Transcript
FedTalk: A Continued Discussion on Financial and Payments Inclusion
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Presentation

Speakers:

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- Terri L. Friedline, Professor of Social Work, University of Michigan
- Fumiko Hayashi, Vice President, Federal Reserve Bank of Kansas City

Moderator:

Lisa A. Nelson, Assistant Vice President, Federal Reserve Bank of Cleveland

Lisa Nelson:

Good afternoon and thank you for joining us, and welcome to today's *FedTalk*. I'm Lisa Nelson, Assistant Vice President in the Community Development Department, Federal Reserve Bank of Cleveland. It's my pleasure to kick off today's *FedTalk* session title: A Continued Discussion on Financial and Payments Inclusion. Excuse me.

FedTalk is Cleveland Fed's speaker series in which we share research that is relevant to our community. In the past, we've covered subjects such as racial wealth gap, access to the labor market, and financial literacy. All of our events can be found on our website clevelandfed.org.

A few housekeepings before we begin. During the event, your microphone and camera will be disabled. Please type and submit your questions to our panelists in the chat box. In the case that the Zoom meeting drops, please use the dial-in information provided in the invitation to join the call. Before we begin our program, I would like to state that the views shared today by myself and the panelists are ours alone and not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve system.

Now, I'm going to introduce our panelists: Paola Boel, she's the Vice President at the Federal Reserve Bank of Cleveland; Terri Friedline, Professor of Social Work at the University of Kansas City; and Fumiko Hayashi, Vice President at the Federal Reserve Bank of Kansas City. And Paola is going to start us off today.

Paola Boel:

Hello everyone. First of all, I want to thank Fumiko at the Federal Reserve Bank of Kansas City and Terri at the University of Michigan for agreeing to be on this panel and discuss on financial and payments inclusion. It's truly an honor to continue this discussion with them. As Lisa mentioned, the usual disclaimer applies. What I'm going to talk about today are my views only and not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve system.

Today, I want to talk a little bit about some research that we're doing here in Cleveland and with co-authors from academia on the topic of financial inclusion. But given that the FDIC yesterday published the results from their 2023 survey of the unbanked and underbanked households, and that those results are very important for us, then I thought I would just start my presentation sharing some of those results real quick. And then I'll talk about my own research.

So, the FDIC survey has many interesting results. I'm just going to mention a couple. First of all, the first important result for today's discussion has to do with the unbanked rate in the US. That unbanked rate has been going down since 2011. The latest data from the FDIC are about 2023, and the unbanked rate decreased between 2021 and 2023, but that decrease is really very small. The unbanked rate went from 4.5 to 4.2%. Now, when talking about the unbanked, the definition that the FDIC gives is a household definition. So, when the FDIC talks about unbanked, it means that no one in the household has either a checking or a savings account at the bank or a credit union.

So, I'll show you how we define unbanked in the study we conducted here. Now, 4.2%, it's the average unbanked rate in the US in 2023. Now, there are important regional differences. This is a chart that the FDIC report shows. And here, the darker the color, the higher the unbanked rate. For example, if we look at Ohio, we see that the unbanked rate is between 3.8 and 5.7%. In Cleveland, the unbanked rate in the Cleveland area, for example, according to the FDIC was 5.4%, so slightly higher than the national average. In Memphis, which is one of the cities where we conducted our focus groups, the unbanked rate in 2023 was substantially higher. It was 15.2%.

Now, the United States has an unbanked rate that is higher than most countries with a similar standard of living. So, these are data for 2021, so slightly older from the World Bank. And here, we can see that countries in Western Europe, Australia, Canada have an unbanked rate which is virtually 0%. So, the United States stands out there.

Now, the FDIC survey doesn't only talk about unbanked; it also talks about underbanked. And here, I'm reporting data from the FDIC from 2009. Now, the definition of underbanked that the FDIC uses has changed slightly over time, but if we compare 2021 and 2023, the definition stayed the same and a household is considered underbanked, according to the FDIC, if someone in the household has a bank account, but also uses what are known as alternative financial services such as money order, check cashing remittances, and then some forms of loans like payday loans or pawnshop loans and so on. Now, when we compare 2021 and 2023, we see that the underbanked rate is virtually unchanged. And I would say that we know quite a bit. Although we want to know more about the unbanked, but we know really very little about the underbanked.

Now, here, I'm showing that even... So, the average unbanked rate in the US in 2023 was 4.2%. The underbanked rate was 14.2%. But for some demographic groups, those rates were much higher. So, households with an income lower than $15,000 had an unbanked rate of 21.8%. Black households have an unbanked rate of 10.6%. And for some of these demographic groups, the unbanked rate has actually increased between 2021 and 2023. For example, households with the lowest income.

Now, the FDIC asks households why they don't have a bank account, and the survey asks respondents for any reason for why they might not have a bank account and also asks them for the main reason for why they don't have a bank account, and cannot meet minimum balance requirements is the most important cited reason and main reason, but a lack of trust in banks and a concern about privacy come right after. However, in particular, when thinking about what lack of trust means, we don't really have an answer for that. So, why don't people, why don't the unbanked trust banks? Where is the lack of trust coming from? And is this also true for the underbanked that we don't know?

So, that's where our research comes in. I'm going to talk briefly about a project that I've been working on with co-authors since 2022. So, I work with Daniela Puzzello from Indiana University and Grant Rosenberger and Peter Zimmerman here at the Cleveland Fed. And it's a project that is aimed at better understanding trust and privacy issues among the unbanked and the underbanked. We started with focus groups in the summer of 2022 in Houston, Cleveland and Memphis. And then in the spring and in the summer of 2023, we conducted surveys of unbanked and underbanked individuals for a total of roughly 3,300 respondents. One-third, more or less, were unbanked and two-thirds were underbanked.

And when I'm talking about unbanked, I'm going to make a distinction when showing you my results between strongly and weakly unbanked. Strongly unbanked are unbanked respondents that satisfy the same definition that the FDIC uses. So, no one in the household has a bank account and instead, the respondent is considered weakly unbanked if the respondent does not have a bank account but someone else in the household does. And for the underbanked, we are using the same definition that the FDIC uses except for remittances. So, we don't consider those in our definition.

And now, I'm going to just show you some quick results about trust that come from our survey. So, here, I'm showing you results about trust in banks. Here, I'm showing you results for the strongly and weakly unbanked, for the underbanked but also, for the fully banked for whom we have responses before they're screened out from the survey. So, we asked respondents, how much do you trust banks? And they had a scale of one to five, where one was do not trust and five is trust completely.

And so, what we see here is that the fully banked trust more. So, no one, I mean very few respondents trust banks completely. But when we look at the scores for trust a lot, the share of fully banked respondents is much higher, and the share of strongly unbanked is the lowest. And then the opposite is true when we look at the lowest scores, do not trust much and do not trust, and the weakly unbanked stay in between. So, it seems that the more banked you are, the more you trust banks.

Now, a similar pattern can be observed for privacy concerns. So, the strongly unbanked are the most worried about, are the ones who are the least confident that banks protect their privacy. And the fully banked are the least worried. Now, we also asked both. Remember that from the FDIC survey, we see that, we know that lack of trust is a very important reason for why people don't have bank accounts. We don't know if the same is true for the underbanked.

Now, here, in the survey, we asked for a list of very detailed questions for why people don't have bank accounts, and then we aggregate these responses in trust issues, cost concerns, unsatisfactory bank service, privacy concerns, and account barriers. And again, we see the trust issues for the strongly and the weekly unbanked are the most important reason for why they don't have bank account. Instead, unsatisfactory bank services and account barriers are more important for the underbanked. However, trust issues are still a concern for the underbanked as are privacy concerns.

Now, given the fact that there appears to be a lack of full trust in banks coming from especially the strongly and weekly unbanked, then we asked respondents how much they trust different types of banks, but also other financial institutions. And here, we have our results' order from highest to lowest scores for the strongly unbanked. So, in general, the financial institution that respondents trust the most is the US Postal Service that we consider a financial institution, particularly because the share of the population uses postal services for money orders, and that's followed by non-banks.

Now, we gave a clear definition of non-banks in the survey, but think of this as PayPal, Venmo, Cash App. So, non-bank services that people use particularly for payments, and the Fed is in between. And people trust the Fed more than they trust small banks and even more than they trust large banks. And cryptocurrencies are the financial tool that is trusted the least by our respondents.

So, this is just a very quick overview of some of the results from our survey. There are many other interesting variables that we are examining: financial literacy, familiarity with technology, language barriers, political affiliation, all of which might matter for banking status, but this is for another time. And so, I will stop sharing and I think now Terri is next.

Terri Friedline:

Thanks so much, Paola. And it's a pleasure to be here with you and Fumiko and Lisa to talk about financial inclusion. I'm going to, I think, talk through some bigger picture ideas that might put unbanked and underbanked and financial inclusion research as well as trust into context, so talking a little bit about the political economy in which people are making decisions about their money.

I began my research career about 15 years ago, also focused on issues of financial inclusion and financial access, things like opening a bank account, the costs associated with that, and the barriers to opening and then also maintaining a bank account. And so, this included studying programs like BankOn, small dollar lending, matched savings accounts programs. And it seemed to me that much of the emphasis in these programs ended up leaving institutions themselves mostly unchanged. So, there was an over-emphasis, it seemed to me, on focusing on an individual and trying to improve their standing in a check system or other error-reporting banking system or improving a credit score so a person could get access to different sorts of lending opportunities.

And I was interested in focusing on the barriers that financial institutions put in place that prevent many people from opening and maintaining a bank account, which is the area I've been focused on with regard to financial inclusion for the last few years, how banks maybe can be required to remove barriers and what would it look like to have institutional analyses of financial inclusion. And so, what I want to talk about, or a couple of big picture questions about financial inclusion that help us think about political economy. So, these are the contexts in which we're talking about financial inclusion, which includes some focus on a capitalist economic system, as well as some considerations about regulation.

The first thing that I want to talk about is building off a little bit of Paola's descriptions of trust, which I think the trust and concerns about privacy are really interesting in the FDIC surveys of banked and underbanked households, especially over the years since 2009. Mistrust in government and institutions generally is rising. So, if you look across the different contexts, federal government or educational institutions, there are surveys that measure people's trust in these different aspects of our society, and mistrust is generally increasing. So, that is not an exception for banks.

And so, if you look back across the FDIC survey since 2009, that particular percentage point about mistrust, and I think it was around 16% in the slides that Paola was sharing as the main reason that households are unbanked or 40% noted as a percentage, if it's listed among any reason that people are unbanked, that that is a percentage, particularly the 16% in 2023, this is a percentage that has really doubled since the FDIC began measuring it in 2009. And so, there's much that has happened in banking and finance since then, in 2009 and the years after. I mean this is a time when people experienced banks' discriminatory lending and subprime lending that precipitated the home foreclosure crisis and then the Great Recession. And as the popular saying goes from that point in time, banks got bailed out and people got sold out and was a difficult time for many households.

Following that was a scandal at Wells Fargo around fake accounts where employees, due to sales pressures from the institution, opened accounts for customers without their permission. And this disproportionately ended up affecting customers who were Black, who were Native, Latinx, students and elderly, and was a very widely publicized scandal. Related to this, about a year ago when Silicon Valley Bank failed, I happened to be interviewing people about their interest in banking generally for a different project, but nearly everyone that I spoke with mentioned the Silicon Valley Bank failure and was their money going to be safe was a question that people had just anecdotally in the process of going through that work and that research.

And so, these events, I think, are very salient for the ways that people think about trust, and the different facets of trust I think are pretty useful to explore. So, a colleague at the university in Sweden, Bengt Larsson, has a paper with colleagues on digital disruption diversified. And one of the things that they note in that paper is that to whom is the concept of trust being measured? So, what institution is a person thinking about when they respond, whether or not they trust banks? And so, younger generations who are using more technology-based mobile banking, online banking, may be thinking more about trust with regard to the algorithm and data security. Whereas banks as typically having branches in communities, being a more physical relationship banking, that's a different way of thinking about trust, and that where someone is benchmarking that trust may be changing over time as the financial system changes.

The second thing I want to think about is surveillance. And so, I think that there are real reasons for people not to want to have their every transaction recorded with activities and whereabouts that can be shared with police or with immigrations and customs enforcement, including to a government administration that may be hostile to immigrants. And so, as people are concerned about having their transactions recorded, preventing immigrants or trans people from receiving gender-affirming healthcare, people receiving abortions, their rightful concerns, I think about how when we pay for things, who is seeing that when payment histories can be tracked and traced, and I think it's vital to thinking about privacy and trust in context from the last few years, as well as moving forward.

The third thing I want to talk about is with regard to regulation. And so, we could if we wanted, when Paola put up on the slide with the percentage of unbanked households in the US compared to other countries, there are other countries that consider as a right of a low-cost or a free bank account. And so, we could, for every person who wanted one, provide a BankOn affordable account, which offers some metrics for eliminating overdraft fees or minimum balance requirements.

BankOn began in 2008 and that now is nearly 16 years ago, and banks have struggled to respond to expanding that sort of account offering with the sorts of encouragement and carrots that we'd like to provide for them to voluntarily expand access. But one way to think about this is, if we think that access to these sorts of financial products and services is necessary for participating fully in everyday economic life, then we could regulate as such the right to a free or a low-cost bank account for every person that wants one. And this hasn't yet happened but is a possibility and should be a real, I think, real strategy in thinking about financial inclusion; that this could be something that's on the table as banks being required to do.

And so, if we're taking financial inclusion seriously, then I think that these are three issues. The thinking about the context in which trust is shifting, the possibilities for surveillance, and the roles of regulation that then these three issues and the context in which people are banking should be part of our thinking and our calculus. And so, we may be better equipped to ensure when people do open bank accounts that they won't be taken advantage of, or put at risk, or otherwise exploited by the institutions that we are attempting to include them in, so that their accesses is full and equal and safe in the full ways that that can be described and experienced.

So, thank you very much, and I think I'm going to turn it over to Fumiko.

Fumiko Hayashi:

Thanks, Terri, and thanks, Paola, for inviting me. And good afternoon, everybody.

My presentation today are very related to the two previous presentations Paola and Terri made. Today, I will share a recent paper that defines a household that are underserved in digital payments and provide a framework to evaluate elements included in the definition. This paper is joint work with economists at the Federal Reserve Board and Federal Reserve Banks of Atlanta, Boston and Kansas City. We conducted this research because household that are safe and affordable way to make and receive payments via digital means cannot participate fully in the increasingly digitized US economy. But given FinTech and non-bank payment service provider, these are payment service providers, are increasingly available.

A household that do not have a bank account or those that underutilize bank account services may still make and receive digital payments, implying traditional definitions of unbanked and underbanked are not suitable to define who is underserved in digital payments. So, establishing the definition of underserved in digital payment in the US will help researchers collect data consistently. And our paper provide a necessary first step toward quantifying underserved households and measuring the scope of this problem. Next slide, please.

In this slide, we first define digital payment inclusion as a goal state in which all households have access to and use safe and affordable digital payment services for sufficiently high share of their transactions. We then define households that the underserved in digital payments as those that use unsafe or high-cost digital payment services or paper-based payment method for a significantly large share of their transactions. The figure on this slide shows that households are divided into fully served and underserved.

And then underserved households can be further divided into four groups: those that do not have any transaction account, which is at bottom; those that own only unsafe or high-cost account; and those that own and are safe and affordable account but use digital payments rarely or sometimes. So, our definition focused on four elements: access, use, safety and affordability. We excluded element like convenience because our ultimate goal is to quantify the share and distribution of underserved households in digital payment services and convenience is difficult to measure or quantify.

So, the next few slides show how we define and evaluate each element. The first element is access. Household access to digital payments depends on whether the household owns a transaction account, which enables them to make and receive digital payments. And these are the household’s transaction counterparty such as merchant or billers, accept the digital payment method that household has.

Transaction accounts include bank checking account, FinTech digital deposit account such as Chime, non-bank online payment service provider account such as PayPal, general purpose reloadable prepaid card, two types of government administered prepaid card. One is electronic benefit transfer card, EBT card, that disperse supplemental nutrition assistance program SNAPs benefit and the other is electronic payment card program, EPC, that disburse benefit that are not needs-tested based such as Social Security benefits and unemployment benefit. We also include credit card although, strictly speaking, it’s not transaction account.

Transaction account varies in terms of which digital payment method the account offers, which transaction types the account supports, and whether offered digital payment methods are widely accepted by transaction counterparty. So, the table on this slide shows which transaction types each account type supports, for example. Relative to the first four types of account, those are bank checking account, FinTech, non-bank account and GPR prepaid card, the last three types of account, those government prepaid card and credit card, are not supported or supported really limited transaction types. So, we did this type of assessment for other things like digital payment method offered and with the method widely accepted by their counterparty. Next slide, please.

Second element is use. How should researchers determine the sufficiently high digital payment share, which we call alpha star, which researchers stress for to divide fully served and underserved in digital payments. So, based on the Atlanta Fed’s 2023 survey and diary of consumer payment choice, banked household with high income, we consider income of $50,000 or higher as high income, made about 80% of transactions with digital payment method on average. So, researchers could set alpha star at 80% or set a slightly higher share for bill payments and remote purchases if researchers choose to set different threshold to different transaction types. Next slide, please.

The third element is safety. Our definition of safety is broad, including avoidance of theft or loss, transparent disclosure of terms and conditions of these accounts and services, fair treatment of business conduct, and data protection and privacy. So, researchers need to establish whether the transaction accounts and these payment services are adequately safe. Consumer protection regulations such as Regulations E and G and Federal Trade Commission Act and other acts, and payment card and ACH network rules, and FDIC and NCUA deposit insurance, play important roles in ensuring the safety of transaction accounts and digital payments.

Whether these regulations and network rules apply depends on account type or product. As a result, safety varies by account type and the service providers. Our objective assessment so far suggests that bank checking account and bank-managed prepaid and credit card can be considered safe. One type of government-administered prepaid card, which is EPC to disburse Social Security and unemployment benefit, that can also be considered safe, but EBT card maybe not. Generally, they’re safe.

Whether the FinTech and non-bank are adequately safe is difficult to evaluate because these products vary by provider and even across products of the same providers. So, we cannot really say these are safe or not safe. And we also noted that researchers, these are objective assessment of whether a transaction account and associated digital payments are safe, but those objective assessment may not always align with household perception of whether the account and its services are safe.

So, household may choose not to adopt a transaction account that researchers deem to be adequately safe because they perceive it as unsafe and vice versa. For example, even if researchers would most likely consider bank account to be objectively safe, many unbanked households cited safety-related issues such as lack of trust in banks and privacy concerns as reasons for not having a bank account as Paola's presentation shows. Next slide, please.

So, the last element is affordability. We consider a transaction account and associated digital payment method affordable when cost users incur are sufficiently low so that almost all households have enough money to use them. Costs are divided into direct cost, which include fees to service providers, and indirect cost such as transportation costs and time spent. A good benchmark for affordable account may be the cost of using BankOn account as those accounts are designed to provide safe, affordable bank accounts to low and moderate-income households. Then the fees are also related to trust as high or unpredictable fees of accounts or digital payment services likely cause households to have negative perceptions or distrust of financial institutions and other payment service providers.

So, those are the main contents of our papers. Thank you so much and back to Lisa.

Lisa Nelson:

Okay. Well, I think now we're going to move into Q&A. I have a question for each one of our presenters and then, hopefully, we've got some questions from the audience. I'm going to stick with you, Fumiko. You had mentioned that this is really your first step in terms of quantifying the share of underserved households in digital payments. So, what are you thinking going forward?

Fumiko Hayashi:

Yeah, thanks, Lisa. So, we identified three or four possible next steps. Those, first of all, is review existing surveys and diary studies more systemically. In the paper, we review some but not systemically. So, we want to go through more thoroughly. That's the first thing. And next, because our ultimate goal is to quantify the underserved in digital payments, so the data collection tools, we need to identify how to collect data, assess whether leveraging existing surveys is a good idea or we need to do new surveys. We need to think about that.

So, survey is a good tool for quantification. But barriers, what barriers they face, like Terri's study, the qualitative study or field study to identify why they don't have accounts or why they don't use account. Those "why" question needs to be, maybe survey may not be a good tool. We need to do qualitative study. So, that's the second step. And then finally, we want to explore opportunity to collaborate with other entities like government agencies, consumer advocacy groups, financial institutions, research functions and academia to advance research and measurement of household underserved in digital payments. So, those are three potential next steps.

Lisa Nelson:

Thank you. I'm going to ask you, Terri. I know you've done some work on postal banking in particular and other public options. So, how do you see them as addressing financial inclusion? What have you learned in some of the work you've done, and is this a more safe product?

Terri Friedline:

Yeah, thanks for that question. And I was also interested to see trust in postal, the post office, as showing up in Paola's work as well. The work that I've done on postal banking has been looking at the extent to which US post offices are located spatially in places where other banks, bank branches are closing; maybe payday lenders and check cashers have moved in. And so, what's the opportunity for postal banking to serve people who might not trust either of these institutions or need an affordable place for banking. And there have been a number of proposals to put, to expand the ways that the post office provides financial services.

So, I think it was mentioned that the post office really is one of the largest share of money orders in the country. I think $21 million worth of money orders in the last time I looked. And so, expanding into banking as it once did, basic savings accounts, or small dollar lending to replace or compete with payday lenders in that alternative financial services market. And post offices generally are located in places where there's a pretty limited financial services landscape. So, they're located in places that are rural communities, that are segregated communities in city areas and Black and brown neighborhoods, that are places that the post office could serve should it expand its financial services offering.

So, my thought is that we need many opportunities for people to use the financial products and services, the affordable ones, the ones that fit the right amount of privacy needs that they have, and that having many options for people, I think, is useful. And the post office is one of those places.

Lisa Nelson:

Thank you for that. Paola, I'm going ask you too. I have one question more about in terms of when you were looking, what the survey takers thought about their trust in financial institutions. Did you give them definitions like a small bank, large bank? How would they distinguish that?

Paola Boel:

Thank you, Lisa, for the question. Yeah, so when I showed the chart that I showed for presentation purposes, summarized the information that we provided respondents with. So, for example, for small banks, we define what we meant by small banks. We said small banks such as community or local banks that only have branches in a small region. Similarly, for large banks, we gave a definition for what, in the presentation, we called non-banks. We said online financial services companies such as PayPal, Venmo, Cash App, Chime. And we mentioned these because they were the ones that focus group participants were more familiar with.

And similarly, for big tech, we defined large tech companies such as Amazon, Apple, Facebook, Google. So, they had more information on what I showed. So, we asked for trust on a one to five scale, but they always had an opportunity not to answer the question. But for this question in particular, they could specify whether they were not familiar with the financial institution we were asking about. And so, we see a correlation between trust and familiarity, but it's not a perfect correlation.

So, let's say crypto is the financial tool that they trusted the least, and it's the one that they're the least familiar with. But for example, for non-bank such as Venmo, Cash App and so on, they seem to trust them. Their trust score, it's on the higher side compared to other financial institutions, but they are also not that familiar with them. So, it might be that not familiar means different things for different financial institutions. For the Fed, for example, the trust score is in the middle compared to other financial institutions, but respondents are not very familiar with the role of the Fed, sadly.

So, I hope I answer your question, Lisa.

Lisa Nelson:

Yeah, and I want to ask you something else. When you were going through the presentation, Paola, you had overarching main reasons for being unbanked: the trust, cost concerns, unsatisfactory bank service. So, could you talk a little bit more what people exactly said, like more examples? I find that interesting. What were they saying about trust and privacy? Why didn't they want... Why are they staying unbanked or underbanked?

Paola Boel:

So, we tried... Again, the trust question is so important in the FDIC survey that we really try to dig deeper to understand the determinants of that lack of full trust. And so, survey-wise, we do it in two ways. We have open box questions where people can answer why they don't trust banks fully. And so, the responses there were very much in line with part of what Terri said. So, the banking crisis of 2023 played a role so that the results that I showed you, the underbanked survey, took place before and after. Well, really before and during the banking crisis. But also, the Wells Fargo incident was very prominent in the open box answers more than we would've expected. So, I think, just anecdotally, the two seemed to, really stood out.

But also, just the fees that they have to pay, they also contribute to the lack of trust, like Fumiko was saying. So, it's really a mix. So, part of the information we have about why they don't fully trust comes from this open box questions. And then also the way in which the survey is constructed allows us to determine which reasons for being unbanked have to do with trust. And again, even in that part of the survey, we see that the lack of trust comes from a fear of losing money if banks fail. So, even if the accounts are FDIC insured, and for the most part for unbanked and underbanked, we expect the amount in their bank account to be below the threshold, still, there's this concern of losing money.

The privacy concern also feeds into the lack of trust, the fees, the experience, the fees. All, in the end, had to do with the lack of trust. Really, the conversation today is very interesting because I see things coming back through different methodologies.

Lisa Nelson:

I got to take myself off mute, sorry. We did have a question in the chat. I don't know, maybe all of you can answer it, but I'm going to push it to you, Terri. How can people become more educated about banking options?

Terri Friedline:

Sure, I'm happy to respond and then pass it along to other panelists. I think that there's an important role for financial education to teach people about the systems in which they're making these choices. So, not just how to compare maybe checking accounts at different financial institutions, but also why are these the choices that people have. And so, giving people a way to think critically about our economy, the ways that it's structured, and the institutions that are available to them as a way of reminding people that it's not just their fault if they can't save enough or if they struggle with this aspect of life. It is a pretty common experience and they're not alone in that.

And broadening their, all of our, myself included, still learning more things each day about the financial system and the ways that it's set up. That it is set up and structuring life in particular ways that make it difficult to figure out what one's options are. We're all doing the best that we can and we want also some better options. And that teaching people about that system, I think, is important.

Lisa Nelson:

Paola, Fumiko, you guys want to add in anything about how people can get more educated about these banking options?

Paola Boel:

Well, I think if we're thinking specifically about banking and more traditional banking options, I think the FDIC: GetBanked website is a good resource. Also, to understand why having a bank account can be beneficial. It might not be beneficial for everyone, but why having a bank account can help people. And also, the BankOn project that Terri mentioned, that's also a resource where people can look at what should characterize a low-cost banking option. It's not zero cost for the most part. Usually, they're not zero cost banking options. So, they're not like some countries, as Terri was mentioning, have in Europe, but they're still lower cost than many other options out there.

I will say for the respondents that we interviewed in the focus groups, we were very impressed to see how even the ones who were unbanked, the amount of knowledge that they had about the different financial tools that there were available. I think we learned a lot about non-banks, for example, from them. And really, they're able to manage their money in an efficient way given the resources they have. However, some of these options are very high cost. And so, that can make things very challenging. I don't know if Fumiko wants...

Fumiko Hayashi:

Yeah. So, I have another study investigating unbanked household, dividing into four groups based on the interest of having a bank account or not interested, and previously banked and never banked. And those interested and previously banked, they have relatively good idea about what bank account can do for them. So, they are more likely to come back to banked. But the hardest reached group of unbanked households are never banked and not interested in having bank accounts.

So, education is maybe push-based communication needed for those people. I'm not sure, but I think local groups, community level, their effort maybe encourage those people to realize the benefit of a transaction account or bank account. Those, hopefully, help them, not harm them.

Lisa Nelson:

Another question is that somebody's asking about, and I think, Paola, you might've touched on this with the FDIC data, but the racial gap and trust in financial institutions, and if so or if anybody can talk to that, and then if there is a way to bridge that gap. I don't know who to send it to first but...

Paola Boel:

Yeah, I can say I think what I showed is that the unbanked rate can change by demographic groups. That's what the FDIC shows. And so, it's substantially higher for Black households and Hispanic households compared to the average unbanked rate. And that is true also for what are called underbanked. Now, in terms of trust, I'm not sure how the concern about trust in the FDIC data differs across demographic groups. I would expect that the trust level is lower for when we look at Black households and Hispanic ones. Certainly, we see that in our own survey, that the level of trust in banks and across financial institutions is lower.

Lisa Nelson:

Anything else? Terri, anything from any of your research?

Terri Friedline:

I haven't looked at trust specifically as a measure. At least the recent, the 2023 FDI survey, I don't think that they break down, in their larger survey, differences by race among trust or in their subsequent ones. But thinking about very historic examples, reasons for various racial demographic groups to distrust banks, the Freedmen's Bureau that was stood up in post-reconstruction after slavery for Black Americans who were recently freed, held millions of dollars in deposits that were then lost when the bank collapsed, or long histories of redlining and other racist lending practices that are ongoing. I mean there are still fines and fees being levied every couple months to banks with regard to redlining practices.

And so, some of the things that Paola's describing in differences in her surveys with regard to trust, I think, even if they're not measured in the larger FDIC survey, are worth thinking about with regard to trust.

Lisa Nelson:

Thank you all. We're at time. I just want to thank everybody, all the speakers, for the informative session. In the chat, if you're online, you will see a link to a post-session survey. The survey will also pop up in your browser after the Zoom session is closed. We invite you to take a moment to complete the survey and share your valuable feedback. We really appreciate it.

Information about today's program will be sent in a follow-up email as well. A recording of the event will be posted on clevelandfed.org. This concludes our 2024 program, *FedTalk*. We look forward to seeing you in the next year, and thanks again for joining us today. Have a good day.