Remarks by
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Good afternoon. First, please allow me to thank the Consumer Federation of American for this invitation. The Financial Services Conference is an important forum for discussing some of the most pressing banking and finance issues facing consumers today, and I am honored to be a part of it. Supporting

Supporting broad economic inclusion of consumers in the financial mainstream is an important priority at the FDIC. Increasing households' access to safe, secure and affordable banking services improves their ability to build assets and create wealth, protects them from theft and discriminatory or predatory lending practices, and provides a financial safety net against unforeseen circumstances. Mainstream banking also provides consumers with advantages that are unavailable in the alternative financial services marketplace, such as FDIC deposit insurance and explicit protections related to a variety of risks, including bank failure, theft and fraud, and discrimination, among others. In addition, broad participation in banking relationships promotes public confidence in the financial system, which is itself a core responsibility of the FDIC.

Today I would like to share some of what we are learning about opportunities to include the broadest possible set of consumers in the financial mainstream. I will summarize findings from our economic inclusion work, and comment on the challenges that remain.

Unbanked Surveys

In order to have better data to help guide effective economic inclusion strategies, and in response to a statutory mandate, the FDIC periodically conducts national studies that explore households' financial behavior and banks' provision of services to underserved consumers.

The FDIC National Survey of Unbanked and Underbanked Households is a survey conducted in partnership with the Census Bureau to estimate the proportion of unbanked and underbanked households, describe their demographic characteristics, and to gain insight into why some consumers utilize alternative financial services. The results of the surveys conducted in 2009 and 2011 are public, and the results of the 2013 survey, conducted this summer, should be available next year.

Before the FDIC undertook this survey effort, there was no consistent, nationally reliable data source on households' use of mainstream banking and alternative financial services. This survey provides not only comprehensive national level statistics, but also regional, state and even MSA level estimates.

The most recent survey results (from 2011) show that a substantial portion of the population remains unbanked or underbanked. Specifically, 8.2 percent of US households are unbanked. In fact, while 10 percent do not have a checking account, an even greater proportion—nearly 30 percent of households—lack access to a savings account. Additionally, just over 20 percent of U.S. households are underbanked, meaning that they have a bank account but have used alternative financial services, such as nonbank check cashing or payday loans, in the past year.

Results for Demographic Groups

The national level statistics do not provide a complete picture of the banking engagement of specific segments of the population. According to the report, unbanked and underbanked rates are particularly high among lower income, less educated, younger and unemployed households, non-Asian minorities, and unmarried families with dependents, like single mothers.

For instance, among Black households, more than one in five (21.4 percent) are unbanked and a third (33.9 percent) are underbanked. Similarly, we find that 20 percent of Hispanic households are unbanked and almost 30 percent (28.6 percent) are underbanked. To put these statistics in context, consider that the Hispanic population accounted for a majority of population growth in the United States between 2000 and 2010 1 and that, together, non-Hispanic Black and Hispanic residents now account for more than 28 percent of the total U.S. population.2 For lower income households (i.e., those with annual income below $30,000), unbanked rates are also about 20 percent (19.4 percent), while almost one in four (23.7 percent) are underbanked.

As you can see, for many of these groups unbanked rates are around 20 percent and underbanked rates come close to or even exceed 30 percent. However, even among these groups with high proportions of underserved households, almost half are fully banked, demonstrating that it is not only possible to bank low income households, for example, but that it happens successfully in many cases.

Differences in experiences with and motivation to join the financial mainstream

The Survey's results also show that the unbanked are not monolithic in their banking experiences or in their motivation to open an account.

Among unbanked households, slightly more than half have never had a bank account. This group represents about 4 percent of households, leaving an additional 4 percent that are presently unbanked but have had an account in the past. However, for certain demographic groups, such as Hispanics, the proportion of never-banked households is dramatically higher. The survey shows that almost 15 percent of Hispanic households have never had an account in an insured institution.

The survey also helps identify certain segments that report being significantly more likely to open an account in the future and their motivations for doing so. Previously banked households, younger households and unmarried-female headed families are some of the demographic groups that reported being more likely to be banked in the future.

These unbanked households list various motivations for opening an account. Roughly similar proportions, about 30 percent, reported transactional or safety needs: a bank account would primarily help them write checks and pay bills or put money in a safe place. About 1 in 4 indicated that they want to open an account 'to save money for the future'.

Potential demand for additional banking services

Finally, the Survey asks detailed questions about the use of financial services from alternative, non-bank providers, such as check cashers and payday lenders. Data on the use of these alternative financial services or AFS help identify areas where banks might have opportunities to expand their offerings and broaden or deepen their banking relationships.

We find that one in four households has used at least one AFS in the last year, and almost 10 percent have used two or more types of AFS in this time frame. We also observe that about 40 percent of unbanked and underbanked households have used an AFS in the last 30 days.

Finally, the survey asked households about their reasons for selecting AFS providers instead of banks. Consistent with our first survey, unbanked and underbanked households perceive transaction AFS, such as check cashing and money orders from non-banks, to be more convenient. They also perceive AFS credit to be easier or faster to obtain than bank credit.

Implications

The results from the survey lead us to four important takeaways.

First, the unbanked and underbanked populations are not a homogeneous group. As briefly mentioned earlier, these households have diverse experience, interactions, financial needs, and perceptions about the banking system. Understanding differences among different segments could lead to stronger economic inclusions strategies.

Second, having a bank account at the moment does not guarantee long-term or full engagement in the financial mainstream. Almost half of the unbanked households in the US were previously banked. So, effective economic inclusion strategies require not only bringing households into the banking system, but also keeping them in the system. The offering of low-cost deposit products with transparent fee structures could play an important role in this effort.

Third, being more fully engaged in the banking system appears to be associated with positive perceptions of bank accounts: previously banked households are considerably more likely to want to open an account in the future and less likely to say that they are unbanked because they ‘do not need or want an account.’

Fourth and finally, the survey results imply that banks need to more clearly demonstrate to AFS users that there is value and convenience in accessing financial services through a bank.

It is our hope that these numbers are helping provide a foundation to better understand the issue of underserved households, and inform policy efforts to improve inclusion.

Model Safe Accounts Pilot

At the FDIC, we’ve used our survey research to guide our own economic inclusion efforts, including initiatives such as the Model Safe Account Pilot. The FDIC’s Model Safe Account Template was developed to identify transaction and savings accounts that are transparent, low cost, easy-to-understand, backed by established consumer protections and insured by the FDIC. Nine banks piloted the account for one year, and shared their results with the FDIC.

The results of the pilot provided insight into the feasibility of these accounts and were encouraging, suggesting that financial institutions can offer these kinds of sensible accounts to underserved and LMI consumers. In fact, more than 80 percent of transaction accounts and 95 percent of the savings accounts opened during the one-year pilot remained open at the project’s conclusion.

Recently, Key Bank and Citibank made clear their intent to affirm and deploy checkless checking accounts consistent with the Safe Accounts structure. Other banks, such as Chase and PNC Bank have demonstrated that it is possible to use prepaid debit cards as an instrument to engage consumers in meaningful banking relationships. Structured to be consistent with the principles of the Safe Account, these offering can help consumers meet basic transactional needs while providing security for their funds and opportunities to access a range of credit and savings options. Prepaid debit cards remain an emerging product, however, and it will be important to continue to evaluate whether and how they are being used to truly expand economic inclusion. This caveat, though, should not serve to diminish the fact that these developments are encouraging signals that further affirm the potential for insured depository institutions to provide basic banking services to the broadest possible segment of American consumers.

In addition, Jose Cisneros—the Treasurer of San Francisco and a pioneer in the municipal-led Bank On movement—has endorsed the Safe Account model as a useful structure for the local coalitions seeking to expand economic inclusion in cities around the nation. These developments are positive for banks' businesses, and beneficial for consumers.

Mobile Financial Services

As I noted, our surveys show that convenience is one of the most important reasons why households use nonbank transaction services, such as check cashers. One technology that has emerged that banks might use to enhance convenience for unbanked and underbanked consumers is that of mobile financial services, or MFS for short.

Utilizing mobile phones and tablet-based platforms, MFS have the potential to provide real time account information from virtually any location at any hour. They also provide tools consumers can use to act on this information right away, potentially helping consumers better manage their finances and avoid problems such as overdrafts, fraud and late fees.

In addition, Federal Reserve survey research shows widespread use of mobile phones among underserved populations -- 59 percent of unbanked and 90 percent of underbanked adults own a mobile phone. The Fed's work also suggests that underbanked mobile phone users actually are more likely to have used mobile banking (49 percent used mobile banking) than the overall population (28 percent used mobile banking).3

But, while we know that MFS is being rapidly adopted by a wide variety of consumers and institutions, it is not clear whether the technology's full potential to meet underserved consumers' needs is being leveraged. As a result, the FDIC's work in this area will focus on evaluating the potential of MFS to expand economic inclusion. To do so, we will use an analytical framework that assesses the potential of the technology to expand access, improve sustainability, and provide opportunities for growth in customers' banking relationships.

Access

The first important dimension of economic inclusion is access. This is simply bringing consumers into the banking system, such as by making banking more appealing, or perhaps by making the onboarding process easier or more efficient.

Sustainability

The second dimension in our analytic framework is sustainability — that is, keeping consumers in the banking system. Our survey results demonstrate that about half of the unbanked population was previously banked, suggesting that exits from the banking system are an important concern. Of course, a variety of factors can contribute to improved sustainability.

First and foremost, sustainability is likely driven by products and services that are safe, transparent and affordable no matter what delivery channel is being used. Mobile access to accounts that align with the FDIC's Safe Accounts Template, for example, could have potential in this regard.

Products and services also need to be relevant to unbanked and underbanked consumers, helping to meet their day-to-day financial needs. To this end, we seek to explore whether there are specific MFS functionalities that could be particularly valuable to these consumers, such as mobile remote deposit capture with immediate funds availability or person-to-person payments.

Another question regarding MFS and sustainability is whether the technology makes banking services easier to access and manage. Here, the potential of the technology to deliver reliable "anytime, anyplace" information is key. For instance, the use of text alerts or push notifications could help consumers better manage their accounts and avoid fees, prevent fraudulent activities, and increase the chances of longer-lasting relationships.

But, the relationship also has to be sustainable for financial institutions, so we will seek to understand whether MFS can increase feasibility for institutions serving unbanked and underbanked consumers through, for example, cost savings.

Growth

Finally, coming back to the economic inclusion framework, we see growth as a third important dimension. Once households are in the banking system, they should have the opportunity to increase their financial capability to pursue their financial goals. MFS can come into play here, for example, through mobile tools that help track expenses and monitor savings goals in real time.

By working methodically through this framework to evaluate MFS, we hope to identify specific areas where we and others can focus resources to reduce barriers to sustainable and safe banking.

Small-Dollar Lending and Savings

While we dig into this new research in the emerging area of mobile financial services, we remain committed to our long-standing research efforts, including savings and affordable small dollar credit. Consumers frequently rely on both to help address temporary shortfalls in income or to accommodate even predictable, but irregular expenses.

Therefore, increasing and supporting savings accumulation, especially among low and moderate income households, is an important priority and one that CFA has been a leader in for a long time. Recent statistics tell a challenging story regarding savings:

sizeable proportions of households are not saving, or are not saving enough to cope with their financial needs. In responses to the Federal Reserve's Survey of Consumer Finances, households across a broad swath of the income spectrum indicate that they would like to hold greater precautionary savings. In the 2011 FDIC Household survey, 30 percent of households reported that they don't have a savings account. Among low income households, those earning $30,000 or less, only about half have savings accounts. This leaves many households without a secure way to build funds to meet emergency needs.

Another way that households can meet irregular or unexpected financial demand is through accessing credit. We know loans originated following the FDIC Small Dollar Loan Template can be viable alternatives to AFS credit. The template was a result of a two-year pilot that sought to encourage more banks to offer small-dollar loans as an alternative to high cost credit sources, such as payday loans or fee-based overdraft programs. The pilot demonstrated that banks can feasibly offer affordable small-dollar loans in a manner that suits their business plans and is fair to consumers, including those who previously were unbanked or underbanked.

The most recent FDIC Survey of banks' Efforts to Serve the Unbanked and Underbanked found that eight out of ten banks said that they offer small (under $2,500) unsecured personal loans. These institutions also tended to report repayment terms of 90 days or longer, annualized rates at or below 36 percent, and loan approvals in less than 24 hours.

However, this is not the end of the story. Consumers in the FDIC Household survey who reported obtaining a payday loan gave as one of their two most common reasons for doing so the explanation that banks do not make small dollar loans.

Consequently, the findings from the household survey point to a market opportunity for financial institutions to market their small dollar loan product to consumers.

Financial Education and Outreach

Our Economic Inclusion efforts have been enhanced by engaging financial institutions, community-based organizations, and consumers through financial education and outreach.

The FDIC's Money Smart Financial Education Program helps consumers, especially low- and moderate-income consumers and entrepreneurs, enhance their financial skills and helps create positive banking relationships. Our experience with initiatives such as Money Smart demonstrate that carefully designed and implemented programs can enhance the ability of institutions to offer safe, sound, and sustainable products and services to underserved consumers. This is consistent with research suggesting that financial education is most likely to be effective when it is relevant, timely, and appropriate for the audience.

The FDIC, along with other members of the Financial Literacy and Education Commission (FLEC), recognize that starting financial education early has important and, quite likely, long-standing, benefits for younger people.

Yet, we know that in many states there is limited or little classroom time devoted to life-skill topics such as personal finance. Or, when financial education is offered, it may be only a component within a course, or perhaps just one course at a single point in time during high school. Let me say that we believe that financial education can be taught in a way that supports learning through core subjects.

To recognize this opportunity, the FDIC is working with its FLEC partner agencies on strategies and approaches to promote youth financial capability. In fact, in the coming year, we will look to expand Money Smart resources to help meet the needs of students across all grade levels based on input from our Committee on Economic Inclusion. Importantly, these resources will be developed to be consistent with Common Core educational standards so that they can be integrated into lesson plans based on those standards rather than as a separate and additional topic. We will also take steps to ensure that support materials are available for teachers, parents and other caregivers who play an important role in helping young people learn about money and sound money decisions. In addition, looking ahead, as these resources become available, we will seek opportunities to work directly with schools to facilitate the use of Money Smart-based resources in the classroom and to provide teachers, parents and caregivers with opportunities to build their confidence in using the materials.

These efforts build on previous joint work, such as that done with the CFPB to develop and promote Money Smart for Older Adults and joint efforts with the US Small Business Administration to develop and promote Money Smart for Small Business.

We also believe that the potential of these benefits can be magnified by providing experiential-based learning opportunities, such as those involving youth savings programs. In fact, there is evidence that even small youth accounts are “sticky” and may positively affect student financial and academic behavior in later years.

For their part, banks engaged with school or other youth savings programs take pride in the efforts and recognize that the time invested has the potential to build long-term relationships. That is why we are also developing plans to work with schools and banks in several markets around the country to develop or expand experiential learning opportunities to help students who complete financial education have an opportunity to open and use a savings account. We will be there along the way to support the work of others in financial education by explaining various models, providing Money Smart resources, and answering questions.

Conclusion

While we have been working very hard on the initiatives I’ve spoken about, and on many others, there is clearly more work to be done. The FDIC will continue working to ensure that all Americans have access to safe, secure and affordable financial services from mainstream providers.

And, fortunately, we know we won't be alone. The excellent work that CFA is doing in this area, for instance, cannot be overlooked. Through the America Saves campaign, 1,052 organizations signed up on AmericaSavesWeek.org across 48 states, reaching over 35 million people to put money away for the future. Many of these organizations continue to encourage savings year round, using the week as a launching point for organizations to promote savings. The FDIC is proud to be a partner in this effort.

I hope we can continue to learn from this work, and from the efforts of the many banks, community partners, and others working toward the important goal of economic inclusion. Thank you again for the opportunity to share these thoughts. I would be happy to take some of your questions and comments.

1 The Hispanic Population: 2010, 2010 Census Briefs, U.S. Census Bureau, Release Date: May 2011 (http://www.census.gov/prod/cen2010/briefs/c2010br-04.pdf).

2 Annual Estimates of the Resident Population by Sex, Race, and Hispanic Origin for the United States, States, and Counties: April 1, 2010 to July 1, 2012, U.S. Census Bureau, Population Division, Release Date: June 2013.

3 Mobile banking and mobile payment estimates refer to the use within the last 12 months.

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