Transcript
FedTalk: Financial Inclusion and the Unbanked
Federal Reserve Bank of Cleveland
November 15, 2023

Presentation

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- Paola Boel, Vice President, Federal Reserve Bank of Cleveland
- David Rothstein, Senior Principal, CFE (Cities for Financial Empowerment) Fund
- Susan Schaaf, Senior Examiner, Federal Reserve Bank of Cleveland

Lisa Nelson:

Good afternoon. Thank you for joining us and welcome to today's *FedTalk*. I'm Lisa Nelson, Assistant Vice President in the Community Development Department at the Federal Reserve Bank of Cleveland. It's my pleasure to kick off today's *FedTalk* session on financial inclusion and the unbanked. The *FedTalk* is the Cleveland Fed's Speaker series in which we share research that is relevant to our community. Past events have covered subjects such as the racial wealth gap, access to the labor market, and financial literacy. All of our events can be found on our website, clevelandfed.org, or on our YouTube channel.

So a few housekeeping items before we begin. During the event, your microphone and camera are disabled. Please type and submit your questions to our panelists in the chat and thank you for those that have sent some in advance. In case the Zoom meeting drops, please use the dial-in info that was provided in the invitation to the call.

So now for today's *FedTalk* on financial inclusion and the unbanked. Having a bank account is important, perhaps now more than ever. Bank accounts are a safe and often low-cost way to manage and save money. Having a bank account can also provide access to other products from a bank such as credit cards, mortgages, or auto loans. But we know that not all adult Americans utilize banks to manage and save their money. Today, we will look at reasons why some may not be banked, the advantages of being banked, and the efforts underway to increase the number of Americans with bank accounts.

Today, we have three panelists with us. Paola Boel is the Vice President and Economist at the Federal Reserve Bank of Cleveland, and she's going to be talking about some work she's done on financial inclusion and the unbanked. David Rothstein is a Senior Principal Cities for Empowerment Fund and he leads the National Bank on Initiative. And Susan Schaaf, Senior Bank Examiner at the Federal Reserve Bank of Cleveland, who will talk about the unbanked from A CRA perspective. So now I'm going to turn it over to Paola for her presentation.

Paola Boel:

Thank you, Lisa. I'm going to now share my presentation. Hope you can say it all right. Good afternoon everyone. As Lisa mentioned, I work in the Federal Reserve Bank of Cleveland, and one of my interests in research is financial inclusion. I think I need to say before I start discussing today's topic is that I'm going to express my views and those are not necessarily the views of the Federal Reserve Bank of Cleveland, or the Federal Reserve System.

So first of all, I want to give some broad information about the unbanked in the United States. So here in this slide, I'm showing data from a very important survey on the unbanked and the underbanked in the United States, and that's a household survey which is conducted by the FDAC. Here I'm showing data on the unbanked in the United States from 2009 until 2021. So the latest survey of the FDAC was conducted in 2021.

As you can see from this chart, the rate of unbanked households in the United States has been decreasing ever since 2011, and it's now at 4.5%. It's important also to understand the definition that the FDIC uses for unbanked. So a household is unbanked if no one in the household, if the person that is being surveyed has no personal or joint checking or savings account at the bank or credit union, and no one else in the household has a bank account. So if a young person takes the FDAC survey and that person doesn't have a bank account, but her parents do, then that person is considered as a banked one. So really to be considered, unbanked for the FDAC, there has to be no bank account available to that person.

Now, these are also data from the FDAC survey, and as we can see, unbanked rates vary substantially across the United States. So the darkest the color here, the higher the unbanked rate. So we can see that the unbanked rate is higher typically in the South, it's lower on the East coast for example. And I'm going to point out here Texas, and I'm going to point out Ohio. So in Texas, the unbanked rate is higher than-average, in Ohio it's about average, and in Tennessee, it's also above average. And that's going to be important when I talk about our own research.

Now, so as I show the unbanked rate in the United States has been decreasing, and what I'm showing here is that even though it has been decreasing, it's still high if we compare the US to other developed countries. So these are data from the 2021 Global Findex database from the World Bank. And if we look at comparable developed economies, we see that the bank rate is either at 100% or very close to it. And in the United States in that year, the rate of bank household was at 95%.

Here I'm showing a chart on the underbanked in the US. So the focus of our presentation today is really on the unbanked, but the underbanked are also the focus of the FDIC survey, and I feel they're very important. If we're considering developed economies, they're very specific phenomenon of the US. So according to the FDIC, a household is underbanked if that household has a checking, or a savings account, or a bank, or credit union, but the members of that household use what are called alternative financial products or services outside of the banking system.

So think about individuals who might be using cash checking stores, payday loans, money orders, pawn shops, so things that fully banked households would typically use a bank for. Now, when the FDIC defines the underbanked, they also use international remittances for their definition, and that is somewhat controversial because oftentimes it's cheaper to remit money to foreign countries using alternative services than using bank accounts. And so two things to point out here, the underbanked rate has also been decreasing this time since 2013, but very little is known about the underbanked.

Now, we mentioned the unbanked rate is at 4.5% as of 2021, the underbanked rate was 14.1% in that year. But those rates can vary substantially if we look at subsets of the US population. So if we look at households where the income is lower than $15,000, the unbanked rate, for example, is 19.8%. If we look at black households, the unbanked rate is 11.3%. Hispanic households also a higher than average unbanked rate. And similarly, we can make similar assessments for the underbanked rate.

Now, the FDIC asks participants who don't have a bank account reasons for why they don't have such an account and they distinguish between sighted reasons and main reasons. There are many of those. The most important one, both as a sighted reason and as a main reason, is that unbanked individuals are not able to meet minimum balance requirements. So they simply don't have enough money to maintain a bank account. They also mentioned high or unpredictable fees, the fact that bank locations are inconvenient, but they also mentioned consistently a desire for more privacy and a lack of trust in banks.

And so this is what the focus of our research is. We really want to better understand what is meant by a desire for more privacy and why the unbanked and really also the underbanked don't trust banks fully and who do they trust instead.

So this is part of a broad project on financial inclusion that I'm working on with Daniela Puzzello from Indiana University and my colleague at the Cleveland Fed, Peter Zimmerman. And as mentioned, we're trying to better understand trust and privacy issues among the unbanked and the underbanked. And today I'm going to talk briefly about the focus groups that we conducted last year, which we tried to better understand these issues.

We conducted four in-person focus groups, two in Houston and two in Cleveland. We headed to Houston precisely because as I showed you before, the underbanked rate is higher in Texas, and also to be able to talk to the Hispanic population that is not as well represented in the Cleveland area. We also conducted two focus groups near Cleveland, trying to talk to the rural population. And then we conducted a number of in-depth individual interviews online in Memphis where the unbanked rate is also higher than the national leverage.

So overall, through these focus groups, we talked to 27 unbanked and 18 underbanked individuals. So here are some of the things that we learn. So we asked them who they trust, so we gave them a list of what we call financial entities, and we asked them their level of trust in these entities. So they hired the number on the vertical axis of this chart, they higher the level of trust and vice versa, when the number is low, then the level of trust is low.

So we found that the highest level of trust that they had was... they really seemed to trust credit unions, even though they didn't fully trust credit unions. The lowest level of trust was in the government. This seem national banks and regional banks are less trusted than credit unions but are very close to them. And the Federal Reserve Bank about which we also asked is somewhat in the middle. What we learned through our conversations that were moderated by outside research firms with the individuals that participated in the focus groups, is that typically they trusted credit unions more because they had heard positive stories about them because they thought they care more about them. They thought they would get a better interest rate from them. And they felt like credit unions really cared about their clients.

Less so when they talked about banks. But overall, the feeling was that banks were competent, but they really didn't care about them as clients. Things that they often mentioned was that they only care about making money. Several of them mentioned that they were using crypto because they had easy access to crypto through the apps that they used and they felt it was a good investment for them. Many also use what here we're defining as FinTech. So they use apps like

Cash App or Chime typically to send as a substitute to cash really, so to send money to their children, or to their friends.

Many of them also use prepaid cards. And so when we're talking about retailers here, we're thinking for example of Walmart where many of them would have to get prepaid cards or to conduct some other forms of financial transactions like getting money orders. So as I said, when we asked them about trust or lack of trust in financial entities, comments that we heard from participants was that they didn't trust banks fully because banks only care about making money. They were concerned that banks could fail and clients could lose their money. They were also concerned that banks would not protect their privacy, and I'm going to talk more about that later. And they were concerned that their bank accounts could be garnished for paying taxes or paying childcare to maybe a divorced spouse.

And many of them also mentioned problems with previous bank accounts. And there's a literature on that. People that don't pay overdraft fees for an extended period of time can get their bank account closed, their name can end up in a data system called Check System, and then it can become difficult to open a new bank account. So several of them didn't have a bank account for that reason.

Now, we also asked them about their concerns about privacy and whether they felt that these financial institutions, whether they were confident that the following entities would protect their privacy. And so again, credit unions... well, actually in this chart, if you see a high number on the vertical axis, that denotes high confidence. And if you see a low number that denotes low confidence.

So again, they were more comfortable with credit unions protecting their privacy. Banks were in the middle. They also trusted the Federal Reserve would protect their privacy. They didn't trust the government would. And so we see not the perfect correlation between a lack of trust and a concern about privacy, but there is some correlation.

So when talking about FinTech products that they use, again, typically Cash App or Chime, at times, Venmo, they were particularly concerned that their privacy was not protected. They mentioned that their accounts had been closed suddenly and they had trouble reopening those accounts. So that's to say that that seemed to denote that those products might not be a perfect substitute in some dimensions for bank accounts.

Now, when we asked more in-depth about their privacy concerns related to banks, again, many of them mentioned that they fear that their bank accounts could get hacked. Many of them experienced their bank accounts being hacked, and many of them mentioned that they would, for example, even if they had a bank account, they would use prepaid cards to conduct online transactions precisely because they wanted to, as I said, protect their bank account. They were really concerned that someone would have access to their information.

They also disliked that banks would sell... they felt that banks could sell their private information without their authorization. They mentioned that they would get calls that seemed to suggest that someone else had gotten access to their information from their bank. And we asked them whether they were more concerned that outside vendors would get access to their personal information, or to their transaction information. They were concerned about both, but they were especially concerned about their personal information. And again, they felt they were concerned that their bank accounts could be garnished.

We also discussed how they pay. So these are ways in which this chart relates to methods of payments for in-person transactions. And so I think one thing that we really want to emphasize here is that they're still using cash at a high rate. So cash is still very important for the unbanked and the underbanked population. And we asked them if they had gone to stores that would reject cash as a minimum payment. And they said this had happened to them, but it didn't seem to happen very often in the stores they frequented. But they said they experienced discounts if they use cash. And they also mentioned many times that the coin shortage had been uncomfortable for them. That was really something that they didn't like. They seemed to translate that into a lack of trust in the Federal Reserve, actually.

Many of them use prepaid cards. Prepaid cards seem to work well for them, but they can be expensive. There are oftentimes fees attached to them. And so that of course is something that participants didn't like. They also mentioned that the card, this is something that cannot be used by a fully unbanked individual. And we also asked them about buy now, pay later tools, and several of them use them more for big-ticket items. And then again for payment apps. The payment apps they typically mentioned were PayPal, Chime, Cash App, and Venmo. And these seem to be apps that they use primarily for sending money to their children, but not so much for in-person payments.

Now, we asked them if they viewed prepaid cards as a good substitute for bank accounts, and in some dimension, I think they view prepaid cards as a good substitute, but not in all of them. So first of all, they mentioned that they are expensive, but also they mentioned that having access, having a bank account, they felt can be a form of social credit. They often mentioned that if you don't have a bank account, it becomes difficult to rent a place. For example, if you don't have a bank account, that's seen as a negative signal by an employer or by a landlord.

And then several of them mentioned that even if they didn't have a bank account, they would like to have one to hopefully be able to access better credit terms. So a better loan typically for cars, less often for mortgages. For payment apps like the ones I mentioned, they seemed to work well for them, but they felt that they were less safe, and they felt that they were not a good mean for saving money. And that time led to the use of crypto, for example, as an investment tool.

So here there are other issues that were raised in focus groups. So this is a summary of things that were said. So one is, and I kind of already mentioned this, that the separation of payments and credit could be a problem for, I think for the underserved broadly and particularly for the unbanked. So when people have a bank account, they have access both to a mean of payment through debit cards and they can have access to credit through that bank.

But someone who is fully banked, who has a stable job, doesn't necessarily have to get a loan from his or her bank, you can get loans from different banks. For the underserved, that becomes more difficult. For the unbanked, relationship planning is particularly important. They might not have a credit history, they might have a bad credit history. So having a relationship with a bank can become important if they can show that they are responsible that they have some income coming, then the idea is that they could get better terms for credit. If they use apps for payments and they don't have any relationship with the bank, then borrowing can become more difficult and more expensive.

Another thing they mentioned is that the distinction between a bank account and FinTech apps is not always obvious. So particularly when they talked about Chime, Chime is not a charter bank, its accounts are FDAC insured through a bank, but Chime is not a bank per se. So it's very difficult to understand for the unbanked, but I think for many people, whether Chime is really a bank account or not. So if you ask someone are you unbanked and they have Chime at times in focus groups, they would say they were unbanked and at times they thought they had a bank account.

And they also didn't like the lack of interoperability among apps. So they said apps don't talk to each other and that was a problem for them. And so that is something where a bank account is better. You can do basically everything through a bank account, and that is not true with single apps. You need many, they don't talk to each other, that becomes more time-consuming and more costly because each of them is charging separate fees. And so I think Lisa, this is what I wanted to share for now.

Lisa Nelson:

Thank you, Paola. Now, I'm going to turn it over to David Rothstein.

David Rothstein:

Well, thank you so much. I really appreciate that. That was some really interesting information that was raised. I'm going to touch on a few of those things that are a bit similar, but I'm going to talk about the National Bank On Program. And I prepared a few visual slides just because I think sometimes it's helpful to kind of see what Bank On is doing in a programmatic way, in a more visual way.

So once again, I'm David Rothstein, I'm a Senior Principal with the City Square Financial Empowerment Fund. We lead the National Bank On Program. The Bank on program is both a national and a local program. It focuses on bringing people who are un- and underbanked into the banking mainstream. We do that through strong partnerships with regulators, financial institutions, city and other types of government, and then obviously other community groups as well. You can go to the first slide.

So this was mentioned just a minute ago, but I wanted to touch on a few things of what we're seeing in the community when we talk to our local coalitions around why people are un- or underbanked. The FDIC allows with their biannual survey of the unbanked, they allow you to look by region and it looks like our Midwest region is about 4.2% unbanked and 11.5% underbanked. One of the really important pieces of that to note is that banking really is dependent on other variables, specifically race and specifically income.

So African-American households had a much higher unbanked and underbanked rate, as did Asian households than white households. Specifically, households of color are five times more likely to be unbanked than white households. And so I think that's a really important piece of the work that we're all trying to do. A couple of things that really help set the stage as to why we've created and structured the Bank On program and the way we have are to note that lack of money to start and manage an account, those are the biggest reasons year after year in the survey that people report that they're unbanked.

So we think that's really important. One of the other things too, that Paola touched on just a minute ago is that digital access really matters. Access to branches tends to not be a very significant piece of the factor of why people are saying they don't have bank accounts. So there is definitely a movement among all populations to be online and have digital access. Another thing to note too is that while we absolutely think this is a very important problem to solve, there's been a pretty steady decline in the unbanked rate over the last two years. 21% decline since the last time the survey was done overall, and it's definitely the lowest number that's ever been recorded since they started doing this survey.

One of the other things I wanted to touch on is, and I think it's great that researchers are also doing focus groups on this, one of the things that we're hearing from coalitions is that there are impediments to opening a bank account that often don't get asked in surveys or focus groups, mostly because they're technical issues that financial institutions face when they're working with clients.

So the first one is identification. We've heard very specifically that people who don't have a driver's license or a state ID are finding it very challenging to open a bank account. And there's all sorts of reasons why somebody might not have an ID, whether it's a fee or fine issue and they can't get one. Maybe they're new to the country and they haven't gotten one yet. Maybe they're younger and they don't have a car, so they don't have the need for a driver's license yet. But not having that ID is getting a lot of people turned away.

The second reason that we're hearing a lot of is an address issue. For people that are transient or doubling up or tripling up and living with other people, sometimes people are flagged for having an address that other people already have in the system, and it not corresponding to their name, or that they are too nervous to give an address because they're worried that in a week they're not going to be at that consistent address. So figuring out how to deal with an address issue is really important. And that problem's only confounded by the way for people who are in domestic violence situations as well.

And then the third thing, and Paola touched on this as reporting systems. People that are on early warning systems or check systems for having passed negative issues with a checking account are often quickly denied for opening an account, even if it's a Bank On account. And I'll talk a little bit more about that in just a few minutes.

You can go to the next slide. So what are we doing? The Bank On program again works to establish local coalitions around the country whose job it is to bring financial institutions to the table and offer Bank On-certified accounts and get people into those accounts. We have more than a hundred locally-led Bank On coalitions. That's what those white dots represent. And I use the term locally somewhat loosely. Many of our coalitions are statewide or regional coalitions and that includes Pennsylvania, that has several coalitions that are municipally-led, but also a state coalition that's led by the Pennsylvania Bankers Association.

We're also really excited at the progress that we've made in offering accounts. Currently, there are more than 425 financial institutions that are offering Bank On certified accounts that accounts for more than 46,000 branches across the country. So more than 50% of bank branches in this country offer a Bank On certified account for people to get into. You can go to the next slide.

So I mentioned the Bank On standards and I just wanted to spend a couple of minutes on this because this is really the heart of what we're doing at Bank On. We're working with financial institutions, big and small, to create bank on certified accounts. The certification process is free and easy to complete. Developing the account can take a little bit of time for some financial institutions. What we do is we work with you to meet the standards of safety, affordability, and functionality. And our role in that is to help you design an account that is safe in the fact that it has no overdraft or insufficient fund charges as a possibility. It's affordable and transparent, meaning that the monthly fees as a whole, not a la carte, but as a whole are monthly fees of $5 or less with a low minimum opening deposit of $25 or less and that the account is fully functional.

You have to be able to pay bills, make deposits and withdrawals, go into a branch if there is one, do anything that you can really do with a typical checking account you would be able to do with a Bank On account. There's one difference with most Bank On accounts, and that's that most of these Bank On accounts are checklist checking accounts. That means that there are no paper checks. Usually, with these types of accounts, people have ATM and bill pay and online banking, and a debit card. So they can basically do anything that they normally would do, they just can't write checks. And that of course is a deal with the bank, or credit union because we're asking them to not have overdraft, or insufficient fund charges on the account. So it really makes sense to not have paper checks with this account. It's safe for the consumer and safe for the financial institution. You can go to the next slide.

So we're really excited about the progress that we've made, with what started in 2016 as a four large financial institutions having these accounts has spread to more than 400 accounts available. With this map on your screen represents, the dark green is good. So this shows the share of households that are within two miles of a bank branch offering a Bank On certified account over the years. And you can see that by 2022, the vast majority, I think 96% of census tracks had Bank On branches that were within two miles of households. So these accounts are very readily available for people, especially in our sort of Midwest district. You can go to the next slide.

One of the questions we often get asked is why are financial institutions participating in Bank On. It's a good question. Part of the reason is that these accounts are extremely popular. Based on 35 financial institutions reporting, which is a cross-section of the more than 400 with data, we found that in 2022, there were more than 4 million accounts newly opened. There's been more than 12 million accounts opened overall since this program began. 85% of those accounts that were opened were completely new to the financial institution. So that means they've never had a savings account, a car loan, a checking account, nothing with that financial institution. So they're seeking out this product and finding a financial institution to partner with to get into that account.

We also know that this account is not a significant loser account for financial institutions. People are swiping their debit card, which obviously generates interchange fee revenue for the financial institution. Pilot banks processed an average of over 145 million debit transactions per month for an average value of 5.8 billion each month based on the account holders. And again, this is just a small cross-section of the financial institutions out there. Our Bank On data hub partner is the Federal Reserve Bank of St. Louis, your neighbor and cousin to the south, and they do a fantastic job of working with financial institutions to report the data, but it is voluntary. Financial institutions do not have to report their data, but when they do, it allows us to do this kind of analysis. You can go to the next slide.

Is that it? Yep. So I appreciate the time. I'm excited to answer questions as we move forward. I think Bank On is a program that really helps address this issue of unbanked and underbanked households, and we can talk about some specific examples of government programs where we've connected bank accounts to things like stimulus payments and unemployment benefits where people are getting paid. Thank you again.

Lisa Nelson:

Thank you, David, so much. And next off, Susan. Take it away, Susan.

Susan Schaaf:

Okay. Like Paola, my comments reflect my views and not necessarily those of the Federal Reserve System, or the Federal Reserve Bank of Cleveland. I'm on the panel today looking at the unbanked from the perspective of the Community Reinvestment Act or CRA. The agency's responsible for implementing CRA are the OCC, FDIC, and Federal Reserve, and the agencies just issued a final rule on October 24th amending CRA regulations.

Under the final rule, enhancements were made to ensure that CRA continues to be a strong and effective tool to address inequities in access to credit. The final rule enhances financial inclusion by supporting minority depository institutions, community development financial institutions, or CDFIs, native land areas, persistent poverty areas, and other high-need areas. The final rule also provides full CRA credit for loans originated to unbanked and underbanked borrowers that are all originated by CDFIs.

David just talked about the impact of Bank On, on helping to bring more consumers into the formal banking system and consideration of deposit products with low-cost features is consistent with current CRA guidance and remains a feature of responsive deposit products under the final rule because as we've talked about today, the cost issues are a common reason cited by underbanked or unbanked individuals as to why they may not have a bank account.

The agencies believe that deposit products with low-cost features should remain a feature of responsive deposit products that are given CRA consideration. Deposit products that meet proposed responsiveness standard in CRA rule also include Bank On's national account standard that David just mentioned, which is a set of guidelines for offering cost-effective transactional and savings accounts that are safe and affordable and meet the needs of underserved consumers. Some examples of responsive deposit products given CRA consideration are accounts with low minimum balance requirements, accounts that cannot be overdrawn, are specifically designed to help people build savings, give them access to low-cost money orders for making long-distance payments, and for qualifying households, ATM and debit card access.

The agencies also believe that the ability to conduct transactions and access funds in a timely manner is highly relevant for low and moderate-income individuals and unbanked individuals who otherwise may acquire financial services at a higher cost from predatory sources. Research indicates that prior bank account problems remain barriers for unbanked consumers.

The agencies decided not to require the collection of income for consumers opening accounts to help determine responsiveness because the burden could present a barrier to a bank participation in offering such products. This bears out with our discussions and interviews we've had with bankers and community partners as part of our CRA work. What large financial institutions tend to do to help meet credit needs of the unbanked and low and moderate-income individuals is to work with community-based partners.

Community-based organizations are well-respected and well-connected in the community, which can help overcome any distrust that Paulo mentioned that the community might have of a bank's motives. This partnership also helps community-based organizations bring more sophisticated financial services to targeted neighborhoods in a short period of time.

In partnership with the community-based organizations, banks conduct or participate in outreach initiatives, financial literacy, and education training, offer certified Bank On accounts, and may develop their own innovative or responsive products and services for unbanked and underserved customers. Examples is could be a special purpose credit program special or the deposit products with the characteristics that we've just mentioned.

So in closing, a critical goal of CRA modernization is to address the significant changes in the banking industry and the inequities in access to credit and to be more responsive to the needs of low and moderate-income communities, including the unbanked and underserved. With that, Lisa, I can turn it back to you. Thank you.

Lisa Nelson:

Thank you, Susan. And now if everybody can... we'll go over some questions that we received. Paola and David, want to come back. Thank you. Thank you all for your presentations and conversation here. So I'm going to start off and ask a couple of questions. First, I'm going to start with Paola and then David, you might want to chime in on this one, too. During the focus groups, Paola, were people interested in getting a bank account? Did you ask them about that? And if they said yes or no, why? Do you have any insights into that?

Paola Boel:

Yeah, so we asked them if they would consider opening an account and the majority were interested, but not everyone. So some said they saw no need for it because they didn't make enough money and they thought they would not be able to maintain it. Others said that the apps that they had were enough. But the majority said that they would like to open an account primarily because as I mentioned, they viewed bank accounts as a form of social credit, so a good signal for an employer, for a potential lender, for a landlord. And they also liked the fact that you could do everything from a bank account in particular paying bills. And they also thought that even though they were concerned about their accounts being hacked, they felt that bank accounts were safer than other apps.

Lisa Nelson:

David, have you heard things, and would you have anything to add to that?

David Rothstein:

Yeah, I would say in our focus groups, what we found is that there were two main distinctions of people's motivations for bank account opening. The first was whether or not the messages were believable, and the second is whether they were motivating. Those were the two different pieces. And so a lot of the messages out there around bank account opening are in fact motivating. But to the people who are unbanked, they're just not hitting the spot, they're not moving the needle. And then vice versa as well. Sometimes the messages are believable, but they're not very motivating to move people.

And so I think that part of what has happened over the last five, six years is that a lot of the other options that are app-based are more motivating and perhaps more believable to people, which is one of the reasons that Bank On has focused so much on the transparency part of this, that your cost for the account, if there is one, doesn't change on a month to month basis, that it's predictable, as Paola mentioned, which I think is really important, you can do everything with it.

One of the frustrations that we heard from people is that if they do open an account, they don't want to have to go to a store and buy a money order to pay a bill, they want to be able to do everything in one place. So I think that the desire is there, it just manifests itself kind of differently in each person.

Lisa Nelson:

Thanks for that. I'm going to turn back to you, Paola, just for a minute. A couple other questions were very specific about, and I think you touched on this in one of your papers about what we know about those that unbanked, like in terms of use of computers or smart devices, do they have those? Do they have the internet? And you already addressed the age in educational, but some of the stuff that you looked at that looked at whether it mattered for people that did or did not have [inaudible 00:46:02]?

Paola Boel:

Yeah, in our conversations, again, these are... I'm reporting on focus groups, so it's a small sample of people, but what we found is that basically, everyone participating in the focus groups had a smartphone. They had access to the internet through smartphones. Sometimes also they relied on their work Wi-Fi or on the library Wi-Fi, but I didn't think the use of smartphones was a problem. But typically maybe they didn't have a reliable desktop connection, for example, at home. So making payments we felt was not an issue for them using a phone, but maybe working from home would be more of an issue or attending school remotely would be more of an issue, but they seem to be well-equipped to make payments through smartphones.

Lisa Nelson:

Thanks for that. Susan, I'm going to ask you one of questions that came in before the session. So what were some of the efforts by the Fed to promote financial inclusion throughout history? Looks like... Did you hear me, Susan?

Susan Schaaf:

Yeah, sorry about that. I couldn't get off mute fast enough. Okay, so when I got this question, I'm like, I just want to make it clear, this is in no way a complete history of the Federal Reserve. I am concentrating on a little more recent. But one of the many efforts that we do have to promote financial inclusion is through our exam work and through which we continue to find evidence of redlining and pricing discrimination in mortgage lending, racial bias potentially in auto lending or appraisals, unfair, deceptive, or abusive practices. And the Federal Reserve along with our fellow regulators from the other agencies, we are working closely together collaborating with each other to ensure a level playing field and strong consumer protection enforcement.

The Federal Reserve system, which includes all 12 of our reserve banks and the Board of Governors, as you can see with Paola here, conducts and promotes all types of research in many areas that I wouldn't be able to cover all of them. But topics more related here would be research around discrimination, racial wealth gap, disparities in access to credit, appraisal bias, payday lending, lack of internet. Paola just mentioned lack of internet connectivity and access to mobile and internet banking, particularly in low and moderate-income communities and minority communities.

And then with this research and public outreach and publication of these articles, findings, we look for ways to address these issues and eradicate them and work with community stakeholders and the public. Other outcomes, I guess like in outcomes of our research and our work here today, I can say is the result is CRA modernization or our final rule, the Bank On initiative where we work with community partners such as David's.

Also launching Fed Now, which we haven't talked about here, but this project enables banks to offer customers the ability to send and receive money immediately at a low cost. And other outcomes, which I'll wrap up with the fed's promoting workforce diversity in financial institutions as well as within our own federal reserve system. So I think these are some things, again, not a complete history, but efforts that the feds had more recently to promote financial inclusion.

Lisa Nelson:

Thanks for that, Susan. Paola, I have another question that came in, I'm going to put to you, regarding US lagging other developed countries and ensuring a bank account, is there more information that you can share about the gap, or do other countries not have the same issues reasons as the US? Anything you can say about that?

Paola Boel:

Did you say it was for me, Lisa, the question?

Lisa Nelson:

Yes for you. I'm sorry. Yes, it was for you, yeah.

Paola Boel:

Yeah, so I'm not sure about the causality, but I can think about different reasons why we might differ. Some of the countries in the list certainly are moving faster towards a cashless society. I'm thinking about Sweden or all the Nordic countries in Europe, even Canada seems to be using cash less than we do, but I'm not sure if that's the cause or the consequence, right?

I also know in Europe where I'm originally from, banks have offered free basic bank accounts for a long time. I don't know exactly they're identical to Bank On, but I would imagine they're similar in some dimensions. And also, and this is more related to the type of research I'm conducting, I'm wondering, I don't really know the answer, even those countries, the level of trust in financial entities is higher compared to the United States, and that is a motivating factor.

David Rothstein:

I think also, if I might chime in, Paola too, the Western European countries specifically who have extremely low unbanked rates, have had quick, fast direct payments similar to Fed Now for many years, which I think is also a big part of it. In order to be part of that system, people have to have bank accounts in order to move money that quickly. So I think that's another piece of this, too.

Lisa Nelson:

Yeah, a lot of questions coming in. One for you, David, it's in the chat. Do you have any data on losses due to fraud on accounts? What is the issue or did it-

David Rothstein:

Yeah, I appreciate that. Yeah, I appreciate that question. So every financial institution is going to define profit and loss a little bit differently on this account. What we have heard, the consensus generally is that this account is not worse in terms of closure rates than there are other checking accounts that they offer. And then actually, we've heard from FIS check systems who's a partner on the screening part of these accounts, that in their preliminary analysis, the forced closure rates of these accounts is less than in other accounts because it's really hard to go negative in these accounts. The stability of these accounts is much better.

Lisa Nelson:

Another question I'm just going to ask in terms of it might be for you, Paola, again, have you seen any differences between suburban, urban, and rural populations in terms of decreases in bank accounts or people are using it, there's differences? And David, you might have something to chime in there, too.

Paola Boel:

So I haven't looked at the data from the FDAC for the rural population. I've looked at the difference between metropolitan and non-metropolitan areas and in non-metropolitan areas. The unbanked rate was slightly higher, but not much higher. In the focus groups that we did, particularly in Cleveland and Memphis trying to talk about to the rural population, we haven't perceived big differences. And also when we look at the main reasons in the FDIC survey, when we looked at the main reasons for being unbanked, the bank locations didn't seem to be one of the driving factors.

So it was one of the sighted reasons for sure, but it wasn't sighted very often as one of the main reasons. And also looking at the chart that David showed, seems that distance from the bank branch has become less of an issue. But internet access, for example, is still an issue more for the rural population than the urban.

Susan Schaaf:

I would add onto that. I would agree, Paola, it's that internet access, I mean in rural areas it's going to be less and spottier. And I mean there are endeavors to improve that, but I do think that could be a driving issue in the more rural areas is that lack of internet, even if it's geographically because of mountains and hills and valley, et cetera. But I mean, communities are making an effort, and local governments to improve that connectivity.

Lisa Nelson:

Thank you for that. Go ahead, David. I'm sorry.

David Rothstein:

Oh, no, I was just going to say really quickly, one of the things that, and this obviously corresponded with the beginning of the pandemic in 2020, financial institutions that have full online account opening are opening Bank On accounts at a much faster rate than ones where you have to go into the branch. So it's not a perfect science, that's not a research study. It makes sense people. If you can begin the process of opening an account, but then you still have to go into a branch to finish it, you're going to have a drop-off rate. Each type of impediment that you put in front of somebody who doesn't have a bank account already is going to make them probably less likely to continue on to keep-

Susan Schaaf:

That makes sense, too. And in the rural community, it's probably going to be a branch versus a main office representation. And then if you'd have to go in and finish it, yeah, it would all add to that, I think.

Lisa Nelson:

I'm going to ask one more question. A couple people asked something, and this is for you, Paola, and David, was culture a consideration during the surveys? I'm not sure if you know for the FDIC, Paola, and what you were doing. Yeah.

David Rothstein:

I guess I would ask what the definition of culture is. Maybe I need to take off my researcher hat, but that's not something that I really, I don't know... I don't know how to address that. I know demographic controls-

Lisa Nelson:

Maybe differences. Yeah, I hear you. But maybe differences. Do you do see differences in willingness and wanting to get a bank account?

Paola Boel:

I mean I shared the question about culture with David, but maybe something I can say is that we've certainly seen a difference between the responses we got in our in-person focus groups in Houston compared to the ones we had in Cleveland. So I know that's a different culture, but the level of trust was different. The view of the Fed, for example, was different. The type of apps that they used was very similar instead, but there were differences probably because the demographic composition also of the focus groups was different.

David Rothstein:

Right. Yeah. And with it not being like a representative survey, it's hard to cross-comparisons. In our focus groups, one thing that did stand out is that Latino households were much more likely to say a driving factor was wanting to start their own business in getting a bank account. That came up more than in white households. If you wanted to define that as culture, that was the only big cultural difference that we saw as a sort of a reason.

Lisa Nelson:

Okay. Well, thank you everybody for your questions and joining us today. I want to thank Paola, David, and Susan for the informative discussion today. Information about today's program will be sent in a follow-up email. A recording of the event will be posted on clevelandfed.org. This is our last *FedTalk* of 2023. We look forward to seeing you all in 2024. And again, thanks for joining us, and have a great day.