survey respondent has a relationship with one of the participating financial institutions and then match information from the bank's records with the answers to the survey questions. Our focus would be on obtaining the bank's estimate of the customer's profitability, as well as any variables that enter into the profitability calculation. With the ability then to directly compare internal profitability estimates with external survey data, we can evaluate the extent to which the profitability estimate reflects a complete understanding of the customer's market behavior. In addition, by comparing the bank's existing customers with other survey respondents, we can analyze the extent to which the bank is currently tapping various market segments; i.e., which segments are over- and under-represented in the bank's existing customer base.

While the preceding examples are illustrative, the specific applications of this approach will depend on the details of each bank's profitability model. For this reason, significant buy-in from each bank participating in the project is key. Specifically, each institution would be asked to share its customer list, and its profitability formulas. From the bank's perspective, there will be substantial value-added to justify participation. Essentially, in exchange for participation, each bank receives a detailed survey of consumer behavior for existing customers and potential customers in their local market, and a better understanding of penetration and profit potential by market segment. In addition, the analysis will suggest improvements to internal profitability metrics for lower-income market segments, which will ultimately enable the bank to serve these consumers more profitably. From the perspective of the survey respondent, it will be essential to protect confidentiality, so that neither the bank nor Metro Edge ever has access simultaneously to bank records, survey data and identifying information about the customer. A rigorous protocol will be implemented to assure confidentiality and enhance participation.[7] The success of this work will depend on securing the participation of at least one bank in each of the target cities.

[7] Any number of approaches is possible, and the best approach will be determined as the project progresses. One example of a protocol would be as follows. After completion of the survey, each respondent is assigned an identification number (ID). The bank then receives a file containing only respondent name, address, and ID. The bank uses the name and address to match against its own customer records, and appends the agreed upon variables, such as a profitability estimate. Before returning the

This project will produce direct benefits for each of the participating banks. In addition, benefits will accrue to the entire industry to the extent that the analysis reveals inadequacies in existing profitability measures for lower-income consumers and, more importantly, suggests ways in which the measures can be improved to more accurately reflect the market potential in these segments. In short, although we have designed Phase I to be feasible and successful without bank participation, if participation is included, the benefits to the participants and the industry – and ultimately to consumers – promise to be substantial.

We would like to engage banking organizations and regulators like the ABA, FDIC, CBA, Financial Services Roundtable, OCC or the Federal Reserve to invite banks located in our chosen cities to participate. Partnering with one or more of these major industry players will help give validity and visibility to the work, as well as help define Metro Edge's image as an industry expert.

We have also met with Gene Ludwig, who will advise as needed. He has provided contacts at the OCC and the Philadelphia Federal Reserve, which are being pursued.

Phase II: Evaluation and Enhancement of National Market Segmentation

The completion of original survey research in Phase I provides an important opportunity to compare these estimates of local market potential with the data available from national vendors, such as Claritas, CACI and others. Although there has been much concern in the community development field recently about the accuracy of data vendor estimates of local market potential (e.g., Weissbourd and Berry, 1999; Pawasarat and Quinn, 2001), there has not yet been an opportunity to systematically compare these estimates with reliable locally collected data. Thus, Phase II of the project proceeds in two steps. First, estimates of local market potential and segmentation derived from Phase I will be compared with data from Claritas and CACI. The goal will be to understand the extent to which local market characteristics are not well captured in data vendor estimates, and to identify specific sources of bias that could be reduced or eliminated. Second, based on the insights gained from this comparative analysis, Metro Edge will develop improvements to existing segmentation systems that will enhance their ability to capture the market potential of lower-income consumers.

A) Data Report Card

Based on the data collected from Phase I, it will be possible to produce estimates of financial product usage that are comparable to data provided by national vendors. The survey data obtained in Phase I will allow us to produce comparable estimates, which we will then compare with the data vendor figures to explore the extent to which existing data sources accurately portray local market characteristics. This assessment will be of great value to the vast majority of financial institutions and community organizations that must rely on nationally available data sources where no specialized local data are available. By comparing the new survey-based estimates with data from a variety of vendors, it will be possible to identify the more and less accurate information sources, and to develop recommendations for those in the field who need to use these data sources to evaluate local markets. The end product would be something

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file to Metro Edge, the bank removes the name and address, leaving ID as the only identifying variable. Metro Edge also removes all identifying information from the survey data except respondent ID. The two files can then be merged based on respondent ID, producing a file that has both the bank's information and the survey data, but no way knowing the respondent's identity. In this way, neither institution ever has access to both survey data and bank data with the ability to identify the respondents. Other approaches are also possible.

of a "Consumers Report" for local area financial data, which could be of great value for financial institutions and analysts.

B) Adjustments

Beyond assessing the strengths and weaknesses of existing data sources, we will also be able to attempt to improve these data sources by suggesting ways in which estimates can be adjusted to more accurately measure lower-income markets. Again, the technical details are beyond the scope of this outline, but the general approach will be as follows. We will begin by calculating the difference between the data vendor estimates and our new survey-based estimates, or the *residuals*.[8] The simplest approach is then to model the residuals, that is to estimate a model in which the residuals are the dependent variable. The goal would be to identify the variables that explain the size of the residuals, that is, to identify the factors that are correlated with errors in data vendor estimates. This analysis would allow us to determine whether data vendor estimates are particularly far off in certain types of neighborhoods, as measured by race, income, family type, or other variables. More important, the analysis will suggest how data vendor estimates can be adjusted to improve their accuracy for these neighborhoods.[9] This is likely to be one of the easiest and most cost-effective methods to quickly improve the accuracy of data vendor estimates for lower-income consumers of financial products and services nationwide.

C) Microsegmentation

The adjustments developed in (B) make a significant contribution to describing the product usage patterns of lower-income households for small geographic areas, which is our first substantive objective. These adjustments, however, will not improve our understanding of consumer segments and preferences in these neighborhoods, our second objective. Thus, the final step of Phase II will be to produce a national market segmentation of lower-income consumers focused on the use of financial products and services. We will begin by comparing the number of distinct market segments estimated from our survey data in Phase IB with the number of segments represented in the existing national systems. To the extent that we identify more market segments than are represented in the existing systems, there is an opportunity to add value by further segmenting, or "microsegmenting," these national systems. The goal would be to leverage the survey data collected in Phase I to inform to construction of a national microsegmentation of lower-income consumers of financial products and services.

Deliverable – Handbook, Maps, Reports: The output of this microsegmentation will include a classification of block groups according to predominant market segments, and associated consumer profiles of these segments. This information will be of great value to financial institutions, as well as community organizations, in assessing the market potential of local neighborhoods and providing the right mix of products and services to meet local demand profitably. The results could be delivered in a number of different formats. As in Phase I, a handbook could be produced to describe the segmentation system and provide profiles of all the segments. Print reports with maps could be produced for individual cities, showing the distribution of market segments in local neighborhoods. Maps and reports could also be delivered through an interactive website, making the results available to a very wide audience. The

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[8] An important difference between what we call the residuals here and the usual OLS residuals is that we have no reason to expect these residuals to be mean zero.

[9] More concretely, call the data vendor estimates of variable i for neighborhood j, DV_{ij}. Call the new survey-based estimates developed in Phase I for variable i in neighborhood j, S_{ij}. What we have described as the residuals can be defined as: $R_{ij} = DV_{ij} - S_{ij}$. Subsequently, we estimate a model of the sort: $R_i = B_i^*X$, where X is a vector of neighborhood characteristics and B_i is parameter from the model of variable i, say a the regression coefficients, and the observations are the n neighborhoods (or Census block or tracts) in the study. With this model, we can then make out-of-sample estimates to adjust data vendor numbers for other neighborhoods. Call the adjusted estimates A_{ij}; then $A_{ij} = DV_{ij} + B_iX_j$.

handbook could include adjustment pages that would help banks redefine the metrics they already use. Also included would be a methodological summary of the survey, analysis, and evaluation. However delivered, the results of the microsegmentation promise to yield tools for the banking industry that could form a cornerstone of a new approach to lower-income consumers. Dissemination will likely be through industry associations and regulatory bodies.

Phase II Plus: Policy Convening and Paper

Once we have conducted our initial evaluation of the survey results and our comparison to data vendor estimates, it will be time to convene a group of regulators, banking organizations, government entities, data vendors and banks. Nic Retsinas of the Joint Center has offered to play this role and we may want Brookings to participate as well. The goal here would be to:

- Share initial findings and get feedback
- Understand the value of the information and its usefulness to the financial services industry and the potential value as an ongoing product
- Discuss ways to best disseminate the information and influence the market in the largest way
- Get input on improvements to the developing product and knowledge base, additional work, research or data gathering that might be completed
- Discuss ways to continue the research if it considered valuable, eg is there interest in paying for annual updates to the surveys
- Discuss the need for better data or better data systems for sharing and disseminating information
- Discusss legislative implications related to helping improve the market that provides financial services to lower-income consumers; are there regulatory obstacles or inefficiencies

Deliverable – Policy Paper. After the convening, we will synthesize the learnings from the conversations and conduct post-convening interviews to get more in-depth with certain players and on particular topics. We will then write-up the findings and policy implications for the industry, for data collection, etc. This paper would likely be disseminated though the Joint Center or Brookings' distribution networks.

Phase III: A New National Market Segmentation System

The work proposed in Phases I and II will result in a new segmentation system built upon original survey research and analysis. The learnings from this work may form the basis for an even more ambitious project that seeks to fundamentally rebuild a national segmentation system from the ground up. This follow-on effort, which we tentatively describe as Phase III, would involve collection of national survey data to support the creation of an entirely new segmentation of lower-income consumers. The precise details of a potential Phase III project cannot be filled in prior to the completion of Phases I and II.

Nevertheless, even at this early stage, we can describe the ways in which the learnings from the earlier phases of work will shape Phase III. The cornerstone of Phase III, as currently envisioned, would be a new survey that takes the local neighborhood surveys of Phase I to a national scale. This national survey could be either an independent effort or a supplement to one of the existing surveys, such as the Survey of Consumer Finances or Claritas' Market Audit Survey. This survey would differ from existing surveys in two important respects. First, the survey would oversample lower-income consumers, in contrast to existing surveys, which oversample the wealthy. Second, the new survey would differ in content, with a battery of questions specifically designed to elicit information about the distinct preferences, behavior and demographics of lower-income consumers. The learnings from Phase I and II will be essential in informing both the sampling and the content of the national survey in Phase III. In other words, the

earlier work will inform who and how much we oversample, as well as the specific questions that are determined to be important for accurately assessing these market segments.

From this survey work, an entirely new national market segmentation system can be constructed, with a focus on lower-income consumers. This work would bring the entire effort to fruition, providing an innovative set of tools for the financial services industry to use nationally in tapping underserved market segments.

Because the research in Phase III depends heavily on the results of Phases I and II, we leave Phase III as a separate future proposal.

Expected Outcomes

The expected outcomes of this research are that there will be useful knowledge and products for the financial services industry and the community development field. The Metro Edge products created will result in an increased provision of financial products and services on a national scale for lower-income consumers because mainstream financial institutions will better understand these consumers as outlined below. And lower-income consumers will become a part of the financial mainstream with increased access to products and services that lead to asset building. Community institutions will be able to use the knowledge and products as well to work with mainstream financial institutions, brokering relationships and forming partnerships as needed.

The specific knowledge and products created are as follows:

- Market intelligence on lower-income consumers in the 3-5 cities we survey. This will be an in-depth understanding of lower-income consumers in these cities in terms of current usage of financial products and preferences for products, services and delivery.
- Handbook on market size and segments for the 3-5 cities. This Handbook could be used by financial institutions and the field to understand the estimated market size for financial products and services amongst lower-income consumers in the cities. The Handbook will also delineate how the consumers are grouped into segments that reflect particular characteristics and behaviors, and offer suggested approaches for reaching and serving the segments.
- Improvements to internal profitability metrics. If banks agree to participate and share their profitability measures, we will be able to use the survey data and link it to customer files to assess how well the current profitability measures capture the customer's behavior. The participating banks will be better able to serve these customers and the financial industry will benefit from any overall suggestions we develop about improving profitability measures to more accurately reflect the market potential of lower-income consumers.
- Data Report Card. This Data Report Card will test the survey data against data from national vendors and report on the accuracy of the national vendor estimates. This will help financial institutions and the community development field to know which sources to rely on (or not) and how accurate or inaccurate they might be.
- Suggestions for Improving Data Sources. Our work will allow us to understand which types of variables and which types of neighborhoods seem to experience the greatest need for adjustment. We can then suggest how data vendor estimates can be adjusted to improve their accuracy.
- National segmentation product of lower-income consumers. The survey data will be leveraged to improve existing segmentation products with further segmenting or microsegmenting. The result will be a classification of national block groups for urban areas, (so not just the 3-5 cities) indicating predominant market segments and associated consumer profiles.