

**Remarks by
Martin J. Gruenberg, Chairman,
Federal Deposit Insurance Corporation
To the
Urban Financial Services Coalition
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Good afternoon. I am pleased to be here today. The focus of the Urban Financial Services Coalition (UFSC) on economic empowerment for diverse communities is an important goal that we at the FDIC share. I applaud UFSC for being a strong contributor to the development of effective leaders at financial institutions so that they can successfully serve their diverse communities.

The FDIC's mission is to promote public confidence and stability in the banking system. While deposit insurance is a key factor in sustaining public confidence, consumer trust in the financial system is another important element. When consumers have a positive banking relationship, that relationship builds trust.

Many consumers—minorities in particular—remain unserved by the banking system. To promote banking relationships, it is vitally important that consumers have access to safe, secure, and affordable banking services. Having a banking relationship can give consumers the tools to pursue economic opportunity, such as by building assets, getting a good education, buying a home, or starting a business. Moreover, financial institutions that can effectively strengthen a broad range of customer relationships will be better positioned to adapt to the rapid changes in their markets and build their businesses.

Today, to reinforce the theme of your conference, "Leadership for Change," I want to talk to you about what the FDIC has done in our leadership role to promote economic inclusion.

First, I will share what we have learned from our research about consumer access to financial services and what the FDIC has done to promote simple, affordable banking to reach those who do not have a banking relationship. Then I would like to review how our work in financial education and, in particular Money Smart, which celebrates its 15-year anniversary this year, is helping address the needs of people of all backgrounds and all ages. Finally, I will discuss the unique role of minority depository institutions and the FDIC's efforts to support these institutions so that they may thrive and serve the people in their communities.

I know economic inclusion is of particular interest to many in the audience. Many of you have worked with us on outreach and financial education programs, including hosting Money Smart sessions, minority business forums, and other community initiatives. I am seeking your continued engagement in that work today as individuals, as a coalition, and as participants in the many community organizations you support.

Understanding the Unbanked and Underbanked

In order to have better data to help develop effective strategies in this area, and in response to a statutory mandate, the FDIC periodically conducts national studies that explore the financial lives and needs of consumers.

Our National Survey of Unbanked and Underbanked Households is conducted every two years in partnership with the Census Bureau. The survey estimates the size of these populations, describes their demographic characteristics, and provides insight into opportunities to address the financial services needs of consumers.

For 2013, the year of most recent data, the results show that substantial portions of the population remain unbanked or underbanked: 7.7 percent of U.S. households did not have a bank account, and 20 percent were underbanked, meaning that they had a bank account but had also used alternative financial services in the past year.¹

As we found in earlier surveys, the 2013 report showed that unbanked and underbanked rates remain particularly high among African-American, Hispanic, and Native American households; households with lower income and education levels; young households; and households experiencing unemployment. The survey also showed that households headed by individuals with a disability are less likely than the general population to have a bank account and more likely to use alternative financial services, even when they have bank accounts.

Let me give you some additional figures for illustration.

- Among lower-income households, those with annual incomes below \$30,000, almost one in five (19 percent) are unbanked and nearly one in four (23.8 percent) are underbanked.
- For black households, more than one in five (20.5 percent) are unbanked and one-third (33.1 percent) are underbanked.
- One in six Hispanic households (17.9 percent) are unbanked, and nearly three in 10 (28.5 percent) are underbanked.
- For households headed by a working-age individual with a disability, one in six (18.4 percent) are unbanked and more than one in four (28.1 percent) are underbanked.
- Young people are also disproportionately unbanked. For example, more than 75 percent of youth aged 15 to 17 do not have a bank account; for those 18 to 20 years old, the proportion unbanked is 50 percent.

While these figures show that access to mainstream financial services continues to lag among these populations, the survey also shows that banks can serve diverse needs. Even among these groups, about half of the households are fully banked. The challenge then is how to extend inclusion further.

Implications

The FDIC survey results suggest that product features or other approaches designed to help households begin and maintain their banking relationships may reduce unbanked rates. That is the case even when the households experience financial challenges, such as a loss of income.

Such approaches, for example, include offering opportunities to open a bank account to consumers who are starting new jobs or enrolling in public benefits programs. Perhaps a workforce development and social service organization might foster connections to financial services for their clients. A youth employment program might help introduce teens to their first accounts.

In addition, the survey showed that nearly half of those who were unbanked once had an account but had left the banking system. Many of them reported that they did so due to unexpected fees and costs of accounts. Instead of requiring consumers to maintain a certain balance, which can be difficult for households experiencing unemployment or receiving certain benefits, banks may consider offering an account that waives fees if the consumers use bill pay services. Moreover, it may mean that accounts designed to avoid fees related to overdrafts and insufficient funds may help people better sustain a banking relationship.

Another implication from the survey relates to the fast-growing use of prepaid debit cards among the unbanked and underbanked. Between 2009 and 2013, the proportion of unbanked households that indicated they had used a prepaid card more than doubled. The most recent data show that more than one in four unbanked households had used a prepaid card (27.1 percent). Moreover, consumers using prepaid cards generally report that they received them from nonbank sources, but they use them to conduct the same kinds of day-to-day transactions associated with bank accounts. Card-based products seem to offer the potential to link unbanked consumers to banking services.

The FDIC survey also found that mobile financial services—or MFS for short—offers intriguing possibilities for helping to expand economic inclusion. More than two-thirds of unbanked households (68 percent) and more than 90 percent of underbanked households own a mobile phone. While smartphone ownership lags somewhat among the unbanked (33.1 percent), underbanked households (64.5 percent) are more likely to have a smartphone than the fully banked (59 percent).

We followed up these findings with additional research, including consumer focus groups. Although we know that mobile services are being rapidly adopted by a wide

variety of consumers and institutions, it is not clear whether the technology's full potential is being leveraged to expand inclusion in the banking system. A recent FDIC report explained the potential for mobile banking to benefit underserved consumers while noting that MFS likely will only recognize its potential for economic inclusion when that goal is thoughtfully designed and integrated into a bank's overall strategy.²

Safe Accounts and the Bank on Initiative

In many ways, opening an account with an insured bank is a stepping stone to economic opportunity. But it also is critical that consumers are matched with accounts that meet their needs.

To facilitate sustainable banking relationships, the FDIC developed a template for a Model Safe Account. The template describes transaction and savings accounts that are transparent, low cost, easy to understand, backed by established consumer protections, and insured by the FDIC.

These transaction accounts are structured around account-based debit cards. By using card-based and electronic transactions, costs are lower for institutions, overdraft or insufficient fund fees are eliminated, and consumers develop a full banking-account relationship with low fees and low minimum-balance requirements. Nine banks piloted the accounts for one year, in 2011.

In 2012 we published the results of our pilot.³ Since then, some banks, including both regional and large money center banks, have introduced options consistent with the Safe Accounts structure. One institution offering the card-based product reports that more than half of all its new accounts are these easy-to-use products, and that they serve a broad range of customers, including underserved groups. Another bank reports that about half of its accounts being opened are by people using branches in low- and moderate-income communities.

One large bank has found that new customers using its card-based account also used mobile banking more often than people with traditional checking accounts. Giving the bank opportunities to add account features can make it more likely that customers will sustain and grow their relationship with the bank over time.

By following the principles of the Safe Account, these card products can help consumers meet basic transactional needs while providing security for their funds and access to a broad range of bank products and services.

FDIC analysts estimate that more than 80 percent of the U.S. population lives in a county with one or more full-service branches of banks that offer Safe Accounts. But a product alone is not enough to ensure that consumers will take advantage of the opportunities provided by these accounts. Promoting effective access and use are also important.

Recently, a national Bank On initiative was launched with the active support of the Cities for Financial Empowerment Fund, a coalition of city leaders and others working in communities across the country to expand access to the financial system.⁴ Bank On programs reinforce the potential to link safe and affordable bank accounts to municipal initiatives that strengthen communities, including workforce services, housing counseling, and youth initiatives. These initiatives deserve the attention of local officials, community leaders, financial professionals like you, and financial institutions so that the connections between safe accounts and local communities can be strengthened.

Financial Capability

As an organization, and as individuals, you know how important it is to contribute to the financial capability of people for whom money management remains a daily challenge as well as those striving to build wealth. This is an area where "Leadership for Change" can be extremely rewarding. By equipping consumers with the knowledge to seek and use products from mainstream financial institutions and avoid high-cost alternatives, financial education can help economic inclusion efforts be successful and sustainable. So, I want to say a few words about youth financial capability as well as our work with older adults and entrepreneurs.

The FDIC has a long-standing commitment to financial education. In fact, 15 years ago, the FDIC launched the Money Smart program.⁵ Our work initially focused on adults. Now it has expanded to include young people even at the pre-K level, parents, and older adults as well as aspiring and existing entrepreneurs. And we have materials available in Spanish and eight other languages as well as a Braille version of the consumer tools.

We have recently focused our efforts on youth financial education, because starting financial education at a young age has long-standing benefits for young people and their families. Last year, in collaboration with the Consumer Financial Protection Bureau (CFPB), we launched the Money Smart for Young People curriculum series to provide age-appropriate materials for educators, including complementary guides for family members and caregivers. If you are working with schools in your communities, I invite you to review this resource, which contains materials for Pre-K, elementary school, middle school, and high school children and their parents. Our Community Affairs team at the FDIC is offering training via webinar and, in some places, through teacher professional development opportunities. We are continuously looking at ways to improve the curriculum and are seeking feedback from teachers and others.

We know that financial education alone is not sufficient. When young people can use their knowledge with financial products from depository institutions in a safe setting, their learning opportunities grow exponentially. To that end, youth savings programs have the potential to encourage the development of healthy savings and financial habits at a formative age while building the entire family's capacity. In fact, a U.S. Department of the Treasury study found that having a bank account intensified the effect of financial education instruction for students.⁶ And, in schools where there was a branch of a

federally insured financial institution, students had more positive attitudes toward banks and were more likely to have a bank account.

Our Youth Savings Pilot, which has been underway since August 2014, is identifying promising approaches to offering financial education tied to the opening of safe, low-cost savings accounts for school-aged children.⁷ We look forward to providing more information on promising practices that we have observed in an effort to support the engagement of young people through hands-on learning with a safe savings account.

We are also updating our jointly produced and extremely popular Money Smart for Older Adults, which we produced with the CFPB. This set of free resources is designed to help older adults and their caregivers prevent, identify, and respond to elder financial exploitation. For example, it offers seniors a better understanding of the use of protective instruments, such as the Power of Attorney, while also providing an overview of ways to avoid common scams or predatory practices. Stay tuned for an enhanced version later this year that will contain new resources and information.

The other resource that I want to share with you is our Money Smart for Small Business series, developed in collaboration with the Small Business Administration (SBA). Its 13 topical lessons are particularly appropriate for entrepreneurs in the early stages of developing their ideas. It helps explain key financial concepts and how to apply them to their businesses, including analyzing cash flow and considering credit options. Experienced small business lenders and advisers make the best teachers of this curriculum, and we work with many SBA-funded Small Business Development Centers to make this resource available. This resource is also available in Spanish.

Minority Depository Institutions

I now want to turn to another important area in the promotion of financial inclusion: minority banks. Minority depository institutions (MDIs) promote the economic viability of minority and underserved communities, providing access to capital in their communities. The FDIC has long recognized the importance of minority depository institutions in our financial system and has developed an MDI Program that is fully integrated into our supervision, consumer protection, and receivership business lines.⁸

The FDIC continually seeks to identify initiatives to enhance our ability to carry out our commitment to preserve existing minority depository institutions, preserve the minority character of an institution in cases of mergers or acquisitions, and promote and encourage the creation of new minority depository institutions. These initiatives often involve training, technical assistance, and education programs for MDIs.

To help the FDIC find ways to better support MDIs and to develop research that could directly assist these institutions, we conducted a significant research project, culminating in the release of a comprehensive study in 2014.⁹ The study showed that MDIs tend to be located in communities with a higher share of minority residents and in low- to-moderate income areas that might be underserved absent a minority banking

institution. The study also showed that MDIs are very successful in meeting their mission to promote economic viability of minority and underserved populations. Indeed, MDIs successfully reach low- and moderate-income (LMI) households: 46 percent of the areas served by MDIs were in LMI income census tracts compared to 17 percent for community banks and 27 percent for noncommunity banks. In addition, MDIs provide mortgages in lower-income neighborhoods: 25 percent of MDIs' reportable mortgages (under the Home Mortgage Disclosure Act) were made to residents of LMI census tracts compared to 9 percent for all other types of institutions.

The FDIC continuously pursues ways to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. In addition to active outreach with trade groups, FDIC regional managers regularly meet with boards of directors of MDIs. The FDIC also routinely contacts FDIC-supervised MDIs to offer return visits and technical assistance after each safety and soundness, compliance, Community Reinvestment Act, and specialty examination to help bank management understand and implement examination recommendations.

Unfortunately, the number of MDIs has declined since the onset of the financial crisis and has continued to decrease in recent years. As of March 31, there were 162 MDIs, down from the end of 2008 when there were 215, the peak for the 15-year period for which we have data. However, it is important to note that MDIs' share of the total industry has remained steady during the same period at 2.6 percent of the total number of insured institutions. Total assets held by these institutions also has been relatively stable over this period and are now growing, have grown to approximately \$200 billion as of March 31, 2016.

One important challenge facing a number of community banking institutions is the lack of a talented pipeline of managers at a time when a number of senior bank managers are at or nearing retirement. This issue appears to be particularly acute at a number of MDIs. If there is a significant gap in the talents and readiness of more junior bank management, the viability of a bank can be at risk should the top management depart. We at the FDIC are looking closely at the succession planning issue at institutions of all types across the country. We are particularly focused on this issue and how it relates to MDIs and are eager to work with interested parties. We encourage you to consider how you may become engaged with some of these institutions to provide your talents, and we welcome your ideas for ways in which we can promote MDIs.

Conclusion

In closing, we all know leading change is never easy, but rewards can be significant if we are smart about our efforts. I want to leave you with these key takeaways.

First, the success of our financial system depends on trust. Economic inclusion fosters that trust and can be advanced in a way that will result in considerable benefits for both banks and consumers. Transparent and useful products and services and innovative delivery are important contributors to success.

Second, economic inclusion means resources on the ground to link products and services to people who need them, including through collaborations of local government, community organizations, and financial organizations. It provides opportunities for financial services professionals to apply creative solutions to a wide range of challenges.

Third, financial education is another leg of the stool, particularly starting at an early age, but also continuing throughout our lives. Education has a key role in making inclusion successful and sustainable.

Finally, FDIC recognizes the importance of minority depository institutions and is dedicated to working to support these institutions so that they can continue to play an important role in their communities.

Thank you.

1 FDIC, "2013 FDIC National Survey of Unbanked and Underbanked Households," October 2014, <https://www.fdic.gov/householdsurvey/>.

2 Susan Burhouse, Benjamin Navarro, and Yazmin Osaki, "Opportunities for Mobile Financial Services to Engage Underserved Consumers: Qualitative Research Findings," May 25, 2016, https://www.fdic.gov/consumers/community/mobile/MFS_Qualitative_Research_Report.pdf.

3 FDIC, "FDIC Model Safe Accounts Pilot: Final Report," <https://www.fdic.gov/consumers/template/#fullreport>.

4 Remarks by Chairman Martin J. Gruenberg, for Bank On/Cities for Financial Empowerment Fund National Launch of Account Standards," October 27, 2015, <https://www.fdic.gov/news/news/speeches/spoct2715.html>.

5 FDIC, "Money Smart – A Financial Education Program," <https://www.fdic.gov/consumers/consumer/moneysmart/>.

6 U.S. Department of the Treasury, "Financial Education and Account Access Among Elementary Students: Findings from the Assessing Financial Capability Outcomes Youth Pilot," April 2014, <https://www.treasury.gov/resource-center/financial-education/Documents/Financial%20Education%20%20Account%20Access%20Among%20Elementary%20Students%20Findings%20from%20the%20Assessing%20Financial%20Capability%20Outcomes%20You%E2%80%A6.pdf>.

7 FDIC, "Youth Savings Pilot Program," <https://www.fdic.gov/consumers/assistance/protection/depaccounts/youthsavings/index.html>.

8 The FDIC defines an MDI as any federally insured depository institution in which 51 percent or more of the voting stock is owned by minority individuals or institutions in which a majority of the board of directors is minority and the community that the institution serves is predominantly minority.

9 Eric C. Breitenstein, Karyen Chu, Kathy Kalsner, and Eric W. Robbins, "Minority Depository Institutions: Structure, Performance, and Social Impact," July 21, 2014, https://www.fdic.gov/bank/analytical/quarterly/2014_vol8_3/mdi_study.pdf.

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