

ETA Conjoint Research

OMB #1510-0071

FINAL REPORT AND MARKET MODEL
UNBANKED FEDERAL CHECK RECIPIENTS

Prepared by Dove Associates, Inc.

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Preface

About Dove Associates

Dove Associates, Inc. has been advising clients in the Financial Services industry since the early 1980s. We have performed projects for a variety of financial institutions, processors, associations, and EFT networks, primarily focused on strategic business analyses combined with research and development of product and market strategies.

Our Financial Services Group works in all areas of card payment products (ATM and Debit, Credit Cards and Smart Cards, and EBT), Online Banking, Electronic Bill Payment and Presentment, E-Commerce, Operational Excellence, and Bank Distribution Strategy.

Dove Associates has conducted numerous conjoint studies for financial institutions and consumer products firms that are seeking to develop new products and need to understand customer preferences.

Examples of some of our recent work include:

- Published the “1999 Debit Card Study”.
- Published the “1997 Payment Preferences Study”.
- Published “The Future Use of ATMs,” an industry white paper assessing the state of the ATM industry and evaluating threats to ATM volume going forward.
- Developed the business case for EFT network consolidation for a leading association of financial institutions.
- Formulated ATM growth strategies for leading ATM deployers.
- Developed PC banking market-entry strategies.
- Redesigned the back office operations of a major ATM deployer to improve efficiency and decrease cost.

In addition to our Financial Services Group, Dove has other practices focusing on Beverage & Food, Consumer Broadband, Accelerated Business Transformation, and Performance Improvement.

Dove has offices in Boston, Atlanta, Charlotte, Minneapolis, San Francisco, and London.

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Executive Summary

1.1. Introduction

Objective

Dove Associates conducted a research study on behalf of Treasury/FMS to estimate the demand for various low-cost bank account configurations for Federal check recipients who do not have a depository account at a financial institution.

Methodology — Overview¹

A paper-based questionnaire was developed as the primary research instrument to understand opinions concerning bank accounts from the perspective of Federal check recipients who do not have an account at a financial institution.

A variety of hypothetical product configurations that centered around proposed elements of the Electronic Transfer Account (ETA) were tested using choice-based conjoint (CBC) analysis. This methodology provided a way to understand preferences and predict choices that unbanked Federal check recipients would make regarding various combinations of features available.

In the conjoint section of the survey, respondents were given a series of hypothetical ETA products and asked to select which, if any, they would voluntarily choose.

¹ This survey achieved a 61% participation rate. According to the terms of clearance by the Office of Management and Budget, since the survey did not achieve a response rate of at least 70%, and follow-up attempts to survey non-responders did not generate the required 80% participation rate, it cannot be considered representative of the population.

The conjoint survey tested the following features:

ETA Features Tested in Conjoint Analysis

Feature	Feature Options			
Deposits Accepted	Federal only	Federal and other		
Interest on Balances	None	2%		
Bill Payment	Same as today	Automatic or same as today		
Access Points	ATM only	Store cashier or ATM	Bank teller or ATM	Bank teller, store cashier, or ATM
Monthly Cash Withdrawals	3 free	4 free	5 free	
Monthly Fee	\$2.00	\$3.00	\$4.00	

Table 1.1

In addition, the survey also gathered data about respondents’ attitudes, access to financial services, and demographic characteristics. This information provides a means of assessing the validity of the CBC results. The reader is cautioned to take care in interpreting the demographic segmentation data presented in this report due to the limited sample size.

Methodology — Sample Base

The sample base and the conjoint questionnaire were designed with a goal of achieving national representativeness for the survey, with respect to consumer preferences about potential ETA features. Based on the binomial distribution of the conjoint methodology, it was determined that a sample of 384 unbanked recipients could provide results within five percent at a 95% confidence level.

Although the conjoint study of potential ETA features can achieve national representativeness with 384 respondents, with this sample size the demographic and attitudinal data provided as background do not meet the sample size requirements for national representativeness established by the Office of Management and Budget (OMB).

For this conjoint study, all respondents received a written survey in the mail. Unbanked check respondents were from two sources:

- One group of check recipients was pre-screened on the telephone to identify recipients who did not have a bank account and who were willing to complete the conjoint survey. After telephone screening they received a written survey in the mail.

- In order to reach a sample of unbanked check recipients who may not have phones, a second group of check recipients, with no telephone number available, including both banked and unbanked recipients, received a mail survey directly.

The written survey responses were separated into those with a bank account and those without a bank account. The pool of unbanked respondents therefore includes some individuals who were phone screened and some who received the survey directly.

The sample database provided by FMS was matched with publicly listed telephone numbers. As a result, 41% of the names were matched, of which 2,000 were randomly selected. A telephone screening of these 2,000 Federal check recipients was conducted to identify recipients without a bank account. With a maximum of three attempts to contact each recipient, 211 unbanked Federal check recipients had volunteered to participate. For recipients who did not match up with a telephone number, screening was not possible and a survey mailing was necessary to ensure an equal chance of participating and to avoid systematic bias. Therefore, questionnaires were mailed to 2,000 randomly selected recipients with no phone number. Of the 2,211 total surveys initially sent out, for reasons including bad address, death and direct deposit conversion, 222 surveys were classified as invalid and the sample base was revised down to 1,989 unbanked recipients. The 222 invalid surveys number might be due to the fact that the sample run of check recipients was obtained by FMS from July 1998 databases and the survey was conducted in the first quarter of 1999.

The scope of the research was national. Surveys were sent to all 50 states, the District of Columbia, and Puerto Rico, in proportion to the overall Federal check recipient geographic distribution. The study was also conducted across multiple Federal benefit programs including Social Security Administration, Supplemental Security Income, Veterans Affairs, Office of Personnel Management, and Railroad Retirement Board.

Methodology — Response Rate

A total of 846 completed surveys were returned and included in the analysis. Out of this total, 385 respondents did not have a bank account and 461 had a bank account, yielding an overall response rate of 43%. However, for the targeted population of unbanked Federal check recipients, the response rate is 61%. This is based on the assumption from prior Treasury/FMS commissioned research by Shugoll Research/Booz, Allen & Hamilton that 27%² of the Federal check recipients without a phone number who were sent a survey were unbanked.

² The assumption of a 27% unbanked rate for a mail survey was based on a Treasury/FMS commissioned study conducted by Shugoll Research. This result was based on sampling data and therefore subject to variability. This study was based on a survey with a response rate of 42%, which meant, according to Shugoll, that their results were reliable to plus or minus 3.6 percentage points at the 95% confidence level.

Unbanked Response Rate

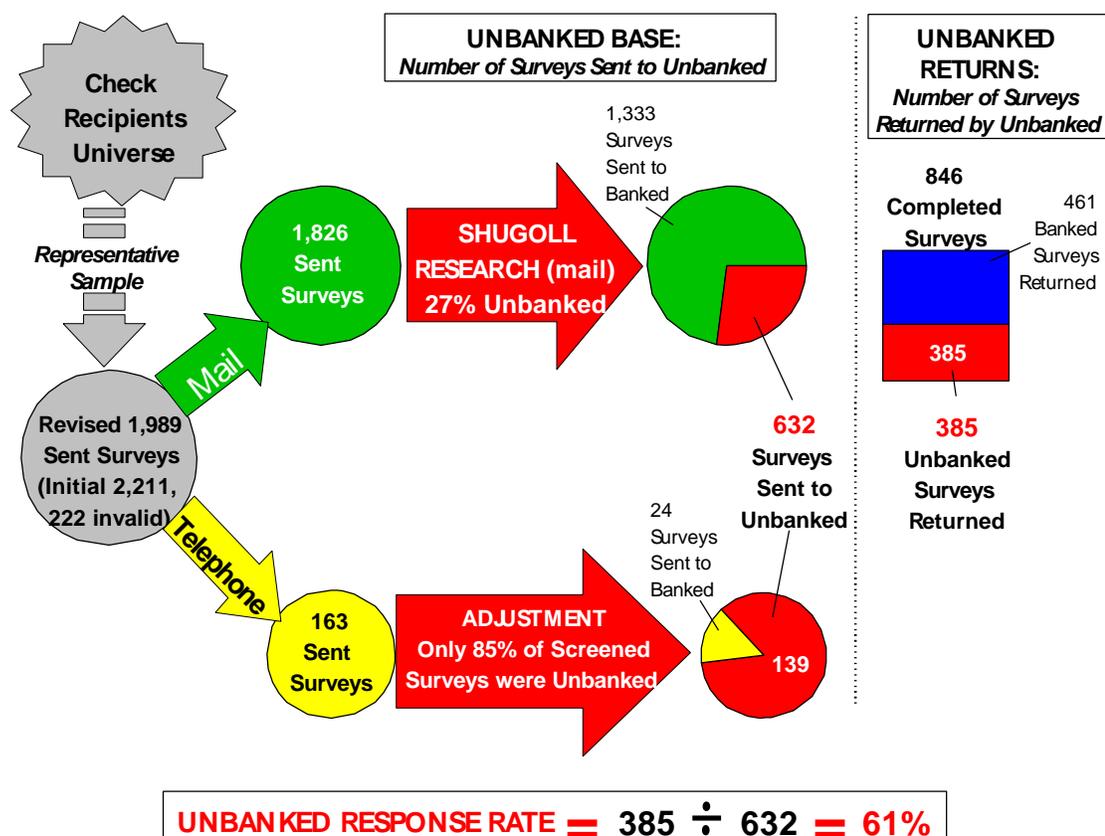


Figure 1.1

A 61% response rate is substantially higher than private sector standards³ for national projectionability, but does not meet OMB's 70% response rate standard requirement. Therefore, the results presented in this report cannot be, applying OMB standards, projected nationally to the overall unbanked Federal check recipient population.

Survey Participants Profiles

Of 385 unbanked Federal check recipients who participated in the study:

- 58% were female; 42% were male.
- 42% lived in cities, 8% in suburbs, 27% in small towns, and 23% in the countryside.
- 52% were White, 25% Black⁴, 14% Hispanic⁴, and 9% Other ethnic group.
- 30% had an annual household income under \$6,000, 54% between \$6,000 and \$15,000, and 16% over \$15,000.

³ Church, "Incentives in Mail Surveys: A Meta Analysis", Public Opinion Quarterly (1993), 57, 62-79.

⁴ Which is higher than the percentage of Blacks and Hispanics in national census statistics, or among banked recipients.

1.2. Key Observations⁵

Twelve key observations from the research and analysis are presented below by category:

Unbanked Federal Check Recipients Check Cashing Practices

1. Most unbanked Federal check recipients are satisfied with the way they cash their checks.

Seventy-one percent of unbanked are satisfied with the way they currently cash their Federal checks. Sixty-nine percent of unbanked respondents think that it is easy to cash their Federal checks. In addition, 70% think that the location where they cash their Federal checks is convenient.

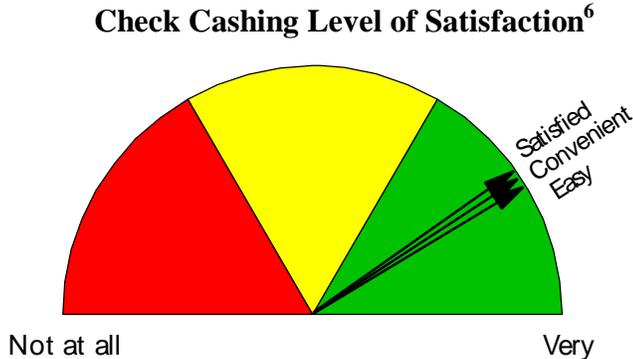


Figure 1.2

2. One factor contributing to the high degree of satisfaction among unbanked recipients is that a minority (39%) is charged a fee to cash their Federal checks.

In general, check cashing is inexpensive because 51% of unbanked Federal check recipients go to financial institutions (banks or credit unions) where they can usually cash their checks at no charge: specifically, 81% of unbanked recipients who go to financial institutions do not pay a fee to cash their checks.

Unbanked Federal Check Recipients' ETA Preferences

3. Logically, unbanked recipients who now pay a fee for check cashing are significantly more interested in an ETA that would charge a monthly fee.

Conversely, unbanked recipients who cash their checks for free are less interested in an ETA. Specifically, 46% of the unbanked Federal check recipients report no interest in an ETA regardless of the features proposed at any of the three monthly fee levels tested (\$2.00, \$3.00 and \$4.00).

4. For the 54% of unbanked recipients interested in some form of an ETA, the most important decision factor is access (how often and where they can get cash), followed by the cost of the ETA, and to a lesser extent by optional features (interest paid, deposits allowed, and electronic bill payments).

⁵ The sample data contained in this section is subject to variability and are not point estimates alone. Additional information is contained in the Methodology section, Chapter 3.

⁶ All charts of this type are based on 13 point scales.

Relative Importance of ETA Features Unbanked Respondents Interested in ETA

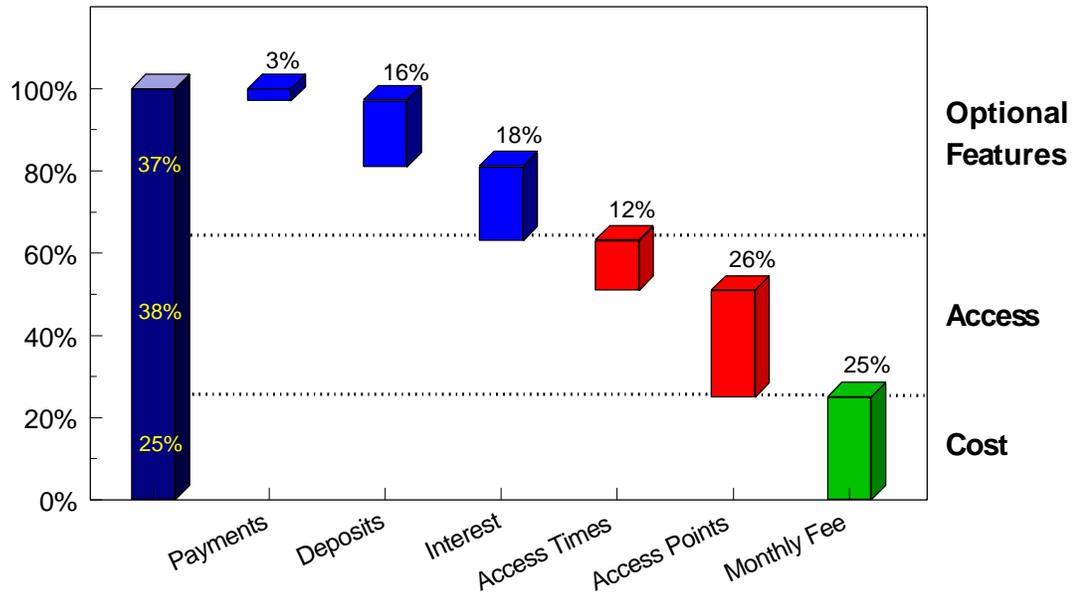


Figure 1.3

5. Within each of these features, respondents' preferences were identified. The preferences were then incorporated in the modeling to estimate demand for various ETA configurations. The results of the conjoint appear to be rational, in that respondents consistently prefer the option with the greatest value (the richest option at the lowest cost).

ETA Feature Preferences

	<i>Most Preferred</i>	▲		<i>Least Preferred</i>
DEPOSITS ACCEPTED	Federal and Other			Federal only
INTEREST ON BALANCES	2%			None
BILL PAYMENT	Automatic or same as today			Same as today
ACCESS POINTS	Bank teller, store cashier or ATM	Store cashier or ATM	Bank teller or ATM	ATM only
MONTHLY CASH WITHDRAWALS	5 free		4 free	3 free
MONTHLY FEE	\$2.00		\$3.00	\$4.00

Figure 1.4

6. Using conjoint methodology, trade-offs between features — with their respective preferences — can be measured and modeled to predict demand for specific product configurations. Five product configurations were analyzed in detail. The five configurations and their respective demand or 'take-rate' are presented below in Figure 1.5.

**‘Take-Rate’ for ETA Configurations
at a \$3.00 Monthly Fee
with 4 Free ATM Cash Withdrawals**

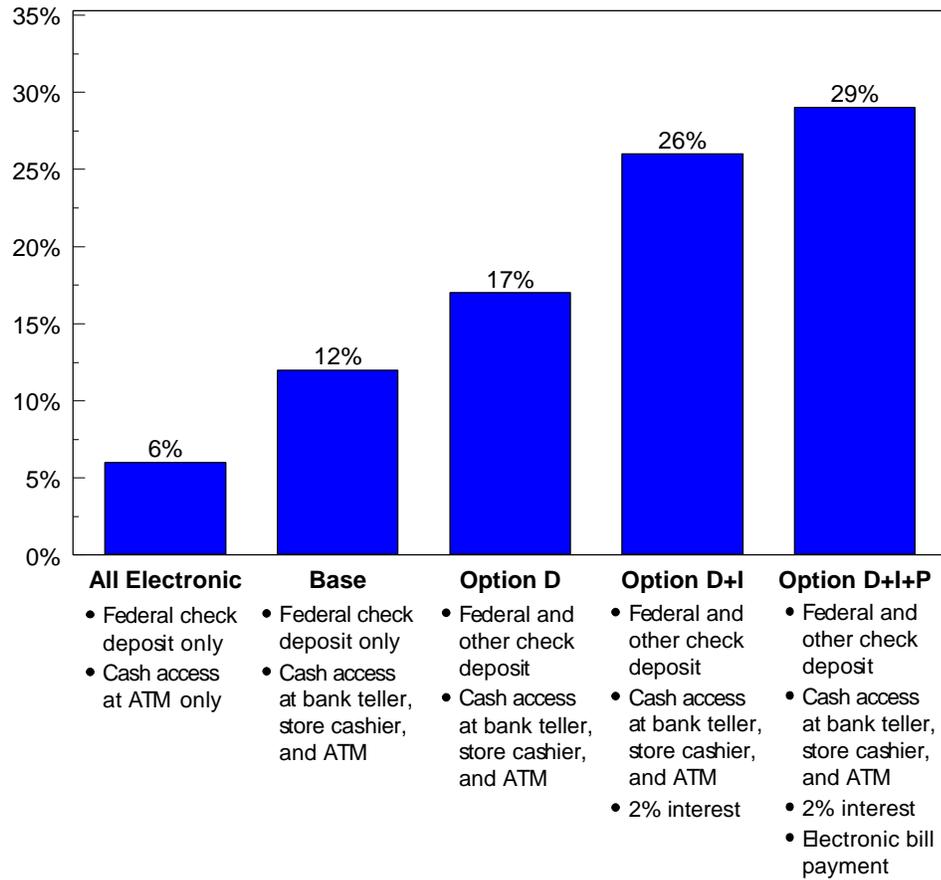


Figure 1.5

Of those five configurations, an ‘all-electronic’ ETA configuration is the least preferred. This product, at a \$3.00 monthly fee level, would be chosen by approximately 6% of the current unbanked Federal check recipients.

The other four configurations each progressively incorporate more access and the proposed optional features. These product enhancements could increase the number of unbanked recipients who would choose an ETA by nearly five-fold (from 6% to 29%). This increase is driven by:

- Access to bank tellers and store cashiers
- Payment of 2% interest on account balances
- Acceptance of deposits from other sources than Federal only

7. The five configurations were tested at three different price levels (\$2.00, \$3.00, and \$4.00 per month). The resulting ‘take-rates’ reflect respondent choices when presented with the binary choice of enrolling in the ETA as described or remaining without an account. Because respondents were offered product choices at \$2.00 per month, the estimated enrollment at \$3.00 per month may be conservative. Some survey respondents will always prefer the least expensive product, but will actually sign up at the higher price when the product is not available less expensively. Holding all of the other features constant, price sensitivity and elasticity analyses suggest that a \$3.00 monthly fee may be acceptable to recipients.

**‘Take-Rate’ for ETA Configurations
by Monthly Fee**

ETA Configuration	\$4.00	\$3.00	\$2.00
All Electronic	4%	6%	9%
Base	9%	12%	18%
Option D	14%	17%	26%
Option D+I	21%	26%	37%
Option D+I+P	24%	29%	41%

Table 1.2

As expected, the \$2.00 monthly fee option was the most popular among unbanked recipients, as it was the lowest price available to respondents. Since 61% of recipients currently cash their checks for free, a \$2.00 fee might not be the optimal price level.

Unbanked Federal Check Recipients’ ETA Preferences by Segment

8. In addition, respondents’ interest in the ETA varies strongly by demographic segments. The most interested segments are unbanked recipients living in cities, Black unbanked recipients, and unbanked recipients under 35 years old.

As shown in Table 1.2, at a \$3.00 monthly fee, the ‘take-rate’ for the overall unbanked population would range from 6% for an ‘all electronic’ ETA to 29% for ‘Option D+I+P’. Specifically, for unbanked recipients living in cities, the ‘take-rate’ would range from 8% to 34%. For Black unbanked recipients, the ‘take-rate’ would range from 9% to 48%. For unbanked recipients under 35 years of age, the ‘take-rate’ would range from 6% to 49%.

- City unbanked Federal check recipients are more likely to choose an ETA than unbanked recipients living in other areas outside of cities.

As shown in Figure 1.6, for all ETA configurations, the ‘take-rate’ of city unbanked recipients is at least 54% greater than that of countryside unbanked recipients and at least 42% greater than that of small town unbanked recipients.

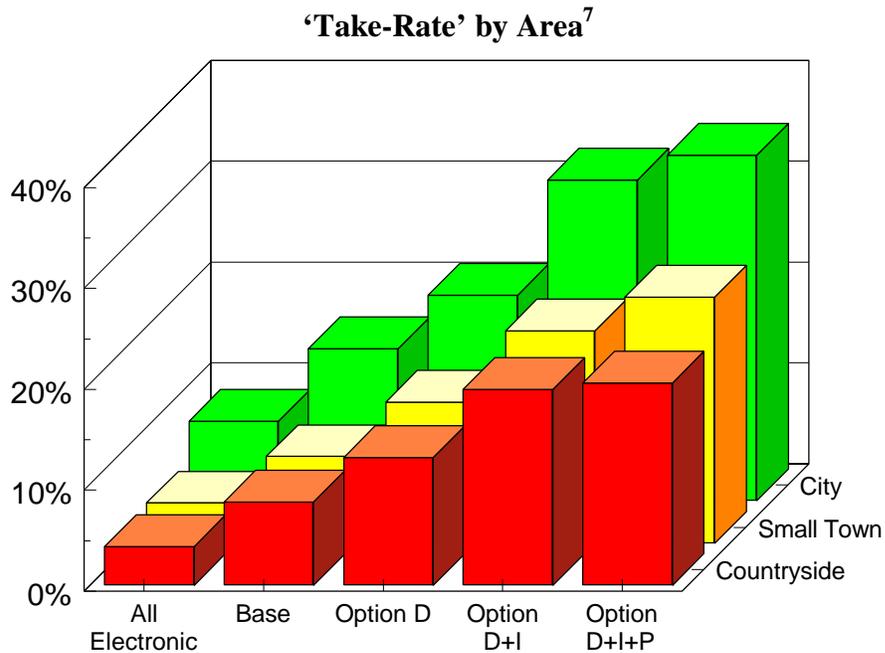


Figure 1.6

This is consistent with the previous result showing that unbanked recipients who now pay a fee for check cashing are significantly more likely to be interested in an ETA which would charge a monthly fee. Unbanked Federal check recipients living in cities are more likely (53%) to be charged check cashing fees than recipients in the countryside (26%) or small towns (29%).

- Black unbanked Federal check recipients are more likely to choose an ETA than other groups.

As shown in Figure 1.7, for all ETA configurations, the ‘take-rate’ of Black unbanked recipients is at least 63% greater than that of White unbanked recipients and at least 80% greater than that of Hispanic unbanked recipients.

⁷ Suburban segment not included due to small number of responses for that segment.

'Take-Rate' by Ethnic Group⁸

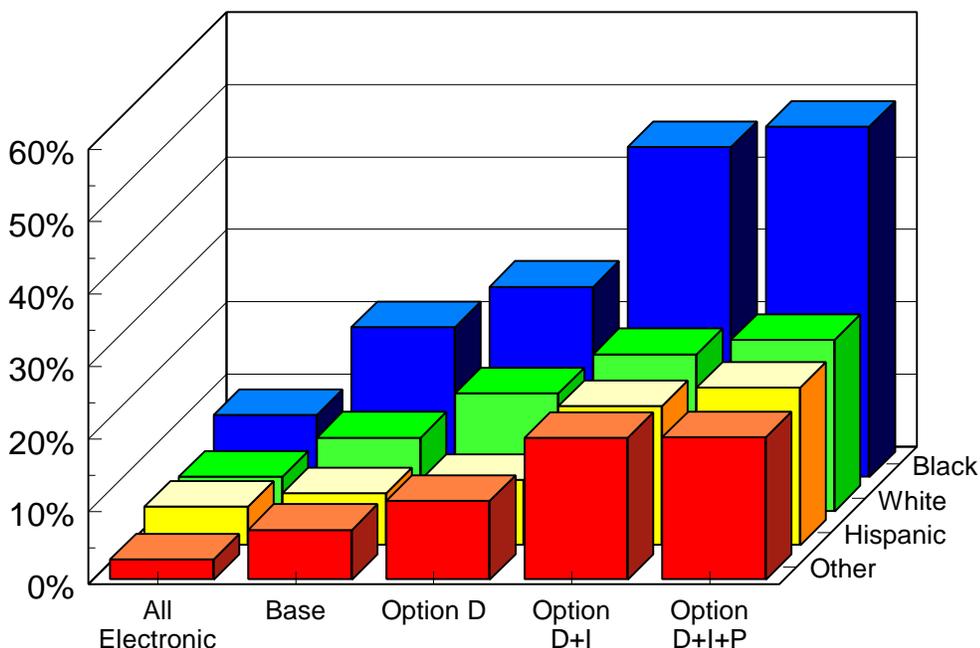


Figure 1.7

Black unbanked recipients show greater receptivity to ETAs because 62% are charged a fee to cash their checks compared to Whites (27%) or Hispanics (40%). This is associated with key observation #2, in that Black unbanked recipients are less likely (34%) to use financial institutions than Whites (62%) and more likely (33%) to use check cashers than Whites (7%).

11. Unbanked respondents under the age of 35 are more interested in the ETA than other age groups, suggesting that ETA acceptance should grow over time.

As shown in Figure 1.8, the 'take-rate' of unbanked recipients under 35 years of age for ETA 'Option D+I+P' is 345% greater than the interest of unbanked recipients over 74 years of age.

⁸ Other includes Asian, American Indian or Alaska Native, Native Hawaiian or Pacific Islander.

'Take-Rate' by Age

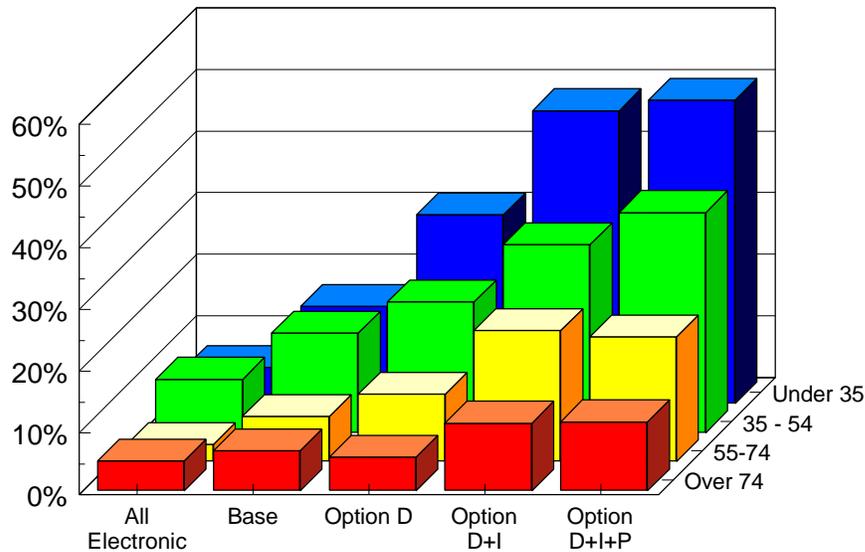


Figure 1.8

Potential ETA Customers Among Unbanked Federal Check Recipients

12. A Market Model was designed based on the conjoint analysis. The model incorporates all the variables including features and segmentation, and multiplies the resulting 'take-rate' by the estimated number of unbanked Federal check recipients, in order to assess potential demand for the ETA. The Market Model predicts that approximately 276 thousand to 2 million unbanked Federal check recipients would voluntarily choose an ETA, depending on the features offered.

For the five ETA account configurations, 'All Electronic', 'Base', 'Option D', 'Option D+I', and 'Option D+I+P', the table below displays the ETA demand that would be expected at a \$3.00 monthly fee level.

'Take-Rate' and Expected Number of ETA Accounts at a \$3.00 Monthly Fee

Option (\$3.00)	'Take-Rate'	Low Case* Number of ETA Accounts (000)	High Case** Number of ETA Accounts (000)
All Electronic	6%	276	386
Base	12%	585	818
Option D	17%	855	1,197
Option D+I	26%	1,302	1,822
Option D+I+P	29%	1,433	2,007

Table 1.3

*Low case assumes 5MM unbanked Federal check recipients.⁹

** High case assumes 7MM unbanked Federal check recipients.⁹

⁹FMS/Treasury commissioned report, ETA Initiative Final Report, Dove Associates, June 15, 1998 — "ETA prospects who do not have a bank account at an FI represent 24% of the Federal benefit check recipient population (based on Shugoll Research) — approximately 5.2 to 6.5 million individuals".

The Market Model may provide useful information for financial institutions to consider offering and marketing an ETA product in their local market. Based on the conjoint survey, the Market Model provides estimated ‘take-rates’ for various ETA configurations for consideration by a financial institution. The results carry the same degree of accuracy and national representativeness as the conjoint study itself. Please refer to the Methodology section for more detail.

Key Findings

1. Over time, two primary factors will drive greater acceptance of ETA offerings. First, greater interest in the ETA among young unbanked recipients may translate into higher demand for the ETA as the unbanked recipient population ages. Second, the current trend of banks and retailers increasingly charging for check cashing may stimulate further demand for ETAs.
2. Across the five configurations examined, the ETA will be more readily adopted by unbanked check recipients who live in cities, who are Black, or who are under 35 years of age. The Federal government should give top priority to these three segments in order to achieve the greatest sign-up for the ETA and to support financial institutions’ marketing programs. Financial institutions and Treasury will find that these segments will be the easiest to convert from paper checks to electronic payments.
3. Different ETA configurations receive different levels of demand because not all features are equally attractive. Access is a critical dimension. The Federal government should consider the importance of cash access in locations that can offer personal attention such as bank tellers or grocery store clerks, as opposed to all electronic access. First, this provides a wider range of cash access locations (financial institutions branches, stores) and assistance for unbanked recipients. Second, this also gives financial institutions a cross-selling opportunity to draw unbanked recipients into the banking mainstream. In addition, respondents’ answers indicate that financial institutions that pay interest on the account and permit additional deposits will make the ETA more attractive.
4. As a result, to maximize the demand for an ETA, we recommend that the Federal government consider adopting the Option D+I at a \$3.00 monthly fee. This option provides the best balance between financial institution supply and unbanked recipient demand — pricing must be balanced between what FIs are able to provide and what unbanked are willing to pay. If financial institutions cannot cover their costs from ETA accounts, they will not be likely to offer ETAs on a voluntary basis.

Background

2.1. Situation

The Debt Collection Improvement Act requires Treasury to issue all payments (except tax refunds) beginning January 1, 1999, by electronic transfer. This change will greatly affect paper check recipients who will be encouraged to participate in the Direct Deposit program. The law presents an even greater challenge to check recipients who do not have a bank account. Treasury is assisting recipients who can conveniently establish an account by helping them to enroll in the direct deposit program. However, the law also requires Treasury to make a low-cost account available for those who are not able to establish a bank account for various reasons, including the prohibitive price of commercially available accounts.

According to earlier demographic studies, FMS estimated that there are approximately five to seven million Federal check recipients who may need an ETA. The conjoint research study examined the preferences and sensitivities of these prospective customers around various potential low-cost bank ETA account configurations. Dove Associates was engaged by FMS as a subcontractor to PricewaterhouseCoopers to conduct market research using conjoint analysis for Electronic Transfer Account (ETA) product positioning and optimum client use.

The research project began in October 1998 and was completed in May 1999. The survey was administered during the months of February and March 1999.

2.2. Research Objectives

This research focused on potential ETA customers who are Federal check recipients and do not have a banking relationship. Conjoint Analysis was needed to estimate potential customers' preferences for various features and pricing of the ETA in order for them to receive Federal benefit payments electronically.

The study was designed to test different hypothetical features and fees of specially designed bank accounts for potential ETA customers, and to produce a market model to predict the acceptance of the ETA by various customer segments. The research will be used to project customers' future choices about hypothetical ETA features and associated fees.

Conjoint analysis is a research technique that has been used for more than twenty years to measure the value that respondents derive from various product features. It is a technique that decomposes products and/or services into discrete components and then methodically varies the product configurations and measures consumers' responses to the changes.

In a typical study, respondents are asked to rate their interest in purchasing a range of possible product bundles referred to as conjoint profiles. Each profile includes different levels (e.g., prices, features, etc.) for selected features that make up the product or service. By methodically repeating this process, it is possible to quantify those features that a respondent likes and dislikes, and to determine the strength of that preference.

In order to gain an understanding of the likely response to various ETA configurations, Dove used a Choice-Based Conjoint methodology which permitted respondents to indicate their preferences in a multiple-choice format that included a 'no sale' option (i.e., "Which, if any, of these products would you select?"). The share of choice is used to assess 'take-rates' for each configuration.

Given the economic and educational profile of the unbanked, it was determined that the survey should be paper-based and that the number of product features should be limited to six in order to minimize respondent fatigue.

This research provides a quantitative basis for strategic product decisions around ETA features and pricing and will permit Treasury/FMS to model the impact of various fees and features, for maximizing conversion of the entire market. The features tested included:

- Monthly fees
- Monthly cash withdrawals
- Cash access points
- Automatic bill payment
- Interest paid on balances
- Deposits from Federal and other sources

In addition to the conjoint research, attitudinal, behavioral and demographic data was collected in the survey to permit a better understanding of why respondents made the product choices they did in the conjoint section of the survey.

The challenge of this study is to provide demand-side information which can be used by Treasury to estimate the market equilibrium point where demand for ETAs by unbanked Federal check recipients and supply of ETAs from FIs meet.

Research Methodology

3.1. Overview

The research focused on Federal check recipients who do not have an account at a financial institution. In addition, the survey was designed to collect information on Federal check recipients who have a banking relationship in order to perform a meaningful comparison between these two populations.

The scope of the research was national. Surveys were sent to all 50 states, the District of Columbia, and Puerto Rico, in proportion to the overall Federal check recipient geographic distribution. The study was also conducted across multiple Federal benefit programs including Social Security Administration, Supplemental Security Income, Veterans Affairs, Office of Personnel Management, and Railroad Retirement Board.

The research study consisted of multiple phases:

- Survey design
- Sampling process
- Telephone matching and screening
- Administration of the Mail survey
- Special sessions of in-person surveys
- Data collection and cleaning
- Analysis and reporting

3.1. Survey Design

Design Process

A paper-based questionnaire was developed as the primary research instrument for understanding opinions about bank accounts from the perspective of Federal check recipients who do not have an account at a financial institution.

Questions were developed to gather the following information on Federal check recipients:

- Attitudes about banking services
- Access to banking services
- Attractiveness of various elements of the ETA (via conjoint analysis) and the choices that would be made on the basis of features and fees
- Demographic characteristics

The initial questionnaire was pre-tested with seven individuals in a GED program in the Boston area to ensure that the language used could be understood by individuals with limited education. On the basis of this test, changes were made to the phrases and terms used in the survey questions. In addition, the draft questionnaire was reviewed by inter-agency collaboration in accordance with the Paper Reduction Act. Finally, the draft questionnaire was also submitted to FMS and OMB for approval. Their comments were integrated into the final questionnaire. A copy of the survey is in Appendix A.

A Spanish version of the survey was also produced to minimize language biases. The cover of the English version of the survey included instructions in Spanish for obtaining a Spanish-speaking administrator who could send out a Spanish version of the survey.

— **“ESPAÑOL: Si usted necesita una copia en español, por favor llame a Javier Nogales al numero gratuito 1-800-895-3900.”**

In addition, bilingual researchers conducted approximately one-third of the telephone screening calls and were available to answer incoming toll-free calls. Spanish language surveys accounted for nearly 2% of the completed surveys.

Given the time required for participants to complete the questionnaire, an incentive was offered to complete the survey. All respondents were given a flat incentive payment of \$20 plus a chance to win a grand prize — a new television valued at \$500. Dove Associates’ past experience administering conjoint surveys to consumers has demonstrated the very positive impact of a monetary compensation on response rate — estimated at approximately one dollar per minute spent to complete the survey. Furthermore, response rates have been maximized when fixed per respondent incentive is combined with a sweepstake. In this particular survey, only one size of incentive was offered to ensure equity among participants and, therefore, there is no information to assess bias. The only specific feedback about the incentive provided by respondents was their follow-up calls on the status of the payment, which suggest that the incentive was attractive. A total of \$16,732 incentive value and postage reimbursements were paid to the respondents.

Conjoint Methodology

A key component of the research instrument was the choice-based conjoint scenarios that were created and analyzed by the CBC software from Sawtooth Technologies. CBC examines respondents' preferences in a format that includes a 'no sale' option (i.e., "Which, if any, of these products would you select?"). This makes the choice decisions realistic and provides insight into why unbanked check recipients may not choose to use bank accounts.

Prior research studies suggest that Federal check recipients who do not have an account at a financial institution may not be comfortable with 'technology intensive' research methodologies. Therefore, the conjoint survey was administered using a paper-based survey via telephone, by mail or in-person.

CBC methodology limits the number of product features that can be tested to six, with the characteristic that each feature can have five levels. The conjoint part of the questionnaire gathered information on six features related to ETA specifications proposed by Treasury:

- Monthly fees
- Monthly cash withdrawals
- Cash access points
- Automatic bill payment
- Interest paid on balances
- Deposits from Federal and other sources

Sampling Process

Sample Size

FMS specified that a probability sample be used with a large enough number of prospective ETA customers to have an allowable error of +/- 5% with a 95% confidence level. This level of statistical accuracy for tests of preference shares can be met with 384 responses for binomial response analyses. However, a larger sample size is necessary to attain similar levels of accuracy for all the following sub-groups.

- Program
- Ethnic Group
- Age
- Region
- Income
- Area

Choice-based conjoint analysis is a repeated-measures technique for which sample sizes are estimated differently due to multiple observations from each respondent. The rule of thumb is that 30 to 40 respondents per research cell is generally sufficient. The power tables for a 95% confidence level and an allowable error of 5% suggests that the number of responses per cell should range from 32 for the three-cell segmentation schema to 39 responses for each of the five-cell segments. (See “Tables of Sample Sizes in Analysis of Variance,” *Journal of Quality Technology* (1970)).

Sample Selection

A probability sample was used. Randomly selected names and addresses of July 1998 Federal check recipients were drawn from each program’s files and delivered to Dove Associates for sampling. The two-stage process and the initial number of names requested were based on prior research done by Shugoll/Booz, Allen & Hamilton. Their 1997 study documented unbanked rates to be 18% over the phone and 27% by mail — an aggregated 24% unbanked rate among Federal check recipients.

A first qualifying test was run on the 11,963 Federal check recipient names delivered by FMS by eliminating non-individual (usually institutions) records.

Initial Database by Agency

Agency	Total Records	Disqualified Records	Revised Total Records for Sampling
SSA	4,992	188	4,804
SSI	3,987	208	3,779
VA	1,594	19	1,575
OPM	991	14	977
RRB	399	9	390
Total	11,963	438	11,525

Table 3.1

A quota sampling method was used to ensure national projectionability for sub-segments. The names were used to meet program and geographic distribution criteria. Due to the disproportionately low number of checks sent to various programs, the smaller program segments were over-sampled. Within each program list, names were randomly selected again to meet state quotas in Dove’s attempt to balance responses across regions and minimize geographic bias.

- Guidelines for program distribution were based on Treasury published numbers for benefit payments by program (Oct 98 – Dec 98).¹⁰

¹⁰ Source: 1st Quarter Update – FY99, Governmentwide Treasury-Disbursed, Cumulative Payment Volume.

Federal Benefit Check Payments by Agency

Agency	Check Payments	Percent of Total Checks
SSA	11,268,040	69%
SSI	3,711,835	23%
VA	848,606	5%
OPM	239,851	2%
RRB	209,632	1%
Total	16,662,291	100%

Table 3.2

- Guidelines for state distribution were based on 1997 Treasury data for Federal check benefit payments by state provided to Dove from a Booz, Allen & Hamilton study.

3.2. Telephone Screening

A telephone screening of 2,000 Federal check recipients was conducted to identify recipients without a bank account.

Telephone Matching

The sample database was matched with publicly listed telephone numbers.

Out of 11,525 names in the revised database, 4,773 names were successfully matched with a telephone number. Two thousand of these names were randomly selected and became the base for telephone screening calls. Of the revised database, 41% of the names were matched. The telephone matching rates by program are shown below in Table 3.3.

Telephone Matching Rates

Agency	Total Records (revised)	Matched Records	Percent Matched	Sample	Sample Distribution
SSA	4,804	2,346	49%	1,118	56%
SSI	3,779	1,132	30%	379	19%
VA	1,575	612	39%	158	8%
OPM	977	418	43%	182	9%
RRB	390	205	53%	163	8%
Total	11,525	4,713	41%	2,000	100%

Table 3.3

Screening Calls

A letter printed on Department of Treasury stationery was mailed to the 2,000 randomly selected check recipients to inform them that they would receive a call from Dove Associates. (See Appendix B)

Dove Associates research staff placed calls to the recipients that had been matched with a telephone number and who had been sent the advance letter. Three call attempts were made to each person across three different times of day before abandonment.

- A total of 3,752 call attempts were made, out of which 1,245 were successful contacts. A successful contact was defined as talking to the recipient or with a representative if the recipient was unable to talk to the interviewer.
- Among people who were contacted:
 - 60% had a bank account
 - 20% did not have a bank account
 - 20% did not want to reveal their banking status
- Among the recipients contacted who were willing to reveal their banking status, 246 said that they did not have a bank account. Of these, 211 agreed to participate in the survey.

During the telephone screening process, surveys were mailed at the end of each day to recipients who had agreed to participate.

Follow-up Calls

Individuals who had agreed to participate but had not completed the survey within two weeks received follow-up calls.

A second wave of follow-up calls was performed with an attempt to conduct the actual survey over the phone in order to accelerate the data collecting process.

A third and fourth wave of follow-up calls were conducted to remind recipients of their agreement to participate.

Telephone Screening Administration

To maximize the reliability of the process, the following system procedures were implemented:

- A database with the names, addresses, programs, and phone numbers of the 2,000 recipients selected for the screening was created in Microsoft Access.
- The system generated one tracking form per recipient with the relevant information for the interviewer. A copy of the form is in Appendix C. This form was used to track the call attempts and collect the demographic and banking information for each recipient.
- Non-response was tracked to identify any consistent patterns. Recipients who did not want to participate during telephone screening were asked key demographic questions.
- Information was collected whether or not an individual had a bank account in order to provide comparative data.
- Information was entered and saved daily into the database.
- The project manager generated daily reports to monitor progress and identify areas that needed improvement, such as specific programs or specific regions.

3.3. Mail Survey

Initial Mailing

For recipients who did not match up with a telephone number, screening was not possible and a survey mailing was necessary to ensure an equal chance of participating in the research and to avoid systematic bias.

There were 6,752 names left without a telephone number after the telephone matching process. Among these, 2,000 names were randomly selected for the mail survey.

Sample Distribution by Agency

Agency	Telephone Screening Surveys	Telephone Screening Surveys %	Mail Surveys	Mail Surveys %	Total Surveys	Total Surveys %
SSA	99	47%	983	49%	1082	49%
SSI	85	40%	499	25%	584	26%
VA	12	6%	190	10%	202	9%
OPM	7	3%	164	8%	171	8%
RRB	8	4%	164	8%	172	8%
Total	211	100%	2,000	100%	2,211	100%

Table 3.4

The 2,000 questionnaires were mailed with cover letters and postage-paid envelopes on February 2, 1999. The following procedures for maximizing response rates were implemented:

- The survey was easy to follow with visual supports such as scale questions. The number of conjoint cards was kept to a minimum to accelerate the completion process.
- A large font — **Arial 14**, recommended by FMS — was used to facilitate understanding and to make it easier for senior adults, visually impaired, and low-literacy individuals to read.
- There were no identifiers on the survey or on the postage-paid return envelope, unless the respondent voluntarily supplied his/her name and address. In any case all respondents were assured complete confidentiality.
- The cover letter was printed on Department of Treasury stationery and was signed by the FMS Assistant Commissioner of Federal Finance. The letter explained to Federal check recipients why participation in the survey is important, stressed the respondents' confidentiality, and noted the required response date. See Appendix D for a copy of the letter.

- The surveys were mailed in envelopes similar to those used for the respondents' checks. The letters and surveys were mailed from the FMS Hyattsville Financial Center.
- A postage-paid envelope addressed to "Treasury Survey c/o Dove Associates" was included with the survey.

Follow-up Mailings

Several actions were undertaken to encourage recipients to participate in the survey:

- A reminder postcard was sent to non-respondents approximately two weeks after the initial mailing, asking them to complete the survey and mail it back. See Appendix E for a copy of the postcard.
- A second questionnaire was mailed approximately one month later to the 645 recipients who had not responded.

In-person Surveys

In order to better understand the survey subjects and potential non-response bias, Dove Associates attempted to meet some of the recipients who had not returned a completed survey.

A Treasury letter was created, along with a participation response form (see Appendix F), to invite 156 Federal check recipients into Federal facilities for special survey sessions in six cities across the country:

- Atlanta
- Boston
- Los Angeles
- New York
- San Francisco
- Washington

The four-hour long sessions took place between March 22, 1999 and March 29, 1999. The rate of attendance was very low with only three attendees. Dove had offered to reimburse attendees for their transportation expenses.

The participation form requested recipients who would not attend the session to explain why. The goal was to understand the non-responding segment of the targeted population and to determine if there were any systematic biases in the research. Only 22 invitees who did not want to attend the session sent the participation form back. A majority (14) indicated that they could not attend because of their difficulty going to places, mostly because of illness or disability. Six respondents stated — "I just want my benefit check and do not wish to participate."

3.4. Data Collection and Cleaning

Of the 2,211 surveys (and 2,000 postcards) sent out, 77 were returned as undeliverable. Surveys were undeliverable because the recipient had changed address or was deceased. In addition, 97 returned surveys were considered invalid for several reasons: they were returned blank, the recipient did not receive any benefit check, or the recipient was not a check

recipient anymore but a direct deposit recipient. Finally, 55 recipients excluded themselves from the sample by calling or telling Dove Associates during the telephone follow-up calls that they wanted to be removed from the list. As a result the sample base was revised down to 1,989 Federal check recipients.

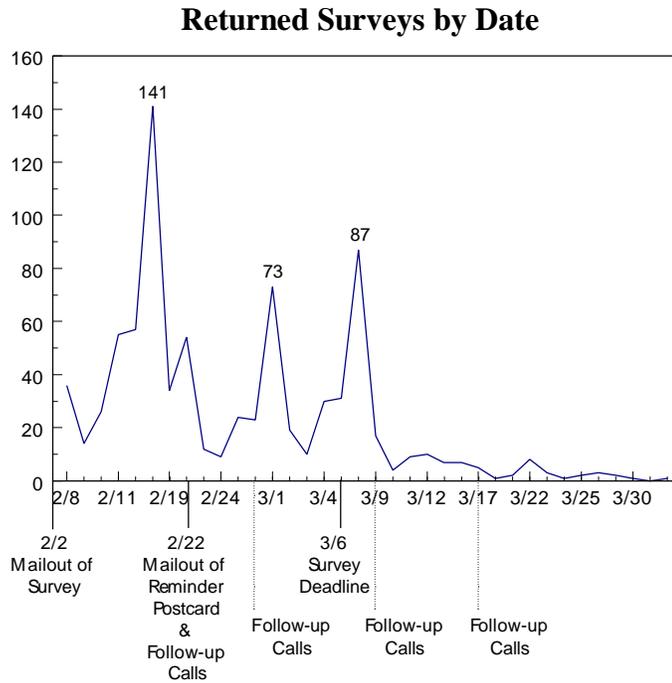


Figure 3.1

A total of 846 completed surveys were returned and included in the analysis. Out of this total, 385 respondents did not have a bank account and 461 had a bank account, yielding an overall response rate of 43%. The response rate for the targeted population of Federal check recipients who do not have a bank account is 61%, assuming a 27% rate (based on the Shugoll Research/Booz, Allen & Hamilton results) of unbanked among Federal check recipients who did not have a phone number and were sent a mail survey.

- With a revised base of 1,989 surveys, a 27% unbanked rate for mail surveys, and an 85% unbanked rate for screened surveys, the unbanked Federal check recipients base is 632. With a return of 385 surveys completed by unbanked recipients, the response rate is 61%, as illustrated below:

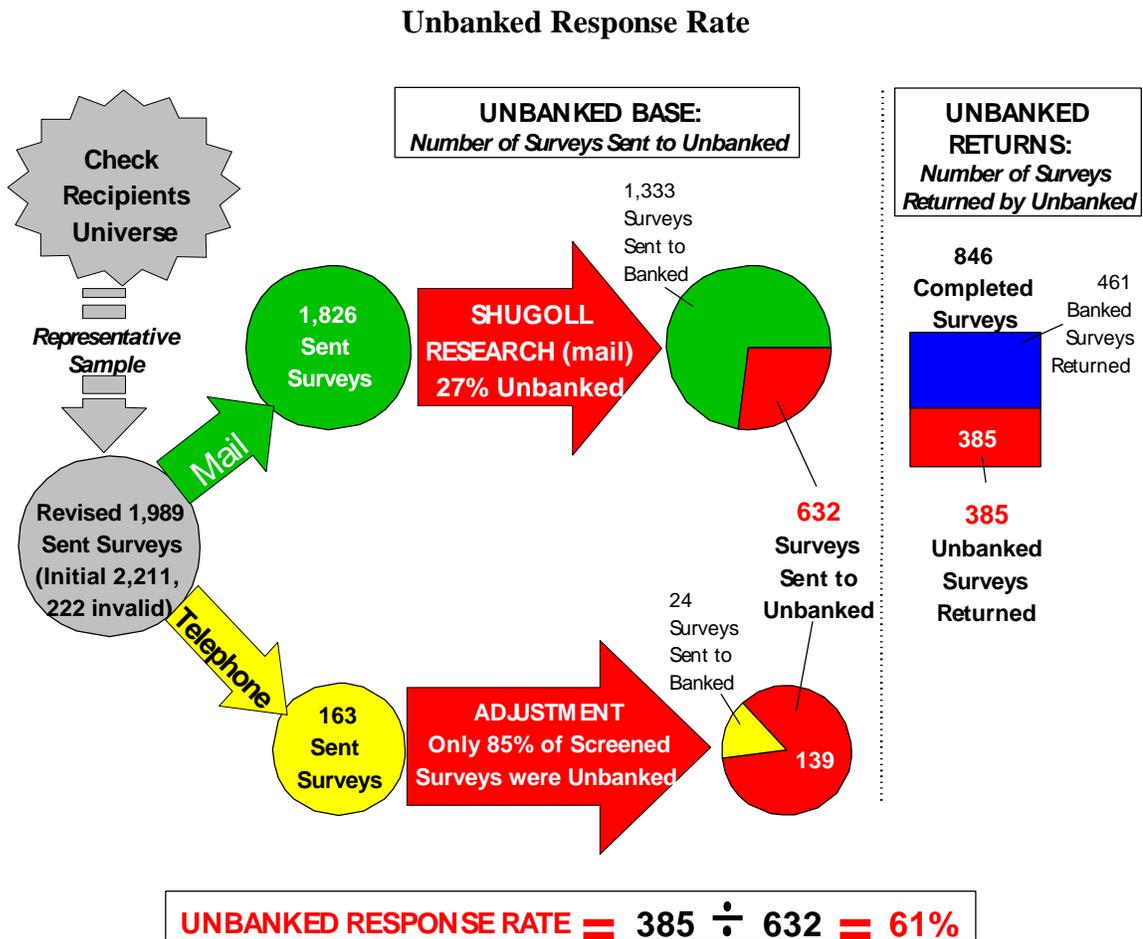


Figure 3.2

- The assumption of a 27% unbanked rate for a mail survey was based on a FMS/Treasury commissioned study conducted by Shugoll Research. This study was based on a survey with a response rate of 42%, which meant, according to Shugoll, that their results were reliable to plus or minus 3.6 percentage points at the 95% confidence level¹¹. Therefore, this same range can be used to estimate Dove study's response rate. This implies that the likely number of surveys sent to unbanked in the mail survey ranges from 427 to 559, and the total number of surveys sent to unbanked would be between 565 and 697 surveys, yielding a response rate range of 55% to 68%.

A 61% response rate is substantially higher than private sector standards for projectionability, but does not meet OMB's 70% response rate standard requirement. Therefore, the results presented in this report should not be, applying OMB standards, projected nationally to the overall unbanked Federal check recipient population.

Responses by Agency

Agency	Total Surveys	Revised Surveys ¹²	Unbanked Rate ¹³	Unbanked Rate Adj. ¹⁴	Unbanked Surveys	Returns ¹⁵	Response Rate
SSA	1082	973	20%	25%	246	226	92%
SSI	584	525	64%	51%	425	202	48%
VA	202	182	20%	25%	46	30	65%
OPM	171	154	6%	8%	12	7	60%
RRB	172	155	11%	14%	21	13	60%
Total	2,211	1,989			750	478	

Table 3.5

It should be noted that this study includes a comparable number of responses and a slightly higher overall response rate than the Shugoll Research study that was released in 1997.

¹¹ Source: Mandatory EFT Demographic Study OMB #1510-00-68, September 15, 1997, Booz Allen & Hamilton, Shugoll Research.

¹² Overall revision factor of 90% (1,989 versus 2,211) applied by program.

¹³ Based on telephone screening.

¹⁴ Unbanked rates based on telephone screening are adjusted up for mail surveys, based on Shugoll Research (18% unbanked rate via telephone versus 27% unbanked rate via mail).

¹⁵ Total does not add up to 385 because of double count of recipients who receive both SSA and SSI payments.

3.5. Validity

This survey achieved a 61% participation rate. According to the terms of clearance by the Office of Management and Budget, since the survey did not achieve a response rate of at least 70%, and follow-up attempts top survey non-responders did not generate the required 80% participation rate, it cannot be considered representative of the population.

The information in these chapters provides a context and insight into the survey participants and facilitates an understanding of the respondents' ETA product configuration preferences that are presented in Chapters Seven and Eight.

Statistical inferences on the Parts One, Two and Four of the questionnaire, discussed in Chapters Four, Five and Six, are made using statistical procedures at a 95% significance level (e.g., Anova F-tests, Chi-Square statistics, etc.) which control for sample size and are based on standard errors of estimate. Additionally, Bonferroni's corrections have been applied to control for spurious results based on the $\alpha = 0.05$ level in cases where multiple inquiries into the data set have been performed.

The estimates of the characteristics and conjoint product preferences in this report are based on a sample of recipients and, consequently are subject to sampling error. One indicator of the sampling error associated with a given estimate is its standard error. Standard errors measure the variation in estimated values that would be observed if multiple replications of the sample were drawn. The magnitude of the standard errors depends on:

- The degree of variation of the variable within the population from which the sample is drawn.
- The design of the sample, including issues such as stratification and sampling probabilities.
- The size of the sample on which the estimate is based.

The conjoint methodology, used in Part Three of the questionnaire, is a repeated-measures technique that gathers multiple observations from each respondent. This provides more observations (13 degrees of freedom per respondent) for the conjoint analyses than can be attained from the univariate questions in Parts One, Two and Four of the questionnaire.

Conjoint 'take-rates' are presented as point estimates. Due to the sampling methodology, variability could exist, therefore the information is also presented with a 95% confidence interval based on plus or minus two standard errors. The detail is provided in Appendix I.

The total of 385 unbanked returned surveys is large enough for testing binomial differences in proportion with the allowable error of +/- 5% with a 95% confidence level¹⁶. The multinomial logistical regression models of respondents' binary choices are nationally projectionable for the unbanked Federal check recipient population. This level of accuracy is not maintained for the demographic segmentation cuts. Therefore, differences among groups are tested using standard errors-based approach and t-tests at a 95% level unless otherwise noted.

The discussion of model-fitting is provided in Chapter Seven. Model parameters have been evaluated using t-statistics to determine the validity. The goodness fit of the logistical models that are used to estimate 'take-rates' were evaluated using the Root likelihood values generated in CBC (analogous to R-Square in OLS regressions). All segmentations presented had values in excess of 0.3, which is considered to be good.

3.6. Response Bias

Based on the limited demographics information available on program participants and the data provided by non-respondents, it does not appear that any non-response bias is evident with respect to the banked versus unbanked dimension. The percentage of Black unbanked respondents was higher than the national average in the population. However, other research has also shown that this ethnic group has a higher unbanked rate than Whites. This may suggest that the sample is reflective of the overall unbanked Federal check recipient population.

Tracking data from follow-up research anecdotally suggests that non-respondents may have tended to be:

- Older
- Disabled
- Male

¹⁶ The estimate is valid using the binomial probability distribution $((1.96)^2 (p(1-p))/(5\% \text{ allowable error})^2)$ where $p=50\%$

3.7. Segmentation

- By program

SSA only	VA
SSI only	OPM ¹⁷
SSA & SSI	RRB ⁸

- By Area

City	Small town
Suburb ⁸	Countryside

- By Ethnic Group

Black	Other
Hispanic	White

- By Age

Under 18 ⁸	35-44	65-74
18-24	45-54	75-84
25-34	55-64	Over 84

- By Income

Under \$2,000	\$6,000-\$7,999	\$15,000-\$19,999	\$30,000-\$39,999
\$2,000-\$3,999	\$8,000-\$9,999	\$20,000-\$24,999	\$40,000-\$49,999
\$4,000-\$5,999	\$10,000-\$14,999	\$25,000-\$29,999	Over \$50,000

- By Region

Regions used for the segmentation were defined as follows:

States by Region

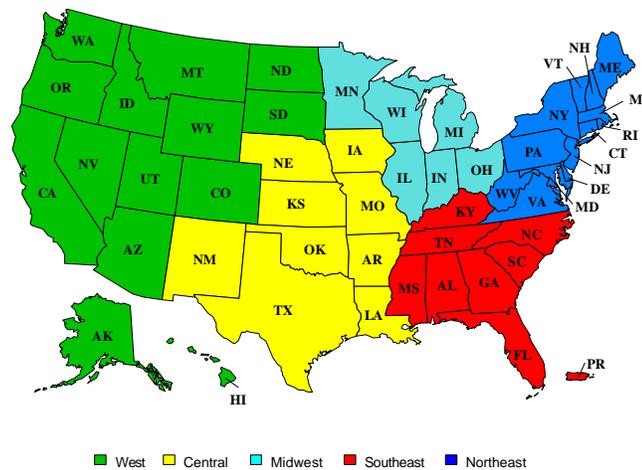


Figure 3.3

¹⁷ Usually not presented due to small sample size.

Respondent Profiles

3.8. Introduction¹⁸

The profiles of the respondents are consistent with the Shugoll study conducted in 1997. Responses along the survey are internally consistent, such as: “older recipients have received Federal benefits for a longer time” or “public transportation is more available in the city”. Table 4.5 at the end of the chapter summarizes the characteristics of Federal check recipients by whether or not they have a bank account.

Key Findings

Unbanked Federal check recipients show specific demographic characteristics and they significantly differ as a group from banked Federal check recipients. The key findings are as follows:

- Overall, unbanked recipients are more likely to be female, with significant variation by program.
- Unbanked recipients are significantly younger than banked recipients, which appears to be related to their SSI subgroup.
- Unlike banked recipients, unbanked recipients are more likely to be single (37%), especially Black unbanked recipients (51%).

A vast majority (77%) of unbanked recipients lives in one adult households.

- Unbanked recipients are primarily city residents. Living area and ethnic group are highly related: a core subgroup of unbanked recipients was identified as Blacks living in cities — 14% of unbanked recipients.
- Forty percent of Blacks and Hispanics among unbanked recipients is significantly higher than the percentage of Blacks and Hispanics in national census statistics or among banked recipients.
- Annual household income for unbanked recipients is concentrated in the \$6,000 - \$15,000 range, except for Hispanics who are more often under \$6,000.
- Significant variations emerge by region for unbanked recipients in the case of living area and education.

¹⁸ The sample data contained in this section is subject to variability and are not point estimates alone. Additional information is contained in the Methodology section, Chapter 3.

3.9. Who are the unbanked?

Unbanked Federal check recipients show a profile with specific characteristics for most demographic dimensions studied.

Gender

Over half of the unbanked Federal check recipients are females (58%). However, the proportions vary by program: recipients who belong to SSA, SSI, or to both are more often females (63% and 62% respectively), while VA recipients are more often males (75%). Female percentages for other programs are: 25% for RRB and 28% for OPM¹⁹.

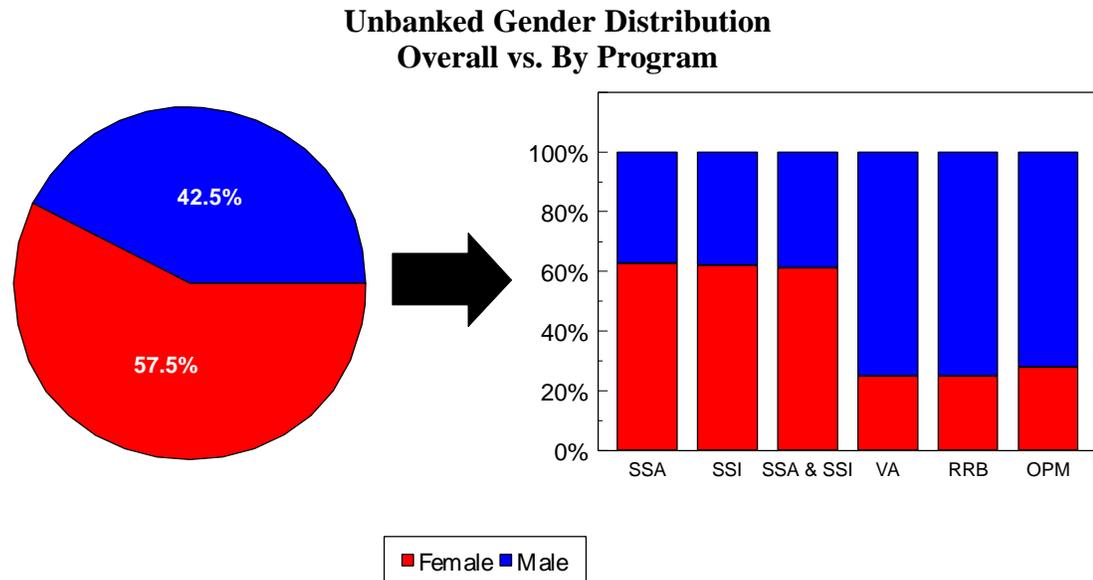


Figure 4.1

SSI recipients survey information is consistent with agency statistics: 60% of overall SSI recipients are females according to the “Fast Facts about Social Security 1998”.

Age

The mean age of Federal check recipients who do not have a bank account is 53 years old and the median is 50 years old. In addition, the majority of unbanked recipients (56%) is between 25 and 65 years of age.

¹⁹ OPM: too small sample for significance.

Unbanked Age Distribution

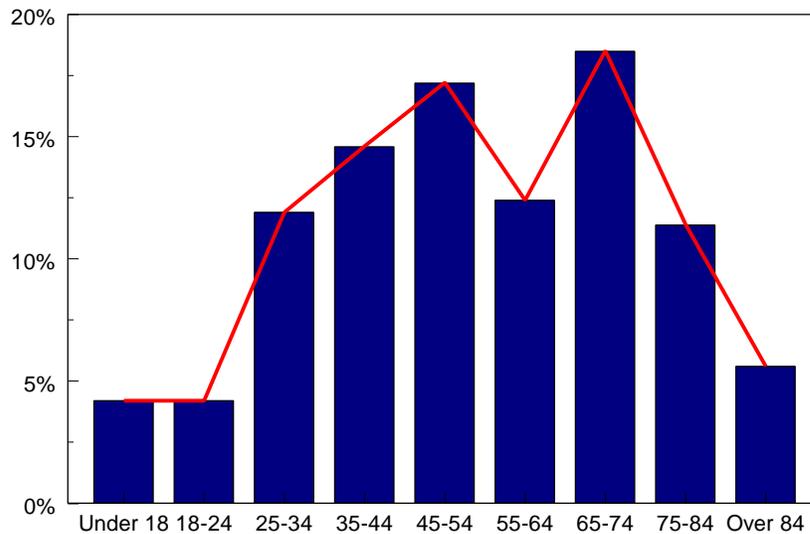


Figure 4.2

Results by program differ, with SSI only unbanked recipients being significantly younger (the mean age is 44 years old) than others. The mean age is 56 years old for SSA recipients, 55 for VA, 61 for OPM, and 67 for RRB. The majority (60%) of SSI unbanked recipients is under 45 years of age. This is less the case for other programs (32% for SSA recipients, 32% for recipients who receive both SSA and SSI, 23% for VA and 0% for RRB).

Marital Status and Children

The largest group among unbanked recipients is single, accounting for over one-third of recipients (37%). Then by order of importance, married recipients (23%), widowed (19%), divorced (14%), and separated recipients (7%).

Consistent with census data, Hispanic recipients are more likely to be married (40%) than other ethnic groups, especially when compared with Blacks, who are most often single (51%). SSI only recipients are also more likely to be single (50%), while nearly one-third (29%) of recipients of both SSI and SSA are widowed, which is significantly above average.

The survey indicates that, on average, there is less than one (0.8) child under 18 years old in unbanked recipient households. Blacks have a significantly higher number of children under 18 years of age (1.1) and a large percentage of the Black households are one adult households — 88% of unbanked Blacks are single, separated, divorced or widowed.

- The higher average number of children under 18 for Black households is largely associated with single and separated Blacks (1.33 and 1.71 children respectively).
- This is consistent with census data: 54% of all Black families in 1996 were maintained with a single parent, compared to 20% for Whites.

Living Area

Unbanked Federal check recipients vary in their living areas: a high number of the recipients live in cities (42%), while only 8% live in suburbs; similar numbers live in small towns (27%) and in the countryside (23%).

This data varies according to the type of check received. SSI only recipients are much less likely to live in the countryside (12%) than other groups, such as RRB recipients (62%).

Living areas and ethnicity are highly associated. Blacks and Hispanics are twice as likely (62% and 60% respectively) to live in cities than Whites (30%) or other ethnic groups. A majority of Whites (62%) lives in small towns or in the countryside, as opposed to 32% each for Blacks and Hispanics.

Unbanked Living Area by Ethnic Group

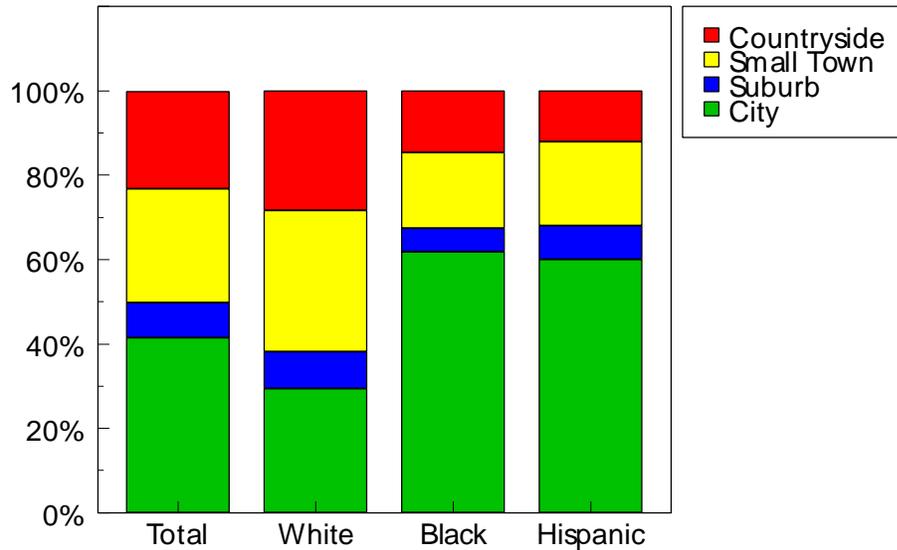


Figure 4.3

The survey results suggest that the proportion of unbanked recipients living in different types of areas varies by region. A higher percentage of recipients lives in cities in the Northeast and Midwest regions (54% and 49% respectively), while a higher percentage of recipients lives in the countryside in the Southeast region (36%).

Ethnic Group

Blacks and Hispanics represent approximately 40% of the unbanked survey respondents (25% and 14% respectively). A small majority of unbanked recipients is White (52%), while Asians account for 2%, American Indians or Alaska Natives for nearly 5%, Native Hawaiians or Pacific Islanders for less than 1%, and Other²⁰ ethnic groups for nearly 2%.

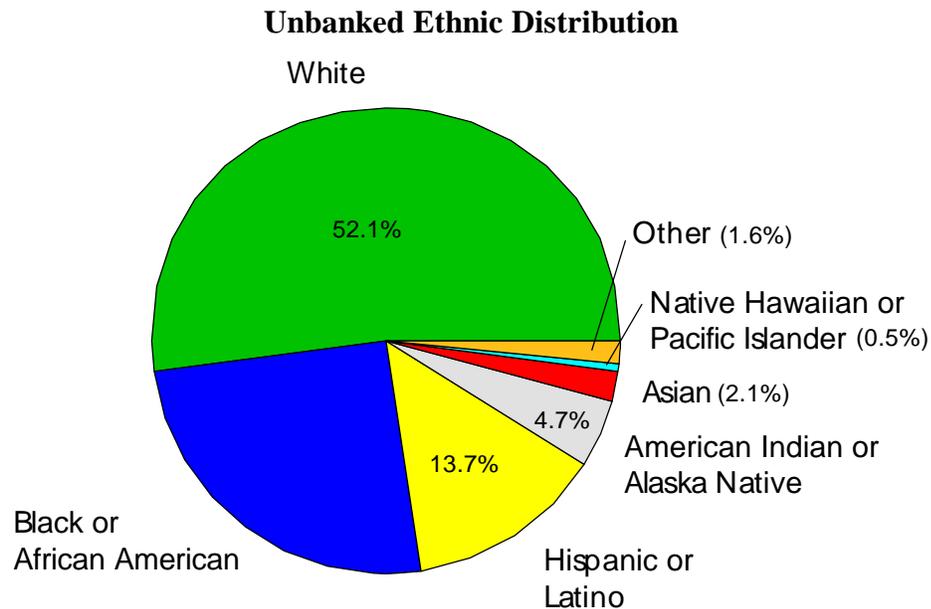


Figure 4.4

As previously identified, there is a strong relationship between ethnic group and living area. Unbanked recipients living in cities include 37% of Blacks, 37% of Whites, and 20% of Hispanics. In comparison, 65% of small town and 64% of countryside unbanked recipients are Whites.

Education Level

The vast majority of unbanked Federal check recipients have not attained a high level of education: 82% of unbanked recipients did not study beyond high school. Specifically, 56% of recipients attended only some high school or even less, 26% graduated from high school, 14% tried some college or trade school, 1% reached a college degree, 2% attempted some post-graduate or professional education, and finally 1% received a post-graduate or professional degree.

²⁰ In Chapters 4, 5 and 6, when used for segmentation purpose, Other ethnic group includes Asians, Native Hawaiians or Pacific Islanders, and Other as defined in the survey.

As expected, younger respondents had a higher opportunity for education and therefore attained higher levels of education. No recipient over 84 studied beyond high school, and only a few recipients over 65 studied post high school (3% for 75-84 years old recipients and 7% for 65-74 years old recipients).

Education attainment also varies depending on ethnic groups. Consistent with national statistics²¹, Hispanics have a lower education attainment: 73% of unbanked Hispanic recipients did not complete high school and an additional 21% only reached a high school diploma. Whites' education attainment is higher with 55% who did not complete high school and 30% with a high school diploma. Both groups show significantly lower attainment compared to Blacks: 30% studied beyond high school.

Unbanked Education Attainment by Ethnic Group

Education Level	Black	Hispanic	White
Some High School or Less	48%	73%	55%
High School Diploma – Some College	43%	27%	43%
At Least a College Degree	9%	0%	2%

Table 4.1

Finally, education attainment varies strongly by region. Unbanked recipients living in the West are more educated: one-third of the West recipients studied beyond high school as opposed to recipients from the Central and Southeast regions (11% and 13% respectively).

Income Level

The mean annual household income for unbanked Federal check recipients is \$10,000, and the median income is \$7,000. Consistent with education level, income is significantly lower for unbanked Hispanic check recipients (mean income of \$8,200). However, despite higher education attainment, Blacks' mean income of \$9,500 is lower than Whites' \$11,200. Over half of Hispanics (53%), earn less than \$6,000 a year, while the majority of Black and White recipients (60% and 57% respectively) household incomes are between \$6,000 and \$15,000 per year.

Unbanked Income Distribution by Ethnic Group

Income Level	Black	Hispanic	White	Total
Under \$6,000	26%	53%	24%	30%
\$6,000 - \$15,000	60%	36%	57%	54%
Over \$15,000	14%	11%	19%	16%

Table 4.2

In addition, VA and RRB recipients appear to have higher annual household income than SSA or SSI, or both SSA and SSI recipients. A majority of VA and RRB recipients (55% and 67% respectively) earn over \$10,000 per year — the mean income is \$14,200 for VA and \$17,700 for RRB. Conversely, the large majority of SSA or/and SSI recipients earn under \$10,000 per

²¹ 1997 Population Profile of the United States.

year (67% of SSA only, 79% of SSI only, and 78% for SSA and SSI recipients) — the mean income is \$10,300, \$8,300, and \$8,900 respectively.

Home Ownership

The majority of unbanked recipients (70%) live in their personal home²². They primarily rent the place where they live (41% rent versus 29% own). Other recipients live with relatives (21%), live in an institution (3%), or live in some other place (7%). The degree of ownership varies by area, with more owners in the countryside (58%) where the land is less expensive. Other areas' level of ownership is 15% for the city, 24% for the suburb, and 25% for the small town. Ownership did not seem to be related to income level.

Environment Infrastructure

Only 13% of unbanked Federal check recipients have access to a computer. As expected, this varies by income level, with 41% of unbanked recipients with an annual household income over \$20,000 per year having access to a computer. Access also differs depending on age: access to a computer decreases as age increases. Less than 10% of recipients over 45 years old have access to a computer (down to 5% when over 84), while a computer is available to more than 20% of recipients under 45 (up to 44% when under 25). Access to a computer depends upon the respondent's living area. Access is much higher in the suburbs (30%) compared to other areas (12% for cities, 12% for small towns, and 10% for the countryside).

An individual means of transportation (car or truck) is accessible to the majority (60%) of unbanked recipients. Public transportation²³ is accessible to 23% and some other method of transportation (e.g., walk, a ride from a relative or friend) is accessible to 18%. Overall, 7% of unbanked recipients claim that no means of transportation is accessible to them. This varies by area: cars or trucks are less accessible in cities (48%), but more in suburbs (76%), in small towns (68%), or in the countryside (69%). Similarly, public transportation is more accessible in cities (39%), but less accessible in suburbs (14%), in small towns (12%), or in the countryside (8%). Transportation access is also related to ethnicity. Cars or trucks are more often accessible to Whites (71%) compared to Blacks (51%) and Hispanics (46%). Similarly, public transportation is more often accessible to Blacks (39%) and Hispanics (37%) compared to Whites (13%). Higher income seems to increase one's access to a car or a truck, with 82% of recipients with an annual household income over \$20,000 having a car or truck accessible for their transportation.

Years of Receiving Benefit

On average, unbanked Federal check recipients have been receiving a check for 11 years (median is 8 years). This is highly related to age: older recipients have received a check for a longer period of time (average of 6 years under 35 years old versus average of 22 years over 75 years old). In addition, SSI only recipients appear to be short-term beneficiaries compared to other programs, which could be due to the rigorous re-qualification process of SSI.

²² Personal home, which is owned or rented, as opposed to be living in an institution or with relatives.

²³ Several means of transportation can be available to one individual.

3.10. Unbanked versus Banked

Age

Banked Federal check recipients are significantly older than unbanked recipients. The mean age for banked is 62 years old (the median age is 70) compared to a mean age for unbanked of 53 years old (a median age of 50). The majority of banked recipients (57%) is over 65 years old, while the majority of unbanked recipients (56%) is between 25 and 65 years old.

Age Distribution — Unbanked vs. Banked

Age Range	Unbanked	Banked
Under 25	8%	2%
25-65	56%	41%
Over 65	36%	57%

Table 4.3

Marital Status and Children

Banked Federal check recipients are much more likely to be married (49%) than unbanked recipients (23%). At the same time, banked recipients are significantly less likely to be single (15%) than unbanked recipients (37%). The differences are likely related to ethnic group: there is a higher percentage of Whites banked than Whites unbanked and White banked recipients have a significant higher probability to be married (53%) than White unbanked recipients (22%).

The mean number of children under 18 years old is significantly lower for banked recipients (0.5) compared to unbanked recipients (0.8). This is consistent with age characteristics.

Ethnic Group

Along the lines of national ethnic distribution, banked Federal check recipients are 71% White, as opposed to only 52% of unbanked. Banked numbers are significantly different from unbanked numbers: Blacks represent 25% of unbanked and 16% of banked, and Hispanics represent 14% of unbanked and 7% of banked.

Ethnic Distribution of Check Recipients Unbanked vs. Banked

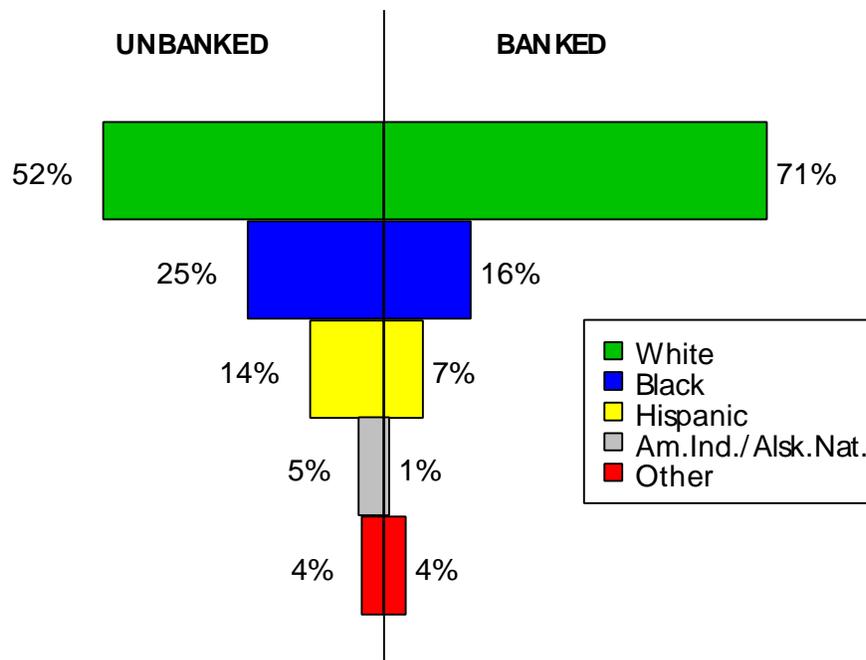


Figure 4.5

Education Level

Banked Federal check recipients are more educated than unbanked recipients: 39% of banked recipients studied beyond high school compared to 18% of unbanked recipients.

Income Level

Banked recipients generally have a higher income than unbanked recipients. The mean annual household income is \$17,500 for banked recipients (the median income is \$15,000). The mean annual household income is \$10,000 for unbanked recipients (the median income is \$7,000). Over one-third (38%) of banked Federal check recipients earn an annual household income of \$20,000 or more, while this is the case for only 10% of unbanked recipients.

Home Ownership

A higher number of banked Federal check recipients (87%) live in their personal home compared to unbanked recipients (70%). Of significant difference is that banked recipients are at least twice as likely to own their home than unbanked recipients (65% versus 29% respectively). As expected, unbanked recipients are twice as likely to rent their home than banked recipients (41% versus 21% respectively). Banked recipients are much less likely to live with relatives.

Banked recipients' higher level of ownership is linked to their higher income level. Higher income is associated with home ownership — 30% of banked recipients with an annual household income under \$2,000 are owners up to 87% of banked recipients with an income over \$20,000. Ethnicity is also a significant factor of difference since banked recipients are more likely to be White and 72% of White banked recipients own their home.

Environment Infrastructure

Access to a computer is greater for banked recipients (28%) than for unbanked recipients (13%).

An individual means of transportation, car or truck, is more often available to banked Federal check recipients (79%) than to unbanked recipients (60%), which suggests greater mobility.

Unbanked vs. Banked Respondent Profiles Summary

Characteristic	Unbanked (N=385)	Banked (N=461)
Gender		
▪ Male	42%	47%
▪ Female	58%	53%
Mean Age	53	62
Marital Status		
▪ Single	37%	15%
▪ Divorced	14%	9%
▪ Married	23%	49%
▪ Widowed	19%	24%
▪ Separated	7%	3%
Percent with Children (under 18) in Household	34%	27%
Living Area		
▪ City	42%	36%
▪ Suburb	8%	20%
▪ Small Town	27%	25%
▪ Countryside	23%	19%
Ethnic Group		
▪ White	52%	71%
▪ Black or African American	25%	16%
▪ Hispanic or Latino	14%	7%
▪ Am. Indian or Alaska Nat.	5%	1%
▪ Asian	2%	3%
▪ Nat. Hawaiian or Pacific Isl.	1%	1%
▪ Other	2%	1%
Education		
▪ High School or Less	56%	26%
▪ High School Diploma	26%	35%
▪ Some College	14%	25%
▪ College Degree	1%	8%
▪ Some Post-Graduate	2%	4%
▪ Post-Graduate Degree	1%	2%
Mean Household Income	\$10,000	\$17,500
Home Ownership		
▪ Own Home	29%	65%
▪ Rent Home	41%	22%
▪ Live with Relatives	20%	9%
▪ Live in Institution	3%	1%
▪ Other	7%	3%

Table 4.4

Attitudes

3.11. Introduction

This section analyzes the attitudes unbanked Federal check recipients (survey respondents) have toward banking. The objective is to better understand the emotional component in what unbanked recipients think about checks, cashing checks, bank accounts, or banks.

Key Findings

- Overall, unbanked recipients are satisfied with the way they cash their Federal checks. They are satisfied (71%), it is easy (69%), and the location is convenient (70%). In addition, the paper format of the check is important (69%).
- The majority of unbanked recipients do not have any specific problems (i.e., discomfort or language barrier) with banks.
- Unfortunately, the majority of unbanked recipients are not interested in having a bank account: 61% think they do not need a bank account.
- However:
 - First, bank account and direct deposit acceptance should improve over time.
 - Paper checks are less important to younger unbanked respondents.
 - Younger unbanked recipients perceive less trouble in having a bank account.
 - Younger unbanked recipients express a higher need for a bank account than older recipients.

Second, unbanked recipients who pay a fee to cash their checks consider it expensive to cash their checks.

Finally, significant variations emerge by ethnic group: Blacks are less likely to perceive trouble in using a bank account (39% do not perceive any trouble) and more likely to express a need for a bank account (42% rate their need from maybe to definitely). Only 24% of unbanked Whites rank their need for a bank account from maybe to definitely.

- Banked recipients are more satisfied with their current way of cashing their Federal check than unbanked recipients.

3.12. Check Cashing Satisfaction

Unbanked Federal check recipients are satisfied with their current way of handling finances, specifically regarding their Federal check.

Unbanked recipients usually receive one Federal check per month, except SSA&SSI unbanked recipients since they receive both SSA and SSI payments.

Overall Satisfaction, Ease and Convenience

Unbanked Federal check recipients (71%) are satisfied with the way they currently cash their Federal check.

Sixty-nine percent of unbanked respondents think that it is easy to cash their Federal checks. In addition, 70% think that the location where they cash their Federal checks is convenient.

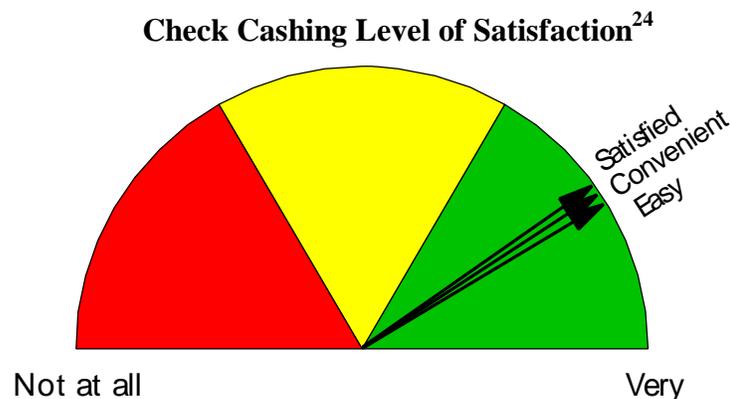


Figure 5.1

²⁴ All charts of this type are based on a 13 point scale.

Cost

The majority (58%) of unbanked Federal check recipients do not consider it expensive to cash their Federal checks. However, by only considering the 37% of unbanked recipients who pay a fee for cashing their Federal checks, results are significantly different: 22% consider that cashing their check is from somewhat not expensive to free, while 46% think it is from somewhat expensive to very expensive.

Check Cashing Cost Overall vs. Fee Payers

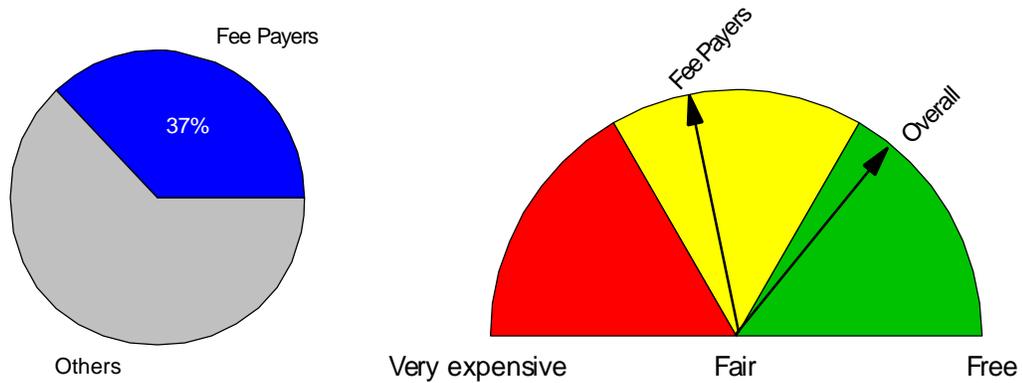


Figure 5.2

Overall, a significant difference in cost perception appears between living areas, as well as between ethnic groups. Unbanked recipients who live in cities perceive cashing checks as being more expensive than do recipients living in other areas. Similarly, Blacks are more likely to think that it is expensive to cash their checks compared to Whites or Hispanics. By selecting only unbanked recipients who pay a fee, the results are even more striking. One quarter of the unbanked recipients living in cities who pay a fee think that it is expensive to cash their checks while only 14% of those who live in the countryside think that it is expensive. Similarly, 28% of Blacks consider it expensive to cash their Federal checks, while only 19% of Hispanics and 20% of Whites think so. Therefore, it appears that some subgroups might be more price sensitive than others among unbanked recipients.

Paper Importance

In addition to the overall satisfaction with the check cashing process, the paper check itself is important for over two-thirds (69%) of the unbanked Federal check recipients. It is important for the unbanked recipients to receive a paper check, see it and hold it in their hands.

Of interest is that the importance given to the paper check varies by age. The older the recipient, the more important the check is. Over three quarters (78%) of unbanked recipients over 65 years old think that a check is important, while less than half (47%) of unbanked recipients under 25 years old think a check is important. Since younger generations are less attached to checks, the future for electronic payments gets brighter.

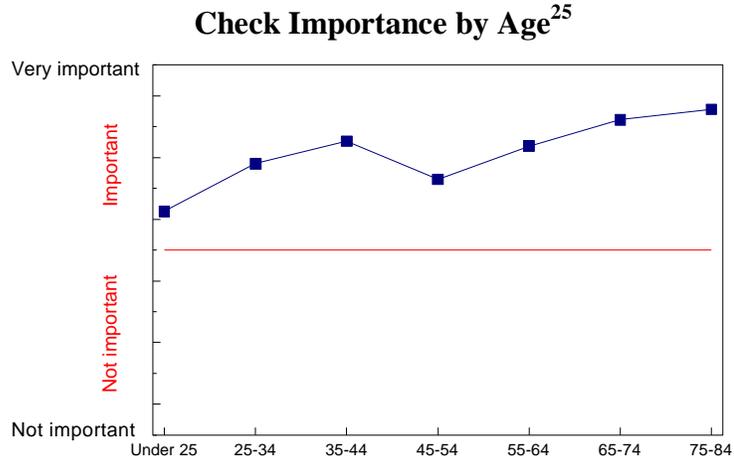


Figure 5.3

3.13. Direct Deposit Perception

Though unbanked Federal check recipients know about direct deposit, trust in direct deposit is limited.

Awareness and Understanding

Surprisingly, the vast majority (89%) of unbanked Federal check recipients is completely aware of direct deposit as an option to get their benefit. In addition, over half (53%) of unbanked recipients also claim to have a very good understanding of the mechanics of direct deposit — “they know what happens to their money with a direct deposit”.

Awareness and Understanding of Direct Deposit

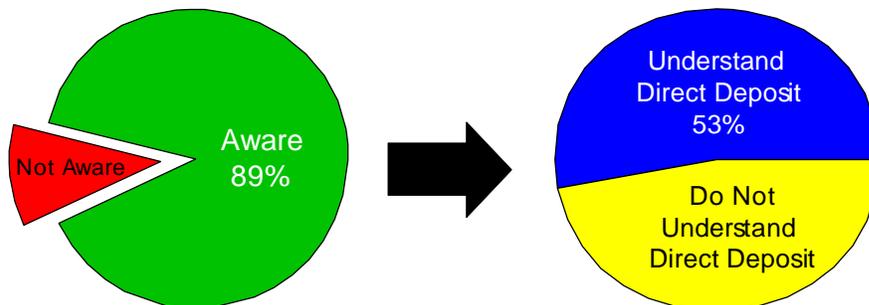


Figure 5.4

²⁵ Based on 13-point scale.

However, knowledge regarding direct deposit varies by ethnic group:

- In terms of awareness, minorities such as American Indians, Alaska Natives, and Other minorities are less likely to know about direct deposit. Less than 70% of these minorities are aware of direct deposit, while 82% of Hispanics and over 90% of Blacks and Whites know about direct deposit.
- In terms of understanding, fewer Blacks and Hispanics report that they understand direct deposit. Less than half (42%) of Blacks and also of Hispanics understand direct deposit, while nearly two-thirds (61%) of Whites understand it. General education attainment or language might be a factor in the case of Hispanics, but this does not explain the situation in the case of Blacks. Specific marketing to Blacks may improve their understanding of direct deposit.

Understanding of Direct Deposit by Ethnic Group

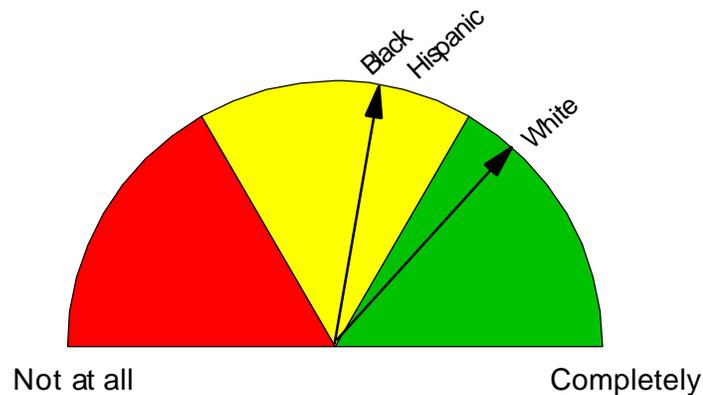


Figure 5.5

Trust

One-third of unbanked recipients trust direct deposit, while about one quarter (27%) do not trust direct deposit. However, there are significant differences when comparing living areas: 40% of unbanked recipients living in cities trust direct deposit, while only 21% of unbanked recipients living in small towns trust direct deposit.

3.14. Bank Account Perception

Some unbanked Federal check recipients express little interest in a bank account because they view it as a cause of trouble.

Qualification versus Usefulness

Unbanked Federal check recipients are more likely than not to think that they could qualify for a bank account: 41% think they could qualify and 28% think that they might qualify for a bank account.

However, the majority (63%) of unbanked recipients think that they do not have enough money to make a bank account useful.

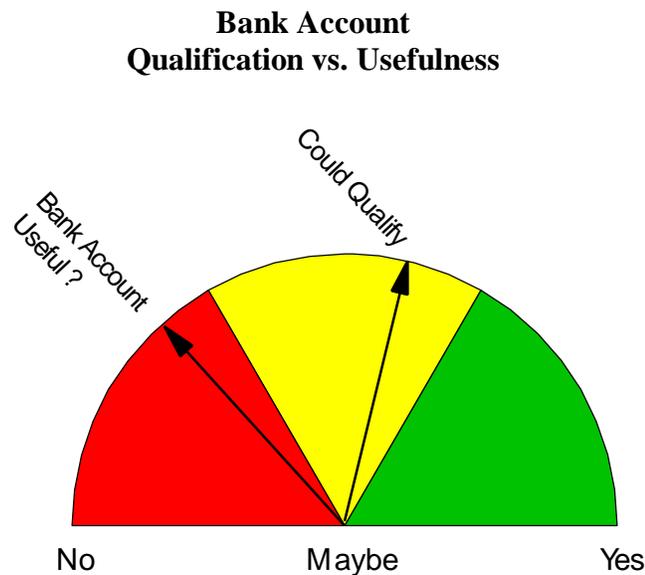


Figure 5.6

Ease of Use

The majority of unbanked recipients consider it difficult to use a bank account: 62% rank the usage of a bank account from “it could be easier” to “it is too much trouble”.

However, the perception of “too much trouble” varies by age. Older respondents perceive more difficulty in using a bank account than younger respondents. This leads to the belief that the overall perception of “too much trouble” among unbanked recipients should decrease in the future.

Bank Account Ease of Use by Age²⁶

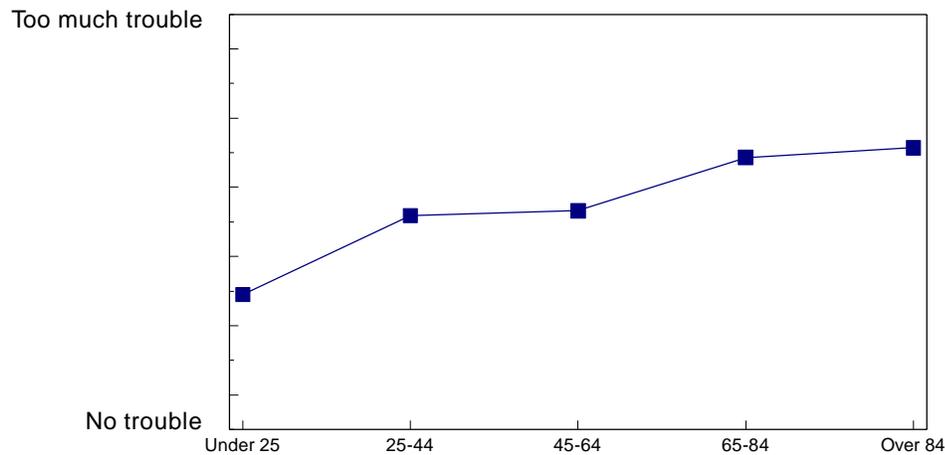


Figure 5.7

In addition, unbanked recipients living in different areas do not perceive the same level of difficulty in using a bank account. Over one-third (36%) of unbanked recipients living in cities think that it is “no trouble” to use a bank account while only 17% of unbanked recipients living in small towns think so.

Blacks are least likely to perceive “too much trouble” in using a bank account, compared to American Indians or Alaska Natives who perceive the most trouble. Over one-third (39%) of Blacks do not view much trouble using a bank account, while 65% of American Indians or Alaska Natives perceive a fair amount of trouble.

The perception of “too much trouble” also varies by program. Unbanked recipients who receive both SSA and SSI benefits are more likely to think that it is too difficult to use a bank account.

Risk

Unbanked Federal check recipients (71%) are not worried of losing money they would put in a bank account due to a divorce, child or family support, lawsuit or legal judgement.

In fact, from the comments, it appears that one of the perceived advantages of banks is the security they offer:

- Out of 219 comments regarding what unbanked recipients like about banks, 12% mentioned the secure aspect of banks.
 - “Banks are places to protect your money.” (SSA&SSI, Small town)
 - “Safe place to keep your money.” (VA, Suburb)

²⁶ Based on 13 point scale.

Need

Whether recipients perceive some difficulty or none, some usefulness or none, or some risk or none, one final statement is clear: the majority (61%) of unbanked recipients consider that they do not need a bank account.

However, consistent with responses regarding “too much trouble”, the need for a bank account varies by ethnic group. Specifically, 42% of unbanked Black recipients rate their need for a bank account from maybe to definitely, compared to only 24% of unbanked Whites. This shows that unbanked Black recipients are more likely to accept a bank account.

Bank Account Need by Ethnic Group

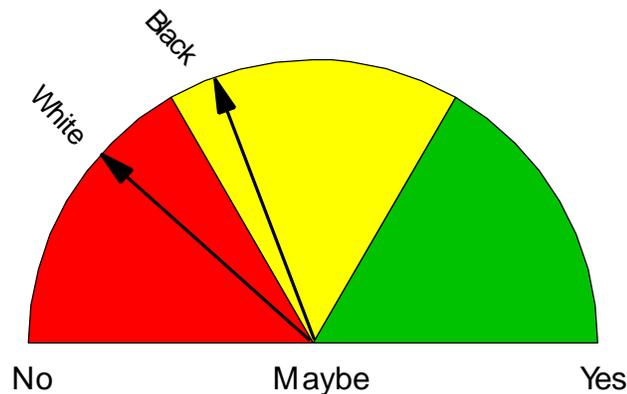


Figure 5.8

3.15. Banking and Others

Overall, unbanked Federal check recipients do not like to have someone else involved in their financial transactions.

Other Person's Bank Account

Over three quarters (76%) of unbanked Federal check recipients do not use another person's bank account for their banking needs. This is consistent with the residence statistics where only 21% of unbanked recipients live with relatives, 3% in institutions, and 7% in some other type of residence including living with friends.

Privacy

In addition, for the majority (54%) of unbanked recipients, it is somewhat to very important that other people do not know how much money they have. Variations exist by ethnic group²⁷. Nearly two-thirds (62%) of Black unbanked recipients find such privacy to be somewhat to very important, compared to only 41% of Hispanics. About 53% of Whites fit in this same range.

The importance of financial privacy also varies by living area⁴. Nearly one half (49%) of unbanked recipients living in the countryside think that such privacy is important compared to 36% of unbanked recipients living in small towns²⁸.

3.16. Bank Perception

Overall, it appears that unbanked Federal check recipients do not have any major issues with banks and are comfortable in a banking environment.

Language Issue

The vast majority (81%) of unbanked recipients do not have a hard time using banks because of a language issue. As expected, this depends significantly on the ethnic group. Smaller ethnic minorities as well as Hispanics encounter more difficulties in using banks because of a language issue. Eighty-eight percent of Whites and 84% of Blacks do not experience any language barrier, while this is the case for only 56% of American Indians or Alaska Natives, 65% of Hispanics and 56% of Other ethnic groups. The language difficulties experienced by a minority of Whites and Blacks might be due to language disability or the complexity of banking terminology.

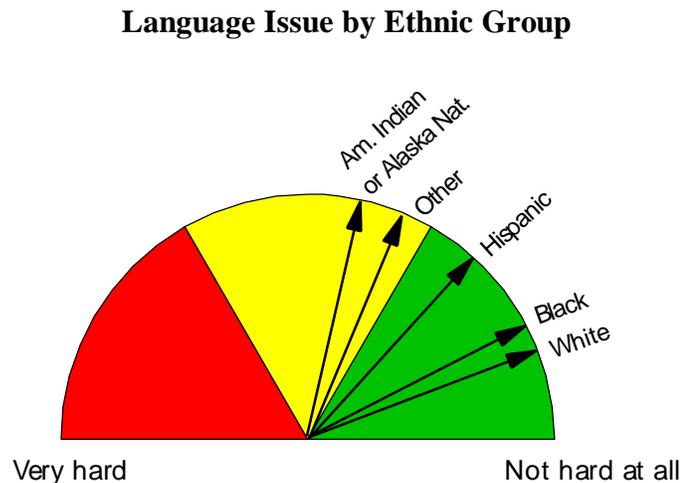


Figure 5.9

²⁷ At a 90% confidence level.

²⁸ Reminder: Only significant segmentation is presented. This explains the absence of “City” which is not significantly different from other living areas.

Staff

Finally, nearly two-thirds (62%) of unbanked Federal check recipients feel comfortable with banks and their staff. This suggests that going to banks for banking services is usually not the problem.

However, comments showed an issue with staying in lines at banks because they are understaffed:

— *“Not enough tellers make for long lines on first of the month.” (SSA&SSI, City)*

— *“Stand in long line, or wait forever to drive through.” (VA, Suburb)*

Check Cashing Service

Comments showed that what unbanked recipients often like about banks is that they cash their checks.

- Out of 219 comments regarding what unbanked recipients like about banks, 21% mentioned banks' check cashing services.

— *“I like the bank because I can cash a check easily with no problems.” (SSA, Countryside)*

— *“Just to cash checks.” (OPM, City)*

3.17. Unbanked versus Banked

On several matters, banked Federal check recipients have attitudes similar to unbanked recipients in terms of liking their current way of doing things.

Check Cashing Perception

- Overall, banked recipients are more satisfied with their current way of cashing their Federal check than unbanked recipients: 83% are satisfied, compared to 71% for unbanked; 84% think that it is easy versus 69% of unbanked; 77% find it convenient, compared to 70% for unbanked.
- As expected, because they have a bank account, banked recipients perceive it to be less expensive to cash their checks: it is perceived as not being expensive for 87% of them, compared to 57% of unbanked recipients.

Direct Deposit Perception

- Banked recipients' awareness and understanding of direct deposit are significantly higher than those of unbanked recipients. More (96%) banked recipients are aware of direct deposit versus 89% of unbanked recipients; 71% of banked recipients understand direct deposit compared to 52% of unbanked recipients.
- 49% of banked recipients trust direct deposit, while 32% of unbanked recipients do.

Bank Account Perception

- As expected, banked recipients are more likely to think that they have enough money to make a bank account useful, while unbanked recipients do not. Nearly two-thirds (65%) of banked recipients consider that they have enough money to make a bank account useful. On the other hand, nearly two-thirds (63%) of unbanked recipients clearly consider that they do not have enough money to make a bank account useful.

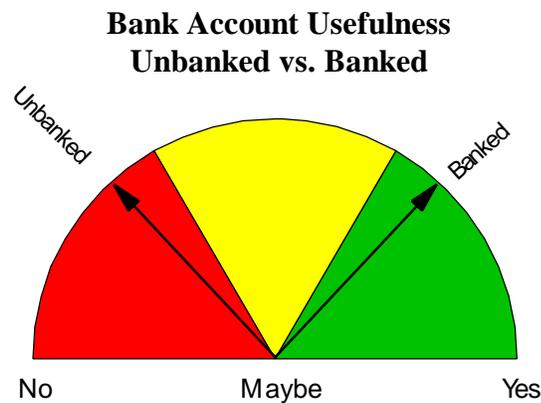


Figure 5.10

- Similarly, 79% of banked recipients consider that it is no trouble to use a bank account, compared to 30% of unbanked recipients.

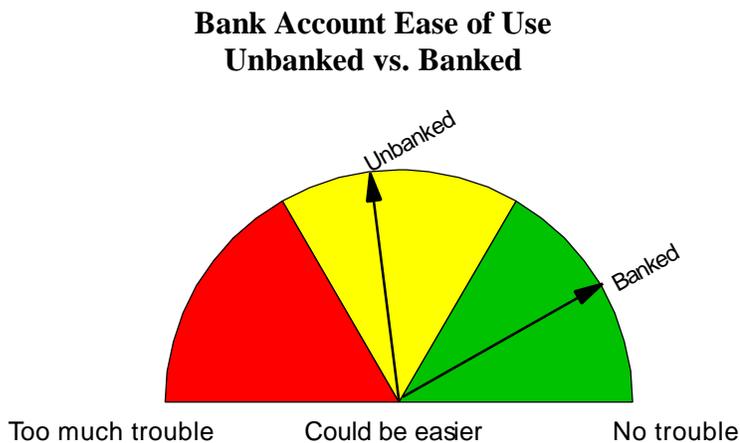


Figure 5.11

- Over half (51%) of banked recipients think that they need a bank account. In contrast, 62% of unbanked recipients express that they do not need a bank account.

Bank Account Need Unbanked vs. Banked

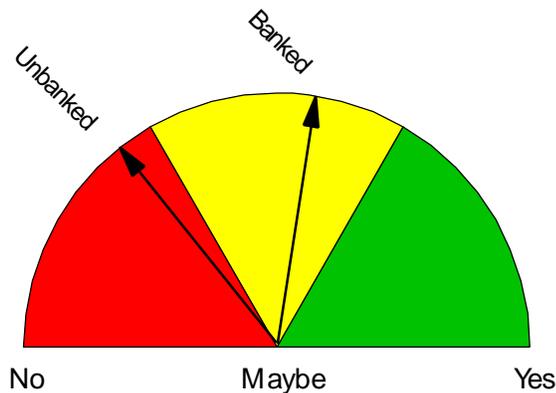


Figure 5.12

Banking and Others

- Banked recipients tend to use another person's bank account for their banking needs less than unbanked recipients: 90% do not use someone else's account versus 78% for unbanked.
- In addition, it is even more important for banked recipients that other people do not know how much money they have: financial privacy is important for 58% of banked compared to 34% of unbanked recipients.

Bank Perception

- Clearly, banked recipients feel more comfortable than unbanked recipients in a bank environment. Banked recipients have very few language issues. In addition, three quarters of them feel comfortable with banks and their staff.

Access

3.18. Introduction

This section analyzes unbanked Federal check recipients (survey respondents) access to financial services. The objective is to understand the way unbanked recipients handle financial transactions in terms of check cashing, account history, and bill payment.

Key Findings

- The majority (51%) of unbanked Federal check recipients already use banks to cash their checks.
 - Black and Hispanic unbanked recipients are less likely (34% and 40% respectively) to use banks and more likely to use check cashers.
 - Unbanked recipients living in cities go less to banks (39%) and more to check cashers (27%).
- Less than half (39%) of unbanked recipients are charged a fee to cash their Federal checks.
 - This is highly associated with the high percentage of unbanked recipients using banks, since the majority (81%) of unbanked recipients who go to banks do not pay a fee to cash their checks.
 - Related with this, fees are more likely to be charged to:
 - Black unbanked recipients (62%) versus Whites (27%) or Hispanics (40%).
 - Unbanked recipients living in cities (53%) versus countryside (26%) or small towns (29%).
- Over one-third of unbanked recipients plan to start using a bank account in the near future (39% might or will use a checking account and 39% might or will use a savings account).
 - Demand varies significantly across ethnic groups, showing that those — Black unbanked recipients — who currently use more check cashing services and use banks less and therefore pay more fees, are the ones who express the strongest interest in a bank account.
 - Over half (53%) of Black unbanked recipients might or will use a checking account in the future compared to 36% of Whites.
 - Over half (55%) of Black unbanked recipients might or will use a savings account in the future compared to 32% of Whites.
- Unbanked recipients pay their monthly bills by cash (55%), by money order (50%), or via someone else (20%).

The majority (86%) of unbanked recipients is charged a fee to get a money order — the mean fee is \$0.90.

- As expected, banked recipients tend to use banks to cash their checks (92%), few pay any fees (5%), they have a checking account (77%) and/or a savings account (65%), and they pay their bills by check (71%).

3.19. Check Cashing Location

Type of Location

Surprisingly, unbanked recipients primarily cash their checks at a bank or a credit union. The majority (51%) of unbanked recipients usually cash their checks in a bank or credit union, followed by grocery stores (36%), check cashers (16%), and other retail stores (11%).

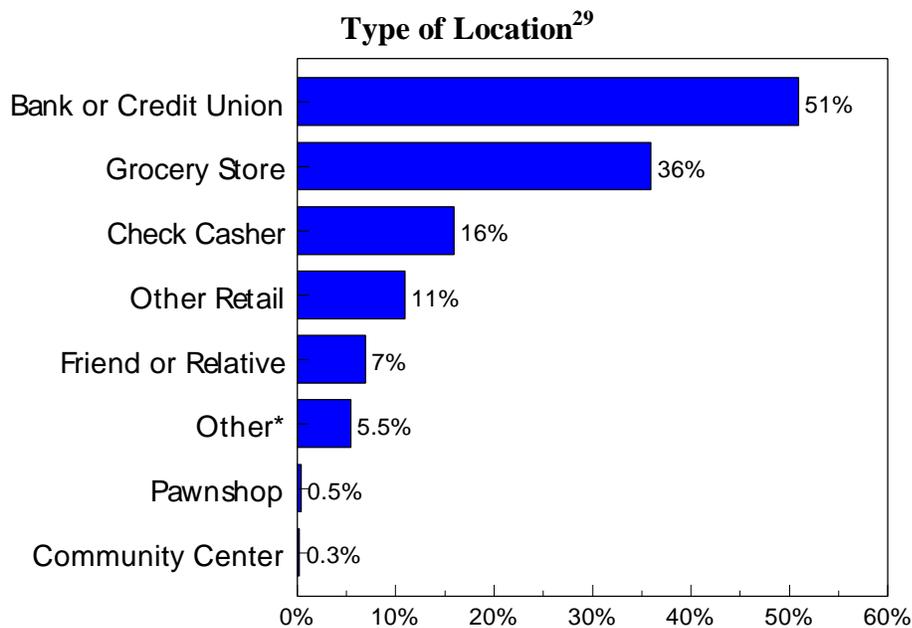


Figure 6.1

*Other includes nursing home, post office, landlord, hotel casino, etc.

²⁹ One person can go to multiple locations.

This is consistent with the results from Shugoll Research, which found that 62% of unbanked regularly use a bank to cash their checks, 30% regularly use a grocery store, and 10% regularly use a check casher.

However, the type of location chosen to cash checks varies significantly by ethnic group. Black and Hispanic unbanked recipients are less likely (34% and 40% respectively) to go to banks than White unbanked recipients (62%). At the same time, Blacks and Hispanics are greater users (33% and 29% respectively) of check cashing services compared to Whites (7%).

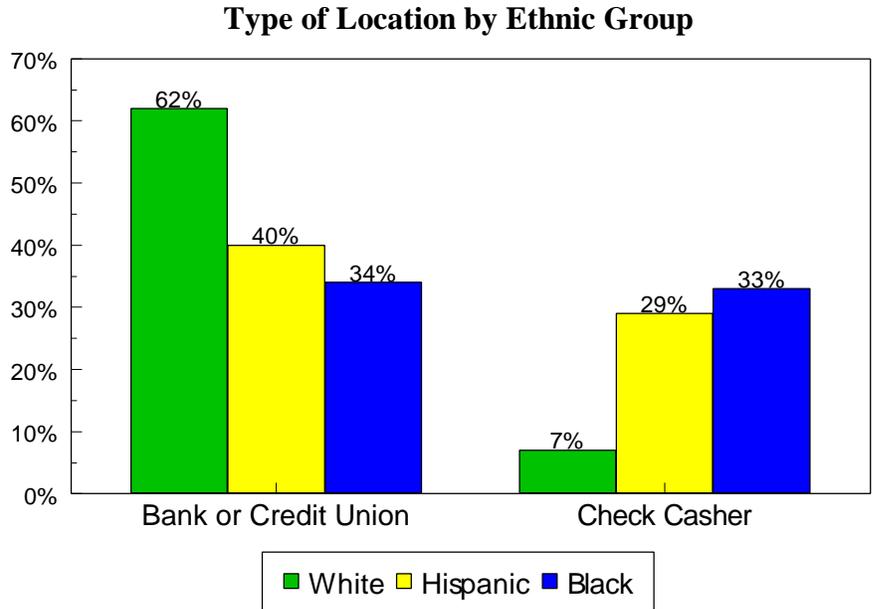


Figure 6.2

In addition, there is a relationship between the living area and the type of location used for cashing checks. Unbanked recipients living in cities are more likely (27%) to go to check cashers than those living in small towns (8%) or in the countryside (8%). In parallel, unbanked recipients living in cities are less likely (39%) to cash their checks at a bank than those living in small towns (63%) or in the countryside (58%). In addition, those living in the countryside are significantly³⁰ more likely (48%) to go to grocery stores to cash their checks than unbanked recipients living in cities (31%).

³⁰ At a 94% confidence level.

Type of Location by Living Area

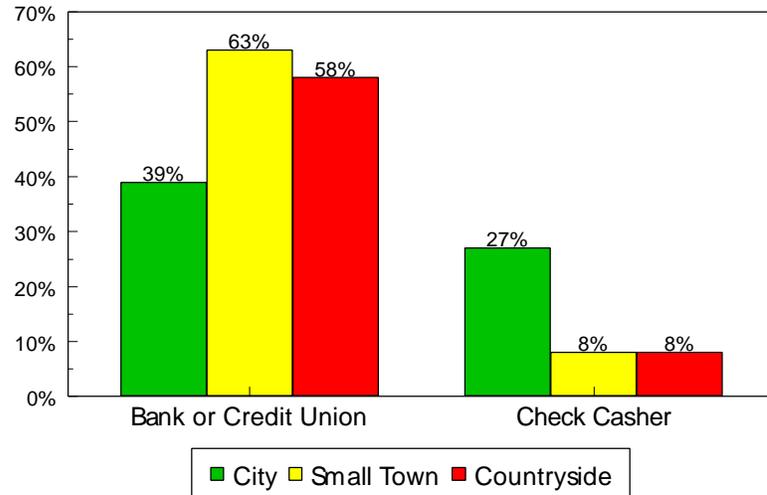


Figure 6.3

Finally, variations also emerge across regions. Unbanked recipients living in the Northeast are more likely (27%) to go to check cashers to cash their Federal check, compared to the Central region (11%), the Southeast (11%) or the Midwest (5%). At the same time³¹, unbanked recipients who live in the Central region are more likely (47%) to go to grocery stores to cash their Federal check than those living in the Northeast (26%).

Transportation

The majority (70%) of unbanked Federal check recipients cash their checks themselves. Of those, 51% drive to their check cashing location, 11% walk, 10% use public transportation, and 28% use some other means.

Overall, the mean distance is 6.8 miles (the median is 3 miles) for unbanked recipients to go to the location where they usually cash their checks.

- For unbanked recipients who drive, the mean time to get there is 12 minutes (the median is 10 minutes).
- For unbanked recipients who walk, the mean time to get there is 20 minutes (the median is 11 minutes).
- For unbanked recipients who ride, the mean time to get there is 16 minutes (the median is 10 minutes).

³¹ At a 92% confidence level.

Level of Satisfaction

Consistent with the overall satisfaction about cashing checks identified previously, unbanked recipients appear to be satisfied with all the specific aspects about the location where they cash their checks.

- 96% of unbanked recipients are satisfied with the location itself.
- 93% of unbanked recipients are satisfied with the location's hours.
- 97% of unbanked recipients are satisfied with the location's staff.

3.20. Check Cashing Fees

Federal Checks

Less than half (39%) of unbanked recipients are charged a fee to cash their Federal check. This is likely associated with the previous result that 51% of them go to banks to cash their checks. Indeed, most unbanked recipients (81%) who go to banks to cash their checks do not pay a fee, while over half (60%) of those who go to some location other than banks pay a fee. In the same perspective, the vast majority of unbanked recipients (89%) who go to check cashers are charged a fee, and approximately half (47%) of unbanked recipients who go to grocery stores pay a fee.

Check Cashing Fee

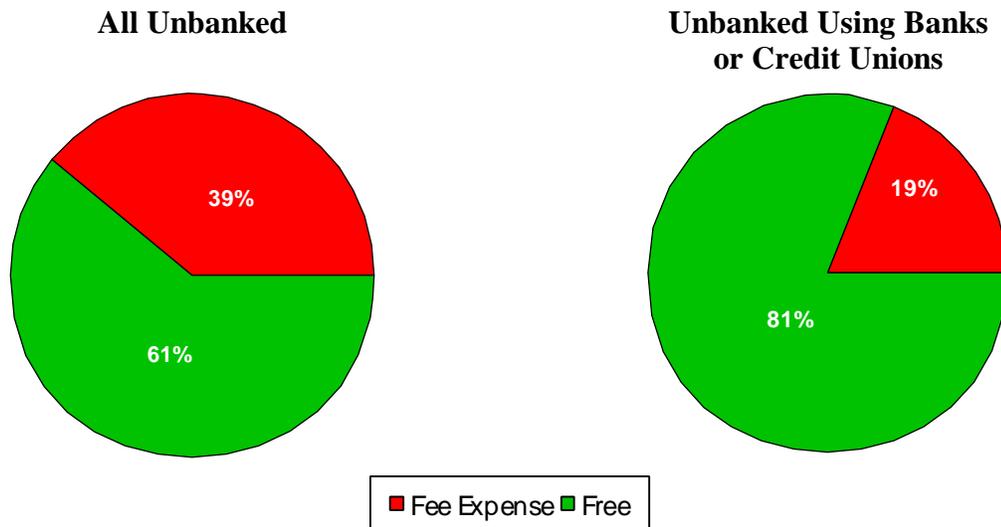


Figure 6.4

- Comments regarding what unbanked recipients like about banks also showed that a major advantage of a bank is that it is a convenient place where they cash their check for free:

— “When you cash your check at a bank, you get the full amount.” (SSA&SSI, Suburb)

— “I can cash my checks for free.” (SSI, Small town)

In addition, there is also a significant relationship between fees and ethnicity. Nearly two-thirds (62%) of Black unbanked recipients are charged a fee to cash their Federal check, compared to 40% of Hispanics and 27% of Whites.

Check Cashing Fee by Ethnic Group

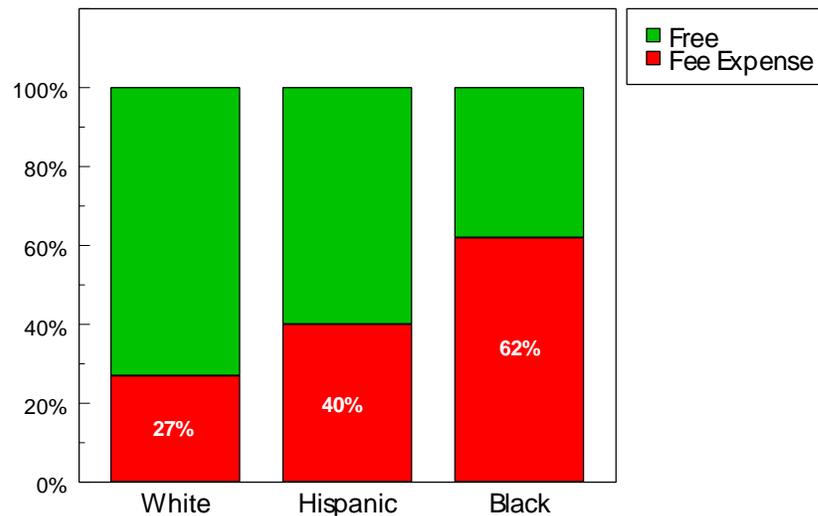


Figure 6.5

The likelihood of being charged a fee to cash a Federal check also varies by living area. Unbanked recipients living in cities are more likely (53%) to be charged a fee than those living in small towns (29%) or in the countryside (26%).

For unbanked recipients who are being charged to cash their Federal check, the mean fee is \$4.80 (the median is \$3.00). However, the fee amount charged for cashing Federal checks differs by living area and ethnicity. The mean fee is significantly higher for unbanked recipients living in cities (\$5.40) than for those living in small towns (\$3.40). The mean fee paid by Black unbanked recipients is higher (\$5.60) than the one paid by Whites (\$4.10) or Hispanics (\$3.90).

Check Cashing Fee Amount by Living Area and by Ethnic Group



Figure 6.6

In addition, there are significant regional differences regarding check cashing fees. Unbanked recipients who live in the West pay higher fees (\$8.90 mean) compared to those living in the Northeast (\$3.80 mean) or in the Southeast (\$3.40 mean).

Other Checks

Unbanked recipients are less likely (29%) to be charged a fee when they go cash their other checks compared to their Federal check (39%). In this case, 84% of unbanked recipients cashing their other checks at banks do not pay any fee, while 73% of those going to check cashers and 41% of those going to grocery stores pay a fee.

Similarly to Federal checks, variations emerge regarding the likelihood of paying a fee by ethnic group and living area.

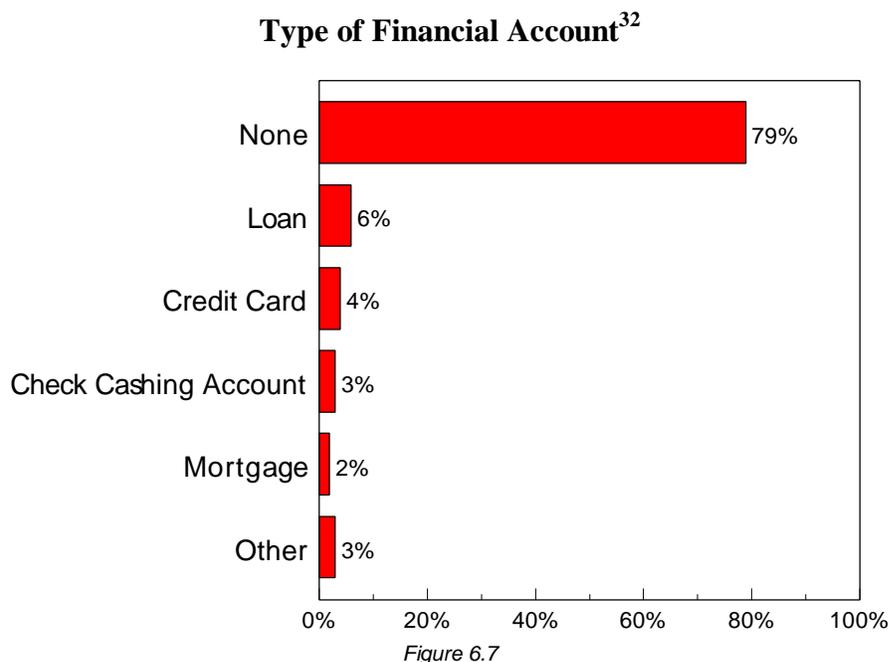
- 51% of Black unbanked recipients pay a fee to cash their other checks, compared to 22% of Hispanics and 19% of Whites.
- 39% of unbanked recipients living in cities are charged a fee to cash their other checks, compared to 24% of those living in small towns and 22% of those living in the countryside.

For unbanked recipients who are being charged to cash their other checks, the mean fee is \$3.40 (the median is \$2.40). Again, the amount charged varies by ethnic group. Black unbanked recipients pay a higher fee (\$4.20) to cash their other than Federal checks, compared to Whites (\$2.60) or Hispanics (\$2.60).

3.21. Financial Account History and Future

Current Account

The majority (79%) of unbanked Federal check recipients do not have any type of financial account. For those who do have a financial account, 6% have a loan, 4% have a credit card, 3% have a check cashing account, 2% have a mortgage, and 3% have some other type of account.



Variations emerge across programs:

- SSI, SSA, and both SSI and SSA unbanked recipients are more likely (79%, 88%, and 80% respectively) to not have any type of financial account compared to RRB unbanked recipients (46%).
- SSI unbanked recipients are less likely (2%) to have a loan than RRB unbanked recipients (23%).

In the case of loans, there are also significant differences between living areas, as well as regions.

- 2% of unbanked recipients living in cities have a loan, while 9% of unbanked countryside recipients and 11% of unbanked small town recipients have a loan.
- 4% of unbanked recipients living in the West have a loan, while 12% of unbanked Southeast recipients have a loan.

³² Does not add up to 100% — some respondents identified as unbanked did not answer this specific question.

Past Account

Considering unbanked recipients who do not have any type of account, nearly half of them (48%) never had a bank account in the past.

For unbanked recipients who never had a bank account in the past, the vast majority (93%) never tried to open an account.

- Reasons include no need or not enough money. Out of 71 comments 30% were related to "not enough money".

— *“Never needed.” (RRB, Countryside)*

— *“My monthly check is just enough for rent and food.” (City)*

— *“Not enough money.” (OPM, City)*

For unbanked recipients who had a bank account in the past — mostly checking or savings accounts — but don't have it anymore, comments show that “not enough money” was a major cause. Out of 71 comments, 39% were related to "not enough money".

— *“Not enough money.” (VA, Countryside)*

— *“Had to leave \$150 in the account and could not afford that.” (SSI, City)*

— *“Had to close it out because I needed the money to pay bills.” (SSA&SSI, Small town)*

— *“No money other than monthly check.” (RRB, City)*

Future Account

In terms of future usage, checking and savings accounts raise the highest interest: in both cases, 38% of unbanked recipients might or will use such accounts over the next three years (6% will use a checking account vs. 10% will use a savings account). Then by order of importance, 23% might or will use a check cashing account, 15% might or will use a loan, and 14% might or will use a credit card account.

Financial Accounts — Future Usage

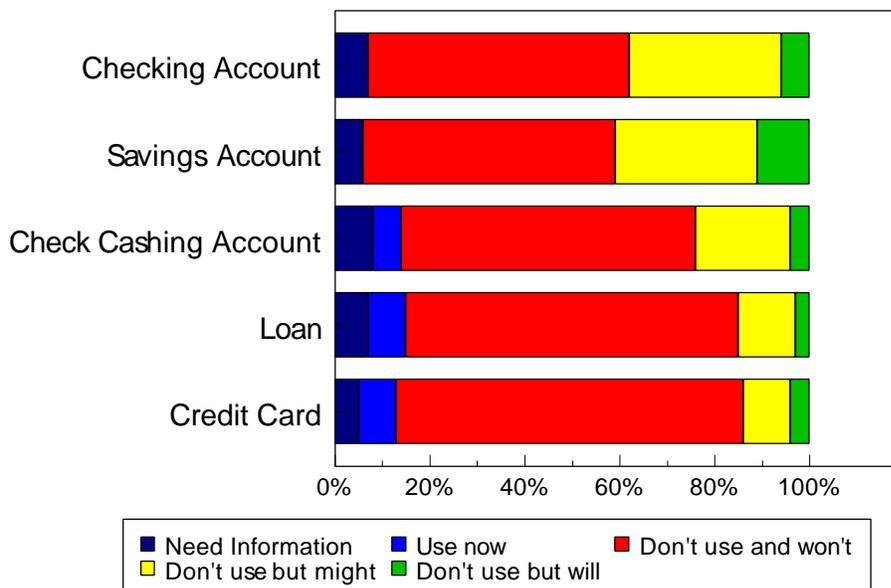


Figure 6.8

It is important to note that the likelihood to use a checking or savings account in the future seems to decrease for older unbanked recipients.

- 55% of unbanked recipients under 25 years old might or will use a checking account and 50% a savings account.
- 26% of unbanked recipients over 84 years old might or will use a checking account and 17% a savings account.

It appears that over time, as today's future usage changes into actual usage, demand for bank accounts will grow among unbanked recipients.

Savings Account — Future Usage by Age

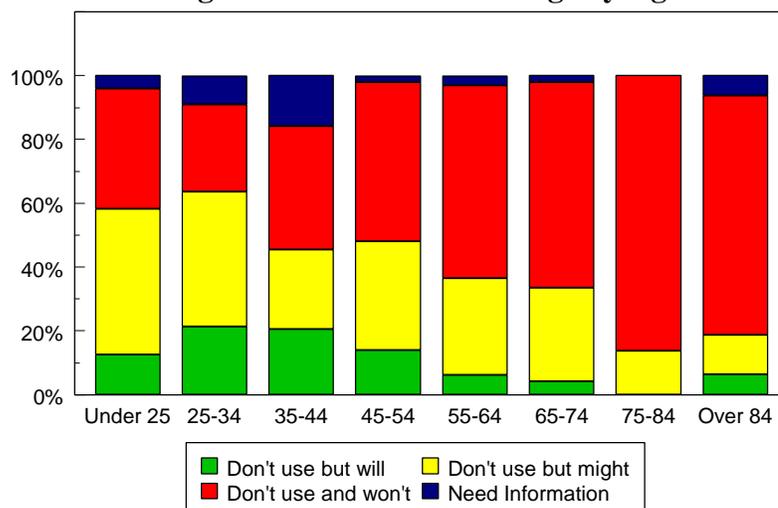


Figure 6.9

Significant variations emerge across ethnic groups. Black unbanked recipients appear to have a higher level of demand for financial services. Over half of Blacks (53%) might or will use a checking account in the near future, compared to 36% of Whites. Similarly, the majority (55%) of Black unbanked recipients might or will use a savings account over the next three years, compared to 32% of Whites. Finally, 22% of Blacks might or will use a credit card in the future, while 12% of Whites have an equivalent interest in credit cards.

Checking Account — Future Usage by Ethnic Group

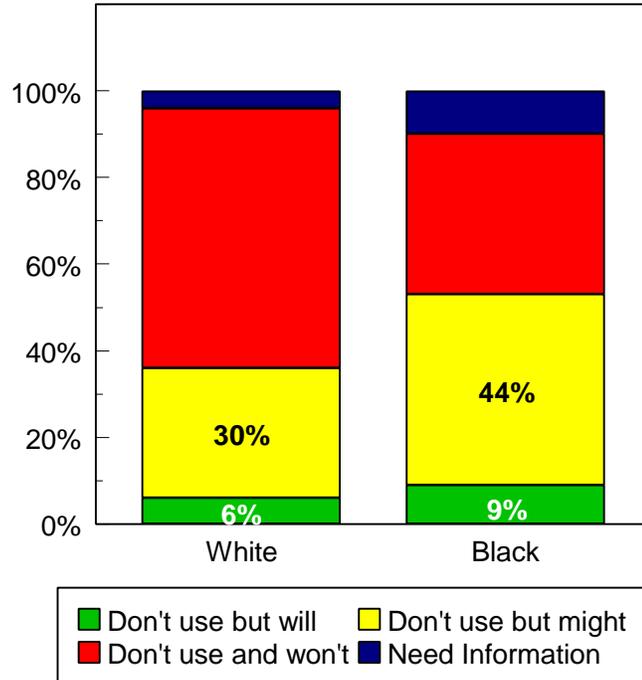


Figure 6.10

In addition, unbanked recipients who belong to different programs do not express an equal level of interest in the future usage of a savings account. SSI unbanked recipients are more likely (42% might or will use) to use a savings account in the near future than SSA unbanked recipients (35% might or will use).

3.22. Bill Payment

Payment Type

For unbanked Federal check recipients the most frequent method of payment for their monthly bills is cash (55%), followed by money orders (50%), someone else paying bills on behalf of them (20%), and some other payment means (3%).

Bill Payment Methods

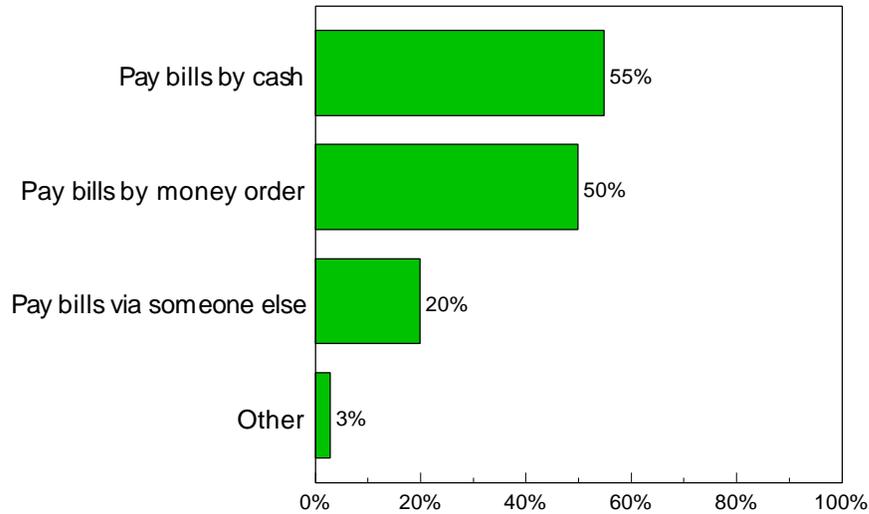


Figure 6.11

The usage of different payment types to pay monthly bills significantly varies by ethnic group. Cash appears to be the primary payment means for Hispanic unbanked recipients (71%) compared to Blacks (47%).

Overall, the mean number of bills paid in person by cash by unbanked recipients is 2.2 per month. For those who use cash to pay bills in person, the mean number of bills is 3.2 (the median is 3 bills).

Variations are also significant across regions. Unbanked recipients living in the Midwest and the Northeast are less likely to use cash to pay their bills (38% and 44% respectively) than those who live in the Central and Southeast regions (65% and 67% respectively).

Overall, the mean number of monthly bills paid in person by money order by unbanked recipients is 1.1. For those who use money orders to pay bills in person the mean number of bills is 2.7 (the median is 2 bills). Similar to the general usage of money orders, the number of bills paid in person by money order varies across ethnic groups. Black unbanked recipients using money orders pay more bills in person by money order (the mean is 2.8, the median is 3) than Hispanics using money orders (the mean is 1.6, the median is 1.5).

Money Order Usage and Fees

Overall, the mean number of monthly bills paid by money order by unbanked recipients is 2.2 (the median is 1). Specifically for unbanked recipients who use money orders to pay their bills, the median number of monthly bills paid by money order is 3.3 (the median is 3).

The mean number of monthly bills paid by money order varies by ethnic group³³. Black unbanked recipients who use money orders to pay their monthly bills pay a higher mean number of bills (3.5) than Hispanics (2.2).

For future usage, since 58% already use money orders, few unbanked Federal check recipients plan to start using money orders (9% might or will use).

In terms of fees, 86% of unbanked recipients are charged a fee to get a money order. The mean fee amount for a money order is \$0.90 (the median fee is \$0.80). However, the mean fee paid by unbanked recipients for a money order differs across ethnic groups. Black unbanked recipients pay a mean fee of \$1.00 for a money order, while Whites pay a mean fee of \$0.85.

3.23. Unbanked versus Banked

Check Cashing Location and Fees

As expected, the vast majority (92%) of banked Federal check recipients goes to banks to cash their Federal checks compared to about half (51%) of unbanked recipients. They are not likely to go to check cashers or grocery stores to cash their checks: 6% of banked recipients go to grocery stores versus 36% for unbanked and 4% of banked recipients go to check cashers versus 16% for unbanked.

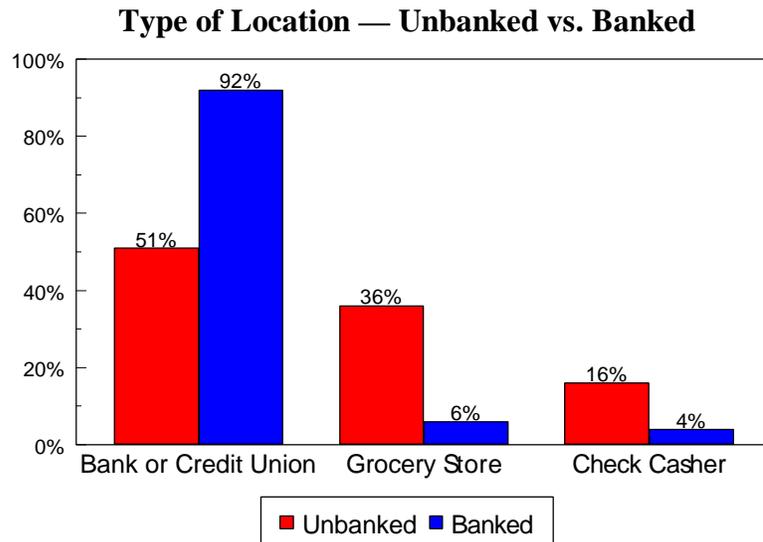


Figure 6.12

³³ At a 93% confidence level.

Overall, banked recipients live closer to the location where they cash their Federal check than unbanked recipients. The mean distance for banked recipients is 4.9 miles compared to 6.8 miles mean for unbanked recipients. Similarly, the mean time driving for banked is 9 minutes versus 12 minutes, the mean time riding is 13 minutes versus 16 minutes, and the mean time walking is 16 minutes versus 20 minutes.

Both banked and unbanked recipients express high satisfaction about the location where they cash their checks regarding the location itself, hours and staff.

Consistent with banked recipients' usage of banks or credit unions to cash their checks, banked recipients are significantly less likely (5%) to pay a fee to cash their checks than unbanked recipients (39%). By comparing specifically recipients who pay a fee to cash their checks, there is no difference between banked and unbanked recipients in terms of fee amount.

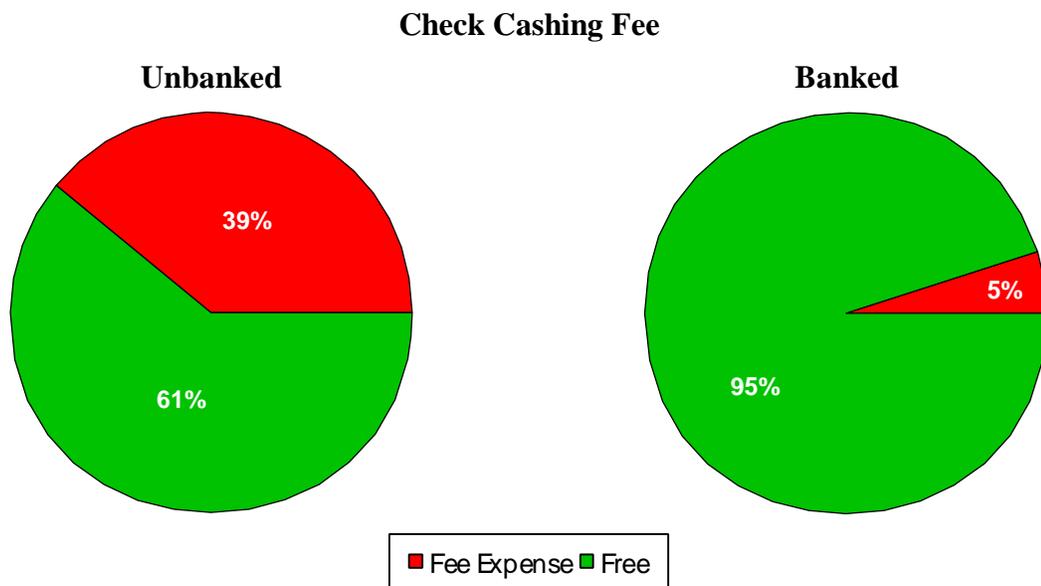


Figure 6.13

Similar results are obtained for cashing other than Federal checks, with 3% of banked recipients paying a fee versus 29% of unbanked recipients.

Financial Account History and Future

As expected, all banked recipients have a bank account while the majority (79%) of unbanked do not have any type of financial account: 77% of banked recipients have a checking account, 65% have a savings account, 12% have a loan versus 6% of unbanked, 20% have a credit card versus 4% of unbanked, 9% have a mortgage versus 4% of unbanked, and 9% have an investment account.

Financial Accounts — Unbanked vs. Banked

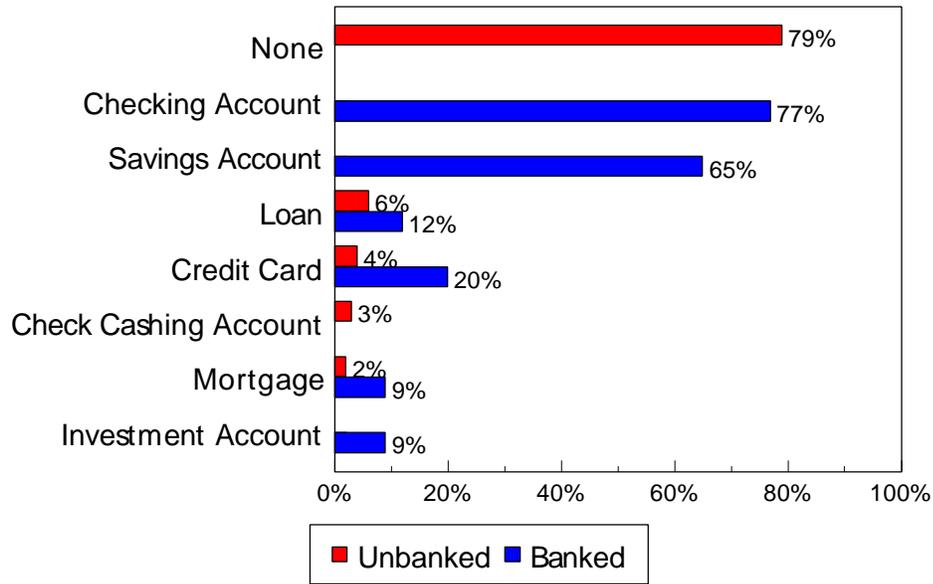


Figure 6.14

Bill Payment

Banked Federal check recipients are less likely (25%) to use cash to pay their monthly bills than unbanked recipients (55%). They are also less likely to use money orders (18%) to pay their monthly bills compared to unbanked recipients (50%). Finally, banked recipients are less likely (4%) to use someone else to pay their bills compared to unbanked recipients (20%). As could be expected, banked recipients' primary means of bill payment is checks: 71% of banked recipients pay their monthly bills by check.

Bill Payment Methods — Unbanked vs. Banked

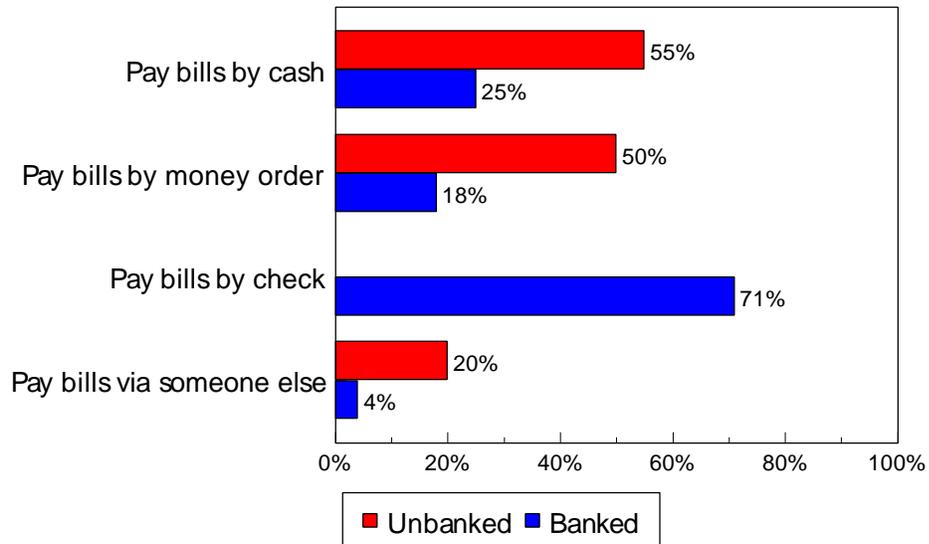


Figure 6.15

There is no significant difference among those recipients who use money orders between banked and unbanked recipients regarding the number of bills paid monthly by money order.

For those recipients who pay their monthly bills by cash in person, unbanked recipients pay a higher number of bills (the mean is 2.1 bills) than banked recipients (the mean is 1.4 bills).

In terms of fees, banked recipients are less likely (69%) to pay a fee to get a money order than unbanked recipients (86%).

Conjoint Analysis

7.13.24. Introduction

The conjoint research component of the questionnaire focused on gathering information about unbanked Federal check recipients' preferences that can be used to estimate the demand-side implications of various ETA configurations. The specific research technology applied was choice-based conjoint, a discrete choice modeling methodology that uses logistical regression to estimate the probability that a particular product/price combination will be chosen by consumers. This analysis provides an estimate of the percentage of unbanked Federal check recipients who would choose, or take, a particular ETA configuration if it were made available to them.

Choice-based conjoint research provides several types of useful information:

- The importance of each product feature in consumers' decisions to choose a particular product configuration.
- The sensitivity of consumer's choices to various hypothetical combinations of product features and fees.
- The 'take-rate' for each product by respondent segment.

Key Findings

The results of the analyses indicate that the overall interest in converting from paper checks to various hypothetical ETA configurations varies among market segments and product configurations. As a reminder the 'take-rate' is the percentage of respondents who, given the binary option of choosing the account or remaining unbanked, would choose the account.

On an overall weighted average basis, estimated 'take-rates' range from 6% for an 'All-Electronic' ETA at a \$3.00 monthly fee to 29% for 'Option D+I+P' at a \$3.00 monthly fee level. 'Option D+I+P' is a more fully featured product configuration that would provide access to bank tellers, permit deposits from non-Federal sources, pay 2% interest on balances and provide automated bill payment capabilities.

The results are presented as point estimates, however, due to the sampling process, the 'take-rates' will fall in a range around the mean based on sample size. That range is shown below:

**Percentage³⁴ of Unbanked Respondents
Choosing ETA Configurations with a \$3.00 Monthly Fee (weighted)**

Account Type	Lower Bound ³⁵	Mean 'Take-Rate'	Upper Bound
All Electronic	4%	6%	8%
Base	9%	12%	15%
Option D	13%	17%	22%
Option D+P	15%	19%	25%
Option D+I	20%	26%	33%
Option D+I+P	23%	29%	36%

Table 7.1

Additionally, the research examines differences in ETA preferences among demographic segments. For example, the estimated 'take-rates' for ETAs range from as low as 5% for the 'All-Electronic' among respondents over the age of 75 up to a high of a 66% for 'Option D+I+P' among respondents under 34 years of age. These and other segment-based differences are described in further detail later in this chapter.

The conjoint analysis indicates that the ETA will have the greatest acceptance in cities, among Black recipients, and among younger individuals. The decision to 'take' an ETA appears to be strongly influenced by the current fees for cashing Federal checks, or lack thereof.

It also appears that attitudes about ETAs are strongly influenced by the fees that recipients experience. As more merchants and financial institutions increasingly charge unbanked Federal check recipients to cash checks, 'take-rates' for ETAs will be likely to increase.

Since these individuals are important to the overall objective of the ETA, they are included in the analyses. By avoiding self-selection bias, this report provides a conservative estimate of the demand for ETA.

7.2 Hypothetical ETA Product Features Tested

Potential ETA configurations were tested in the conjoint analysis by decomposing the product into 12 features. Six of the features were fixed; meaning that all accounts included the six features shown in Table 7.2. Six other potential product features were methodically varied to estimate their effect on respondents' product choice decisions. These variable features are shown in Figure 7.3. The hypothetical ETA configurations were then combined using logistical regression models that calculate the 'take-rate' for each product by demographic based on the responses to the six features that varied.

Fixed Product Features

³⁴ These percentages reflect respondent choices when given the binary choice of enrolling in the ETA as described or choosing to not obtain an ETA.

³⁵ The lower and upper bounds reflect a 95% confidence level based on 1.96 standard errors.

Features	Definition used in Questionnaire
Account	You will get an account in your name at a bank.
Direct Deposit	You will get your Federal check deposited automatically into your account.
No Minimum Balance	You will not have to leave any money in your account from month to month (you can take all your money out and still keep your account).
Assistance	You will be given a toll-free telephone number you can call for help.
ATM Card	You will get an ATM card to make cash withdrawals.
POS	You will be able to make purchases and get cash back at stores with your ATM card.

Table 7.2

Each of the features shown in Table 7.3 were combined using an experimental design that presented three different combinations plus an “If these were the only choices, I would take none of them” option on 13 scenario cards (See Figure 7.1, page 72). Respondents were asked to select one of four choices in each scenario. Using the CBC system, multinomial logistical regression models were generated and could be used to estimate the importance of each product feature in the respondents’ choice decisions. This methodology is explained in more detail in Section 7.6.

Variable Product Features

Features	Levels	Definition used in Questionnaire
Deposits	Federal Only	You can only get your Federal checks deposited in your account.
	Federal and Other	You can get your Federal checks, and, if you want, other checks deposited in your account.
Savings (Interest)	2% Interest Paid to You	For every \$100 you keep in your account for one year, the bank will give you \$2. After one year, you have \$102 for every \$100 you keep in the bank account.
	No Interest paid to You	The bank does not pay you any money for keeping money in your account.
Pay Bills (Payments)	Same as Today	You pay bills like you pay them today.
	Automatic or Same as Today	You can pay bills like you pay them today, or, if you want, you can tell your bank to pay your bills automatically for you.
Get Cash (Access Points)	Bank Teller or ATM	You can get cash at a bank from a teller or at an ATM.
	Store Cashier or ATM	You can get cash at a store from a cashier or at an ATM.
	Bank Teller, Store Cashier, or ATM	You can get cash from a teller, or a cashier, or at an ATM.
	ATM Only	You must use an ATM machine to get cash.
Monthly ATM Withdrawals (Monthly Access)	3 Free Plus \$1 per Additional Withdrawal	You get 3 withdrawals per month included in your monthly fee. You must pay \$1.00 for each additional cash withdrawal.
	4 Free Plus \$1 per Additional Withdrawal	You get 4 withdrawals per month included in your monthly fee. You must pay \$1.00 for each additional cash withdrawal.
	5 Free Plus \$1 per Additional Withdrawal	You get 5 withdrawals per month included in your monthly fee. You must pay \$1.00 for each additional cash withdrawal.
Monthly Fee	\$2.00	You pay \$2 each month for having a bank account.
	\$3.00	You pay \$3 each month for having a bank account.
	\$4.00	You pay \$4 each month for having a bank account.

Table 7.3

Example and Instructions for Choice Based Conjoint in Survey

Instructions: Below each "Bank Account" is a description. Choose which bank account you would use, or choose "None", by putting an X at the bottom.

Which bank account option would you choose?

* See Definitions Below	Bank Account 1	Bank Account 2	Bank Account 3	None
Deposits*	Federal and other	Federal only	Federal and other	If these were the Only choices, I would take none of them
Savings*	No interest paid to you	2% interest paid to you	No interest paid to you	
Pay Bills*	Automatic or same as today	Same as today	Same as today	
Get Cash*	ATM only	Bank teller, store cashier, or ATM	Store cashier or ATM	
Monthly ATM Withdrawals*	5 free plus \$1.00 per additional withdrawal	4 free plus \$1.00 per additional withdrawal	3 free plus \$1.00 per additional withdrawal	
Monthly Charge*	\$ 3.00	\$ 2.00	\$ 4.00	
Please X the one option you would choose	X			

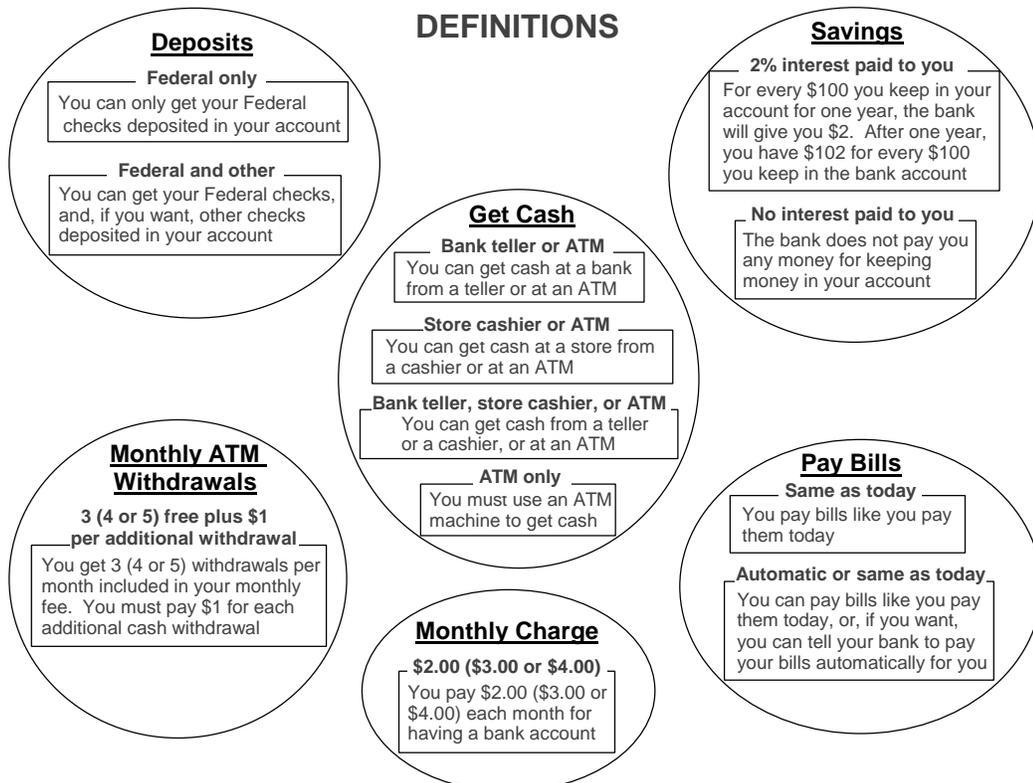


Figure 7.1

7.3 Relative Importance of ETA Features

The relative importance of each feature to the respondents' choice decisions was estimated by assessing the impact that each feature had on the logistical regression-based model.

For the overall unbanked Federal check recipient population, monthly fees were the single most important feature. The other features, in order of importance, were monthly access points, whether 2% interest would be paid, and whether deposits other than Federal only would be permitted. The number of cash accesses per month and the availability of electronic bill payment were less important in the choice decision.

When combined, two access features (number of times per month and the number of locations for accessing funds) accounted for 39% of the respondents' decision-making. This was collectively more important than monthly fees which accounted for 25% of the choice decision.

The three optional features being contemplated for possible ETA configurations (the payment of interest, the acceptance of non-Federal benefit check deposits, and electronic bill payment capabilities) accounted for the remaining 36% of the overall decision.

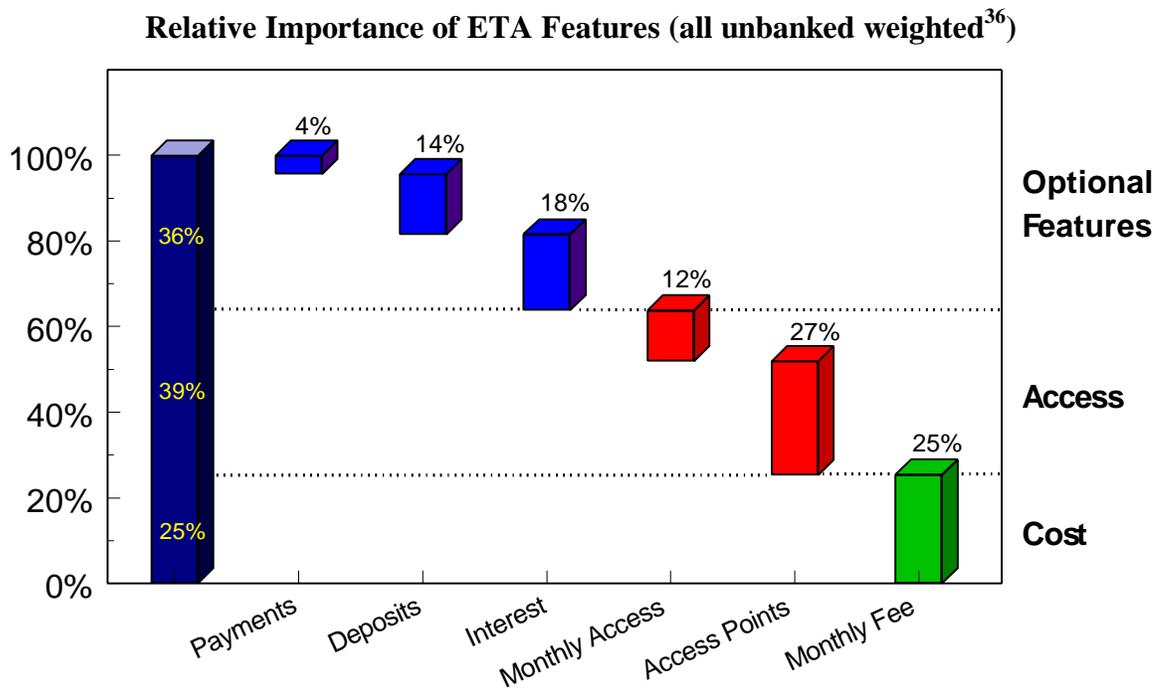


Figure 7.2

³⁶ Weighted by program.

7.4 Relative Importance by Demographic Segment

The relative importance that each ETA feature holds in the consumers' choice decision was examined for each of the six demographic segments. Due to the small sample size, the reader is advised to review the following demographic segmentation with the recognition that the sample data in this section are subject to sampling variability and are not point estimates alone. However, the results suggest that there may be very different perspectives on the importance of various ETA product features across demographic segments.

Geographic Region

Monthly Fees were most important in the Midwest (41%) and least important in the Northeast (21%). Access Points were fairly consistent across all five regions, the West (23%) being slightly below the regional average (27%). Interest was given the most importance in the Southeast (25%), whereas Other Deposits was given the most importance in the Northeast (23%).

Relative Importance by Region (not weighted)

Region	West	Midwest	Central	Northeast	Southeast
Deposits	16%	17%	5%	23%	12%
Interest	22%	4%	16%	15%	25%
Payments	6%	1%	2%	2%	4%
Access Points	23%	26%	27%	28%	28%
Monthly Access	7%	12%	13%	12%	4%
Monthly Fee	<u>26%</u>	<u>41%</u>	<u>37%</u>	<u>21%</u>	<u>26%</u>
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

Table 7.4

Area

Access Points were consistently important across all areas. Small Town respondents were less concerned about the Monthly Fee than those in the City and Countryside (21% compared to 30%). Small Town respondents were also less influenced by Interest (15%) than City respondents (21%).

Relative Importance by Area (not weighted)³⁷

Area	City	Small Town	Countryside
Deposits	13%	17%	16%
Interest	21%	15%	17%
Payments	4%	6%	1%
Access Points	25%	25%	27%
Monthly Access	8%	17%	10%
Monthly Fee	<u>30%</u>	<u>21%</u>	<u>30%</u>
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

Table 7.5

³⁷ Due to the small number of suburban unbanked respondents, they were excluded from this analysis.

Program

Examining the relative importance by program revealed that the Monthly Fee had the greatest impact on SSI Only recipients (31%), SSA (28%) and dual SSA & SSI recipients (26%), while Veterans gave it a lower level of importance (12%). Dual SSA & SSI recipients placed a higher than average importance on Interest (29%) while giving a lower level of importance to Other Deposits (7%).

Relative Importance by Program (not weighted)

Program	SSA Only	SSA & SSI	SSI Only	Veterans	Railroad*	OPM*
Deposits	15%	7%	16%	20%	2%	6%
Interest	16%	29%	16%	20%	6%	21%
Payments	3%	4%	2%	11%	6%	4%
Access Points	26%	26%	25%	21%	60%	22%
Monthly Access	13%	8%	10%	15%	8%	10%
Monthly Fee	<u>28%</u>	<u>26%</u>	<u>31%</u>	<u>12%</u>	<u>18%</u>	<u>37%</u>
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

Table 7.6

* Relative importance percentages for Railroad Retirement Board and OPM are not significant.

Fewer than 30 Railroad Retirement Board and OPM responses were received. Due to the small sample sizes, results for these two segments should be viewed as suggestive of the importance, but not statistically significant.

Age

Respondents over 74 years of age were the most sensitive to the Monthly Fee (41%) and the most strongly influenced by the availability of Interest (30%). The importance of Other Deposits declined with age, falling from 23% for those under the age of 34 to 7% for those over 74. The only respondent group with any significant interest in Payments was the 35 – 54 years old group (8%).

Relative Importance by Age (not weighted)

Age	Under 35	35 – 54	55 – 74	Over 74
Deposits	23%	11%	14%	7%
Interest	19%	16%	26%	30%
Payments	2%	8%	2%	1%
Access Points	29%	22%	33%	12%
Monthly Access	9%	11%	10%	10%
Monthly Fee	<u>19%</u>	<u>33%</u>	<u>14%</u>	<u>41%</u>
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

Table 7.7

Household Income

Pronounced differences exist across the three analyzed ranges of household income. As anticipated, the importance of the Monthly Fee was the greatest for respondents with annual household incomes below \$8,000 (37%) and dramatically declined as income levels rose. Importance of Interest varied slightly by income level but was roughly consistent across all income groups. Other Deposits was most important for respondents with household income over \$15,000 (25%) and steadily decreased as income level declined. Access Points were considerably more important for those with household income over \$15,000 (37%).

Relative Importance by Household Income (not weighted)

HH Income	Under \$8,000	\$8,000-14,999	Over \$15,000
Deposits	9%	17%	25%
Interest	20%	22%	18%
Payments	2%	8%	4%
Access Points	26%	21%	37%
Monthly Access	9%	10%	10%
Monthly Fee	<u>37%</u>	<u>22%</u>	<u>5%</u>
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

Table 7.8

Ethnic Group

Hispanics and Blacks were most influenced by the Monthly Fee levels (33% and 31%, respectively). White respondents were less concerned with Interest (12%) and more influenced by Other Deposits (18%); Other Ethnic groups³⁸ expressed similar importance in Other Deposits (17%).

Relative Importance by Ethnic Group (not weighted)

Ethnic Group	Hispanic	Black	White	Other
Deposits	9%	9%	18%	17%
Interest	29%	25%	12%	24%
Payments	5%	3%	4%	0%
Access Points	11%	30%	27%	33%
Monthly Access	14%	2%	15%	12%
Monthly Fee	<u>33%</u>	<u>31%</u>	<u>26%</u>	<u>14%</u>
<i>Total</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

Table 7.9

7.5 Product Configurations Examined

Based on discussions with Treasury/FMS, five hypothetical ETA configurations were created and tested using the logistic regression-based choice models. These product configurations have been named as follows and are described below:

³⁸ 'Other Ethnic groups' includes American Indian or Alaska Native, Native Hawaiian or Pacific Islander, Asian, and Other.

Product Configurations

Product	Feature	Feature Level
All Electronic	Deposits:	Federal only
	Interest:	No interest
	Bill Pay:	No bill pay
	Access Points:	ATM only
	Monthly Access:	4 free, plus \$1.00 per additional withdrawal
	Monthly Fee:	\$2.00, \$3.00, \$4.00
Base	Deposits:	Federal only
	Interest:	No interest
	Bill Pay:	No bill pay
	Access Points:	ATM, bank, store
	Monthly Access:	4 free, plus \$1.00 per additional withdrawal
	Monthly Fee:	\$2.00, \$3.00, \$4.00
Option D	Deposits:	Federal and other
	Interest:	No interest
	Bill Pay:	No bill pay
	Access Points:	ATM, bank, store
	Monthly Access:	4 free, plus \$1.00 per additional withdrawal
	Monthly Fee:	\$2.00, \$3.00, \$4.00
Option D+I	Deposits:	Federal and other
	Interest:	2% interest paid to you
	Bill Pay:	No bill pay
	Access Points:	ATM, bank, store
	Monthly Access:	4 free, plus \$1.00 per additional withdrawal
	Monthly Fee:	\$2.00, \$3.00, \$4.00
Option D+I+P	Deposits:	Federal and other
	Interest:	2% interest paid to you
	Bill Pay:	Automatic or same as today
	Access Points:	ATM, bank, store
	Monthly Access:	4 free, plus \$1.00 per additional withdrawal
	Monthly Fee:	\$2.00, \$3.00, \$4.00

Table 7.10

7.6 'Take-Rate' Estimation Process

The 'take-rate', which measures the percentage of respondents who would voluntarily choose an account if given the option, is estimated for the overall population of unbanked Federal check recipients for each of the product configurations. This estimate is based on a weighted-average that adjusts for the relative undersampling of SSA and the oversampling of smaller segments. It is therefore a nationally projectionable estimate. The weighting process is described in Chapter 8 — Market Model.

The 'take-rate' is based on a logistic regression model. In this application, the model is designed to estimate the probability that unbanked Federal check recipients would choose a particular product configuration if it were available. These 'take-rate' estimates are based on a binary choice model, which is a buy or no-buy model.

'Take-rates' are modeled using a 'S-shaped' (sigmoidal) response curve, where the responses cannot fall outside of 0 to 1 range, where 0 is interpreted as 0% probability of a consumer accepting the product; 1 is interpreted as 100% probability of a consumer accepting the product. (See Appendix I for details about Choice-Based Conjoint model assumptions and interpretations).

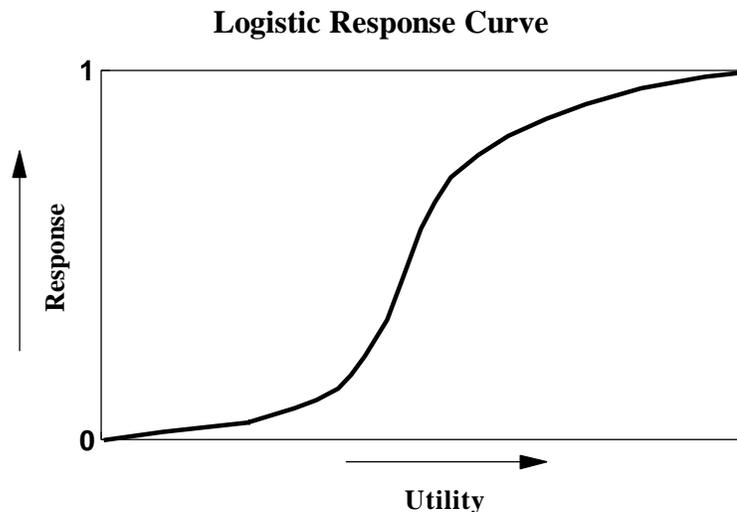


Figure 7.3

The general model that is being applied for the ETA analysis is as follows:

$$\text{'Take-rate' (0\% to 100\%)} = \frac{1}{(1 + e^{-(a + b(F) + c(A) + d(T) + e(D) + f(I) + g(P))})}$$

Where:

- F = Monthly fee
- A = Cash access points
- T = Number of transactions per month included
- D = Type of deposits permitted
- I = Interest allowed
- P = Automatic bill payment available

As expected, the 'take-rate' for an ETA increases as features are added to the account and as the monthly charge is lowered. The most basic configuration tested was the 'All Electronic' account, which lets customers only withdraw cash from ATM machines, offers no interest or

electronic bill pay and does not accept other deposits (see Figure 7.4). Due to the number of relatively less attractive feature levels, it has a ‘take-rate’ of less than 10% for all price levels. In contrast, ‘Option D+I+P’, the most fully-featured account, has a ‘take-rate’ ranging between 24% to 41%, depending upon monthly fee levels (see Figure 7.8).

‘All Electronic’ Configuration ‘Take-Rates’ – Overall (weighted)

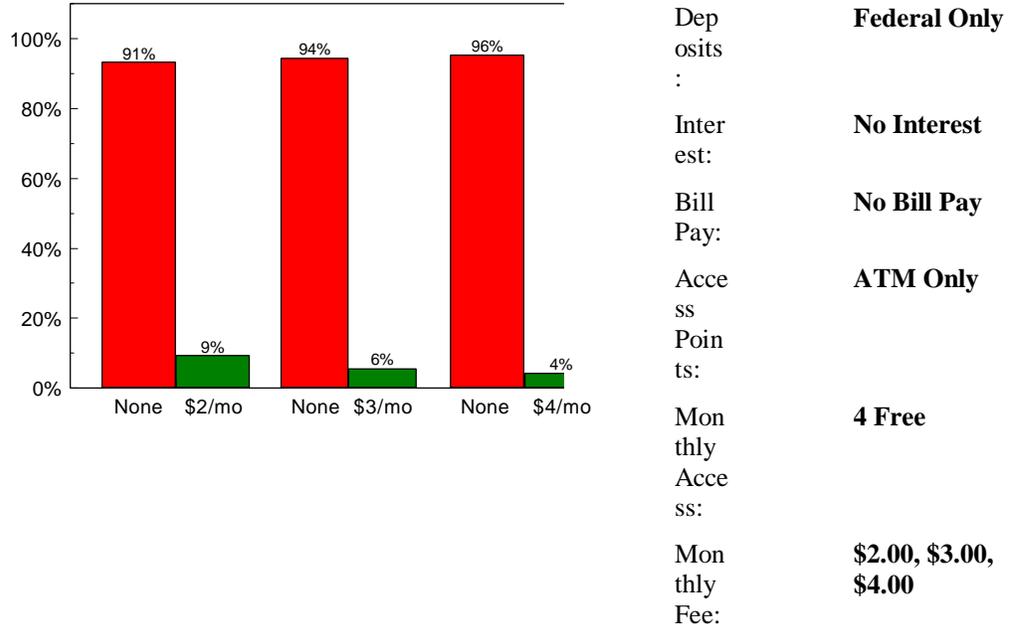
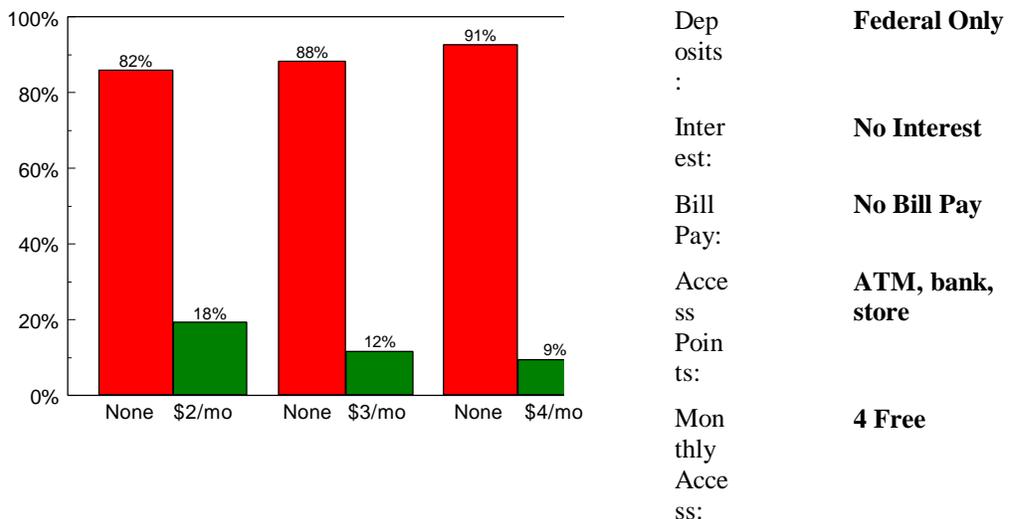


Figure 7.4

The ‘Base’ configuration shown below in Figure 7.5, shows the effect of expanding cash Access Points from ‘ATM only’ to the ‘Bank teller, store cashier, or ATM’ on the overall ‘take-rate’. The ‘Base’ configuration shows that expanding access points to include locations where personal service is available results in a doubling of the respondents’ ‘take-rate’ across all three monthly fee levels over the ‘All Electronic’ configuration (see Figure 7.4). Clearly, the opportunity for personal support is important to the unbanked Federal check recipients.

‘Base’ Configuration ‘Take-Rates’ – Overall (weighted)

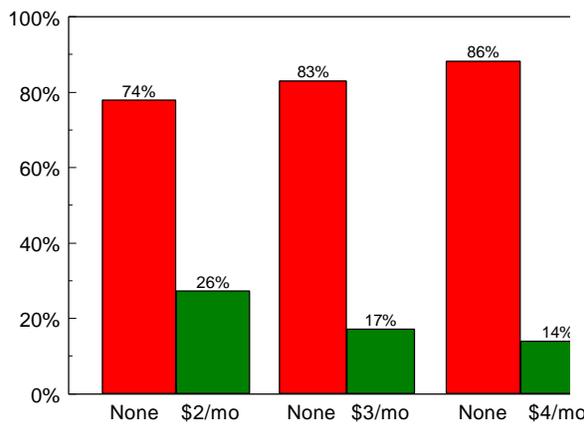


Mon
thly
Fee: **\$2.00, \$3.00,
\$4.00**

Figure 7.5

‘Option D’ builds on the previous two product configurations to estimate the impact that removing the restrictions on the types of deposits that could be made with an ETA. This option includes the same features of the ‘Base’ configuration, but adds the acceptance of additional deposits beyond the Federal Only Deposits. The conjoint analysis estimates that this configuration will result in a 46% increase in ‘take-rate’ over the ‘Base’ configuration at the \$3.00 price level, up from 12% shown in Figure 7.5 to the 17% shown in Figure 7.6 for ‘Option D’. This increase in ‘take-rates’ indicates that the ability to make deposits from other sources than Federal Only is another way for the ETA to be more attractive among unbanked Federal check recipients.

‘Option D’ Configuration ‘Take-Rates’ – Overall (weighted)

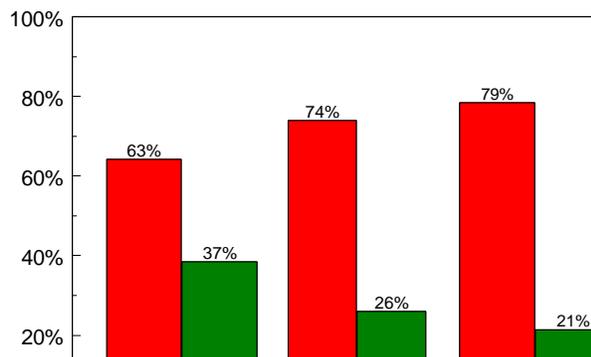


Deposits :
Interest: **No Interest**
Bill Pay: **No Bill Pay**
Access Points: **ATM, bank, store**
Monthly Access: **4 Free**
Monthly Fee: **\$2.00, \$3.00, \$4.00**

Figure 7.6

‘Option D+I’ configuration shown below in Figure 7.7 expands the ETA design to include the payment of 2% interest on account balances. The 2% interest rate on balances is comparable to passbook savings rates offered by financial institutions. At a \$3.00 monthly fee level, this enhancement would increase the ‘take-rate’ by 53%, up from the 17% for ‘Option D’ (see Figure 7.6) to 26% for ‘Option D+I’.

‘Option D+I’ Configuration ‘Take-Rates’ – Overall (weighted)



Deposits :
Interest: **2% Interest Paid**
Bill Pay: **No Bill Pay**

Access Points: Monthly Access: Monthly Fee:	ATM, only 4 Free \$2.00, \$3.00, \$4.00
--	--

Figure 7.7

‘Option D+I+P’, shown below in Figure 7.8, is the most fully-featured configuration examined. This configuration adds electronic payment capabilities to features available in ‘Option D+I’ version of the ETA. Adding an electronic bill payment option increased the estimated ‘take-rate’ to 29% at the \$3.00 monthly fee level, representing a 12% increase in estimated ‘take-rate’ over ‘Option D+I’ (see Figure 7.7).

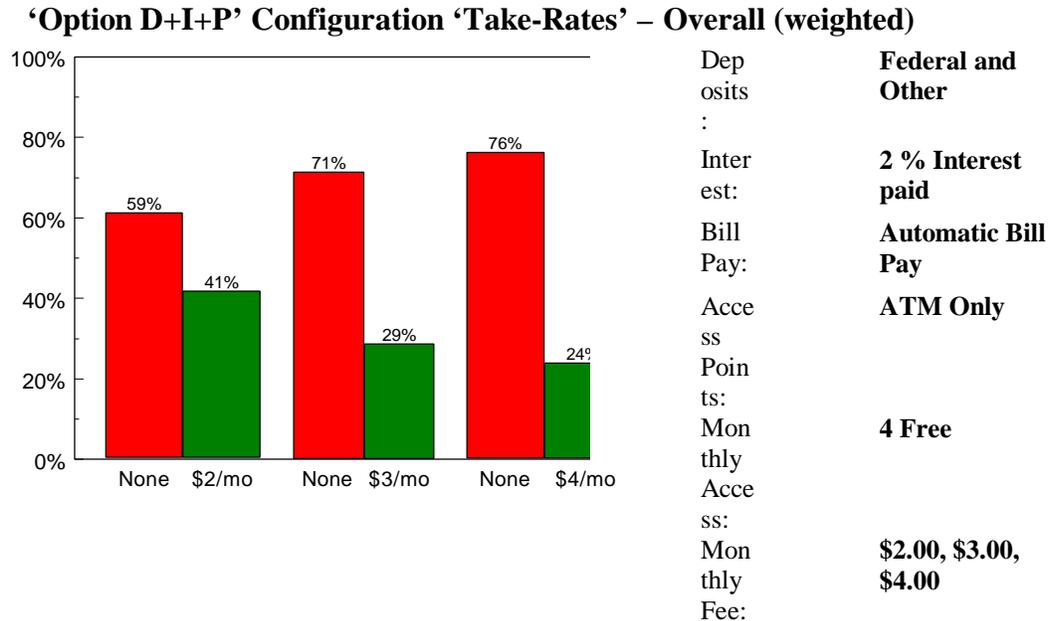


Figure 7.8

The table below summarizes the responses across all products and fee levels examined. Based on the mean values, the price sensitivity is evident as the monthly fee increases from \$2.00 to \$3.00 and diminishes as monthly fee levels increase to \$4.00 per month.

Overall ‘Take-Rate’ for Hypothetical ETA Configurations by Monthly Fee (weighted)

	\$2.00	\$3.00	\$4.00
All Electronic	9%	6%	4%
Base	18%	12%	9%
Option D	26%	17%	14%
Option D+I	37%	26%	21%
Option D+I+P	41%	29%	24%

Table 7.11

The 95% confidence interval around each of these mean values is presented in Chapter 8 — Market Model and is also provided in Appendix I.

Access Point Sensitivity

As shown in Figure 7.2, Access Points is the most important ETA feature for the overall unbanked Federal check recipient population. With respect to the relationship between Access Points and ‘take-rates,’ moving from ATM access only to access to bank teller, store cashier, or ATM, boosts ‘take-rates’ by an average of 55%. This may be due to a ‘personal touch’ being available at stores and banks. There was no measurable difference between access to store cashiers and bank tellers. However, when all of the cash access options are combined, the average ‘take-rate’ increases by another 29% (from either ‘store cashier or ATM’ or ‘bank teller or ATM’). Based on these results, it is clear that respondents value a broader range of cash access points.

**Percent Change in ‘Take-Rate’ by Access
at a \$3.00 Monthly Fee (weighted)**

	ATM Only Take-Rate	% Increase (ATM Only to Bank Teller or ATM)	Bank Teller or ATM Take-Rate	% Increase (Bank Teller or ATM to Store Cashier or ATM)	Store Cashier or ATM Take-Rate	% Increase (Store Cashier or ATM to Bank Teller, Store Cashier, or ATM)	Bank Teller, Store Cashier, or ATM Take-Rate
All Electronic	6%	50%	9%	0%	9%	33%	12%
Base	6%	50%	9%	0%	9%	33%	12%
Option D	8%	63%	13%	0%	13%	31%	17%
Option D+I	13%	62%	21%	0%	21%	24%	26%
Option D+I+P	15%	53%	23%	0%	23%	26%	29%
Average*	10%	55%	15%	0%	15%	29%	19%

Table 7.12

* ‘Average’ is the mean average of the increase in ‘take-rate’ for all five product configurations.

Overall ‘Take-Rate’ at Various Access Points by Product (weighted)

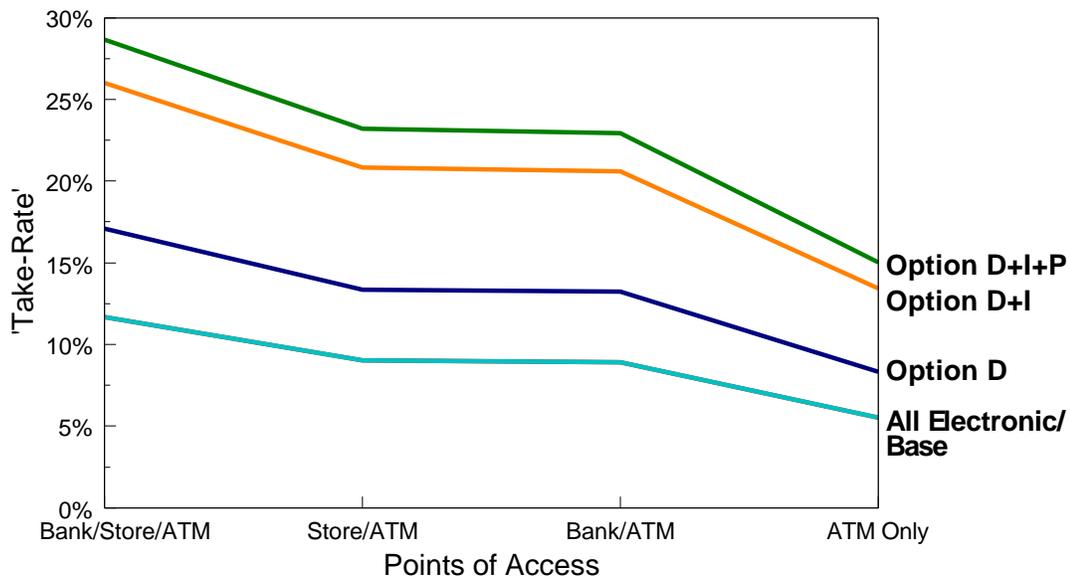


Figure 7.9

Cash Withdrawals Access Sensitivity

Three different numbers of ATM cash withdrawals per month were tested (3, 4 and 5 times). As the five account configurations moved from 3 to 4 cash accesses per month, the 'take-rates' increased by an average of 27%. When the account configurations moved from 4 to 5 cash withdrawals per month, the increase was not as substantial, rising only 7%.

This suggests that respondents feel that 3 free cash withdrawals per month are not enough, and yet, they do not feel there is a strong need for 5 free per month. Four free cash withdrawals per month may be the suitable number to offer.

Percent Change in 'Take-Rate' by Monthly Access (weighted)

	3 times/ month	% Increase (3 to 4 times)	4 times/ month	% Increase (4 to 5 times)	5 times/ month
All Electronic	4%	50%	6%	0%	6%
Base	9%	33%	12%	8%	13%
Option D	14%	21%	17%	12%	19%
Option D+I	22%	18%	26%	8%	28%
Option D+I+P	24%	21%	29%	7%	31%
Average	16%	27%	20%	7%	21%

Table 7.13

Overall 'Take-Rate' at Various Numbers of Monthly Withdrawals by Product (weighted)

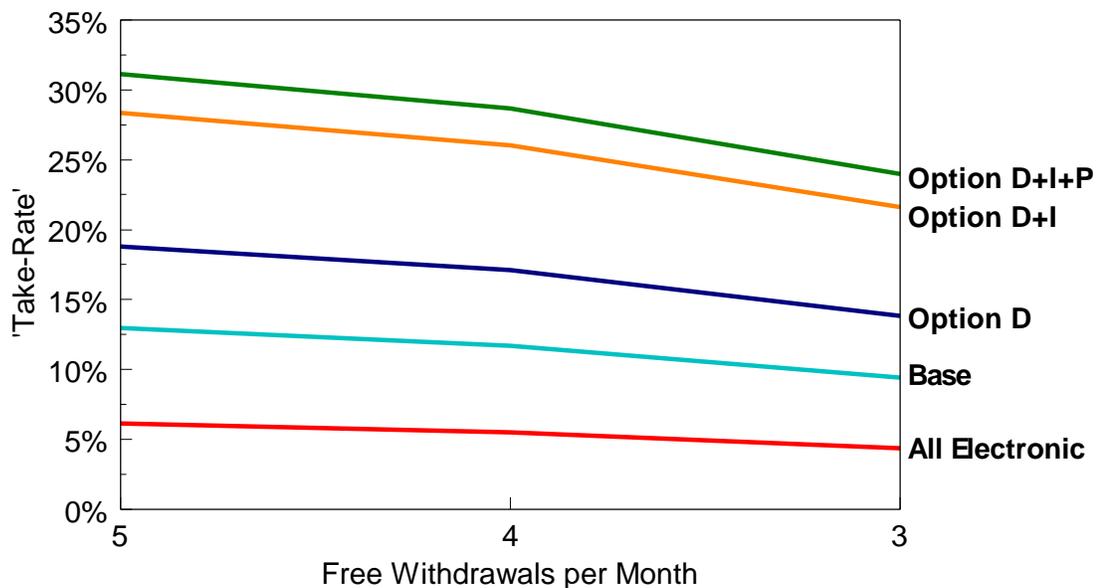


Figure 7.10

Price Sensitivity

The second most important ETA feature is the monthly fee. As the five account configurations move from \$4.00 to \$3.00, the average increase in the 'take-rate' is 30%. As the account prices decrease again, from \$3.00 to \$2.00, the 'take-rate' increases by, on average, 47%.

Percent Change in 'Take-Rate' by Monthly Fee (weighted)

	\$4.00	% Increase (\$4 to \$3)	\$3.00	% Increase (\$3 to \$2)	\$2.00
All Electronic	4%	50%	6%	50%	9%
Base	9%	33%	12%	50%	18%
Option D	14%	21%	17%	53%	26%
Option D+I	21%	24%	26%	42%	37%
Option D+I+P	24%	21%	29%	41%	41%
Average	14%	30%	18%	47%	26%

Table 7.14

CBC was used to extrapolate the 'take-rate' for each of the five configured products at \$0.25 intervals. The resulting demand curve has a 'kink' in it at \$3.00 per month across all five product configurations tested. This suggests that many respondents were focusing on \$2.00 not because it was the best price, but rather because it was the lowest price offered in the product choices presented.

Overall 'Take-Rate' at Various Price Levels by Product (weighted)

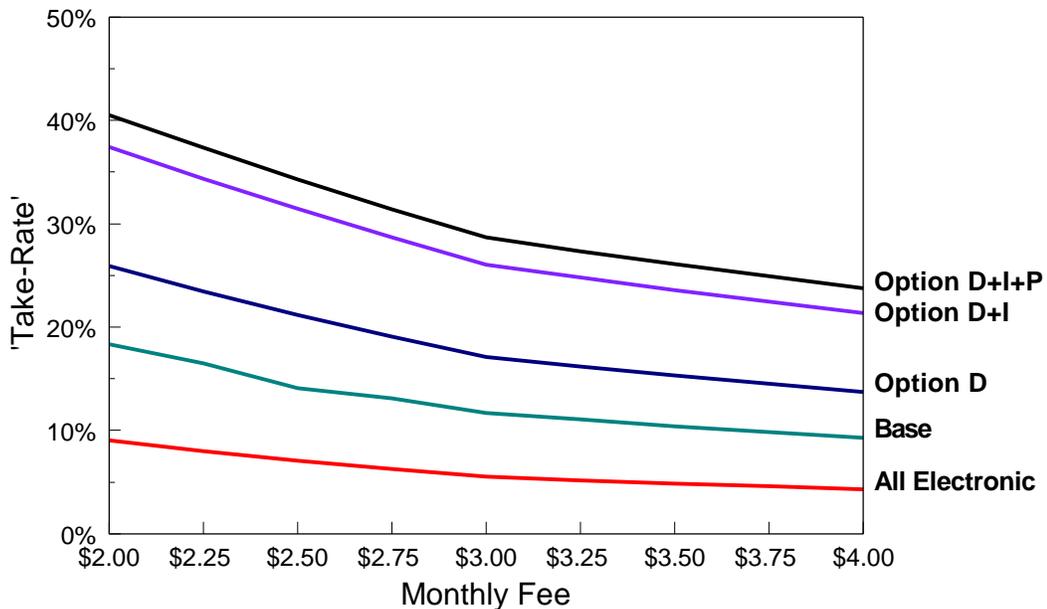


Figure 7.11

7.7 'Take-Rate' by Segment

The 'take-rate' was estimated for each of the six demographic segments (program, area, ethnic group, household income level, age, and geographic region). It is important to recognize that, due to limitations of the sample size within some of the sub-segment cells, the segmentation results should be considered suggestive in nature as they do not always meet the allowable error of +/- 5% at the 95% confidence level. The approach used within the segments is a standard error-based methodology. The 95% confidence intervals for the 'take-rate' of each sub-segment are detailed in Appendix I and in the Market Model in Chapter 8.

For presentation purposes, segment preferences are summarized in a three-dimensional bar chart and a table that shows the impact of various monthly fee levels on 'take-rate' follows the bar chart.

Geographic Region

Regional differences are not evident for the 'All Electronic' and 'Base' products. However, interest and payments appear to be relatively more attractive in the West, Northeast, and Southeast regions.

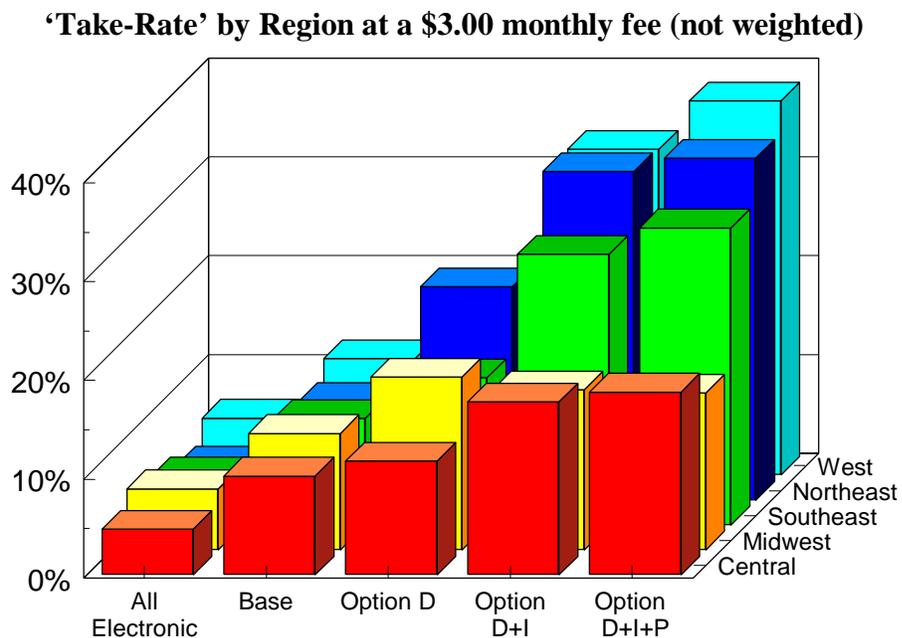


Figure 7.12

'Take-Rate' by Region by Monthly Fee (not weighted)

\$2.00	West	Midwest	Central	Northeast	Southeast
All Electronic	10%	15%	10%	6%	8%
Base	19%	26%	20%	16%	17%
Option D	28%	36%	23%	32%	23%
Option D+I	46%	34%	33%	46%	39%
Option D+I+P	51%	34%	34%	47%	42%

\$3.00	West	Midwest	Central	Northeast	Southeast
All Electronic	6%	6%	5%	4%	5%
Base	12%	12%	10%	10%	11%
Option D	19%	17%	12%	22%	15%
Option D+I	33%	16%	17%	33%	27%
Option D+I+P	38%	16%	19%	35%	30%

\$4.00	West	Midwest	Central	Northeast	Southeast
All Electronic	4%	6%	3%	3%	4%
Base	9%	11%	7%	8%	9%
Option D	14%	16%	9%	17%	12%
Option D+I	26%	15%	13%	27%	23%
Option D+I+P	30%	15%	14%	29%	25%

Table 7.15

Area

With respect to area, significant differences exist between City respondents and those from other areas. City respondents had the highest 'take-rates' across all five ETA options at all three price ranges. This group also showed a large preference for receiving 2% interest on account balances. Both Small Town and Countryside respondents, on the other hand, exhibited lower 'take-rates' for the five accounts and were less influenced by the opportunity to get 2% interest.

'Take-Rate' by Area at a \$3.00 monthly fee (not weighted)

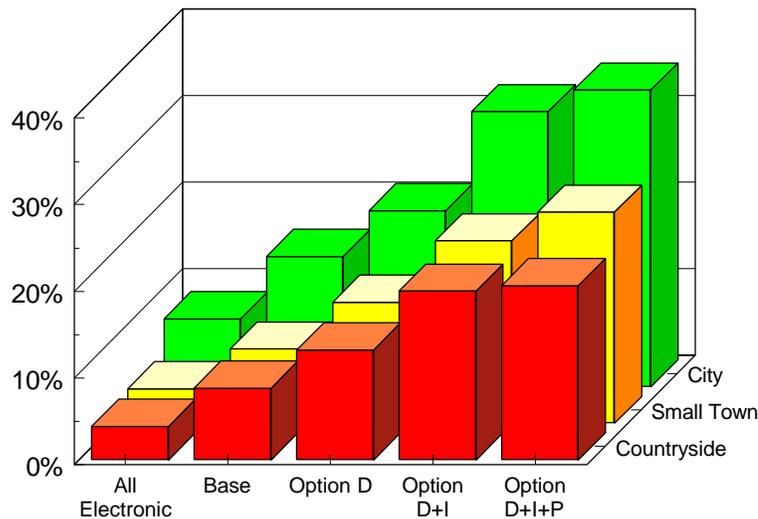


Figure 7.13

'Take-Rate' by Area by Monthly Fee (not weighted)

\$2.00	City	Small Town	Countryside
All Electronic	13%	5%	8%
Base	24%	12%	16%
Option D	32%	19%	23%
Option D+I	46%	27%	33%
Option D+I+P	48%	31%	34%

\$3.00	City	Small Town	Countryside
All Electronic	8%	4%	4%
Base	15%	9%	8%
Option D	20%	14%	13%
Option D+I	32%	21%	20%
Option D+I+P	34%	24%	20%

\$4.00	City	Small Town	Countryside
All Electronic	6%	3%	3%
Base	12%	6%	7%
Option D	17%	10%	11%
Option D+I	26%	16%	17%
Option D+I+P	29%	18%	17%

Table 7.16

Program

The ‘take-rate’ for accepting an ETA increased fairly steadily as more access points, other deposits, and interest were added. The electronic bill payment feature does not appear to have much importance placed on it. This should be expected as the respondents are unbanked, and NACHA studies have shown that the majority of banked consumers do not utilize electronic bill payment.

‘Take-Rate’ by Program at a \$3.00 monthly fee (not weighted)

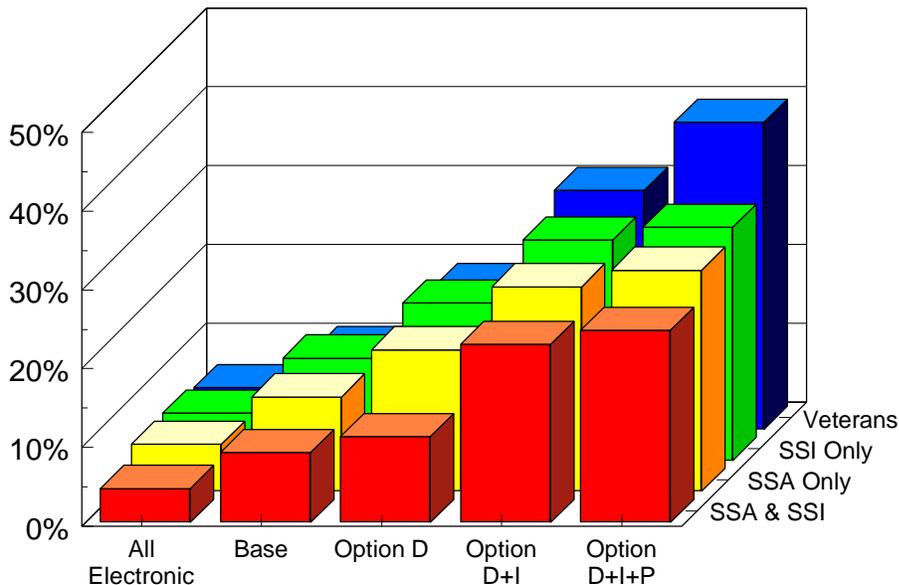


Figure 7.14

In general, respondents who receive both SSA and SSI checks had the lowest ‘take-rate’ for all five ETA configurations at all three monthly fee levels (4% to 37%), while SSI Only

respondents tended to have the highest ‘take-rates’ (5% to 45%). Veterans had the highest ‘take-rate’ for the ‘Option D+I+P’ configuration at the \$3.00 and \$4.00 monthly fee levels.

Consistent with the quantitative and qualitative findings from the non-conjoint parts of the questionnaire, SSI recipients showed the largest price sensitivity for the ETA configurations — their ‘take-rates’ varied the most with respect to price.

‘Take-Rate’ by Program by Monthly Fee (not weighted)*

\$2.00	SSA Only	SSA & SSI	SSI Only	Veterans
All Electronic	9%	8%	11%	7%
Base	18%	15%	22%	12%
Option D	27%	18%	32%	22%
Option D+I	38%	35%	43%	35%
Option D+I+P	40%	37%	45%	44%

\$3.00	SSA Only	SSA & SSI	SSI Only	Veterans
All Electronic	5%	4%	6%	5%
Base	12%	9%	13%	10%
Option D	18%	11%	20%	18%
Option D+I	26%	23%	28%	30%
Option D+I+P	28%	24%	30%	39%

\$4.00	SSA Only	SSA & SSI	SSI Only	Veterans
All Electronic	4%	4%	5%	4%
Base	8%	8%	10%	8%
Option D	13%	9%	15%	15%
Option D+I	20%	20%	22%	26%
Option D+I+P	22%	21%	23%	34%

Table 7.17

* ‘Take-rate’ percentages for Railroad Retirement Board and OPM are not significant.

Age

A statistically significant difference in ‘take-rate’ exists among the age groups. Younger respondents (under 54 years of age) expressed a significantly higher ‘take-rate’ than those over 55 years of age. For example, the mean ‘take-rate’ for those under 35 years of age was four times greater than that of respondents over 74 years of age for ‘Option D’, ‘Option D+I’, and ‘Option D+I+P’.

'Take-Rate' by Age at a \$3.00 monthly fee (not weighted)

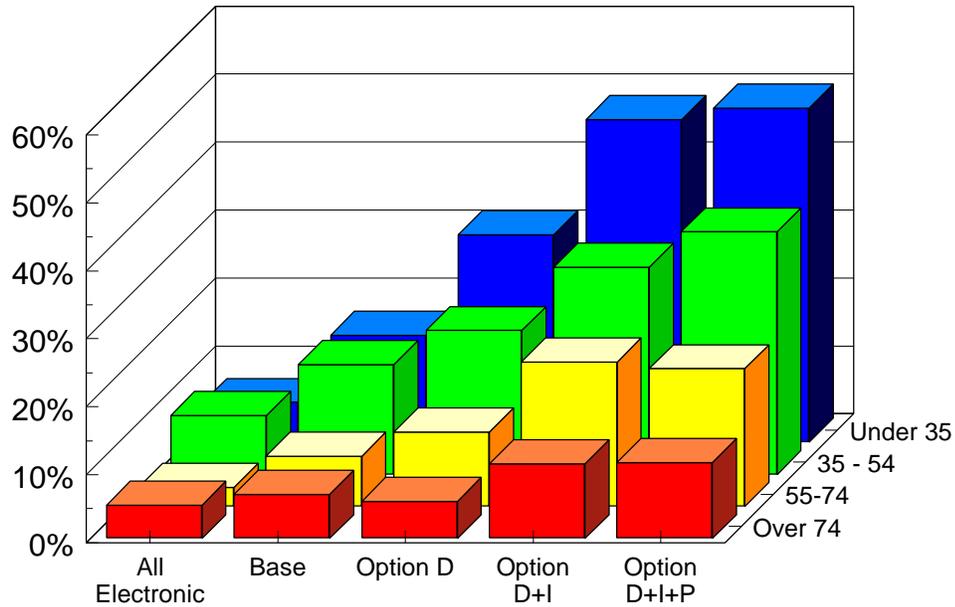


Figure 7.15

'Take-Rate' by Age by Monthly Fee (not weighted)

\$2.00	Under 35	35 – 54	55 – 74	Over 74
All Electronic	11%	15%	3%	10%
Base	28%	26%	9%	13%
Option D	47%	33%	13%	11%
Option D+I	65%	45%	24%	20%
Option D+I+P	66%	51%	23%	21%

\$3.00	Under 35	35 – 54	55 – 74	Over 74
All Electronic	6%	9%	3%	5%
Base	16%	16%	7%	7%
Option D	31%	21%	11%	5%
Option D+I	48%	30%	21%	11%
Option D+I+P	49%	36%	20%	11%

\$4.00	Under 35	35 – 54	55 – 74	Over 74
All Electronic	6%	6%	2%	4%
Base	16%	11%	6%	5%
Option D	30%	15%	9%	4%
Option D+I	47%	22%	17%	8%
Option D+I+P	49%	27%	16%	8%

Table 7.18

Household Income

Consistent with the other quantitative and qualitative information in the survey, respondents with household incomes over \$15,000 were less price sensitive, and thus, their ‘take-rate’ did not change significantly with variations in price, as it did for the other income levels.

‘Take-Rate’ by Household Income at a \$3.00 monthly fee (not weighted)

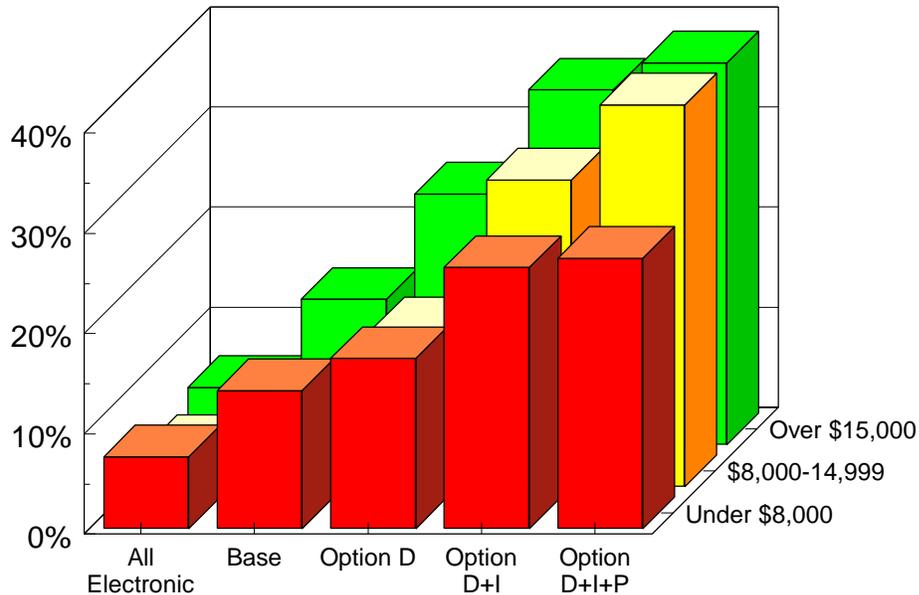


Figure 7.16

‘Take-Rate’ by Household Income by Monthly Fee (not weighted)

\$2.00	Under \$8,000	\$8,000-14,999	Over \$15,000
All Electronic	13%	6%	7%
Base	24%	14%	16%
Option D	29%	24%	28%
Option D+I	41%	42%	39%
Option D+I+P	42%	50%	42%

\$3.00	Under \$8,000	\$8,000-14,999	Over \$15,000
All Electronic	7%	4%	6%
Base	14%	9%	14%
Option D	17%	16%	25%
Option D+I	26%	31%	35%
Option D+I+P	27%	38%	38%

\$4.00	Under \$8,000	\$8,000-14,999	Over \$15,000
All Electronic	5%	3%	6%
Base	10%	6%	15%
Option D	12%	11%	26%
Option D+I	20%	23%	36%
Option D+I+P	20%	29%	39%

Table 7.19

Ethnic Group

With respect to ethnic groups, there was a statistically significant difference at the 95% confidence level between Black respondents and the other ethnic categories. Black respondents consistently showed the highest ETA ‘take-rates’ at all the monthly fee levels, often doubling the acceptance rate of the other three groups. Black respondents also gave significant importance to Interest, as did the Hispanic and Other Ethnic group respondents.

‘Take-Rate’ by Ethnic Group at a \$3.00 monthly fee (not weighted)

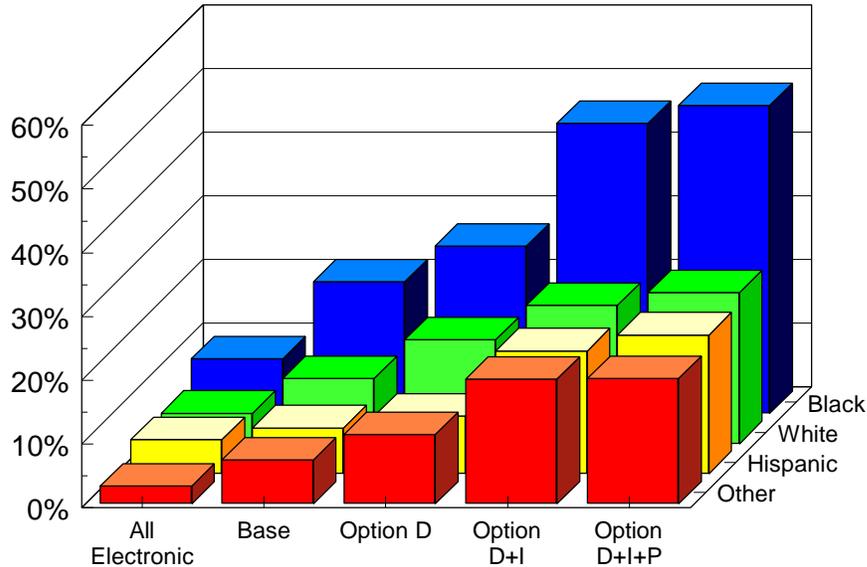


Figure 7.17

‘Take-Rate’ by Ethnic Group by Monthly Fee (not weighted)

\$2.00	Hispanic	Black	White	Other
All Electronic	12%	15%	8%	4%
Base	15%	33%	16%	10%
Option D	19%	40%	24%	15%
Option D+I	36%	61%	32%	26%
Option D+I+P	40%	64%	34%	27%

\$3.00	Hispanic	Black	White	Other
All Electronic	5%	9%	5%	3%
Base	7%	21%	10%	7%
Option D	9%	26%	16%	11%
Option D+I	19%	46%	22%	20%
Option D+I+P	22%	48%	24%	20%

\$4.00	Hispanic	Black	White	Other
All Electronic	5%	6%	4%	3%
Base	6%	14%	8%	7%
Option D	8%	19%	13%	11%
Option D+I	17%	35%	18%	19%
Option D+I+P	20%	38%	19%	19%

Table 7.20

7.8 Economic vs. Emotional Decision Factors

This study provided respondents with the option to indicate that they would prefer ‘None’ of the options presented to them. Given that the study focused specifically on individuals who are unbanked, this methodology provides a very realistic choice for unbanked respondents who are likely to remain unbanked unless a banking product is made available to them that meets their price/value threshold.

Upon review of respondents’ answers to the conjoint questions, it becomes evident that other factors may be influencing respondents’ choices. Although many respondents did show interest in the ETAs tested, 46% of unbanked respondents were not interested in any ETA account configuration. In the following discussion these respondents are referred to as ‘**Nones**’. In comparison, 54% of the respondents indicated that they would consider taking one of the products if it were made available to them. These respondents are referred to as ‘**Takers**’.

Although the ETA configurations may be viewed as hypothetical, all of the features tested have been available for more than 20 years. Therefore, the ETA features tested are already available in the marketplace, though not bundled into a single product targeted at this population. Coupled with the frequency and knowledge that respondents have attained over the years from previous usage of banking services — 55% cash checks at banks and 52% previously had accounts at banks — these responses to ETA configurations should not be surprising.

Comparing these results with prior research conducted by Shugoll/Booz, Allen & Hamilton, it was identified that 71% of the unbanked Federal check recipients had previously used a bank account. This suggests that the account configurations are realistic and accurately reflect the experiences and preferences of the recipients.

'Nones' versus 'Takers'

In summary, the 'None' respondents are satisfied with their current situation and would prefer to see no changes to the current paper-check based system.

Bank Account Interest — 'Nones' vs. 'Takers' (not weighted)

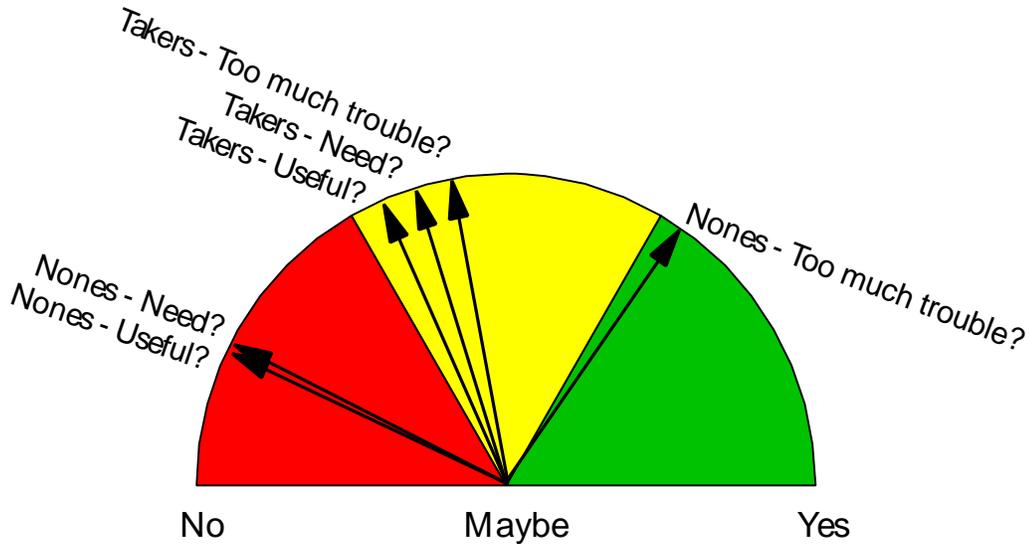


Figure 7.18

— *“This is all nuts. I don’t have and don’t want a bank account of any kind!”*
(SSI)

Several hypotheses were considered that might explain why so many respondents consistently answered 'None' to the ETA options presented in the conjoint study.

- One explanation could be that cashing a check is not a problem for the respondents. Perhaps their assessment is that their current approach is less expensive and/or better than any of the options presented, all of which included a monthly fee. The responses to other questions in the survey indicated that 61% of the respondents cash their Federal checks at no fee. For these individuals, there may not be any interest in an account that has a monthly fee.

Survey results indicate that the 'Nones' pay a fee less often to cash their Federal checks, and, when they are charged, they pay a smaller fee.

Check Cashing Fee — 'Nones' vs. 'Takers' (not weighted)

Unbanked Respondents	Charged a Fee	Amount of Fee (Mean)
'Nones'	27%	\$0.78
'Takers'	49%	\$2.64

Table 7.21

— *“I should not be forced to lose \$2-\$4 off my already low cost of living. I want control of my own money – you do not have the right to force me and violate my rights!”* (SSA & SSI, City)

As mentioned earlier in the report, this is linked to the check cashing location used: ‘Nones’ use significantly less check cashers to cash their Federal checks than ‘Takers’. Only 7% of ‘Nones’ go to check cashers compared to 23% of ‘Takers’.

- Regardless of what type of bank account those in the ‘None’ group could be offered, they have strong incentives to remain unbanked and receive their paper checks through the mail.

Survey results show that ‘Nones’ are more satisfied receiving their Federal payments through the mail than are ‘Takers’.

— *“Please, keep sending my check to my home address. I look forward to it every month.” (SSA, City)*

‘Nones’ are older than ‘Takers’: 45% of ‘Nones’ are over 65 years old compared to 25% of ‘Takers’.

Age Distribution — ‘Nones’ vs. ‘Takers’ (not weighted)

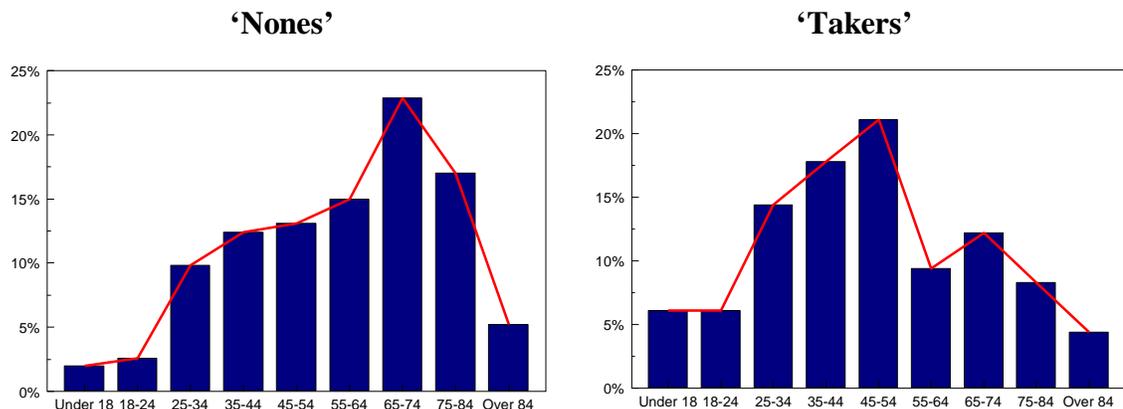


Figure 7.19

Associated with age, ‘Nones’ have been receiving their Federal payments through the mail longer than ‘Takers’, which may be an important factor as to why they place more importance on seeing their Federal check and having it in their hand.

Years of Receiving Benefits — ‘Nones’ vs. ‘Takers’

Unbanked Respondents	Number of Years at Current Address (Mean)	Number of Years as Federal Check Recipient (Mean)
‘Nones’	18	13
‘Takers’	12	10

Table 7.22

Finally, ‘Nones’ have an easier time cashing their paper checks than do ‘Takers’.

— *“I am pleased with the way I cash my Federal checks. I will not change it. Thank you.” (SSA & SSI, Countryside)*

- Another element that may influence the ‘None’ responses among SSI recipients is the frequent re-qualification process that involves searches of bank records for evidence

of assets or income, which, if found, could lead recipients to lose their eligibility for those funds.

- Other issues may be related to control and involvement with finances. This may make people uninterested in using a bank account — even if it is free. For these individuals, the decision to have a bank account is not economically driven; it is more of an emotional issue. This may include respondents who are distrustful of financial institutions due to:

Prior bad experiences

Language and cultural factors

Disabilities

Market Model

3.25. Summary

The market model was developed to estimate the number of ETAs that would be demanded by unbanked Federal check recipients for various potential hypothetical ETA configurations. Utilizing the conjoint research, the model first estimates the ETA ‘take-rate’ by segment. The ‘take-rate’ is then multiplied by the estimated number of unbanked Federal check recipients for each demographic segment.

Previous research has estimated that there are between 5.2 million and 6.5 million unbanked Federal check recipients³⁹. The ‘low case’ uses an estimate of five million and the ‘high case’ uses an estimate of seven million unbanked Federal check recipients.

The market model provides the following information:

- The ‘take-rates’ for various ETA configurations for overall and for each segment.
- The 95% confidence interval for each configuration.
- Estimated ETA demand for various account configurations and market segmentation schemes.

Segment population estimations are multiplied by the binary share of choice based ‘take-rate’ for various ETA configurations to produce estimates of total potential ETA customers for each segment.

³⁹Source: FMS/Treasury commissioned report, ETA Initiative Final Report, Dove Associates, June 15, 1998 — “ETA prospects who do not have a bank account at an Financial Institution represent 24% of the Federal benefit check recipient population — approximately 5.2 to 6.5 million individuals”.

3.26.Overall Weighted Average Demand

Overall demand for the ETA configurations is estimated by using a weighting process that adjusts for the undersampling of Social Security and the oversampling of the smaller programs. The overall demand is calculated by applying estimated segment weights (see Table 8.1) to estimate the number of individuals that may belong to a specific segment population. All of the segment weights, except for region, are calculated by using the percentage of respondents from each demographic segment identified in the questionnaire. For the region weights, the 1997 Statistical Abstract of the United States was used. It is important to consider that these demographic assumptions may need to be modified if better information is available from other sources.

Segment Weights

Area		Age		Annual Household Income	
City	42%	Under 34 years	20%	Under \$8,000	59%
Suburb	8%	Ages 34 –54	32%	\$8,000 - \$14,999	25%
Small Town	27%	Ages 55 – 74	31%	Over \$15,000	16%
Countryside	23%	Over 74 years	17%		

Region		Program		Ethnic Group⁴⁰	
West	22%	SSA	66%	Hispanic	14%
Midwest	18%	SSA&SSI	9%	Black	25%
Central	16%	SSI	16%	White	52%
Northeast	25%	OPM	2%	Asian	2%
Southeast	19%	Railroad	1%	Pac Isl / Nat Hawaii	1%
		Veterans	6%	Am Ind / Alsk Nat	5%
				Other	2%

Table 8.1

3.27.Estimated Overall ETA Demand

Applying the ‘Take-Rate’ results for each of the five product configurations to the estimated number of unbanked Federal check recipients, the market model suggests that the potential number of ETAs⁴¹ will range from 216 thousand ETAs for the ‘All-Electronic’ ETA at a \$4.00 monthly fee (low case) to 2,836 thousand ETAs for the ‘Option D+I+P’ ETA at a \$2.00 monthly fee (high case). The sensitivity of various ETA configurations at three monthly fee levels are shown in tables 8.2, 8.3 and 8.4.

For the five ETA account configurations discussed in Chapter 7, ‘All Electronic’, ‘Base’, ‘Option D’, ‘Option D+I’, and ‘Option D+I+P’, the tables below display the ETA demand that would be expected at each monthly fee level. The table below shows that at a \$3.00 monthly fee the estimated number of ETAs ranges from 276 thousand ETAs to 2,007 thousand ETAs.

**‘Take-Rate’ and Expected Number of ETA Accounts
at a \$2.00 Monthly Fee (weighted)**

	Mean	Low Case*	High Case**

⁴⁰ Does not add up to 100% because of rounding.

⁴¹ Using the estimate of five million unbanked Federal check recipients and the mean ‘take-rate’ estimate.

Option (\$2.00)	Take-Rate	Number of ETA Accounts (000)	Number of ETA Accounts (000)
All Electronic	9%	452	632
Base	18%	918	1,285
Option D	26%	1,295	1,813
Option D+I	37%	1,870	2,619
Option D+I+P	41%	2,026	2,836

Table 8.2

**‘Take-Rate’ and Expected Number of ETA Accounts
at a \$3.00 Monthly Fee (weighted)**

Option (\$3.00)	Mean Take-Rate	Low Case* Number of ETA Accounts (000)	High Case** Number of ETA Accounts (000)
All Electronic	6%	276	386
Base	12%	585	818
Option D	17%	855	1,197
Option D+I	26%	1,302	1,822
Option D+I+P	29%	1,433	2,007

Table 8.3

**‘Take-Rate’ and Expected Number of ETA Accounts
at a \$4.00 Monthly Fee (weighted)**

Option (\$4.00)	Mean Take-Rate	Low Case* Number of ETA Accounts (000)	High Case** Number of ETA Accounts (000)
All Electronic	4%	216	303
Base	9%	465	651
Option D	14%	686	960
Option D+I	21%	1,068	1,495
Option D+I+P	24%	1,188	1,663

Table 8.4

* Low case assumes 5MM unbanked Federal check recipients

** High case assumes 7MM unbanked Federal check recipients

3.28. Market Model Instructions

The market model was developed in Microsoft Excel 97. It is composed of two main interactive parts, both of which can be located in the 'Model' worksheet of 'EtaModel.xls.' The first part asks the user to create an ETA by entering the desired level for each of the six ETA features (deposits, interest, payments, access points, monthly access, and monthly fee). See below:

Market Model Account Configuration and 'Take-Rate' Screen

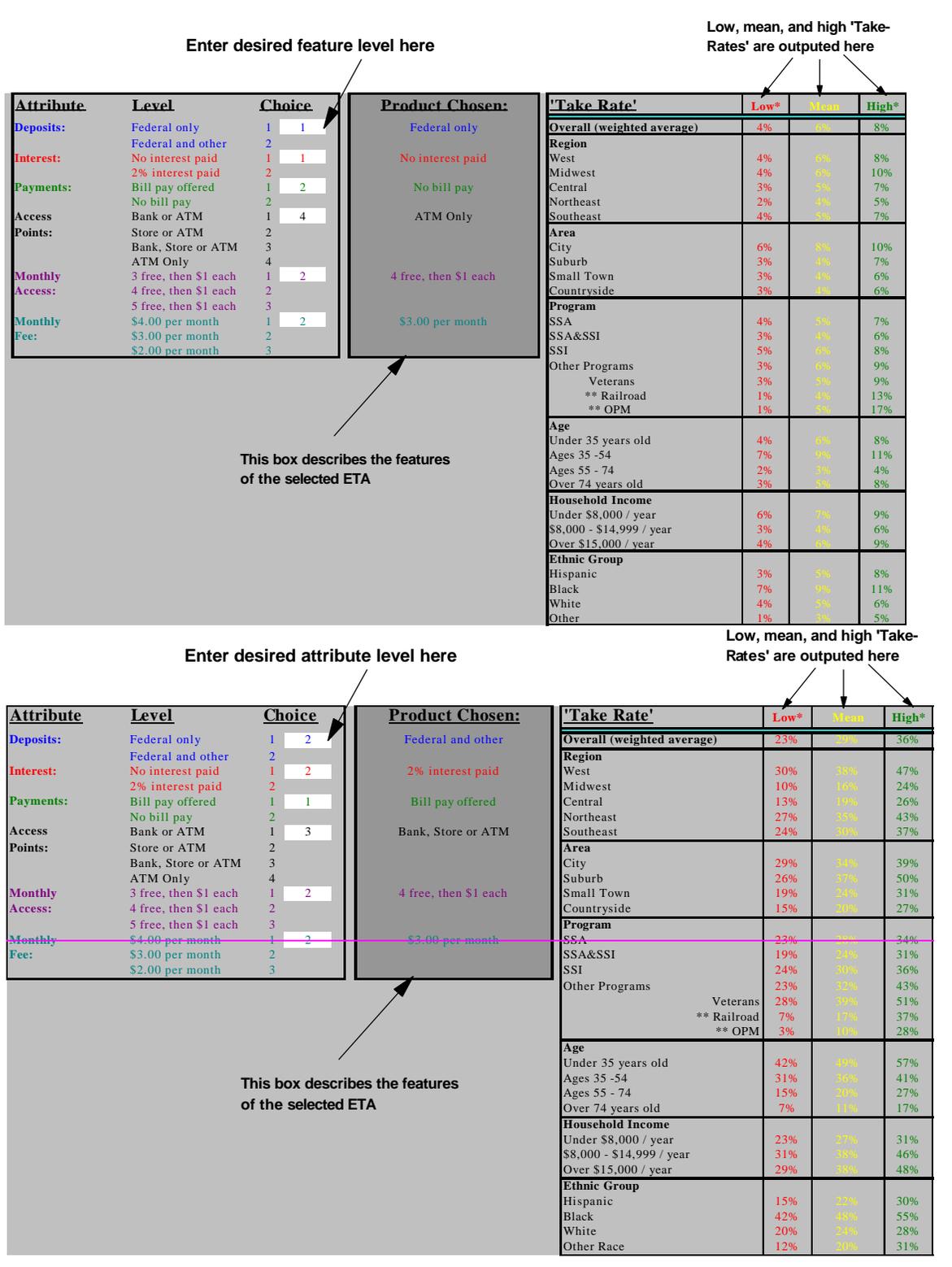


Figure 8.1

The box in the middle, labeled 'Product Chosen,' lists the feature levels the user has selected. If an invalid choice number is entered, the word 'Incomplete' will appear in the 'Product Chosen' box.

The box labeled 'Take-Rate' displays the mean voluntary acceptance rates for the configured account. A low and a high 'take-rate' have also been calculated using the mean 'take-rate' plus or minus 1.96 standard errors. This provides a statistically valid range of estimates for ETA demand at the 95% confidence level.

As the ETA configuration is modified by the user, the 'take-rates' for each segment, as well as for the overall total, are immediately updated. Although the percentage of people who would not voluntarily accept the configured account is not listed, it can be calculated by subtracting the 'take-rate' from 100%.

The second part of the market model (located below Part 1 in the same Excel spreadsheet) estimates a range for the number of accounts that would be demanded by the unbanked population if the ETA met the specified features. Using a low and a high figure to estimate the number of unbanked Federal check recipients as well as a mean, a low, and a high predicted 'take-rate' for the ETA provides us with six estimated demand figures. See below:

Market Model Estimated ETA Demand Screen

The expected demand for the ETA configured above is calculated here using both a 5 and 7 million estimation of the unbanked Federal check recipient population.

ETA Demand is also projected using a low and a high modification of the mean 'Take-rate.'

Please select the desired segment and / or level from the pull down tab (s) below.		PROJECTED ETA DEMAND (in 000s)					
Segment	Level	Mean "Take rate"	Mean "Take rate"	Low	Low	High	High
		5 Million Unbanked	7 Million Unbanked	5 MM	7 MM	5 MM	7 MM
Total Only		276	386	198	278	383	536
Region	West	63	88	43	61	91	128
Region	Midwest	56	79	33	46	95	133
Region	Central	37	52	24	34	57	80
Region	Northeast	45	63	31	43	64	90
Region	Southeast	33	46	33	47	63	89
Region	Total	248	347	165	231	371	519
Area	City	165	230	132	445	205	286
Area	Suburb	18	25	10	15	10	15
Area	Small Town	53	75	38	53	75	105
Area	Countryside	45	64	30	49	68	95
Area	Total	281	394	210	294	358	501
Program	SSA	181	254	136	190	241	338
Program	SSA&SSI	20	28	14	20	28	39
Program	SSI	50	70	37	52	66	93
Program	Veterans	15	21	9	13	25	35
Program	* Railroad	3	4	1	1	9	12
Program	* OPM	4	6	1	2	13	19
Program	Total	273	382	198	277	382	535
Age	Under 34 years old	60	84	44	62	81	113
Age	Ages 34 -54	137	192	109	153	173	242
Age	Ages 55 - 74	43	61	29	41	64	90
Age	Over 74 years old	42	58	25	35	68	95
Age	Total	282	395	207	290	385	539
Income	Under \$8,000 / year	212	297	172	241	261	365
Income	\$8,000 - \$14,999 / year	50	70	36	50	70	98
Income	Over \$15,000 / year	44	62	29	41	66	92
Income	Total	307	430	238	333	397	555
Ethnic Group	Hispanic	37	52	24	41	57	79
Ethnic Group	Black	109	152	84	117	140	196
Ethnic Group	White	126	176	99	139	159	223
Ethnic Group	Asian	3	4	2	2	6	8
Ethnic Group	Pac Isl / Nat Hawaii	1	1	0	1	1	2
Ethnic Group	Am Ind / Alsk Nat	7	9	3	5	13	18
Ethnic Group	Other	2	3	1	2	4	6

Figure 8.2

The user may view the projected ETA demand figures in a variety of ways by using the pull down menus of the table. The pull down menu to the left, labeled 'Segment,' enables the user to limit the ETA demand output by segment (i.e., program, area, ethnic group, age, income, or region). The pull down menu on the right, labeled 'Level' allows the ETA demand output to be limited by segment level (i.e., city, suburb, etc.). If '(All)' is selected from both pull down menus, the ETA demand for all segments and levels will be shown as they are above.

Market Model Screen – Using the ‘Segment’ Pull Down

The user can specify only certain segments or levels to be displayed by selecting the desired segment or level from the pull down menu.

Please select the desired segment and / or level from the pull down tab (s) below.		PROJECTED ETA DEMAND (in 000s)					
Segment	Level	Mean 'Take-rate' 5 Million Unbanked	Mean 'Take-rate' 7 Million Unbanked	Low 5 MM	Low 7 MM	High 5 MM	High 7 MM
Region	West	415	581	326	456	513	718
Region	Midwest	145	203	92	128	221	309
Region	Central	152	213	107	150	210	294
Region	Northeast	433	606	341	478	535	749
Region	Southeast	320	449	222	311	343	480

The output has been limited to demand by region.

Figure 8.3

If, for example, ‘Region’ is selected from the ‘Segment’ pull down menu, only ETA demand for the Central, Midwest, Northeast, Southeast and West will be shown. The projected ETA demand output can be narrowed even further by choosing a segment level (i.e., Northeast, West, etc.) from the ‘Level’ pull down menu. If the ‘Level’ has been specified, it must be changed back to ‘(All)’ before another segment can be viewed.

Market Model Screen – Using the ‘Level’ Pull Down

Please select the desired segment and / or level from the pull down tab (s) below.		PROJECTED ETA DEMAND (in 000s)					
Segment	Level	Mean 'Take-rate' 5 Million Unbanked	Mean 'Take-rate' 7 Million Unbanked	Low 5 MM	Low 7 MM	High 5 MM	High 7 MM
	Northeast						

The output has been limited to demand by Northeast.

Figure 8.4

3.29. Model Results

The market model is especially useful when one of the hypothetical ETA configurations examined in the study is configured. Figures 8.5–8.9 below show the total ETA demand for these five hypothetical configurations at \$3.00. By changing the monthly fee level for the ETA configuration, the user can see how demand changes as price varies. Or, by adding a feature such as ‘2% Interest’ or ‘Other Deposits’ to an account, the user can view the impact of that feature. Since the market model fragments demand into different segments, it also provides insight into who would be most/least interested in the different accounts.

Market Model – ‘All Electronic’ at a \$3.00 Monthly Fee

Please select the desired segment and / or level from the pull down tab (s) below.		PROJECTED ETA DEMAND (in 000s)					
Segment	Level	Mean 'Take rate' 5 Million Unbanked	Mean 'Take rate' 7 Million Unbanked	Low 5 MM	Low 7 MM	High 5 MM	High 7 MM
Total Only		276	386	198	278	383	536
Region	West	63	88	43	61	91	128
Region	Midwest	56	79	33	46	95	133
Region	Central	37	52	24	34	57	80
Region	Northeast	45	63	31	43	64	90
Region	Southeast	33	46	33	47	63	89
Region	Total	248	347	165	231	371	519
Area	City	165	230	132	445	205	286
Area	Suburb	18	25	10	15	10	15
Area	Small Town	53	75	38	53	75	105
Area	Countryside	45	64	30	49	68	95
Area	Total	281	394	210	294	358	501
Program	SSA	181	254	136	190	241	338
Program	SSA&SSI	20	28	14	20	28	39
Program	SSI	50	70	37	52	66	93
Program	Veterans	15	21	9	13	25	35
Program	* Railroad	3	4	1	1	9	12
Program	* OPM	4	6	1	2	13	19
Program	Total	273	382	198	277	382	535
Age	Under 34 years old	60	84	44	62	81	113
Age	Ages 34 -54	137	192	109	153	173	242
Age	Ages 55 - 74	43	61	29	41	64	90
Age	Over 74 years old	42	58	25	35	68	95
Age	Total	282	395	207	290	385	539
Income	Under \$8,000 / year	212	297	172	241	261	365
Income	\$8,000 - \$14,999 / year	50	70	36	50	70	98
Income	Over \$15,000 / year	44	62	29	41	66	92
Income	Total	307	430	238	333	397	555
Ethnic Group	Hispanic	37	52	24	41	57	79
Ethnic Group	Black	109	152	84	117	140	196
Ethnic Group	White	126	176	99	139	159	223
Ethnic Group	Asian	3	4	2	2	6	8
Ethnic Group	Pac Isl / Nat Hawaii	1	1	0	1	1	2
Ethnic Group	Am Ind / Alsk Nat	7	9	3	5	13	18
Ethnic Group	Other	2	3	1	2	4	6

Figure 8.5

Market Model – ‘Base’ at a \$3.00 Monthly Fee

Please select the desired segment and / or level from the pull down tab (s) below.		PROJECTED ETA DEMAND (in 000s)					
Segment	Level	Mean 'Take rate' 5 Million Unbanked	Mean 'Take rate' 7 Million Unbanked	Low 5 MM	Low 7 MM	High 5 MM	High 7 MM
Total Only		585	818	439	615	773	1082
Region	West	129	180	93	130	176	247
Region	Midwest	107	150	67	93	167	234
Region	Central	82	114	56	78	118	165
Region	Northeast	125	174	91	127	169	236
Region	Southeast	92	129	75	106	132	184
Region	Total	542	759	381	534	762	1067
Area	City	312	437	258	870	376	526
Area	Suburb	58	81	37	51	37	51
Area	Small Town	117	163	86	120	157	220
Area	Countryside	97	136	67	110	138	193
Area	Total	584	817	448	627	708	991
Program	SSA	388	543	302	423	495	692
Program	SSA&SSI	41	57	31	43	55	77
Program	SSI	102	143	79	111	130	182
Program	Veterans	29	40	18	25	45	63
Program	* Railroad	18	25	8	11	34	48
Program	* OPM	5	8	2	2	16	23
Program	Total	583	816	439	615	775	1085
Age	Under 34 years old	161	225	125	175	205	287
Age	Ages 34 -54	257	359	210	294	311	435
Age	Ages 55 - 74	115	160	81	114	160	224
Age	Over 74 years old	55	77	34	48	88	123
Age	Total	587	822	451	631	764	1069
Income	Under \$8,000 / year	411	575	343	480	489	685
Income	\$8,000 - \$14,999 / year	110	154	82	115	147	206
Income	Over \$15,000 / year	112	157	80	112	155	217
Income	Total	633	886	504	706	791	1107
Ethnic Group	Hispanic	49	69	32	56	74	103
Ethnic Group	Black	261	366	212	297	318	445
Ethnic Group	White	267	373	216	303	327	457
Ethnic Group	Asian	7	10	4	6	13	18
Ethnic Group	Pac Isl / Nat Hawaii	2	3	1	1	3	4
Ethnic Group	Am Ind / Alsk Nat	16	23	9	13	29	40
Ethnic Group	Other	5	8	3	4	10	13

Figure 8.6

Market Model – ‘Option D’ at a \$3.00 Monthly Fee

Please select the desired segment and / or level from the pull down tab (s) below.		PROJECTED ETA DEMAND (in 000s)					
Segment	Level	Mean 'Take rate' 5 Million Unbanked	Mean 'Take rate' 7 Million Unbanked	Low 5 MM	Low 7 MM	High 5 MM	High 7 MM
Total Only		855	1197	653	914	1106	1548
Region	West	204	286	150	211	272	381
Region	Midwest	159	223	101	142	240	336
Region	Central	94	132	65	91	135	189
Region	Northeast	270	378	204	286	350	491
Region	Southeast	200	280	105	147	179	250
Region	Total	866	1212	626	876	1176	1646
Area	City	424	594	354	1194	504	706
Area	Suburb	87	122	57	80	57	80
Area	Small Town	190	266	142	199	251	351
Area	Countryside	148	207	104	170	206	288
Area	Total	849	1188	657	920	1018	1425
Program	SSA	583	817	461	645	730	1022
Program	SSA&SSI	50	70	37	52	66	93
Program	SSI	153	214	121	170	191	268
Program	Veterans	52	73	34	47	77	107
Program	* Railroad	17	24	7	10	33	46
Program	* OPM	4	6	1	2	14	20
Program	Total	860	1203	661	926	1111	1556
Age	Under 34 years old	312	437	252	353	379	531
Age	Ages 34 - 54	336	470	278	389	402	563
Age	Ages 55 - 74	171	239	122	171	235	329
Age	Over 74 years old	46	65	29	40	74	103
Age	Total	865	1211	681	954	1090	1526
Income	Under \$8,000 / year	505	706	424	593	597	836
Income	\$8,000 - \$14,999 / year	199	279	151	211	259	362
Income	Over \$15,000 / year	194	271	143	200	256	358
Income	Total	897	1256	718	1005	1112	1556
Ethnic Group	Hispanic	63	88	41	72	93	130
Ethnic Group	Black	332	464	273	382	398	557
Ethnic Group	White	423	592	348	487	511	715
Ethnic Group	Asian	11	16	6	9	20	27
Ethnic Group	Pac Isl / Nat Hawaii	3	4	2	2	5	7
Ethnic Group	Am Ind / Alsk Nat	26	36	14	20	44	62
Ethnic Group	Other	9	12	5	7	15	21

Figure 8.7

Market Model – ‘Option D+I’ at a \$3.00 Monthly Fee

Please select the desired segment and / or level from the pull down tab (s) below.		PROJECTED ETA DEMAND (in 000s)					
Segment	Level	Mean 'Take rate' 5 Million Unbanked	Mean 'Take rate' 7 Million Unbanked	Low 5 MM	Low 7 MM	High 5 MM	High 7 MM
Total Only		1302	1822	1019	1427	1633	2286
Region	West	361	506	279	390	454	636
Region	Midwest	147	206	93	130	224	313
Region	Central	143	201	100	141	199	279
Region	Northeast	417	583	327	457	517	724
Region	Southeast	308	432	200	281	315	441
Region	Total	1322	1851	1000	1399	1709	2393
Area	City	661	926	565	1906	765	1071
Area	Suburb	143	201	100	141	100	141
Area	Small Town	285	399	217	304	367	513
Area	Countryside	227	317	163	267	307	429
Area	Total	1316	1842	1047	1465	1539	2154
Program	SSA	869	1217	702	982	1060	1484
Program	SSA&SSI	104	145	80	112	132	184
Program	SSI	222	311	180	251	270	378
Program	Veterans	87	121	59	83	120	168
Program	* Railroad	14	20	6	8	29	41
Program	* OPM	9	12	3	4	24	34
Program	Total	1304	1826	1029	1441	1635	2288
Age	Under 34 years old	484	677	410	574	559	782
Age	Ages 34 - 54	484	677	409	572	566	792
Age	Ages 55 - 74	329	461	244	342	434	608
Age	Over 74 years old	93	130	59	82	144	201
Age	Total	1390	1946	1122	1570	1702	2383
Income	Under \$8,000 / year	775	1085	663	928	899	1259
Income	\$8,000 - \$14,999 / year	385	540	305	427	476	667
Income	Over \$15,000 / year	274	384	210	294	346	485
Income	Total	1435	2009	1178	1649	1722	2410
Ethnic Group	Hispanic	132	185	91	157	186	261
Ethnic Group	Black	576	806	497	696	656	919
Ethnic Group	White	566	792	471	659	674	944
Ethnic Group	Asian	21	29	12	17	33	46
Ethnic Group	Pac Isl / Nat Hawaii	5	7	3	4	8	12
Ethnic Group	Am Ind / Alsk Nat	46	65	27	38	74	104
Ethnic Group	Other	15	22	9	13	25	35

Figure 8.8

Market Model – ‘Option D+I+P’ at a \$3.00 Monthly Fee

Please select the desired segment and / or level from the pull down tab (s) below.		PROJECTED ETA DEMAND (in 000s)					
Segment	Level	Mean 'Take rate' 5 Million Unbanked	Mean 'Take rate' 7 Million Unbanked	Low 5 MM	Low 7 MM	High 5 MM	High 7 MM
Total Only		1433	2007	1128	1580	1783	2497
Region	West	415	581	326	456	513	718
Region	Midwest	145	203	92	128	221	309
Region	Central	152	213	107	150	210	294
Region	Northeast	433	606	341	478	535	749
Region	Southeast	320	449	222	311	343	480
Region	Total	1424	1993	1088	1523	1822	2550
Area	City	712	997	612	2064	819	1147
Area	Suburb	153	214	108	152	108	152
Area	Small Town	330	462	254	356	419	587
Area	Countryside	233	326	169	275	315	441
Area	Total	1428	2000	1144	1601	1662	2327
Program	SSA	935	1309	759	1062	1133	1587
Program	SSA&SSI	112	157	87	122	142	198
Program	SSI	232	325	189	264	281	394
Program	Veterans	111	156	79	111	147	205
Program	* Railroad	12	17	5	7	26	36
Program	* OPM	8	11	2	3	22	31
Program	Total	1410	1974	1121	1570	1751	2451
Age	Under 34 years old	501	702	427	598	576	806
Age	Ages 34 - 54	567	794	485	679	655	917
Age	Ages 55 - 74	314	439	232	324	415	581
Age	Over 74 years old	94	132	60	84	146	204
Age	Total	1477	2067	1204	1685	1792	2509
Income	Under \$8,000 / year	800	1121	685	960	927	1298
Income	\$8,000 - \$14,999 / year	479	670	388	543	577	808
Income	Over \$15,000 / year	295	413	228	320	369	516
Income	Total	1574	2204	1301	1822	1872	2621
Ethnic Group	Hispanic	150	209	104	180	208	292
Ethnic Group	Black	610	854	531	743	691	967
Ethnic Group	White	616	863	515	721	731	1023
Ethnic Group	Asian	21	29	12	17	33	46
Ethnic Group	Pac Isl / Nat Hawaii	5	7	3	4	8	12
Ethnic Group	Am Ind / Alsk Nat	47	65	27	38	75	104
Ethnic Group	Other	16	22	9	13	25	35

Figure 8.9

3.30. Market Model Options

The market model is meant to be an interactive tool. The user can vary hypothetical ETA product configurations and segment parameters to estimate the number of unbanked Federal check recipients who would voluntarily choose that product configuration. It also permits the user to assess the impact of varying the number of accesses per month.

Geographic Region

Respondents' states were divided into five geographic regions: West, Central, Midwest, Southeast, and Northeast. The following map identifies the states that belong to each region in the market model.

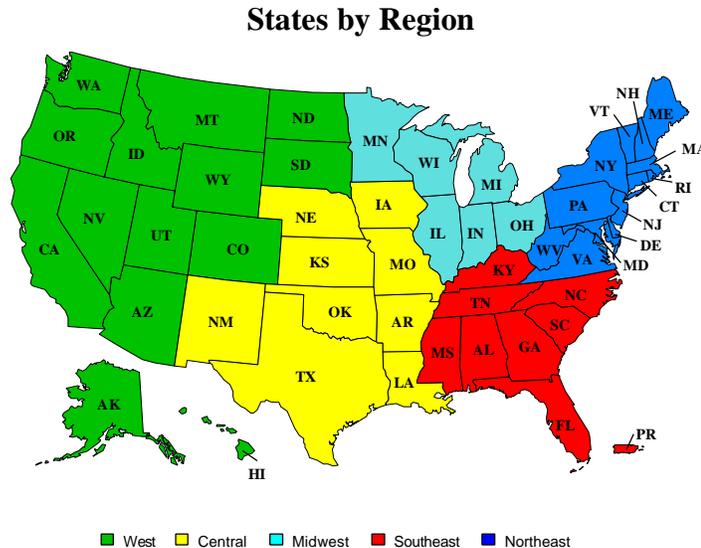


Figure 8.10

To project the number of unbanked Federal check recipients for each region, the population distribution by region given in the 1997 Statistical Abstract of the United States was multiplied by the estimated number of national unbanked Federal check recipients (see Table 8.1 for weights).

Financial institutions can estimate the number of potential ETA customers who reside in their market territory by the following procedure:

- 1) Specify an ETA product configuration using the market model to determine the 'take-rate' for the segment they are interested in examining,
- 2) Apply the 'take-rate' for that segment or region to the number of unbanked Federal check recipients in the states that they serve,
- 3) Apply the assumption that 24% of Federal check recipients are unbanked to the number of checks sent to each state or zip code that they serve. These numbers are available and can be downloaded into excel from the FMS website at: <http://www.fms.treas.gov/eft/zipcode.html>,
- 4) Multiply the 'take-rate' by the number of unbanked in their market area.

For example, if a financial institution was interested in identifying the ETA demand in Alabama, it would:

Hypothetical Example for Alabama

- 1) Specify the ETA product:** Base product at \$3.00
- 2) Find the ‘take-rate’ from the market model:** 8%, 11%, 14% (for Southeast)
- 3) Find the number of checks for Alabama from the FMS website:** 423,501
Multiply this by 24% to get unbanked population: $423,501 * 24\% = 101,640$

4) Multiply the ‘take-rate’ by the number of unbanked:

	Take Rate	Unbanked	Estimated Demand
Low	8%	101,640	8,131
Mean	11%	101,640	1,1180
High	14%	101,640	14,230