



Innovative Payments Association

THE NEW SPECIALTY BANK TREND

Are Niches the Key to Success for Fintechs?

NOVEMBER 2021

A REPORT FOR INNOVATIVE PAYMENTS ASSOCIATION MEMBERS

www.ipa.org



Many fintechs say that they are “democratizing” some aspect of financial services, but the trend in new start-ups seems to indicate that fintech entrepreneurs are more interested in creating exclusive clubs.

Niche marketing is certainly not new for financial services or businesses of any kind, but it is not clear that it means automatic success.

But I’m Special!

An example of successful niche marketing in financial services is USAA. According to the company, it was founded in 1922 by a group of military officers and offers insurance, banking and investment and retirement solutions to members of the U.S. military, veterans, and their families. It says this gives it a market of about 13 million, but it is not shy about saying that it will not offer its services to everyone.

The company recently aired a commercial with National Football League star Ron Gronkowski. The ad shows Gronkowski trying to buy insurance from the company and being told that USAA is special because it focuses on the military. Gronk replies “But, I’m special!” Nonetheless he is still unable to buy insurance from USAA – just like a lot of other people.

But one thing that is common to most everyone is the need to feel special, and the neo-banks are working to tap into that need. Many of the financial services apps have launched products aimed at particular niches. The table below shows a list of these companies, their target markets, and the issuing bank behind them.

Table 1: Neo-Banks and Their Target Markets

Neo-Bank	Target Audience	Sponsor Bank	Web Site
Acorns	Middle Income, Small-Dollar Investors	Lincoln Savings bank	Acorns - Invest, Earn, Grow, Spend, Later Acorns
Aspiration	Environmentalists	Coastal Community	Aspiration Green Financial Services
ChangeFi	Underbanked/Diversity	Evolve Bank & Trust	Home ChangeFi
Cheese	Asian Americans	Coastal Community Bank	Cheese Home (earncheese.com)
Chime	General	Bancorp Bank	Chime - Banking with No Hidden Fees and Fee Free Overdraft
Copper	Teens	Evolve Bank & Trust	Copper Banking (getcopper.com)
Dave	General	Evolve Bank and Trust	Dave - Banking for Humans
Daylight	LGBTQ	MetaBank	Daylight - Banking that champions you and your chosen family (joindaylight.com)



Digit	Savers	Digit currently maintains member funds at five Banks: Chase, Wells Fargo, BBVA, Bank of America, and Axos.	Digit Effortless saving and investing
Digit Direct	Savers	MetaBank	Digit Waitlist
First Boulevard	African Americans	Central Bank of Kansas City	First Boulevard Transparent Banking Built for Black America
Greenwood	African Americans	Coastal Community	Greenwood Modern Banking for the Culture Virtual Banking Mobile App (bankgreenwood.com)
Monzo	General	Sutton Bank	Monzo USA
N26	General	Axos Bank	N26 - Mobile Banking the World Loves — N26
Nerve	Musicians	Piermont Bank	Nerve – The First Banking App for Musicians
Revolut (has applied for own charter)	General	Metropolitan Commercial Bank	A better way to handle your money Revolut
Robin Hood	Small-Dollar Investors	Sutton Bank	Commission-free Stock Trading & Investing App Robinhood
Step	Teenagers	Evolve bank & Trust	Step - Banking for Teens — Step.com
Welcome Technologies	Immigrants (Primarily Latino)	Green Dot Bank	Welcome Technologies - Powering Immigrant Success

Looking at the table, founders are looking at both demographics and self-identifying categories for their target audiences. For example, Immigrants and teenagers are easier to define as a group than savers or environmentalists, but both strategies create a market focus for the companies.

If we start with the easiest groups to define, we can get a sense of the gross market for some of these organizations.



According to the U.S. Census Bureau, on October 19, 2019 (the most recent detailed information available), there were 328,239,523 people living in the United States, of those, 235 million were over 18.ⁱ

When it comes to unbanked individuals, the Federal Reserve said six percent of adults did not have a checking, savings, or money market account in 2019.ⁱⁱ

Other populations are more difficult to quantify. For instance, the Lesbian, Gay, Bisexual, Transgender and Queer population can be harder to quantify because many of the individuals in this category do not want to identify themselves for fear of discrimination. Nonetheless, the Census Bureau does report that there were 543,000 same-sex married couple households and 469,000 same-sex, unmarried partner households in 2019ⁱⁱⁱ. That is a population of about two million individuals.

Figuring out how many people identify themselves as environmentalists is a little tougher. We may be able to approximate a number from memberships in affinity groups like the Sierra Club or Greenpeace. The Sierra club reported have about 750,000 in the United States in 2017^{iv}, and Greenpeace reports 250,000 members in the United States.^v To be fair, this is a very loose estimate, because there are plenty of people who belong to other groups and more unaffiliated people who might claim to be environmentalists. But looking at those who would join a group might serve as a useful proxy for individuals who might choose a bank based on that appeal.

Now, how do we quantify groups like musicians? It can be hard to tell, and Nerve, according to American Banker “zeroes in on anyone who makes money with music, including musicians, DJs, songwriters, producers and street performers.”^{vi} Anyone who makes money with music would include all of those people who are working one job during the day and another at night. The Bureau of Labor Statistics said there are 34,770, but that does not include self-employed musicians.^{vii} The American Federation of Musicians says it represents 80,000 musicians in the United States and Canada and bills itself as the largest musician union in the world.^{viii} Certainly there are plenty of people out there trying to make it, the desire to join an affinity group might be a good predictor of using a specialized bank. But there are certainly many others who may view themselves as musicians while not being part of the union. The American Society of Composers, Authors and Publishers (ASCAP) certainly has many performers in its group and has about 850,000 members^{ix}. So, there is a wide range of potential customers.

Breaking it down, we can see the target populations available to the more specialized companies.

Table 2: Estimates on Niche Market Sizes

Neo-Bank	Target Audience	Gross Market Size Estimate
Aspiration	Environmentalists	1,000,000
ChangeFi	Underbanked/Diversity	14,125, 124 (all unbanked individuals in the U.S.)
Cheese	Asian Americans	10,672,920 adults
Copper	Teens	21,353,524 (age 15-19) ^x
Daylight	LGBTQ	2,000,000
First Boulevard	African Americans	30,279,445 adults
Greenwood	African Americans	30,279,445 adults



Nerve	Musicians	150,000 – 850,000
Step	Teenagers	21,353,524 (age 15-19) ^{xi}
Welcome Technologies	Immigrants (Primarily Latino)	42,686,256 ^{xii} adults (about 44% are Latino)

But What if I Don't Want to Be that Special?

The above estimates for potential customers are fairly raw in that they assume that all of these people would be willing to sign up for a new bank and open to an appeal based on their membership in a particular demographic or psychographic.

But the Federal Deposit Insurance Corp. reports that about 95% of household in the United States have an active bank account.^{xiii} That means that most of the people in these groups probably do as well. They may be happy with their current bank or think that it is too much of a hassle to change. For those without accounts, an appeal to sign up based on membership in a particular group may not be enough because the number one reason given for not having an account is not having enough money to maintain one, according to the FDIC.^{xiv}

Another factor in marketing a specialty product is whether or not the audience wants to be self-identified in the way the product is suggesting. An example of this can be found in the early days of general purpose, reloadable prepaid cards. In 2006, Central Bank of Kansas City, Mo., found that the Hispanic population in its area was more interested in having a Visa-branded prepaid card that looked like its other mainstream debit cards than one specifically designed for the Hispanic market.^{xv} Immigrants and their children may be more interested in assimilating to their new country than standing out. For groups such as the LGBTQ community, standing out can be risky if they live in areas where they face discrimination.

But Can I Still Join the Club?

Despite these mitigating factors, specialty products can still find success, but they need to execute well.

The right messaging can bring attention to a product, but the account must meet a need for that customer. To be fair, that need may be a psychological one of belonging or supporting a particular community, but if customers think the appeal is self-serving or the product is commoditized or overpriced, they will pass on it. Providers need to consider how their products stand out in providing financial services and opportunities for customers and not just rely on commodity products repackaged into a well-designed marketing program.

Another factor working in new providers' favor is that while most households already have accounts, they have more than one account. Research by Galileo Financial Technologies LLC shows that U.S. consumers have 2.5 financial services providers on average, and about 43% of consumer funds are kept in nontraditional accounts such as digital only banks and prepaid accounts.^{xvi} Research from Mercator Advisory Group shows that on average consumers own 5.3 accounts across all types of financial institutions.^{xvii}



So, an affinity product does not need to be the only product that a customer uses. In fact, it might be one that they only pull out when they want to highlight that they are in the club – whatever its field of membership may be.

ⁱ [Census - Table Results](#)

ⁱⁱ [The Fed - Banking and Credit \(federalreserve.gov\)](#)

ⁱⁱⁱ [FLA-Figure 2 Final \(census.gov\)](#)

^{iv} [sc_complaint_10192017.pdf \(epa.gov\)](#)

^v [About - Greenpeace USA](#)

^{vi} [5 new challenger banks with ultraspecific niches | American Banker](#)

^{vii} [Musicians and Singers \(bls.gov\)](#)

^{viii} [About AFM - American Federation of Musicians](#)

^{ix} [Welcome to ASCAP - the world leader in performance royalties, advocacy and service for songwriters, composers and music publishers](#)

^x [Census - Table Results](#)

^{xi} [Census - Table Results](#)

^{xii} [Census - Table Results](#)

^{xiii} [FDIC_2019_SurveyReport-book](#)

^{xiv} [FDIC_2019_SurveyReport-book](#)

^{xv} [20090921_NCIF_DemystifyingPrePaidCards.pdf](#)

^{xvi} [Galileo Research Executive Summary FINAL \(galileo-ft.com\)](#)

^{xvii} [How Many Bank Accounts Do Consumers Have? - PaymentsJournal](#)