Remarks by

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Innovative Ways to Reach K-12

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Good afternoon. Thank you Governor Pawlenty. And welcome to all of you.

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 just as important. And one of the most important ways for consumer confidence in the financial system to grow is to have more consumers benefiting from a banking relationship. For U.S. households, this means access to safe, secure, and affordable banking services, which give them the tools to pursue economic opportunity, such as by building assets, getting a good education, buying a home, or starting a business.

It is clear that an account relationship is fundamental to participating in the mainstream banking system. However, many households continue to remain unserved by the banking system. Not only that, but other households already with established banking relationships continue to use alternative financial services such as when they need to cash a check. As a result, banks continue to have opportunities to expand the reach of the financial services they provide to both underserved individuals and businesses.

Well-designed economic inclusion strategies enhance trust and confidence in the banking system because consumers gain value from the products and services that they use. These consumers also will come to appreciate their relationship with a bank that treats them fairly.

The FDIC works to promote economic inclusion in several ways. I want to focus on four.

First, I will share what we have learned from our research about consumer access to financial services.

Second, I will discuss our Safe Accounts pilot program and how it has helped increase the availability of sustainable, entry-level accounts for underserved consumers.

Third, I would like to review how developments such as the continued growth in mobile banking might expand ways for banks to successfully serve diverse consumer needs.

Finally, Money Smart, our free financial education program, is celebrating its 15th anniversary this year, and I want to talk about the work we are doing to build youth financial capability.

FDIC Research

Let me turn first to our research. In order to have better data to help develop effective strategies for economic inclusion, and in response to a statutory mandate, the FDIC periodically conducts national studies that explore household use of financial services.

One such study, 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.

The most recent survey results, from 2013, show that substantial portions of the population remain unbanked or underbanked: 7.7 percent of U.S. households do not have a bank account, and 20 percent are underbanked, meaning that they have a bank account but have also used alternative financial services in the past year.

Results for Demographic Groups

As we found in earlier surveys, 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. Our 2013 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 a third (33.1 percent) are underbanked.

And we find that 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, for youth ages 15 to 17, more than 75 percent do not have a bank account, and 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

In that regard, the FDIC survey results offer several key takeaways about ways to successfully serve diverse consumer needs.

We should recognize that many households enter and exit the banking system each year. In fact, we see that almost half of unbanked households (45.9 percent) have had an account in the past.

The survey shows that many households that experienced banking transitions also had changes in their employment and income. For those leaving the banking system, one-third (34.1 percent) said that a job loss or a significant drop in income was a contributing factor in their decision. At the same time, one in five households that recently opened a bank account said that a new job was a factor in their decision to open a bank account. Also related to employment is the finding that more than one-third (34.2 percent) of recently banked households reported that direct deposit was the main reason they opened an account.

Taken together, these results suggest that product features or other approaches designed to help households begin and maintain their banking relationships for the long-term may reduce unbanked rates over time. That is the case even when the households experience financial challenges such as a loss of income.

This may mean, for example, 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. At the same time, the results may also mean that instead of requiring consumers to maintain a certain balance, which can be difficult for households experiencing unemployment or receiving certain benefits, you offer an account that waives fees if the consumer uses bill pay services.

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 have used a prepaid card (27.1 percent).

In fact, in 2013, a majority of all households using prepaid cards in the previous 12 months (55 percent) were either unbanked or underbanked.

Moreover, consumers using prepaid cards generally report that they received them from nonbank sources, but they are using them to conduct the same kinds of day-to-day transactions associated with bank accounts.

It may be interesting then to learn that almost half of unbanked households that used prepaid cards in the past year (46.5 percent) report that they are somewhat or very likely to open a bank account in the future.

Safe Accounts 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. And since then, some banks, including both regional and large money center banks, have introduced options consistent with the Safe Accounts structure.

One institution 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, a coalition of city leaders and others working in communities across the country to expand access to the financial system. 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. At an event last fall in San Francisco, Mayor Ed Lee and Treasurer Jose Cisneros highlighted the city's approach to bringing banking products that meet safe standards to more low- and moderate-income households. Cities for Financial Empowerment plans to help encourage other cities to renew their commitment to Bank On. These initiatives deserve the attention of local officials, community leaders, and financial institutions so that the connections can be strengthened between safe accounts and local communities.

Mobile Banking

I now want to turn to channels to access these and other banking products.

The FDIC survey that I mentioned earlier 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).

And, in fact, underbanked mobile phone users are actually more likely to have used mobile banking than fully banked households, and they are more likely to rely on it as their primary banking method. To follow up, in 2015 the FDIC conducted 18 focus groups around the country, including four in Spanish, on the ways that mobile financial services can help expand economic inclusion in the banking system. We reported preliminary findings at the most recent meeting of the FDIC's Advisory Committee on Economic Inclusion. In consumer focus groups, people told us about their needs for control, access to their money, convenience, and affordability, among other necessities. They see significant benefits from immediate access to account information as well as helpful reminders and balance alerts to help keep them on track with their finances.

These results indicate that by providing more information on balances and transactions – and more ***timely*** information -- MFS may give consumers an important element of control over their financial lives and may help address some of the underlying reasons consumers report for being unbanked. These reasons include unexpected fees and worries about low balances.

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 white paper noted 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.

All told, these results suggest that opportunities exist to meet these consumers' needs in the banking system.

Many bankers tell us that the survey has helped them gain insights into these populations. That is why we will be publishing a new update this fall based on the latest data.

Financial Capability

Finally, I want to note that by equipping consumers with the knowledge to seek and use products from depository institutions, financial education can help economic inclusion efforts be successful and sustainable. So, I want to say a few words about youth financial capability, which I hope will help connect together some of what I have been saying in a way that can be helpful for the focus of today's discussion.

The FDIC has a long-standing commitment to financial education. In fact, 15 years ago, the FDIC launched the Money Smart program. Our work was initially focused on adults.

We soon realized that starting financial education efforts at a young age has long-standing benefits for young people and their families. In fact, more than three years ago, the FDIC began working in a more intensive and coordinated way with our Financial Literacy and Education Commission (FLEC) partner agencies to promote youth financial capability.

As time has passed, more research has shown that early interventions to teach about money are worthwhile. I also must acknowledge that research is underscoring how financial education is interconnected to education on fundamental skills such as math and English, because factors such as the ability to work with numbers play a significant role in determining a person's financial capability.

Last year, we launched the Money Smart for Young People curriculum series to provide age-appropriate materials for educators, including complementary guides for family members. This came about, in large part, because of our work with the Consumer Financial Protection Bureau to improve financial education and the decision-making skills among American youth.

We have been very pleased at the interest in our Money Smart for Young People curriculum, yet we know that financial education alone is not sufficient. When young people can use their knowledge with real financial products from real 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 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. And, in schools where there was a branch of a federally insured financial institution, students had more positive attitudes towards banks and were more likely to have a bank account.

Our Youth Savings Pilot, which has been underway since August of 2014, is identifying promising approaches to offering financial education tied to the opening of safe, low-cost savings accounts to school-aged children. Through the end of this school year, we will continue to engage with the 21 banks in the Pilot – including at least four Financial Services Roundtable members – so that we are able to be more effective in supporting efforts to engage young people through hands-on learning with a safe savings account.

We plan to release a report at the end of the year to convey lessons learned from our Youth Savings Pilot and offer what we hope to be a helpful roadmap for banks as well as schools on how to link financial education with an opportunity to open a safe, low-cost savings account.

I also understand that a number of you in the room today support youth employment initiatives that incorporate financial education and access to safe banking accounts for young people receiving their first paychecks. The FDIC is also working to promote this connection.

Conclusion

In closing, I want to leave you with three key takeaways.

First, strong banking relationships encourage savings, improve credit and borrowing for critical household needs at a reasonable cost, and build wealth. Such relationships support strong communities and provide a better platform for banks to grow their businesses and, in turn, strengthen public confidence and stability in America's financial system.

Second, economic inclusion can be advanced in a way that will result in considerable benefits for both banks and consumers, and that does not need to be particularly costly or challenging for banks to initiate.

Third, financial education, particularly starting at an early age, has a key role in making these efforts successful and sustainable. In particular, linking the education to a bank account can help young people better develop good savings habits and can promote financial inclusion for students and their families.

Thank you very much.