Remarks By
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Good afternoon. Thank you, Ellen, for that wonderful introduction. I'm delighted to be here today. This is an important conference—important for communities across this country and the banks that serve them.

Two years ago, at your annual meeting, Chairman Don Powell talked about the large market of unbanked and underbanked consumers. He described the challenges faced by banks in reaching these consumers. And he called for innovations within the financial sector to identify the needs of these individuals and their families—and to find ways to meet those needs.

Chairman Powell also invited the members of NCIF to work with the FDIC. As partners, he urged that we bring together leading experts to identify delivery strategies and products that would bring more consumers into the financial mainstream. Today's segment on Workplace Based Financial Services is just one outcome of that collaboration. I'll talk more about that in a moment.

First, however, I'd like to extend my thanks, on behalf of the FDIC and Chairman Powell, to three outstanding NCIF leaders—Lisa [Richter], Ellen [Seidman] and Jennifer [Tescher]—for the time and expertise you have given to our collaboration on workplace financial services. We are truly grateful. This work is crucial to develop strategies that will help meet the needs of unbanked consumers.

If the three of you would please step up to the podium, I would like to present you with an expression of our recognition and appreciation.

Lisa Richter, thank you for taking the lead in this effort, organizing each NCIF/FDIC event over the past two years, and bringing the brightest minds in the country together to explore these issues.

You have done a sensational job in making all this happen. It was the pioneering work of your Retail Financial Services Initiative at NCIF that inspired FDIC staff to promote employer/bank partnerships.

We at the FDIC appreciate your tireless work to assist banks in serving these markets that have traditionally been underserved. Please accept this token of our appreciation.

Jennifer Tescher, as Director of the Center for Financial Services Innovation, your studies and articles on this subject have been of enormous help to our partnership efforts. I want to extend my thanks to you and your staff—including Katy Jacob—for this excellent work. Please accept our recognition and thanks.

Ellen, Seidman, as Managing Director of Shorebank Advisory Services, your active participation in our partnership meetings during the past two years has helped ensure that banks will benefit from more opportunities. Your guiding hand has been essential. Please accept this expression of our gratitude.

Workplace Financial Services and the Underbanked
Now, let me return to our topic for the day—Workplace Financial Services and the Underbanked.

Each of you here today knows the numbers. According to recent estimates, as many as 22 million American households are unbanked. These people do not have accounts at banks and other mainstream financial institutions. As a result, they often pay excessive fees for basic financial services, are vulnerable to high-cost predatory lenders, have difficulties buying a home or otherwise acquiring assets.

To increase awareness about this problem, to promote practical solutions, and to explain the benefits of bringing unbanked individuals into mainstream financial services, the FDIC hosted a symposium more than a year ago at the National Press Club in Washington, D.C. The topic of the symposium was "Tapping the Unbanked Market: Helping People Enter the Financial Mainstream." Ellen Seidman and Lisa Richter were moderators and speakers, leading panel discussions—thanks to both of your for your active participation at that meeting.

The symposium also featured a congressional panel with Congressmen Spencer Bachus, Ruben Hinojosa, and David Scott. The luncheon speakers were Congressman Michael Oxley, Chairman of the House Committee on Financial Services, and Kelvin Boston, host of the PBS-TV show "Money Wise."

In his remarks that day, FDIC Chairman Don Powell recalled stopping in a small town in rural Texas on one of his trips home. He noticed a number of people waiting in line at a check-cashing facility. Casually dressed—in jeans and cowboy boots—it was Texas after all—Don Powell chatted with people in line without identifying himself as a bank regulator.

"I pointed out there was a bank just down the street," Chairman Powell recalled, "but they all had reasons for not wanting to go to that bank. Some didn't feel welcome. Some wanted to remain anonymous. Some didn't fully understand what banks do. But a lot of persons who are unbanked know more about banks than we think they do. Banks need to do everything they can to meet these people on their own terms, answer their questions, address their concerns—go to where people work, pay taxes, buy groceries, and teach Sunday School—you have to go into their community to get to understand what they need."

We learned many things at that symposium that reinforced our desire to encourage employer-bank partnerships to provide financial services through the workplace.

We learned that the market potential for mainstream financial services firms to serve unbanked and marginally banked consumers continues to grow. While the number of unbanked consumers may vary depending on whose report you look at, the numbers still tell a consistent story—a staggering number of people remain unbanked in this country.

Over the past couple of years, I think we have gained a better understanding of the reasons why some consumers are outside of the financial mainstream.

Some previously had bank accounts but may have poor credit histories or previous difficulties in managing an account—often due to a lack of financial knowledge or education.

Others have bank accounts, but still use nonbanks for some products and services. Some prefer the convenience, hours, and locations of other financial outlets or fringe providers such as check cashers and others.

Some do not use bank services because they live from paycheck to paycheck. Still others face cultural and language barriers or lack the necessary identification to open an account. Many are lower-income.

Despite this, we know that many lower-income families are savers, even without bank accounts. Unfortunately, without a connection to a financial institution, they lack access to a wide variety of high-quality, affordable banking products and services.

The late Chicago newspaper columnist Sydney Harris once wrote:

An idealist believes the short-run doesn't count. A cynic believes the long-run doesn't matter. A realist believes that what's done in the short run - or left undone - determines what happens in the long run.

This message definitely applies to all the policymakers, bankers and community leaders who struggle with making our financial system more inclusive.

We cannot wait until a utopian banking marketplace emerges by itself—a marketplace in which everyone can participate. We have to make short-term strides now to bring about that long-term result.

This morning we have already heard from a number of experts about ways to leverage the workplace to deliver financial services—and we will hear more this afternoon.

Applying a workplace strategy to welcome consumers to mainstream banking makes sense. The workplace already has many automated financial platforms. Employers have a stake in the financial well-being of their employees. And delivering financial services and financial education to workers where they work makes sense. It is convenient and a place where they spend much of their time.

According to one study, a financially-stressed employee can cost an employer as much as $400 annually, primarily in time wasted and absenteeism. Other studies suggest that 20% to 30% of low-wage workers are under financial stress great enough to hurt their productivity.

Workplace financial services and education can help reduce absenteeism and stress related to personal financial matters; increase employee use and satisfaction of employer-provided fringe benefits; and reduce employee turnover.

We have heard stories from employers who are offering workplace services. At one of our joint NCIF/FDIC roundtables last year, the owner of an electrical company in Florida with 100 employees explained his program.

He spoke admiringly of his employees—their work ethic, pride in workmanship, and dependability. Many are immigrants from Latin America. They are establishing homes here for their families. Some have two or more jobs just so they can send money home to help family members.

He knew they were going to check cashers to cash checks; payday lenders to get emergency loans; and financial remittance services to send money home. He also knew about the accumulating high costs for these services every pay period. So he decided to pay the employees through bank checking accounts, so they could access more affordable banking services. He quickly learned that some employees could not establish a checking account, did not know how to manage one, or were uncomfortable with the idea.

So he tried another approach. He paid them through a re-loadable payroll debit card offered through a service and a bank. The employees now access their pay through ATMs. They buy groceries and pay bills with their cards. Their employer hopes that eventually they will be able to send a card to families in their home country for easier and less expensive access to cash than through a foreign remittance.

This employer isn't stopping there. He plans to provide financial education to his employees through the FDIC's Money Smart Program. And, he will work with his bank to move employees from a payroll debit card to a savings account—to a checking account—to a credit card—to a car loan and—some day—to a mortgage loan.

In other words, this employer took that first step—that first, short-term step with an eye on the long-term. He knows that the first step could lead his employees to a better future. The employees, if they choose, can begin to build financial assets. The employer will retain employees and reduce payroll costs. The bank will retain a good commercial customer and attract new retail customers. Everyone benefits.

The findings on these payroll and other stored-value cards are compelling. One study cited by the Center for Financial Services Innovation (CFSI) notes that non-gift stored value cards are expected to reach $107 billion in 2005, and estimates that 25 percent of these - or approximately 8 million cards - would be payroll cards.

CFSI also notes that the underbanked represent a vast, untapped source of new customers and revenues for banks. They may have a bank account, but they continue to use alternative financial service providers, losing out on the opportunities of mainstream financial services.

Banks have much to learn from these alternative financial services providers, who promote reloadable stored-value cards—including re-loadable payroll cards—as the "un-bank account." One study indicates that up to 10 percent of unbanked households use payroll cards. As some banks focus on the potential value of underbanked customers, they are finding that such cards can be a potent tool to begin new customer relationships. Bank customers also benefit. Stored-value cards issued by banks are more likely than other cards to have consumer protections, better pricing, and provide the means to migrate to into other financial products and services.

FDIC/NPR on Insurance Coverage for Stored-Value and Payroll Cards
For these and other reasons, in April of last year, the FDIC sought public comment on a proposed rule to determine when funds underlying stored-value cards qualify as "deposits" for the purposes of deposit insurance.

Under the proposal, among other things, cards issued by an insured bank or thrift would qualify for individual insurance if the bank or thrift maintains information on the individual cardholders –something we think may be relatively easy to do with payroll cards, for example.

Many of you here today have submitted comments on this proposal. You are waiting to hear the outcome.

I want you to know that we are aware of the evolving and increasing stored-value and payroll card market. We recognize the importance of these cards to all consumers, including the underbanked, and the opportunities the cards can provide to banks to reach underserved markets.

We at the FDIC are taking the time needed to carefully consider your comments. This is an important step in ultimately making the right decision about how these cards should be treated. We hope to have a decision in the not-too-distant future.

Community Development, Minority and Non-Branch Banking

Another important part of this conference was a meeting of the FDIC's Community Development, Minority, and Non branch Banking Task Force. Last Fall, at the FDIC in Washington, we brought together the chief executives of such development banks and nationwide non-branch banks. They discussed ways to increase partnerships—and the flow of resources—between the nation's non-branch banks and community development and minority banks.

Non branch banks include, among others: ILCs supervised by the FDIC, many of the unitary thrifts supervised by the OTS, and internet and credit card banks supervised by all the banking agencies.

We invite these banks to join this task force to find easier ways to invest, make deposits, or provide services to community development and minority banks and credit unions serving our low- and moderate-income communities. This is one way larger banks can efficiently make sustainable investments in lower-income communities and improve CRA performance. And, smaller community development and minority banks and credit unions can leverage some of these investments in stock, trust-preferred securities, and deposits into more loans and services in their communities.

Other FDIC Initiatives

I'd like to close by giving you an update on our other efforts to reach the unbanked. I am proud to report that our Money Smart Program is growing by leaps and bounds. Since 2001, almost 40,000 Money Smart students have established new banking relationships.

Recently we launched a Hispanic Outreach Initiative on Financial Literacy targeted to individuals who do not have bank accounts. This group provides another tremendous business opportunity for banks.

Last week, we announced the start of a national media campaign to reach Hispanic Americans nationwide. This campaign will use print and radio ads to promote financial literacy and explain the benefits of the Money Smart Program.

Earlier this year, the FDIC was asked by President Bush to serve on a national public-private partnership with the goal of ensuring financial education is available on a consistent and comprehensive basis in Hispanic communities.

We also recently expanded our New Alliance Task Force (NATF) program, which began here in Chicago, to other FDIC regional offices. This program aims to heighten awareness about remittance products, other financial services and financial education for Mexican immigrants. To date, largely as a result of NATF efforts, Mexican immigrants have opened more than 50,000 new bank accounts, with more $100 million in deposits.

And finally, the FDIC is working with the Inter-American Development Bank to encourage financial institutions to set up programs designed to lower the cost of remittance transactions. Remittances are an extremely viable new market for banks that will meet a burgeoning need among Hispanic consumers.

Conclusion
These are exciting times. I believe our work together and the work of others throughout the industry will lead to a more inclusive financial system. There is a lot to be done. I'm a realist. I recognize that to achieve the long-term goal of reducing the number of unbanked consumers we must make concerted short-term efforts. Through those small, pragmatic steps we will welcome more Americans into the world of mainstream banking. Thank you.

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