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## VIEWPOINTS

# RBC Experiment Points Way For Branches to Serve Poor

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Like many businesses, banks have had trouble figuring out how to serve low-income neighborhoods.

It is easy to understand why. Conventional business thinking says you should focus on your most profitable customers, and those with lower incomes cannot afford your services. Many banks simply cannot find a way to create a viable business in this sector.

For years community groups across North America have tried to figure out how banks can change this. A Royal Bank of Canada initiative may point the way.

Canadian banks closed more than 520 branches from 1988 to 1997, many in lower-income neighborhoods like Toronto's Parkdale. RBC closed its full-service branch there in 1997 but looked for ways to go back in.

Now RBC and St. Christopher House, a \$3.6 million nonprofit serving many of Toronto's poorest neighborhoods, may have cracked at least part of the code.

Who serves these customers today? In Toronto, many people with family incomes below \$22,000 have migrated to check cashing outlets that usually charge a 3% fee.

These fees add up. A single mother earning \$10 an hour might pay over \$600 per year — a week and half of her salary — to cash checks. Meanwhile, a classic bank branch offers free check cashing to customers. It assumes money to cover the cost will come from loans and savings services that are not often used by people who mainly want a bank for basic transactions.

The question for banks like RBC and customers living in places like Parkdale: Is there a win-win formula for check cashing that does

not require bundling with other activities to be profitable?

Trouble understanding low-income customers prevents many companies from doing business with them. Data on such customers are scarce, as most surveys collect statistics on those with higher income. But the staff at St. Christopher House spent a lot of time interacting with low-income customers and determining their needs.

It turned out that low-income people have a very simple reason for not using banks: They cannot afford to wait five days for a bank to make sure a check will not bounce. And branches are usually closed when low-wage earners come home.

Furthermore, the trek to a branch has grown steadily longer. Add to this the fact that customers in this market often find branches intimidating and it is no surprise that those in Parkdale did not thrive.

Yet, according to St. Christopher House market research, this target population feels more trust in financial institutions than the average customer does.

Armed with this information, RBC saw the opportunity to create a low-cost banking outlet in Parkdale called Cash & Save. It is open from 10 a.m. to 9 p.m. Monday to Friday and from 10 to 6 on Saturdays.

Cash & Save offers check cashing services, money orders, wire transfers, and bill payment for a fraction of the price of the local Money Mart. The 1.25% fee for cashing checks covers the cost of bounced checks and pays for the small outlet in the heart of Parkdale.

Cash & Save is also trying to help consumers feel more comfortable in a bank. New customers must provide identification to use the Cash & Save services, but employees do

not talk about registration. Instead they say, "We need to know a little more about you."

The outlet keeps photographs and signatures on file, but customers need not show identification each time they do business.

The customer base in Parkdale is growing faster than expected, and the outlet is projected to earn enough profit to ensure its future.

This is not the first time that RBC has tried to address the issue of banking for low-income customers.

But past efforts were primarily charitable. In the end, it was a business approach that led to a sustainable model. With the Parkdale pilot, RBC has shown that banking for low-income customers can make economic sense if their needs are understood.

Not that anyone is going to make a killing from this business: The return on investment would not meet most banks' hurdle rates for new businesses. But the Parkdale model is sustainable, and the capital requirements are negligible for the largest bank in Canada.

No one has attempted to calculate the return on investment in terms of political capital, but our guess is that the results would meet all the corporate hurdles.

RBC seems to think so too. It is opening a Cash & Save for residents in another low-income neighborhood in Toronto, Regent Park. If these outlets are successful, there may be opportunities for 25 to 30 across Canada.

This public-private partnership is making headway where laws have struggled to bring business back to low-income neighborhoods.

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