

# Beyond Check-cashing:

An examination of consumer demand and business innovation for immediate access to check funds

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# EXECUTIVE SUMMARY

Despite their gradual decline in use, checks remain prevalent, accounting for 33% of non-cash payments in the United States by face value. As long as checks exist, so will the need for immediate access to check funds. High quality check-cashing services must meet consumer demand.

Most consumers using non-bank check-cashing services have a banking relationship. Among these consumers, the top two reasons given for using non-bank check-cashing are speed and convenience. Check-cashing services also offer access to provider services, transparency about funds availability, and security that the transaction will not be reversed if the check bounces.

Recognizing the check-cashing market opportunity, a variety of new providers, including financial institutions, big box retailers, and telecommunication providers, have entered the market over the last two decades. Increases in the number and types of players in the market have given consumers more choice but also stiffened provider competition for consumer loyalty.

## CONSUMER BEHAVIOR AND BUSINESS OPPORTUNITY

This research paper seeks to understand the business opportunity for check-cashing, and what drives consumer loyalty for these services. This understanding can help providers decide whether to introduce check-cashing services, and sets out some considerations for those currently offering those services. The analysis draws on industry-wide coverage across channels and different provider types and in-depth research on consumer check-cashing behavior provided by FIS, the world's largest banking and payments technology provider, through its subsidiaries Certegy Check Services and ChexSystems. With check-cashing data for more than 39 million distinct consumers from over 200 providers, FIS was uniquely positioned to provide data

for this study. The frequency with which consumers' use check-cashing services and the consistency with which they use the same provider, identified five behavioral segments in a sample of 394,000 consumers.<sup>1</sup>

Using interviews and additional analysis, the Center for Financial Services Innovation (CFSI) provides a broader context for these behavioral patterns. Key findings about consumer behavior include:

Most check-cashing users have or would qualify for bank accounts.

- 74% of check-cashing users have bank account activity.
- 80% of check-cashing consumers could qualify for a bank account, if they applied.

The majority of check-cashing customers are loyal to one provider brand, but several factors (i.e. geography) impacted this loyalty.

- 57% of check-cashing consumers are loyal to one provider brand.
- Big box retailers displayed the greatest percentage of loyal consumers.
- Variances in the source of income, geography or time of day correlated to consumers' usage of a different provider brand.

Business models need to be more inclusive of different check types and improve decisions on whether to accept checks, particularly for new technology channels.

- For the 73% of consumers with more than one check, at least 25% of checks came from a different income source than their usual checks.
- Changes in check types written—the steady decline in business-originated checks and steep decline in government checks—means there is more opportunity in processing consumer-to-consumer checks and small business checks.
- Consumers with returned checks and/or DDA account closures are more likely to choose self-service technology channels.

<sup>1</sup> Refer to Appendix A: Methodology

New technology channels are expanding consumers' convenience, but consumers are not yet using them for higher value checks.

- Roughly half of check-cashing transactions via kiosks and mRDC are outside of typical 9-5 business hours.
- The mRDC and kiosks channels are potential game-changers that can help providers meet consumers' needs for speed and convenience.
- Checks converted at brick-and-mortar locations have higher face-values than those deposited via mRDC, even when from the same income source.

### **INNOVATIONS AND CONSUMERS' HOLISTIC FINANCIAL NEEDS**

The competition to capture consumer loyalty is reflected in new business models, product offerings, and marketing techniques. Despite some variations, providers face many of the same difficulties when implementing check-cashing services—technical integration, developing staff expertise, generating consumer awareness, and consistency in the consumer experience. These common challenges are spawning innovations that may help improve consumer loyalty—such

as service bundling, rewards, tiered pricing, and dedicated service lines—and that are ripe for replication regardless of provider type. Collaboration or synergy between providers might also play a role in pioneering consumer experiences for the future.

There is also a major opportunity to encourage consumer loyalty by integrating check-cashing with additional services that meet consumers' other needs. People achieve financial health when they have not only a smoothly functioning, day-to-day financial system (which can be supported by high-quality check-cashing services), but also have sufficient resilience in the face of inevitable financial ups and downs, and can seize opportunities to build their financial lives over time. Companies that advance the financial health of their customers will reap the benefits in terms of deeper loyalty and engagement, and longer-term, more robust client relationships. Thus, connecting immediate fund availability to consumers' saving and planning needs can offer a unique value proposition in the fight for loyalty and higher-volume use.





# INTRODUCTION: THE CHECK- CASHING MARKETPLACE

Over the last two decades, a variety of new providers began offering check-cashing services to give consumers immediate access to their funds. Today, check-cashing services are available at providers ranging from mom-and-pop shops to the largest corporations, through channels from kiosks to smartphones.

The number of traditional providers of this service, financial service centers,<sup>2</sup> grew to roughly 6,000 by the year 2000, and then more than doubled, reaching 13,000 by 2005.<sup>3</sup> During the same period, retailers began to enter the market as they obtained licenses for check-cashing state-by-state.

Walmart, now the largest check casher in the country, entered the market in the early 2000s, contributing significantly to this trend because of both its scale and the attention it galvanized from competitors. Beyond traditional check-cashing, a host of other provider types—financial institutions (Fifth Third), mobile wallet and prepaid providers (American Express Bluebird and Serve), telecommunications providers (T-Mobile), and hybrid models (such as Boost Mobile in partnership with Wipit)—are all offering immediate access to funds.

The growth of this marketplace has impacted both providers and consumers. To be sure, it has given consumers more choice—but without clarity into the options available and which best suits each consumer's needs. For providers, the increase in options and expansion of players has intensified competition. The competition for loyal consumers is particularly intense.

In this report, the Center for Financial Services Innovation (CFSI) analyzes changes in the market to help providers navigate the evolving check-cashing industry and pose questions on further business innovation. In our view, providers seeking to develop compelling service offerings should aim to engender loyalty through high-quality financial services that promote consumers' success.

The basis for the consumer loyalty analysis comes from Certegy Check Services, a subsidiary of FIS, the world's largest banking and payments technology provider, with annual client check-cashing volumes in excess of \$34 billion. Certegy produced a sample for this study that included industry-wide consumer transaction data for 394,000 consumers' check-cashing activity across providers and channels. Certegy's transaction sample also enabled CFSI to understand how consumers' loyalty is affected by key variables, such as time of day

and the check's source, as determined by its magnetic ink character recognition (MICR) number—the identifier that facilitates processing and accounting.

Ultimately, this report can serve two types of providers: 1) those who seek to understand both the market opportunity and the ways that check-cashing can fit into their overall business strategy; and 2) those who are either designing or already offering check-cashing services and want to better understand consumer behavior and improve the value of their services.

***“In our view, providers seeking to develop compelling service offerings should aim to engender loyalty through high-quality financial services that promote consumers' success.”***

<sup>2</sup> See Appendix A: Definition of Terms.

<sup>3</sup> Consumer Federation of America, “Cashed Out: Consumers Pay Steep Premium to ‘Bank’ at Check-cashing Outlets,” November 2006.

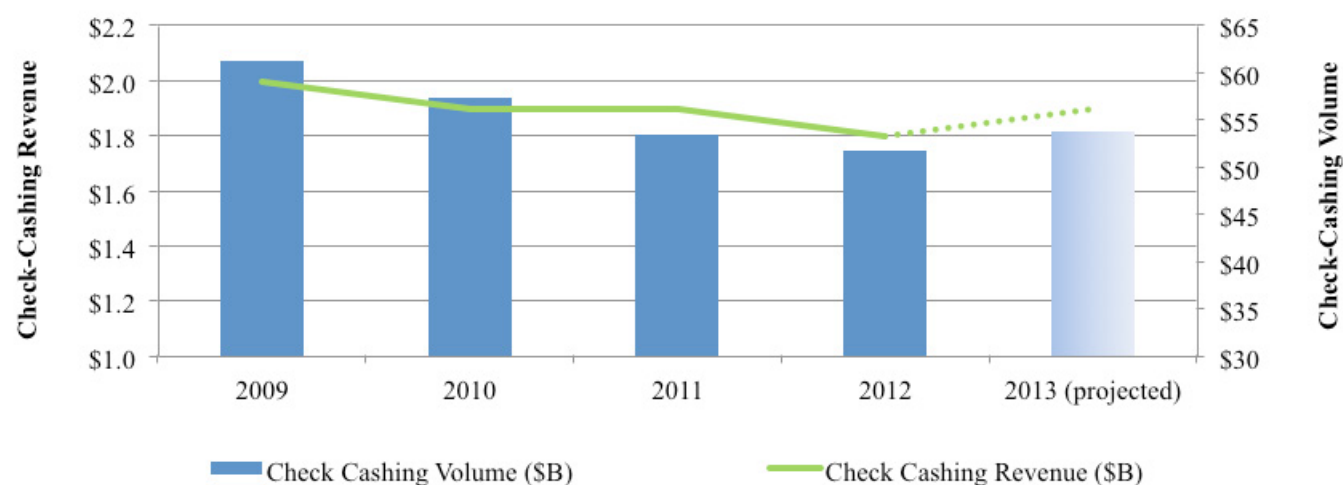
# UNDERSTANDING THE MARKET

Although check-cashing has declined in volume, the rate of decline has slowed in recent years. The total face value of checks cashed in 2012 is estimated at \$51.7 billion. A total of \$1.8 billion dollars in check-cashing revenue was produced in 2012,<sup>4</sup> and a slight increase is projected in the short-term<sup>5</sup> as moderate macroeconomic growth drives increased cash flow, and as both businesses and consumers continue to use checks.<sup>6</sup>

The significant usage of checks may seem surprising given the rise of direct deposit, debit cards, and electronic payment alternatives, such as Square, PayPal, and

Intuit. While these alternatives hold some advantages over checks, they are not yet used by all payers (such as many small employers) or all payees (such as peer-to-peer payments and many landlords).<sup>7</sup> Moreover, the Federal Reserve Bank's centralized check-clearing system has made it easy to use checks by allowing for simple transfers of funds between accounts across thousands of financial institutions. Today, 33 % of all non-cash payments in the United States, by total face value, are made with checks, even though checks account for only 15 % of non-cash payments by quantity.<sup>8</sup>

**Figure 1: Check-Cashing Market Revenues and Volumes 2009 - 2013**



Source: 2012 Financially Underserved Market Size Study, CFSI

<sup>4</sup> Market Data Enterprises, "U.S. Check-cashing & Money Transfer Market Worth \$9.4 Billion," 2013.

<sup>5</sup> 2012 Financially Underserved Market Size Study, CFSI, 2013.

<sup>6</sup> 2012 Financially Underserved Market Size Study, CFSI, 2013. Revenue and volumes for the check industry are based on information reported by MarketData Enterprises, Inc., the FDIC, and industry information compiled by CFSI. Industry volume and revenue totals are estimates with a moderate confidence level. Industry volume totals do not fully capture all check-cashing channel segments, such as mRDC. Revenue totals are based on averages of advertised fees and do not include additional income such as interchange fees. Given these limitations, revenue to volume totals are not used here for ratio comparisons.

<sup>7</sup> Federal Reserve Bank of Kansas City, "Person to Person," 2012.

<sup>8</sup> The 2013 Federal Reserve Payments Study: Recent and Long-Term Payment Trends in the United States: 2003–2012. Despite downward trends in volume, the average check size has actually increased. The average value per check paid increased from \$1,291 in 2009 to \$1,420 in 2012.

## MARKET TRENDS IN CHECK TYPES

Government, businesses, and consumers are all writing checks today. Because of direct deposit, “safer” checks for providers, such as business-to-consumer and government checks, will continue to make up less of the check-cashing market. Moreover, the competition for “safer checks” is the fiercest, with many providers limiting acceptance to only these checks. With government and business checks declining, there

***“[Many check-cashing consumers] are small-business owners, willing to pay for immediate access to their check funds.”***

is an opportunity for providers to be more inclusive of consumer-to-consumer checks, particularly with stronger verification to maximize the acceptance of good checks.

Government checks declined steeply once the U.S. Department of the Treasury began phasing out paper social security checks and other federal benefit checks in May of 2011. According to Certegy data, the volume of government checks cashed per location has decreased at a rate of over 20% per year since 2011. However, government checks still account for a small but significant percentage of all check-cashing transactions<sup>9</sup>, with government-issued checks continuing at the state and municipal levels.

The rate of decline for business-originated checks has slowed, suggesting stubborn barriers to change. Although business-to-consumer checks are the second-smallest market segment, and despite an average decline of 8% annually, they still account for a significant number of checks cashed.<sup>10</sup>

Payroll checks represent between 80% and 90% of most financial service centers’ volumes.<sup>11</sup> American businesses pay half of their bills by check (albeit down from 74% in 2007).<sup>12</sup> Indeed, checks are the only form of payment easily accessible to some business partners. The extra time it takes for a bill payment to make its way through the postal system gives some companies a few extra days of liquidity, helping to manage short-term cash needs.

Consumer-to-consumer checks are the smallest market segment of checks, but the only one stabilizing and perhaps growing modestly.<sup>13</sup> These checks can also be a component of regular household income, not recognized as business-to-consumer or consumer-to-business checks (i.e., small-business payments or payroll written from personal accounts, rent payments, etc.). Regions Bank reports that many of its check-cashing consumers are small-business owners willing to pay for immediate access to their check funds. The bank has found small business activity so significant that it is developing a dedicated small-business platform.<sup>14</sup>

<sup>9</sup> In the FIS transaction sample, government checks comprised 9.7% of all check-cashing transactions by count, and 11.7% of all converted funds.

<sup>10</sup> Source: The 2013 Federal Reserve Payments Study: Recent and Long-Term Payment Trends in the United States: 2003–2012

<sup>11</sup> Financial Service Centers of America, “Check Cashers are Good Bank Customers,” 2010. See Appendix A: Definition of Terms, for “Financial Service Center” definition.

<sup>12</sup> Vipal Monga, “U.S. Companies Cling to Writing Paper Checks,” *Wall Street Journal*, March 10, 2014.

<sup>13</sup> See Appendix C: Additional Figures.

<sup>14</sup> Daniel Wolfe, “Why Regions’ Bank Customers Choose to Pay Prepaid-Like Fees,” *American Banker*, April 2014.

# BEHAVIORAL SEGMENTS: WHO USES CHECK-CASHING?

Consumers of check-cashing services are diverse, and the demand spans age groups and bank account status. The market opportunity for providers is not just to acquire new customers but to fully address the needs of existing customers.

***“The market opportunity for providers is not just to acquire new customers but to fully address the needs of existing customers.”***

The majority of consumers using check-cashing services have bank accounts. According to the FDIC’s 2011 Household Survey, 60% of consumers using non-bank check-cashing services have a bank account and a banking relationship, whereas 40% are unbanked.

The FDIC survey reports only on check-cashing services provided by alternative financial service providers, not what percentage of fully banked or underbanked households use check-cashing services offered by their bank. According to ChexSystems, an FIS Company, as many as 74% of consumers using check-cashing services have some form of demand deposit account (DDA). Providers confirm that financial institutions that offer their DDA consumers some form of immediate funds availability find that those offerings are popular.<sup>15</sup>

Providers must understand the demand for check-cashing services to ensure that the products and services they deliver are high quality. A key measure for understanding the demand is consumer loyalty—the frequency at which consumers use check-cashing services and the consistency with which they use any one provider, or different locations of the same provider brand. Certegy’s transaction sample reveals five behavioral segments<sup>16</sup>:

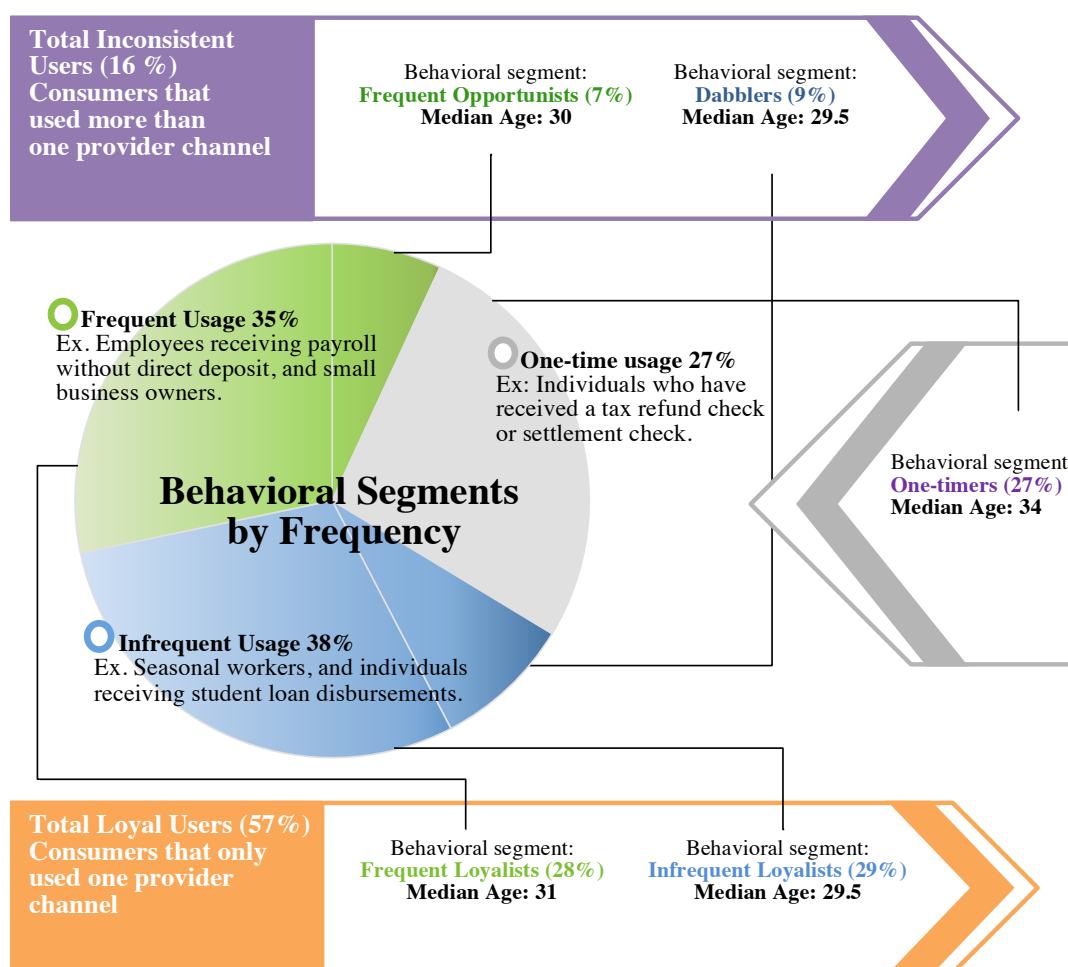
- **Frequent Loyalists:** Very frequent users of check-cashing who use only one provider brand.
- **Frequent Opportunists:** Very frequent users of check-cashing who use more than one provider brand.
- **Infrequent Loyalists:** Moderate to low users of check-cashing who use only one provider brand.
- **Dabblers:** Moderate to low users of check-cashing who use more than one provider brand.
- **One-timers:** Consumers who used check-cashing once during the sample period.

<sup>15</sup> Redstone Federal Credit Union’s subsidiary recently offered money services to nonmembers through a pilot site called Right Choice. Upon learning about Right Choice’s offerings, over 50 credit union members from the nearest Redstone branch went to Right Choice to use check-cashing services in the last year.

<sup>16</sup> Transactional data only represents the consumers experience with FIS’s customers and experience and may under- or overrepresent consumer loyalty to a degree. See the Appendix A: Methodology for more background on the approach to segmentation and further definition of the segments.



**Figure 2: Behavioral Segments Overview**



Source: Certegy Check Services, an FIS company

The Behavioral Segments Overview offers interesting insights into consumer loyalty: The majority of consumers (57%) are loyal to one provider (i.e., a retail chain, a financial institution or a local financial service center). Loyal consumers are almost evenly divided among Frequent Loyalists (28%) and Infrequent Loyalists (29%). Only about 16% of consumers, Frequent Opportunists and Dabblers, are inconsistent in provider selection, splitting their check-cashing activity between two provider brands, on average.

While ranging in age, a significant percentage of check-cashing users are young. The median age in Certegy's sample set is 32, and the youngest quartile of consumers averages 24 years old.<sup>17</sup> Additional research by Think Finance supports the finding that millennials are significant check-cashing users. In their study, 34% of millennials who earn under \$25,000 and 29% who earn \$50,000–\$74,999 use either bank or non-bank check-cashing services.<sup>18</sup>

<sup>17</sup> See Appendix Table 5: Ages.

<sup>18</sup> Think Finance Survey 2012: Millennials Use Alternative Financial Services Regardless of their Income Level.

The figure below summarizes key metrics for each behavioral segment.

Creating value propositions compelling enough to attract frequent users of check-cashing services presents a significant market opportunity for providers. In months with check-cashing activity, the frequent consumer converts funds at a rate 40% to 50% higher than the infrequent consumer. Frequent Opportunists, the smallest segment in the sample (7% of the adjusted sample, or more than 21,000 consumers), displayed the highest frequency of checks per month (2.25 checks). Thus, while Frequent Loyalists had higher individual check values, the greater frequency of Frequent Opportunists' activity meant they converted the most in terms of dollars each month. Notably, One-timers, who are considered neither loyal nor inconsistent, displayed the highest face value of individual checks, but their limited use made their overall monthly face value the lowest of all segments.

***“While Frequent Loyalists had higher individual check values, the greater frequency of Frequent Opportunists’ activity meant they converted the most in terms of dollars each month”***

**Table 1: Characteristics of Behavioral Segments**

	Frequent Loyalists	Infrequent Loyalists	Frequent Opportunist	Dabblers	One-Timers
% of sample <sup>19</sup>	28%	29%	7%	9%	27%
# of checks per month	1.99	1.45	2.25	1.58	1
Average \$ converted per month	\$879	\$642	\$919	\$630	\$507
Average check amount	\$463	\$439	\$428	\$396	\$507
% of government checks by volume	8.9%	10.4%	8.4%	9.4%	14.6%
% government checks by \$ amount	10.8%	12.9%	8.8%	11.2%	21.1%

Source: Certegy Check Services, an FIS company

<sup>19</sup> The behavioral segment percentages have been adjusted to exclude consumers in the “Other” category, for which there was insufficient activity to analyze their behavior.

## CONSUMER BEHAVIOR AND PROVIDER CHANNELS

Consumers' desire for convenience and immediacy highlights the opportunity for providers to leverage technology channels to extend access in terms of both location and timing. Brick-and-mortar providers have embraced technology, introducing online, self-service kiosks, bank-initiated electronic fund transfers and email payments.

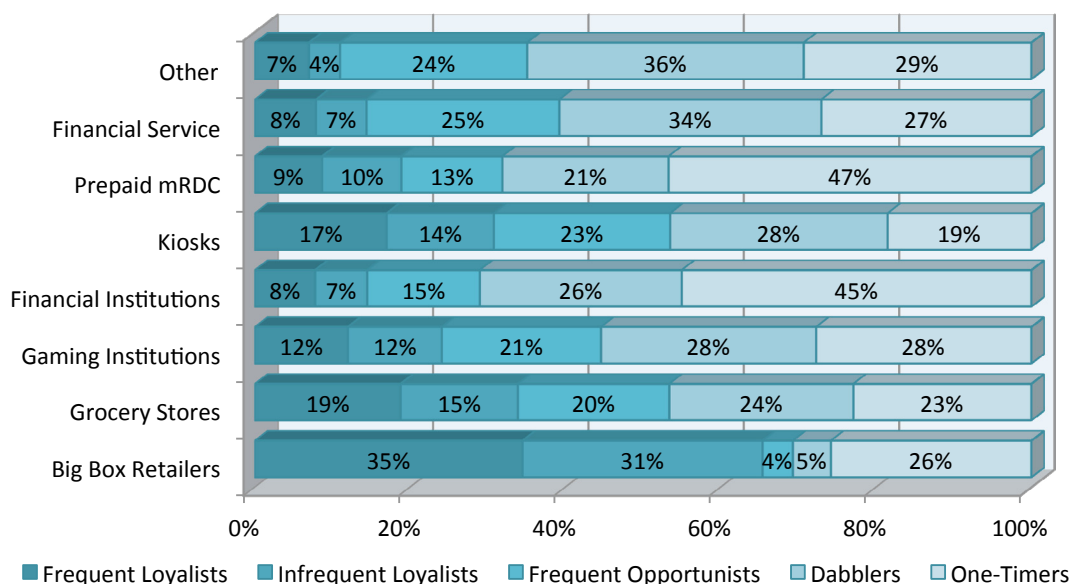
Analyzing consumers' use of different channels by both provider and channel type resulted in eight provider channels:

- **Big Box Retailers:** Checks converted onsite by large-scale retail stores.
- **Grocery Stores:** Checks converted onsite by large-scale grocery stores.
- **Financial Institutions:** Checks converted onsite by financial institutions.
- **Gaming Institutions:** Checks converted onsite by gaming institutions, such as casinos.

- **Financial Service Centers:** Standalone or chain non-depository financial institutions, such as check cashers, payday stores, and pawn shops.
- **Kiosks:** ATMs or kiosks owned and operated by small-scale retailers, such as 7-Eleven.
- **Prepaid mRDC:** Checks converted by prepaid or mobile wallet providers via mobile remote deposit capture (mRDC).
- **Other:** Small-scale retailers, such as convenience stores and liquor stores.

The figure below reveals that big box retailers and grocery stores have the highest customer loyalty among both frequent and infrequent users. In contrast, financial institutions and prepaid mRDC providers have the highest combined rates of inconsistent customers and one-time customers using their check-cashing services. Inconsistent consumers' attraction to mRDC further supports the idea that there is an opportunity to build relationships with consumers through the mobile channel.<sup>20</sup>

**Figure 3: Consumer Behavioral Segments Across Provider Channels**



Source: Certegy Check Services, an FIS company

<sup>20</sup> Figures reported represent the total behavioral segments per provider channel. The inconsistent behavioral segments that used multiple provider channels, i.e. Frequent Opportunists and Dabblers, are reported here in each provider channel that they used. Transactional data represents only the consumer's experience under- or overrepresent consumer loyalty. See Appendix A: Methodology for more background on the approach to segmentation.

# THE VALUE OF CHECK-CASHING SERVICES

Check-cashing services offer several benefits to consumers, including access, convenience, speed, transparency, and irreversibility.

***“Speed and convenience are the primary reasons underbanked consumers list for using non-bank check-cashing services. For unbanked consumers, access (because of not having a bank account) is primary, but speed and convenience come next.”***

Speed and convenience are the primary reasons underbanked consumers list for using non-bank check-cashing services. For unbanked consumers, access (because of not having a bank account) is primary, but speed and convenience come next. FIS’s experience is consistent with these findings. Its InstantFunds offering allows providers to customize services, offering immediate access to funds at a fee or standard deposits available in up to seven days for free. InstantFunds’ data shows that when consumers have a choice, approximately 90% select instant over standard funding, despite the added cost.

Providers aiming to stay competitive or increase their market share in check-cashing need also to look beyond the immediacy and convenience of their services. They should consider how to deepen the intrinsic benefits of their service—access, transparency, and irreversibility—to strengthen their value proposition.

## ACCESS

For the unbanked population, the most important value of check-cashing services is access to their

funds. These consumers may not qualify for DDA accounts or may not find them financially feasible when maintaining low balances. In recent years, questions have arisen about the affordability of bank accounts for consumers with low account balances. Given the decline of free checking, the rise of overdraft fees, and recent economic uncertainty, check-cashing may be a more price-competitive option for some consumers.<sup>22</sup>

Unbanked consumers also indicated in the FDIC survey that performing financial transactions and keeping money safe are top motivators for wanting to open a bank account,<sup>23</sup> suggesting an opportunity for providers to develop deeper relationships through check-cashing services.

An analysis through ChexSystems reveals that 80% of check-cashing consumers qualify for a DDA account, assuming moderate risk. This further highlights the market opportunity for developing relationships<sup>24</sup> with check-cashing consumers once they are acquired. ChexSystems uses QualiFile™ scores, at varying risk levels, to determine consumers’ qualification for banking relationships. The score ranges for each tolerance level are indicated in the table below, along with the major findings of this analysis. In all strategies, consumers in the loyal categories exhibited higher qualification rates than those who were inconsistent in provider use. However, the Frequent Opportunists displayed qualification rates nearly as high.

***“80% of check-cashing consumers qualify for a DDA account, assuming moderate risk.”***

<sup>21</sup> 2011 FDIC National Survey of Unbanked and Underbanked Households, September 2012.

<sup>22</sup> Lisa J. Servon, “The High Cost, for the Poor, of Using a Bank,” *The New Yorker*, Oct. 10, 2013.

<sup>23</sup> 2011 FDIC National Survey of Unbanked and Underbanked Households, September 2012.

<sup>24</sup> For all three risk tolerance strategies, consumers with an account closure identified as fraud were deemed unqualified for a DDA account.

**Table 2: Behavioral Segment Qualification for DDA Account by Tolerance Level**

Tolerance Level	Min Score	Max Score	Frequent Loyalists	Infrequent Loyalists	Frequent Opportunist	Dabblers	One-Timers
<b>Risk Adverse Tolerance</b>	581	899	59%	55%	58%	54%	71%
<b>Risk Moderate Tolerance</b>	546	899	83%	81%	82%	80%	89%
<b>Risk Aggressive Tolerance</b>	526	899	90%	89%	89%	88%	93%

Source: ChexSystems, an FIS company

## CONVENIENCE

Behavioral patterns reaffirm consumers' need for convenience and show that it can directly impact consumer loyalty. America's increasingly 24/7 culture has set the expectation for expedience, and in combination with long and variable work hours, consumers need flexible financial services to gain access to their funds and meet all of their financial needs in a way that accommodates their busy schedules. This can include not having to take the time to travel to brick-and-mortar locations if possible. Advances in technology and product location can help providers meet the need for convenience.

***“For each behavioral segment with more than one check, at least 25% of checks came from a different income source than their usual checks.”***

## INCOME SOURCES AND GEOGRAPHICAL VARIANCE

In Certegy's transaction sample, different forms of income and geography proved to have a significant impact on consumer loyalty. For each behavioral segment with more than one check, at least 25% of checks came from a different income source than their usual checks. The analysis uses check MICR types<sup>25</sup> to identify different payment sources, and couples this with the zip codes for different provider brand locations to test for geographical variance.

Generally, frequent consumers cash checks representing fewer MICR types, suggesting a consistent source of income or employment. The Frequent Loyalist segment averages 2.41 MICRs, compared with 2.90 MICRs for the Frequent Opportunists. For Frequent Loyalists, the majority of checks have the same MICR (74%). Frequent Opportunists were similar, with more than 67% of checks from the same income source, although they often took checks with the same MICR to different channels.

In contrast, Infrequent Loyalists were split almost evenly between checks from the same MICR and from other MICRs, suggesting regular income from one source and additional income from different sources, such as multiple part-time jobs. Dabblers were not regular enough in their use of check-cashing to display a pattern in income sources, although they converted more than a third of checks with the same MICR at the same location.

***“Different forms of income and geography proved to have a significant impact on consumer loyalty.”***

<sup>25</sup> See Appendix A: Definition of Terms.



**Table 3: Behavioral Segments and Check MICR Type**

	Frequent Loyalists	Infrequent Loyalists	Frequent Opportunist	Dabblers	One-Timers
Mean number of provider brands	1.00	1.00	2.06	2.05	1.00
Mean MICR count	2.41	2.40	2.90	2.77	1.00
Mean percentage at same provider brands	1.00	1.00	0.49	0.49	1.00
Percentage at same provider brand and MICR	73.9%	58.9%	37.4%	36.0%	100%
Percentage at same provider brand, different MICR	26.1%	41.1%	11.7%	13.4%	0.0%
Percentage at different provider brand, different MICR	0.0%	0.0%	20.8%	34.1%	0.0%
Percentage at different provider brand, same MICR	0.0%	0.0%	30.0%	16.5%	0.0%

Source: Certegy Check Services, an FIS company

A closer look reveals that activity at different provider brands correlates with activity at different geographical locations. For example, a consumer with two part-time jobs might convert the paycheck from employer A at a location close to that employer, and convert the paycheck from Employer B at an institution near that employer. This scenario most directly correlates to the income pattern for Frequent Opportunists, who display the greatest variation by geography. Frequent Opportunists have activity at 2.70 different zip codes on average, while Dabblers have activity at 2.39 zip codes. By contrast, the two loyal segments—Frequent

twice more likely to be in a different zip code than in the same zip code. For example, when the consumer with two part-time jobs receives a check from Employer B, not only does he go to a different provider brand than used for the check from Employer A, but it is in a different zip code. This indicates that geographical convenience, or convenience generally, may drive behavior that is not categorized as loyal, particularly for Frequent Opportunists.

***“Convenience may drive behavior that is not characterized as loyal.”***

Loyalists and Infrequent Loyalists—average much lower variance, at 1.73 and 1.67 zip codes on average, respectively.

For consumers inconsistent in provider usage, check-cashing activity at a different provider brand is almost

Technology channels and advances in product integration can give check recipients much more flexibility about when and where to deposit funds. On the intake side, kiosks and ATMs allow consumers to deposit checks at grocery stores and other locations. On the outflow side, enhanced product integration has also made it easier to convert check funds into other liquid forms, such as digital funds added to prepaid cards and mobile wallets. These check funds can also be used directly for bill pay, money orders, or money transfers through services like Western Union. This greatly increases convenience by enabling consumers to perform multiple transactions in one place.

**Table 4: Behavioral Segments and Geographical Variance**

	Frequent Loyalists	Infrequent Loyalists	Frequent Opportunist	Dabblers	One-Timers
Mean zip code count	1.73	1.67	2.70	2.39	1.00
Percentage same provider brand and same zip code	81.2%	77.9%	39.9%	41.2%	100%
Percentage same provider brand and different zip code	18.8%	22.1%	9.4%	8.4%	0%
Percentage different provider brand and different zip code	0%	0%	34.5%	36.1%	0.0%
Percentage different provider brand and same zip code	0.0%	0.0%	16.3%	14.4%	0.0%

Source: Certegy Check Services, an FIS company

#### BEHAVIORAL TRENDS BY TRANSACTION TIME

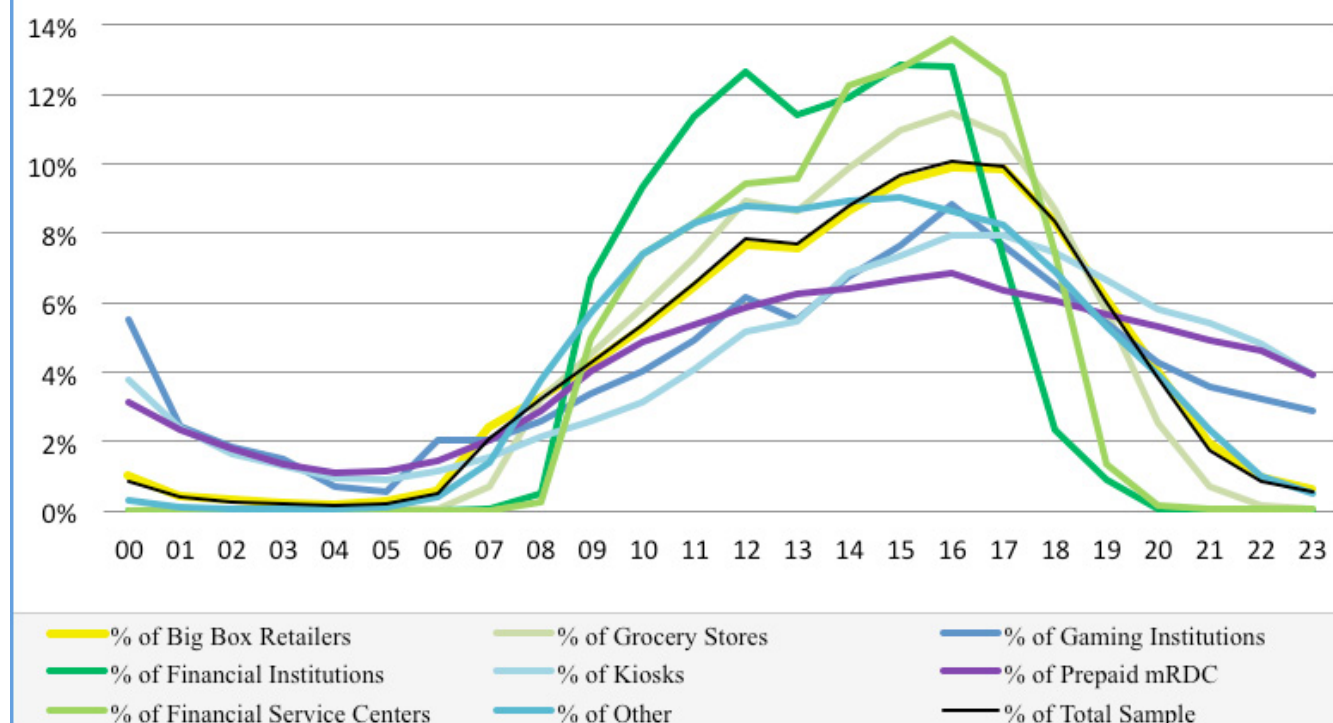
Analysis of Certegy's database shows that consumers are taking advantage of the increased availability provided by self-service, technology-enabled channels. The figure below illustrates that those channels with longer hours of operation display flatter curves, as transactions are distributed more evenly over time. Roughly half of check-cashing via kiosks and mRDC are outside of typical 9-5 business hours. Big box retailers had the highest percentage of check-cashing activity outside of typical business hours for a brick-and-mortar channel, just above 30%, while financial institutions had the lowest, at about 4%.

***"Roughly half of check-cashing via kiosks and mRDC are outside of typical 9-5 business hours."***

Age analysis by provider indicates that kiosks have the lowest median age of consumers, 27, while gaming institutions have the highest, 39. Surprisingly, prepaid mRDC users had the second-highest median age, 34.<sup>26</sup>

<sup>26</sup> See Appendix C: Additional Figures.

**Figure 4: Percentage of Authorized Check Transactions by Hour and Provider Channel in FIS's Sample Data**



Source: Certegy Check Services, an FIS Company

Additional findings on behavior around transaction times show that the frequency of check-cashing use may mean that convenience means different things to different people. Behavioral segments that frequently used check-cashing services tended to convert check funds within the same time range regardless of the source of the check as determined by its MICR, suggesting a routine.

In contrast, behavioral segments with infrequent activity were most likely to convert checks with MICRs different from the primary transaction (that is, the first transaction during the sample period, usually the most frequently occurring MICR type), at hours outside the time range in their primary transaction. The inconsistent transaction time likely indicates they received checks at different times or they simply lack a routine for converting checks. While they are less affected by

geographical variance, Infrequent Loyalists displayed the highest tendency to convert checks from different MICRs at times out of range from their common MICR, suggesting that temporal convenience and extended hours may be of value.

The impact of different income sources, or MICR types, on transaction time, coupled with geographical variance, indicates that many consumers do not convert their checks at a consistent time, and providers need to offer flexible services to accommodate variances in income sources. This is particularly true for financial institutions, whose consumers were most likely to convert different MICR types in times out of range and least likely to convert them at times in range, suggesting that their consumers need broad hours of operation to accommodate their different income sources.<sup>29</sup>

<sup>27</sup> Refer to Appendix A: Methodology for more detail.

<sup>28</sup> See Appendix C: Additional Figures.

<sup>29</sup> See Appendix C: Additional Figures.

## SPEED

Speed is the core of check-cashing, allowing consumers to access their check funds immediately and fulfill other financial obligations. Over the last decade, as regulatory changes and technological advancements have streamlined ways to deposit checks and cut down on processing time, checks are increasingly meeting consumers' need for speed. The enactment of the Check Clearing for the 21st Century Act, or "Check 21," in 2004 was instrumental in integrating paper checks with modern technology by allowing digital images of paper checks to be used in lieu of the physical check.<sup>30</sup> This has enabled providers to drastically reduce the time and daily service costs for transporting paper checks to banks, through check conversion to ACH at the point of sale.<sup>31</sup> Further innovation has allowed image capture directly from the consumer through technology channels, namely mRDC.

The Federal Reserve Bank is making further attempts to improve the speed of check clearing through efforts to revise hold periods and expeditious return rules in regulation CC: Availability of Funds and Collection of Checks.

The Federal Reserve Bank is also further improving the speed of check clearing through efforts to revise hold periods and expeditious return rules in regulation CC: Availability of Funds and Collection of Checks.

## SPOTLIGHT: CHECK-CASHING SPEED AND SMALL-DOLLAR CREDIT

Having funds available sooner can help consumers better align their income and expenses and may help meet or lessen the need for some very short-term small-dollar credit use. The need for immediate liquidity is driven, in part, by some consumers' need to avoid costly late fees and service disruptions. If consumers lack sufficient cushion or savings to cover impending bills, immediate access to liquid funds becomes crucial for avoiding hardships such as utility shut-off or eviction. In fact, many consumers use small-dollar credit (SDC) products, including payday loans and deposit advance loans, to manage a misalignment in income and expenses.<sup>32</sup>

Research by the Consumer Financial Protection Bureau shows that a niche segment of borrowers (18% of deposit advance users) are infrequent borrowers, accessing very small-dollar credit amounts for only a week on average.<sup>33</sup> Access to funds from a paycheck received on the 31st of the month, to pay bills due on the 1st of the month, could mean the difference between consumers' ability to use their own money or the need to seek a very short-term loan.

<sup>30</sup> Kansas City Federal Reserve Bank, "Early Experiences with Check 21," 2005.

<sup>31</sup> The 2013 Federal Reserve Payments Study: Recent and Long-Term Payment Trends in the United States: 2003–2012. According to the study, 97% of all checks clear as images, and one in six checks in 2012 were deposited as an image rather than paper.

<sup>32</sup> CFSI, "Know Your Borrower: The Four Need Cases of Small-Dollar Credit Consumers," December 2013. One of the primary consumer need cases in the SDC market is that of Misaligned Cash Flow, reported by 32% of consumers as a reason for using a payday, pawn, deposit advance, auto title, or installment loan. Misaligned Cash Flow users tend to borrow less than \$500 relatively frequently throughout the year to cover utility, rent, and general living expenses.

<sup>33</sup> Consumer Financial Protection Bureau, "Payday Loans and Deposit Advance Products, A White Paper of Initial Data Findings, 2013." The CFPB found that 18% of deposit advance users were very infrequent credit borrowers, accessing less than \$750 per year for very short terms. These borrowers have a mean of two advances per year, and they are in debt on average only 15 days per year, an average of one week per advance.

## TRANSPARENCY AND IRREVERSIBILITY

Transparency of funds availability and the security that funds will not be reversed are other intrinsic values offered by check-cashing services. These services give consumers clear, real-time information about liquidity (i.e., this amount is available now) as opposed to standard check clearing, which may depend on an indefinite (and longer) time range. And because most check-cashing services are irreversible, consumers have peace of mind that even if a check bounces; they are guaranteed to keep the funds and there are no unexpected fees.

New technology channels and faster decisioning have also presented more risk of both returned checks and fraud. Faster processing has reduced the float time businesses have between distributing paychecks to employees and withdrawal of the funds from their account. The Certegy transaction sample shows the mRDC channel to have the highest propensity for returned checks both in the prior two years and past 60 days. This is more than twice the average rates of returned checks across the Certegy database both in the prior two years and past 60 days.<sup>34</sup>

This suggests that there might be an opportunity to leverage mRDC further, to allow check writers to initiate deposits or consumer-to-consumer payments via a “push.” This “push” would give payers both visibility and control, while strengthening the benefit for the payee by processing checks sooner than a payee-initiated “pull” would.

### SPOTLIGHT: RETURNED CHECKS AND TRANSPARENCY FOR THE PAYER

Transparency and control for the payer may also contribute to smoother check-cashing transactions by reducing the frequency of returned checks. Payers’ lack of control around when payees will deposit a check, and banking practices that enable the withdrawal from accounts seven days a week but deposits only on business days, pose a challenge for both consumers and small businesses. Moreover, providers’ bottom lines suffer when they cannot collect.

mRDC may have the potential to increase control around when check funds are withdrawn while still accommodating consumers who prefer paper checks. Fidelity Investments now allows consumers to write checks and deposit funds into their account via mRDC.<sup>35</sup> Here, the payer has increased information about when check processing begins. In contrast, when mailing a check, the payer has little visibility into when it will arrive and be manually entered for processing.

<sup>34</sup> Refer to Appendix C: Additional Figures.

<sup>35</sup> Federal Reserve System, “Consumers and Mobile Financial Services 2014,” March 2014.



# mRDC: EARLY TRENDS AND IMPACT ON THE CONSUMER EXPERIENCE

While mobile remote deposit capture provides significant opportunity to increase control and convenience for check-cashing transactions, it also requires providers to help consumers make the transition. In particular, financial institutions that are capturing fewest repeat consumers could use mRDC to help turn this around.

***“Innovation of the mobile apps leveraging mRDC can also increase control and transparency for consumers.”***

The mobile channel saves time by eliminating travel to a branch or ATM and waiting in line. Use of mRDC also means fewer opportunities for consumers to

lose checks. The pervasiveness of mobile banking via smartphones—roughly 53% of the U.S. population own smartphones, and of those, 51% have used some form of mobile banking in the past 12 months—enabled mRDC use to rise to 38% of all mobile banking users in 2013.<sup>36</sup> Today, a consumer can transfer the funds from a check in one hand onto a prepaid card in the other without leaving the comfort of his or her couch.

Innovation of the mobile apps leveraging mRDC can also increase control and transparency for consumers—for example, offering multiple transaction features or sending mobile alerts when deposited funds are available.

**Table 5: mRDC Consumers Activity by Behavioral Segment**

	Frequent Loyalists	Infrequent Loyalists	Frequent Opportunist	Dabblers	One-Timers	All <sup>37</sup>
Count of total mRDC transaction	6,988	6,129	4,804	5,467	6,284	34,270
Average mRDC check amount	\$204	\$116	\$157	\$127	\$150	\$161
Average check amount in sample	\$463	\$439	\$428	\$396	\$507	\$452
Total volume of mRDC transaction	\$1,425,995	\$710,808	\$753,538	\$692,582	\$942,656	\$5,523,542
% Brick-and-mortar checks with same MICR as mRDC checks	N/A	N/A	19.8%	15.6%	N/A	18.5%

Source: Certegy Check Services, an FIS company

<sup>36</sup> Analysis of all mRDC transactions includes consumers that fell into the “Other” category, although these are not shown in the diagram.

<sup>37</sup> Brick-and-mortar refers to all provider channels where transactions are completed by a teller at a physical location (e.g., big box retailer, grocery store, gaming institutions, financial institution, or financial service center).

### BEHAVIORAL SEGMENTS AND mRDC

Although mRDC consumers are both aware of and knowledgeable about how to use the mRDC channel, they are not yet using this channel to convert their higher-value checks. The table below provides an overview of the prepaid mRDC users in the Certegy transaction sample by behavioral segment.

Findings from mRDC transactions show that frequent users produce higher-value checks than infrequent users, and much higher volume even when the count of their checks is close to or less than that of infrequent users. Frequent Loyalists produce the highest volume of mRDC transactions. Notably, the count of their transactions is fairly close to that of Infrequent Loyalists but double the volume. Similarly, Frequent Opportunists have the fewest mRDC transactions by count, but still produce more volume than either infrequent segment.

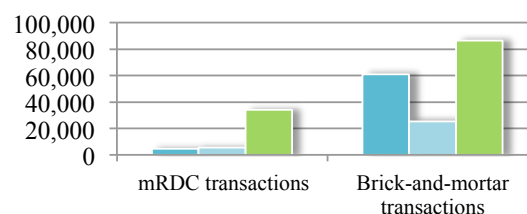
One-timers produce the second greatest volume of mRDC transactions, as well as the second highest count of transactions. Thus, even though each consumer used the channel only once, the segment showed significant demand for one-time use via mRDC. Providers looking to leverage mRDC should also consider this behavioral segment in their strategies, as its combined impact is significant.

In the mRDC channel, infrequent users have lower percentages of fraudulent returns, with Infrequent Loyalists having the fewest. While Dabblers displayed the least propensity for fraudulent returns, both they and Frequent Opportunists have the opportunity for duplicate presentment in the sample—presenting the same check twice

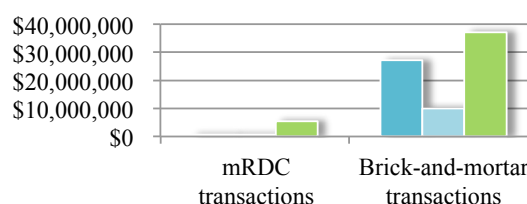
The figures at right summarize the link between these consumers' mRDC and brick-and-mortar activity as a whole. For the segments inconsistent in provider use, activity at brick-and-mortar provider channels shows crossover between mRDC and brick-and-mortar channel use. Both segments categorized as loyal displayed no activity in brick-and-mortar locations, as they are loyal to the prepaid mRDC provider channel.

### Comparison of mRDC and Brick-and-Mortar Transactions

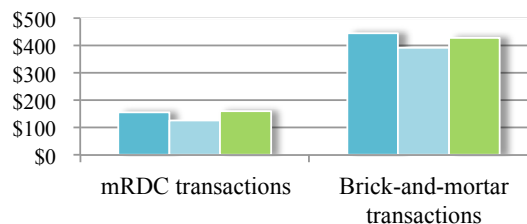
**Figure 5: Total Transaction Count**



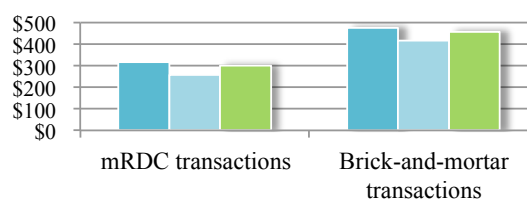
**Figure 6: Total Transaction Volume**



**Figure 7: Average Check Amount**



**Figure 8: Average Check Amount for Checks with the Same MICR**



■ Frequent Opportunists    ■ Dabblers    ■ All

Source: Certegy Check Services, an FIS company

Consumers usually convert checks from different income sources via the mRDC channel than those they convert at brick-and-mortar locations. Just under one-fifth (18.5%) of consumers converted checks with the same MICR in both the mRDC channel and brick-and-mortar locations. This indicates that the vast majority of the time (81.5%), consumers convert checks with different MICRs at brick-and-mortar locations than the MICRs converted via mRDC.

One possible explanation for the tendency to convert checks with different MICRs in different channels is that consumers are more comfortable converting higher-value checks at brick-and-mortar locations. Across the sample, the volume of checks converted at

***“Frequent Loyalists produce the highest volume of mRDC transactions... Frequent Opportunists have the fewest mRDC transactions by count, but still produce more volume than either infrequent segment.”***

brick-and-mortar locations is greater than the volume of checks converted through mRDC, and, the average face value of those converted at brick-and-mortar locations is more than twice the average face value of those converted via mRDC. Even Frequent Opportunists and

Dabblers, who were inconsistent in their use of any provider brand, converted checks of higher value in the brick-and-mortar channel, including checks with the same MICR as mRDC checks.

***“One-timers produce the second greatest volume of mRDC transactions, as well as the second highest count of transactions.”***

These findings suggest that providers could strengthen relationships with consumers by building trust in the mRDC channel, even with consumers that already use it. Identifying ways to make mobile into consumers' primary channel will move more value into this lower-cost channel, increasing profits for providers and improving control and convenience for consumers.

***“Providers could strengthen relationships with consumers by building trust in the mRDC channel, even with consumers that already use it.”***

## CHALLENGES TO EXECUTING A SUCCESSFUL PROGRAM

Executing a successful check-cashing program requires overcoming several hurdles to implementation, managing ongoing fraud challenges, and devoting resources toward a positive consumer experience to maintain loyalty. Although mRDC is a game-changing technology, finally poised for significant market uptake, it also presents additional challenges and necessitates consideration of the risks.

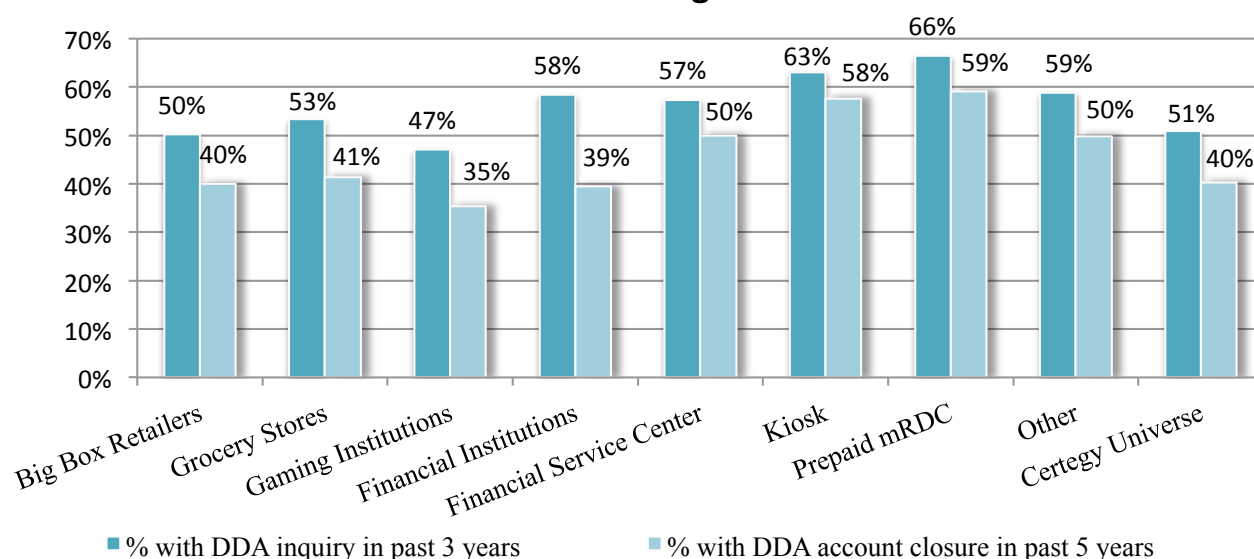
### FRAUD

Fraud is the major concern for providers in offering consumers immediate access to funds. Using DDA account inquiries and closures as a proxy for fraud risk, the ChexSystems transaction sample showed that consumers using self-service channels have the highest rates of DDA inquiries in the last three years and the highest rates of DDA account closures in the past five years.

ChexSystem's transaction sample showed that fraudulent DDA account activity is much higher for mobile users than for consumers using brick-and-mortar channels or even ATMs (which are monitored by security cameras). Presenting a check twice is a significant source of mRDC-related fraud. One of the most common schemes is that of a consumer depositing funds through the mobile device and almost immediately going to a check-cashing outlet with the same item.

Duplicate presentment hurts both providers and consumers. For providers, it is unclear who should absorb the losses—the institution that processed the check first or the institution that possesses the physical check. While regulation may favor the entity that possesses the physical check, obtaining reimbursement can be arduous. For consumers, duplicate presentment adversely affects their financial record, their credit and their access to other financial services.

**Figure 9: Consumers' DDA Account Inquiries and Closures by Channel Segment**



Source: Certegy Check Services, an FIS company

For some providers, outsourcing mRDC decisioning to a vendor that offers a guarantee product is a sufficient risk mitigation strategy. Those for whom the cost of rejecting a good check is very high (for example, those with a hyper-local approach and value proposition) tended to perceive the rejection rate of outsourced programs as too high. A notable exception is Redstone Federal Credit Union's pilot program, Right Choice. After devoting time to understanding why checks were declined, the organization subsequently trained staff to gather more check data needed by the vendor and re-submit checks for decisioning. This education enabled Right Choice to lower rejection rates to an acceptable level, underscoring the value of provider awareness and collaboration with the decisioning vendor.

Even though the mRDC channel presents opportunities for fraud, there are ways to leverage consumer relationships to help protect against fraud. The use of mobile technology provides more data to use in deciding whether to process a check.

According to FIS, 10% of mRDC consumers have fraudulent mRDC returns. Instances of mRDC fraud by behavioral segment show that more frequent use of check-cashing services correlates with higher percentages of fraud. Frequent Loyalists display the most fraud, 22%, more than twice as much as the overall sample.<sup>39</sup> Because these consumers are loyal to one provider, there is opportunity to leverage their existing relationships to protect against fraudulent activity. Check-processing and decisioning vendors are devising strategies that use data available from mobile devices (location, IP, type of hardware, etc.) to advance their fraud-protection algorithms.

## OPERATIONAL CHALLENGES

Aside from the fraud risks, executing a successful check-cashing service raises several operational challenges. Although there are some variations in the business models for different provider types, they all face many of the same execution hurdles: technical integration, developing staff expertise, generating consumer awareness, and consistency in the consumer experience.

Integrating new technologies can be complex, requiring time and resources. In the absence of seamless integration, the operational burden on front-line staff can be high, requiring time-consuming tasks like switching between multiple systems and re-keying data. This can lead to a poor customer experience and can impede cross-selling efforts. It also drives up the cost of providing the service, as more staff time is required for each in-person transaction.

Providers new to check-cashing often find it challenging to generate awareness among consumers. Staff training required to introduce new financial services in any organization, as well as the particular challenges that retailers face with lower-skilled, higher turnover employees at the point of sale, can hinder messaging further. Particularly in business models where check-cashing services are rolled out only in a few locations, consumers often receive mixed messages that vary by location.

Ultimately, internal alignment and support from branch managers to the top level is needed to assure the economic viability of check-cashing services.

**Table 6: mRDC Fraud by Behavioral Segment**

	Frequent Loyalists	Infrequent Loyalists	Frequent Opportunist	Dabblers	One-Timers	All <sup>39</sup>
<b>% of consumers with mRDC fraudulent returns</b>	22%	5%	9%	7%	8%	10%

Source: Certegy Check Services, an FIS company

<sup>38</sup> Analysis of all mRDC transactions includes consumers that fell into the "Other" category, although these are not shown in the diagram.

<sup>39</sup> See Appendix C: Additional Figures.



# BUSINESS MODEL INNOVATIONS

Providers have come up with innovations—such as service bundling, rewards, national pricing, and dedicated service lines—that respond to universal challenges in offering a new service, such as technical integration, developing staff expertise, generating consumer awareness, and consistency in the consumer experience. The innovations are ripe for replication regardless of provider type. Providers are modifying them not just to accommodate their competitive situation but also to reflect their specific end goals. For example, as overall check volumes decline, some providers focus less on direct profitability, instead using these services either as part of their other lines of business or as an acquisition strategy for them.

## SERVICE BUNDLING

Some providers offer check-cashing services as a suite of services to hedge losses from fraud, increase revenue as check volumes decline, and drive other lines of business. Financial service centers have diversified their offerings over the past couple of decades, offering small-dollar loans, money orders, and prepaid cards, but technology has enabled streamlined services that can be marketed together. While consumers can still walk out with a wad of cash if they wish, they can also load check funds seamlessly onto prepaid cards for bill pay, and they can even access segregated accounts for greater support in budgeting and saving.

This is particularly true as financial institutions adjust their policies to serve non-accountholders, such as Fifth Third's Cash Access, Regions Bank's Now Banking, and Key Bank's Key Bank Plus. Bundling offers consumers one-stop-shop convenience that includes services such as money transfers and bill pay, which can boost profitability for providers. Few providers offer check-cashing as a standalone product, suggesting that new market entrants should think of this service as one component of a larger portfolio.

## REWARDS

Many providers use rewards programs to capture consumer loyalty for their check-cashing services. Rewards can take the form of loyalty points for using the service, or check-cashing itself might be offered as a benefit to loyal customers of the rest of the business.

David's Check-cashing in New York is an example of a business that uses loyalty points. It offers points for every check-cashing transaction toward a Bonus Bucks cash-back rebate after a certain threshold. Similarly, Key Bank Plus offers every fifth government or payroll check free with the option of five free money orders per check cashed.

Other providers look to check-cashing as a way to benefit their best customers. When employing this strategy, providers view the service as less of a direct revenue generator, but profit from interchange fees or increased purchases of other goods. Kmart's Shop Your Way program positions check-cashing services as a perk exclusive to program members. Moreover, Shop Your Way members account for 65% to 70% of all purchases, and spend more than non-members.<sup>40</sup> Similarly, T-Mobile reports that it does not expect to make money on its Mobile Money offering and reserves fees for services that have hard costs associated with them. Instead it hopes the service encourages more loyal T-Mobile wireless service customers who will stick around longer.<sup>41</sup>

## DEDICATED SERVICE LINES

The difficulty of executing diversification strategies is leading providers to invest in specialized training and distinct service areas within brick-and-mortar locations. Integrating check-cashing with other services and promoting cross-selling efforts can be burdensome on front-line staff, impacting the overall consumer experience. This is particularly challenging for retailers

<sup>40</sup> *Dailyfinance.com*, "Kmart is getting into the check-cashing business," Sept. 9, 2013.

<sup>41</sup> *Recode.net*, "T-Mobile Hopes to Shake Up the Check-Cashing Industry, Too," Jan. 21, 2014.

faced with higher employee turnover at the point of sale and staff who are unfamiliar with financial services yet must master knowledge of these products among several other lines of business.

Several retailers have created separate areas within their stores, similar to Walmart's Money Center, that are dedicated to providing financial services. Financial institutions have also experimented with specialized centers for money services, such as Centris Express, a pilot program of Centris Credit Union. Investment in staff expertise not only allows for more seamless execution but also simplifies opportunities to deepen the consumer relationship.

### **PRICING**

Increased competition and economic shifts have spurred pricing model innovations, for both standardized fees across states and tiered pricing that aligns with options for funds availability. Traditionally, pricing was more reflective of individual state regulations. In interviews, many providers reported that this variance led to challenges in consistency. Increasingly, providers are standardizing prices across the country.

Some providers have innovated even further, shifting the variances in pricing to align with risk associated with immediate access to funds. These providers are offering a tiered fee structure reflecting the reality that provider risk decreases as time increases for consumers to secure irreversible access to funds. Regions Bank offers different levels of deposit availability at varying prices: standard (up to seven days), next day and immediate. Consumers can pay toward a provider's risk when they need liquidity right away, or save money when they don't.

The cost dynamics of check-cashing have changed over the past three decades. Once criticized as too expensive, check-cashing has become more competitive—with a range between high-fee and low-fee options—as prices have come down just as banks have been reducing free checking and increasing their fees. Consumers now must balance price considerations with their overall need for speed, convenience, and access.

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<sup>42</sup> Consumer Federation of America, "Cashed Out—Consumers Pay Steep Premium to 'Bank' at Check-cashing Outlets," 2006.

<sup>43</sup> CFSI, "One Size Does Not Fit All," 2009.

<sup>44</sup> Lisa J. Servon, "The High Cost, for the Poor, of Using a Bank," *The New Yorker*, Oct. 10, 2013.

## LOOKING AHEAD

There is also a major opportunity to encourage consumer loyalty by integrating check-cashing with additional services that meet consumers' other needs. People achieve financial health when they have not only a smoothly functioning, day-to-day financial system (which can be supported by high-quality check-cashing services), but also have sufficient resilience in the face of inevitable financial ups and downs, and can seize opportunities to build their financial lives over time. Companies that advance the financial health of their customers will reap the benefits in terms of deeper loyalty and engagement, and longer-term, more robust client relationships. Thus, connecting immediate fund availability to consumers' saving and planning needs can offer a unique value proposition in the fight for loyalty and higher-volume use.

### CHECK-CASHING AND CONSUMERS' OTHER NEEDS

Innovators are increasingly thinking about how to integrate check-cashing into savings offerings. In 2011, Innovations for Poverty Action's Financial Products Innovation Fund (FPIF) launched two pilot programs focused on engaging check-cashing consumers in savings behavior. RiteCheck, a mid-sized check-cashing and financial services company in New York City, and Self Help/Community Trust Prospera, a hybrid check-casher/credit union in East San Jose, California, each developed frictionless savings accounts that offer easy, no-fee transfers and automated deposits for their regular check-cashing customers.

Both programs saw a significant increase in the number of savings accounts held, as well as use of savings products by regular check-cashing consumers. For RiteCheck, consumers' savings were held in a no-fee savings account, with no balance or transfer minimums, at RiteCheck's partner Bethex Federal Credit Union. Over the study's duration, 80% of check-cashing customers who opened the Cash & Stash account became active users, with some consumers

accumulating over \$1,000 in four months. Similarly, 80% of consumers who were offered Prospera's "5 for Me" product signed up and made automatic deposits into savings.<sup>45</sup>

### SYNERGY

Providers wishing to incorporate innovations into check-cashing services will have to weigh the trade-offs. Those looking to the service as a revenue generator will have less flexibility with pricing. For this approach to succeed, the provider may need to focus on creating a one-stop-shop value proposition and a compelling rewards program to drive consumer loyalty. Providers less dependent on the revenue from check-cashing can lower prices to drive an acquisition strategy for other lines of business and provide high-touch services to deepen relationships in preparation for the long-term decline of checks.

Collaboration between different provider types may advance the consumer experience. One opportunity is to use financial service centers as transaction centers for financial institution products, as seen with RiteCheck and Self Help. This would reduce the operational costs for financial institutions (reducing the need for high-cost branches), allow the financial service center to meet consumers' high-touch needs, and expand consumer access to financial institutions' products. Different forms of this have become more commonplace in the market. Kinecta Federal Credit Union has a similar model through its Nix Cashing locations, for example.

This idea raises a number of questions around the regulatory challenges, the feasibility of these models given past attempts, and management of the consumer relationship. However, successful execution of a synergistic approach can provide a win for providers as well as consumers.

<sup>45</sup> CFSI, "Stashing the Cash: Recent Developments in Savings Accounts for Check-cashing Customers," 2013.

## CONCLUSION: DEVELOPING A STRATEGY

Although declining, checks are not going away anytime soon, nor will the need for immediate access to check funds. Check-cashing consumers vary greatly in their behavior and need services that match their diversity.

**Frequent Loyalists** are routine in check-cashing usage and have over 70% of checks coming from a consistent source of income. While these consumers would be valuable to any provider, acquisition would likely be difficult. It would require a strong value proposition to draw them from their established routine and loyalty to a provider.

**Frequent Opportunists and Infrequent Loyalists** are well suited for technology channels. Check-cashing activity for both segments was greatly affected by time of day. Infrequent Loyalists, particularly, had the fewest mRDC returns and highest tendency to convert checks from different MICRs and at different times, suggesting that extended hours offered via mRDC may be of value. Similarly, Frequent Opportunists were affected by geographical variance showing a preference for the convenience technology channels can bring, but they also displayed a strong affinity for brick-and-mortar channels. Thus, the transition to technology will have to be supported.

**Dabblers and One-timers** displayed the greatest potential to drive other lines of business. Dabblers' generally did not display any routine, but proved an important consideration as they constituted roughly 25% or more of most provider channels. One-timers have the highest percentage of consumers who qualify for DDA accounts at any risk tolerance level. They also have the highest average check value and in mass account

for significant volumes, particularly for the mRDC channel. Many receive government checks (21% by face value amount, higher than any other behavioral segment). While infrequent users of check-cashing services, their volume means that providers should not count them out, and instead consider promotional offerings that may appeal to consumers' with one-off checks. Overall, interactions with both segments can provide insight into their unmet needs as they relate to other products or lines of business.

The check-cashing industry today—like many areas of financial services—has less to do with consumers being “banked” or “unbanked” and more to do with having access to a high-quality financial service that provides real consumer value. Findings from this report can help direct providers to areas where they can increase consumers' value:

- Most check-cashing users have or would qualify for bank accounts.
- The majority of check-cashing customers are loyal to one provider channel, but several factors (i.e. geography) impacted this loyalty.
- Business models need to be more inclusive of different check types and improve decisions on whether to accept checks, particularly for new technology channels.
- New technology channels are expanding consumers' convenience, but consumers are not yet using them for higher value checks.

Immediate access to funds can and must be more than just a means for consumers to get by. Successful products will integrate consumer's transactional needs with their holistic financial needs and better position consumers for long-term financial health.

# APPENDICES

## Appendix A: Methodology

The content of this paper was derived from primary and secondary research. The primary sources are FIS's consumer transaction data made available through its subsidiaries Certegy Check Services and ChexSystems, Inc., which encompassed more than 39 million distinct consumers across 200 providers, as aggregated and analyzed by its internal analyst teams, and CFSI's interviews with providers in the check-cashing marketplace. CFSI conducted a total of 13 interviews with leaders or veterans of financial institutions (large banks, regional banks, and credit unions), financial service centers, retailers, and technology providers, asking about industry trends, consumer behavior, and provider challenges. Additionally, CFSI undertook a secondary research scan of major publications and recent articles, focusing on market size, revenue projections, business models, technology, regulatory issues, consumer research, and product pricing.

Certegy analysts leveraged their database to derive a case study on one year of consumer transaction data. The sample set for the case study included 394,000 consumers, identified by social security number, who had completed roughly 2.5 million check-cashing transactions<sup>46</sup> during the study's duration, from October 2012 to September 2013. Providers of check-cashing services in the sample set were segmented into eight provider channels, based on provider type and the channel used for transaction: big box retailers, grocery stores, financial institutions, gaming institutions, financial service centers, kiosks, prepaid mRDC and other.

Before trend analysis, the weighting of each provider channel was adjusted to represent the population of consumers in Certegy's database.<sup>47</sup> Overall, transaction findings are statistically significant for each provider channel, with a standard error of 0.004%.

Consumers' assignment to a provider channel serves as the basis for behavioral segmentation by loyalty—the

frequency at which consumers use check-cashing services and the consistency with which they use any one provider.

Additionally, a full year of activity for the year preceding the sample period and activity in the two months following was examined to confirm classification of consumers into these segments. Consumers who had limited check-cashing activity at the tail end of the sample have been grouped as "Other" and excluded from analysis. These behavioral segments were used for age analysis and are defined as follows:

- **Frequent Loyalists:** Check-cashing activity in at least two months and check-cashing activity in 80% or more of months sampled between first and last month of activity, at only one provider brand.
- **Frequent Opportunists:** Check-cashing activity in at least two months and check-cashing activity in 80% or more of months sampled between first and last month of activity, at more than one provider brand.
- **Infrequent Loyalists:** Check-cashing activity in at least two months but less than 80% of months sampled between first and last month of activity, at only one provider brand.
- **Dabblers:** Check-cashing activity in at least two months but less than 80% of months sampled between first and last month of activity, at more than one provider brand.
- **One-timers:** Only one check cashed in sample period, and no activity in prior year or two months following (too infrequent to determine loyalty).

From the population of each provider, a certain number of consumers (between 10,000 and 200,000 for each, although fewer for financial service centers) were chosen as representatives of that provider channel. Each consumer's entire activity was analyzed. Thus, those with activity at more than one channel, and with very frequent activity, were deemed Frequent Opportunists, regardless of their activity in that specific channel.

<sup>46</sup> Transactions in Certegy's sample include all InstantFunds offerings, and depict check decisioning that ranges from immediate to a seven-day hold.

<sup>47</sup> Note: The distribution of the Certegy's dataset may not mirror that of the check-cashing industry as a whole; some provider segments may be under- or overrepresented compared with the total U.S. market.



However, they may have been double counted. For example, a consumer with 10 checks converted equally over 10 months may have converted two checks with a grocery store and eight with a financial institution. This consumer may show up as both a financial institution Frequent Opportunist and a grocery store Frequent Opportunist. But this would occur only if they happened to be pulled as representative for both provider channels. This double counting happened about 1,528 times out of the total 394,000 consumers.<sup>48</sup>

Initial analysis of each behavioral segment focused on their “sample” MICR, their first transaction in the sample period. This MICR was used to compare geographical variance between transactions at each consumer’s assigned provider channel and transactions at other provider channels.

Follow-up analysis was conducted to identify the “primary” MICR, the most frequently occurring MICR of all the checks converted by each individual. In this case, the count of transactions of each MICR for each individual was tallied. The MICR with the highest transaction count for the individual was then used as that individual’s primary MICR for subsequent analysis.

In the case of a tie, where two MICRS both have the highest frequency count, the MICR with the earliest transaction date in the sample period was used. This “primary” MICR was used to analyze variance in transaction times at both the assigned provider channel and other provider channels.

Behavioral segment data was also overlaid with data from FIS’s internal credit reporting agency, ChexSystems, and Certegy Check Services, Inc. to paint a more holistic picture of consumer’s lives. ChexSystems’ data identified trends in fraudulent transaction activity. Additionally, ChexSystems’ QualiFile scores determined each behavioral segment’s qualification for DDA accounts at three risk tolerance levels: Risk Adverse, Risk Moderate, and Risk Aggressive. Certegy’s data revealed trends in the percentage of returned checks, DDA account fraudulent inquiries, and DDA account closures.

Several charts were produced from analysis of the data in Certegy’s overall database of over 39 million consumers (outside of the sample set); including trends in government check volumes and transaction times by provider channel.



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<sup>48</sup> In assigning behavioral segments, the sample was not altered. Behavior segments with activity at more than one provider channel were slightly oversampled because of duplicates. Given the small number of duplicates ( $1,528/394,000 = 0.39\%$ ), there is negligible bias on the consumer segment sample distribution or analytical results.

## **Appendix B: Definition of Terms**

**Check-cashing activity:** Check-cashing transactions completed by a consumer. In terms of provider channels, activity signifies transactions completed with that provider type via a specific channel. Consumers who use multiple provider channels to complete transactions will show activity at different provider channels.

**Consumer loyalty:** The frequency at which consumers use check-cashing services and the consistency with which they use any one provider.

**Conversion:** Transfer of funds from a check to any other transactional product, or directly through a payment service, such as bill pay.

**Count:** The number of checks deposited over a given period of time. For example, in March a consumer might have deposited two checks, one worth \$50 and one worth \$175. The consumer's count for March would be two checks, while the consumer's volume for March would be \$225.

**DDA:** A demand deposit account, where funds are deposited and can be withdrawn at any time without any advance notice to the depository institution.

**Financial service center:** A standalone neighborhood financial institution or member of a larger chain, which does not hold financial deposits outside of money orders and serves predominantly as a transaction center (check-cashing, money transfers, bill payments and small-dollar, short-term loans). For example, PLS Loans, Cash America, Pay-O-Matic, or RiteCheck.

**MICR:** Magnetic ink character recognition, a system employing special ink and characters used by financial institutions to scan and process check information. The MICR typically appears at the bottom of a check and contains check number, sort number, and account number. When a check that contains this ink needs to be read, it passes through a machine, which magnetizes the ink and then translates the magnetic information into characters.

**mRDC:** Mobile remote deposit capture, a service that allows a user to scan checks and transmit the scanned images and/or ACH data to a bank for posting and clearing, by submitting check images through the mobile channel.

**Provider:** Any financial institution, financial service center, prepaid company, credit union, or other entity that offers business-to-consumer check-cashing services.

**Provider channel:** providers in the sample set were segmented into eight provider types, based on provider brand and the channel used for transaction: big box retailers, grocery stores, financial institutions, gaming institutions, financial service centers, kiosks, prepaid mRDC and other.

**Unbanked:** Refers to consumers without an account at a bank or other financial institution; unbanked consumers are considered to be outside the mainstream for one reason or another.

**Underbanked:** Refers to consumers who have a checking, savings, or money market account but also have used at least one alternative financial service in the past 12 months, such as an auto title loan, payday loan, check-cashing service, or payroll card.

**Volume:** The total dollar amount of checks deposited over a period of time. For example, in March a consumer might have deposited two checks, one worth \$50 and one worth \$175. The consumer's count for March would be two checks, while the consumer's volume for March would be \$225.

## Appendix C: Additional Figures and Tables

Table 7: Age of Consumers in Transaction Sample by Provider Channel

Provider Channel	Mean Age	99th Percentile	75th Percentile	Median Age	25th Percentile	1st Percentile
Big box retailer	34.9	73	44	31.5	23.5	17
Grocery stores	35.1	76	45	31.5	23	17
Gaming institutions	40.3	76	51	39	28	19
Financial institutions	35.3	75	45	32	23	17
Kiosks	29.9	59	34	27	23	18
Prepaid mRDC	35.7	68	43	34	27	18
Financial service centers	34.3	66	42,5	31,5	24	18
Other	34.3	70	43	31.5	23.5	18
Certegy Universe	34.9	73	44	31.5	23.5	17

Source: Certegy Check Services, an FIS company

Table 8: Overlap in Transaction Times for Primary Transaction and Transactions from Other MICRs, by Behavioral Segment<sup>49</sup>

Provider Channel	Other MICRs out of Range	Other MICRs Overlap	Other MICRs in Range
Frequent Loyalist	24.9%	30.6%	44.5%
Frequent Opportunist	15.0%	35.7%	49.3%
Infrequent Loyalist	43.1%	28.1%	28.8%
Dabblers	34.5%	34.3%	31.2%

Source: Certegy Check Services, an FIS company

Table 9: Overlap in Transaction Times for Primary Transaction and Transactions from Other MICRs, by Provider Channel

Provider Channel	Other MICRs out of Range	Other MICRs Overlap	Other MICRs in Range
Big box retailers	35.8%	28.4%	35.8%
Grocery stores	30.0%	31.3%	38.7%
Financial institutions	41.0%	25.7%	33.4%
Kiosks	29.2%	33.1%	37.6%
Prepaid mRDC	40.4%	34.3%	25.2%
Gaming	32.1%	31.6%	36.3%
Financial service centers	32.6%	32.4%	35.0%
Other	34.2%	31.6%	34.2%
Certegy Universe	33.3%	30.3%	36.5%

Source: Certegy Check Services, an FIS company

<sup>49</sup> One-timers have been removed from analysis, as they had only one transaction.

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FIS (NYSE: FIS) is the world's largest global provider dedicated to banking and payments technologies. With a long history deeply rooted in the financial services sector, FIS serves more than 14,000 institutions in over 100 countries. Headquartered in Jacksonville, Florida, FIS employs more than 37,000 people worldwide and holds leadership positions in payment processing and banking solutions, providing software, services and outsourcing of the technology that drives financial institutions. First in financial technology, FIS tops the annual FinTech 100 list, is 434 on the Fortune 500, and is a member of Standard & Poor's 500® Index. For more information about FIS, visit [www.fisglobal.com](http://www.fisglobal.com).



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### ChexSystems

ChexSystems, Inc. (ChexSystems) is an indirect, wholly-owned subsidiary of Fidelity National Information Services, Inc. (FIS). ChexSystems is a Fair Credit Reporting Act ("FCRA") §603(f) consumer reporting agency and a §603(x) nationwide specialty consumer reporting agency ("NSCRA") formed over 40 years ago and currently based in Woodbury, Minnesota.

ChexSystems suite of products provides account opening services and additional services to financial institutions and resellers throughout the United States. ChexSystems has approximately 7,500 clients. Its primary product is QualiFile, a new account opening tool that uses multiple data sources to evaluate consumers and return a risk-assessment to the client's deposit account origination platform.

### Certegy

Certegy Check Services, Inc. (Certegy) is an indirect, wholly owned subsidiary of Fidelity National Information Services, Inc. (FIS). For more than 50 years, Certegy has provided check risk management, authorization, and loss prevention and credit card processing services to financial institutions, retailers, supermarkets, e-commerce, gaming, and check-cashing establishments. It delivers a check management system that accepts numerous check types in the United States or Canada.

Certegy is committed and dedicated to protecting businesses from potential fraud and loss while safeguarding consumers from unwarranted or unlawful use of their checking account information.

Certegy is a leader in advanced payment services and loss prevention tools, supporting more than 289,000 merchant locations worldwide.

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