Remarks by

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Connecting Unbanked Communities to Mainstream Financial Services:

The Vital Role of Bank On Coalitions

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Good morning and thank you for inviting me to speak at the 2017 National Bank On Conference. I am pleased to join you today to help recognize and support the progress the Cities for Financial Empowerment Fund and Bank On coalitions around the country have made in connecting people to safe and sustainable banking relationships.

In the United States, a relationship with a financial institution is fundamental to households' full participation in the economy. Just as graduating from school and getting a first job are milestones, a bank account is a key step on the road to financial well-being.

Something as basic as an insured deposit account affords households the ability to safely deposit and store income, make payments toward monthly obligations such as rent or a mortgage, and engage in convenient daily transactions – such as buying groceries or more durable household goods. Bank accounts also come with a number of protections, such as those concerning electronic funds transfers, and other rules that limit consumer liability for unauthorized transfers, particularly important in today's world.

In addition, the benefits from a banking relationship can help families to save, establish credit histories, and obtain credit on favorable terms. When delivered with attention to the needs of consumers, this bundle of products and services can help families realize their goals and, in so doing, strengthen their confidence in the banking system, which goes to the core mission of the FDIC.

Promoting economic inclusion has been a top priority for the FDIC. We see the Cities for Financial Empowerment Fund and the Bank On movement, its supporters, and its community stakeholders as critically important partners and leaders in helping to advance this mission.

You play a vital role in sustaining coalitions that promote collaboration among banks, community and governmental leaders, foundations, and businesses dedicated to expanding access to the banking system and economic opportunity. We are committed to working with you to advance this important mission.

This morning I would like to share with you the key results from our most recent survey of unbanked and underbanked households; the initiatives we developed building on lessons from survey, including our partnership with CFE and the Bank On movement; and some insights we have gained from research on factors impacting access to the banking system by unbanked and underbanked households.

The Unbanked and Underbanked Household Survey

Since 2009, the FDIC has monitored consumer engagement with the banking industry through the biennial National Survey of Unbanked and Underbanked Households.[1] This survey, conducted in cooperation with the Census Bureau, provides reliable measurements on access to and use of mainstream and alternative financial services at the national and state level and for 68 large metropolitan areas.

In our most recent survey, published in October 2016, the FDIC reported that 7 percent of households were unbanked, lacking any account relationship at an insured institution. The survey also showed that an additional one-in-five (or 19.9 percent of) households were underbanked, defined as households in which a member had a bank account, but nevertheless turned to alternative financial services providers during the year to address one or more needs for transactional services such as check cashing or credit. Altogether, the survey reported that

[1] Survey results are available at https://www.economicinclusion.gov.

some 90 million Americans, or nearly 27 percent of households, are unbanked or underbanked.

October's report showed that the proportion of the population that is unbanked had fallen for two consecutive surveys and is down from 8.2 percent in 2011 to 7 percent in 2015. What's more, FDIC analysts report that the change was larger than what might have been expected based solely on improving economic conditions over this time period.

Still, the survey provides ample evidence that much work remains to expand economic inclusion. Large segments of the U.S. population are much more likely to be unbanked or underbanked, including 42 percent of households with incomes below $30,000 per year, 49 percent of African American households, 46 percent of Hispanic households, and 46 percent of households headed by a working-age individual with a disability.

Initiatives to Expand Economic Inclusion

Building on the insights gained from the survey, the FDIC has undertaken a number of initiatives to expand economic inclusion. A key area of focus has been creating access to low-cost, safe transaction accounts.

We began by initiating the FDIC Safe Account project in January 2011. Banks that participated in the Safe Account Pilot project enrolled consumers in electronic transaction accounts that relied on debit cards, without a check-writing feature, to provide access to funds. The accounts were structured without overdraft or nonsufficient funds (NSF) fees, with low or no minimum balance requirements, and with low, transparent monthly fees.[2] Participating institutions reported positive results. Specifically, bankers reported that costs could be contained and that consumers maintained their accounts on par with the banks' experiences with

[2] See https://www.fdic.gov/consumers/template.

other accounts.

In response to these positive results, the FDIC has continued to focus on making these accounts more widely available. Since the pilot, a number of large institutions have introduced accounts consistent with the features of the FDIC Safe Account.

In 2015, the Cities for Financial Empowerment Fund its National Account Standards, which were consistent with the goals and core features of the FDIC's Model Safe Account. Near the end of last year, the standards were updated to reflect market developments, and CFE expanded technical assistance to institutions interested in their adoption. The development of the standards was another important step forward. FDIC analysts estimate that more than 87 percent of Americans now live in a county with a full-service branch of an institution that offers a Safe Account, and almost all have been certified as consistent with the CFE standards.

As an aside, in talking to some of the institutions that offer Safe Accounts, we have learned that accounts with these features have been quite popular and turn out to have broad appeal to their customer base, and particularly to millennial customers.

However, as we know, designing the right product and making it available is not enough. We also need initiatives to reach unbanked consumers so they are aware of the available safe banking services and they can successfully use those accounts to improve their financial lives. To bring communities into the banking system, a trusted partner is often an essential link.

That is why the Cities for Financial Empowerment Fund and Bank On coalitions around the country are essential to building economic inclusion. These partnerships, which include banks, community groups, state and local officials, philanthropic organizations and others, share the goal of expanding opportunities to participate fully in the mainstream banking system.

These coalitions also help ensure that such participation improves people's lives and strengthens the economic foundations of communities. Coalitions like yours help consumers become aware of, understand, and evaluate the products available to them. In other words, you do the vital work to connect consumers to safe financial services.

To support these efforts, the FDIC provides technical assistance to Bank On coalitions and similar economic inclusion partnerships. We focus on locations with significant unbanked and underbanked populations, ongoing municipal engagement, and financial institutions that are committed to offering safe and affordable accounts. Over the past few years, we have worked in more than 30 communities. We have seen that, when government and nonprofit leaders encourage engagement and banks with safe accounts highlight their economic inclusion strategies, banking relationships can thrive.

Let me also mention the value of measuring success. It remains important to quantify the impact of financial capability and other inclusion initiatives. CFE and Bank On programs can help by tracking results, such as new account openings and savings increases. We can also look at broader impacts like improved credit scores, improvements in employment outcomes, and other indicators of financial well-being. We can also ask questions about the qualitative impact on households stretching their dollars on a week-by-week basis. Banks and local governments have a particular opportunity to help assess what works best, perhaps collaborating with CFE and other public and private sector partners.

The FDIC is very committed to continuing our partnership with the Cities for Financial Empowerment Fund and the Bank On movement.

Research Findings on Economic Inclusion

The FDIC has sought to inform its economic inclusion efforts through a number of research projects based on the unbanked and underbanked survey. I would like to share briefly some takeaways from the past several years of work that suggest further opportunities to advance economic inclusion:

- We have analyzed household survey data to better understand the factors influencing Americans' use of financial services. For example, in 2014, the FDIC reported that exits from banking relationships were frequently associated with a job loss or significant drop in income, and entrances were often motivated by the desire to take advantage of direct deposit often in conjunction with a new job.[3] This finding suggests that banks may be able to retain more household customers if they allow monthly fees to be waived for reasons unrelated to direct deposit, such as monthly bill payment activity. On a related note, the most recent unbanked and underbanked report[4] revealed that households experiencing significant variability in their income from month to month were more likely to be unbanked at every income level. This finding suggests that efforts to help families prepare for and manage disparate pay cycles could better sustain banking relationships.

- We also have studied the economic inclusion potential of mobile financial services.[5] This research has indicated that underserved consumers believe mobile technology has the potential to enhance the level of control, convenience, and affordability that they

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[3] The 2013 National Survey of Unbanked and Underbanked Households found that 34.1 percent of exits from the banking system in the prior 12 months were reported to be associated with job loss or a significant drop in income. The survey also found that, among households entering the banking system in the prior 12 months, 34.2 percent cited taking advantage of direct deposit and 19.4 percent cited a new job.
[4] See the 2015 National Survey of Unbanked and Underbanked Households at https://www.economicinclusion.gov.
[5] See https://www.fdic.gov/consumers/community/mobile.

associate with banking relationships. For example, the ability to monitor account balances in real time in order to avoid sufficient funds fees can be a powerful tool. These findings help explain FDIC survey results showing a continued increase in the use of mobile financial services—including among underserved groups. Across multiple survey iterations, underbanked households remain more likely both to use mobile financial services and to rely on them as their primary means of accessing their account than the general population. But, while the growth in the use of mobile technology to access bank accounts has been impressive, jumping from 23 percent in 2013 to 32 percent in 2015, it still trails online and in-person methods. This suggests that sensitivity to consumer preferences, as well as explicit strategies to support those who would enroll in mobile financial services, could be beneficial.

- Finally, we conducted in-depth research with banks that have a reputation for operating in an inclusive manner to better understand how they develop trust and relevance among members of underserved communities.[6] While the approaches taken by study participants to accomplish this objective varied, they were consistent in the importance they attached to establishing and maintaining trust with underserved consumers. The theme came through not just in banker interviews, but also in interviews and focus groups with the leaders of partner nonprofit agencies, their line staff, as well as among underserved consumers themselves.

Conclusion

At the Bank On Houston launch event last May, our Community Affairs staff reported

[6] See https://www.fdic.gov/consumers/community/research/index.html.

that a father spoke about his family's experience using a safe and affordable account, combined with financial education support.

Previously, this family had no bank account and used check cashers and other alternative financial products to meet its daily transaction needs. After being introduced to the local Bank On program, the father was able to open a safe and affordable account in a local bank. He and his family also enrolled in several financial education workshops to learn about personal finance, savings, credit, and entrepreneurship. With increased money management skills, the father began to monitor his spending, set financial goals, and repair his credit. He was able to purchase a truck and to start a business. He increased his income, and began saving to buy his family's first home. He credited this success to hard work, to the financial education he received, and to the opportunity to access credit and financial services through a safe and affordable account.

I'm sure you all have similar stories to tell gained through your work around the country.

Economic inclusion goes to the heart of the FDIC's mission of maintaining the public's confidence in the banking system. By working together to promote access to safe accounts and integrate financial services into important local initiatives, we expand opportunities for people to save, invest, meet basic financial goals, and more fully participate in our economy. I look forward to continuing the FDIC's partnership with the Cities for Financial Empowerment Fund and the Bank On movement to bring more people into the banking system.

Thank you very much.