Remarks by

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FDIC Economic Inclusion Summit:

Strategies to Bring Consumers into the Financial Mainstream

Arlington, VA

April 26, 2017

Welcome and thank you for joining us at this Economic Inclusion Summit.  As the title of today's event suggests, we will explore strategies for bringing consumers into the financial mainstream.  As will become apparent, the panels have been structured to promote dialogue and to invite members of the audience to participate.  This is an important agenda, and the experts on the panels bring a wealth of experience from which we can all learn.

**Benefits of Economic Inclusion**

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 host of protections, such as those concerning electronic funds transfers and other rules that limit consumer liability for unauthorized transfers.

In addition, while an account may provide the foundation for economic participation, 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..

So, for the remainder of my remarks this morning, I will focus on FDIC efforts to enhance economic inclusion and lessons we have learned along the way.

## Measurements of Banking Engagement

Since 2009, the FDIC has monitored consumer engagement with the banking industry through the biennial National Survey of Unbanked and Underbanked Households. 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 seven 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) 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 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 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 remain 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.

## Opportunities to Enhance 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.[1] 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 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. 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.

In our view, making the accounts available is an important first step. We now want to make sure that consumers who would benefit from Safe Accounts are aware of their availability and are able to access them. To that end, we have been working in partnership with Cities for Financial Empowerment, the Bank-On movement, and FDIC-sponsored Alliances for Economic Inclusion (AEIs) around the country to connect the underserved with the institutions that offer these

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

accounts. These partnerships, which include banks, community groups, state and local officials, philanthropic organizations, and others, share the common goal of bringing unbanked and underbanked households more fully into the mainstream banking system through these accounts.

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.

Other Research

The FDIC has sought to inform its economic inclusion efforts through a number of other research projects based from 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.[2] This finding suggests that banks may be able to retain more household customers if they allow monthly fees to be waived for

[2] 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.

reasons unrelated to direct deposit, such as monthly bill payment activity. On a related note, the most recent unbanked and underbanked report[3] 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.[4] This research has indicated that underserved consumers believe mobile technology has the potential to enhance the level of control, convenience, and affordability that they associate with banking relationships. For example, the ability to monitor account balances in real time in order to avoid insufficient 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

[3] See the 2015 National Survey of Unbanked and Underbanked Households.
[4] See https://www.fdic.gov/consumers/community/mobile/.

members of underserved communities.[5] 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 non-profit agencies, their line staff, as well as among underserved consumers themselves.

**FDIC Activities**

The FDIC has also sought to help build connections to the mainstream financial system by equipping consumers and entrepreneurs with critical information and a strong network. We have learned that banking relationships are more likely to succeed when the foundation is strong and when individuals are encouraged to develop goals – and plans to achieve them – at every stage of life.

One way we have worked to promote financial education is through Money Smart, our comprehensive, and free financial curriculum. Over the past 15 years, Money Smart has grown from a simple paper-based curriculum for adults to include lessons targeted to school-aged children, entrepreneurs, and older adults offered in nine languages and Braille, and available through a wide range of downloadable and online resources. In fact, we have had almost 70,000 downloads of our curriculum for young people since introducing it in April 2015.

Though the FDIC offers introductory Money Smart webinars and workshops, we rely primarily on collaborations with banks and community organizations at the national, regional, state, local, and neighborhood level to deliver Money Smart material to consumers.

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

We also offer special guides in conjunction with the Consumer Financial Protection Bureau for parents and teachers and collaborate with the Small Business Administration to offer resources for emerging entrepreneurs. We urge banks, schools, and non-profits to use these materials, tailor them to the needs in the community, and increase their impact.

The FDIC also recently completed a Youth Savings Pilot, in which we worked with 21 financial institutions, more than 100 schools, and many non-profit organizations to link classroom-based financial education with the opportunity to open youth savings accounts. During the 2015–16 school year, participating banks opened more than 4,500 savings accounts for students.

Participants joined us in the fall at a symposium to discuss the pilot program. Several participating banks explained that they trained student tellers at school-based bank branches in basic financial concepts as well as soft skills required for customer service. Teachers reported that children gained confidence and made more effective decisions thanks to their roles as bankers or tellers in the in-school training programs. One banker noticed that some struggling students thrived at the in-school bank, with noticeable changes to their concentration, self-esteem, and even academic performance. Most also developed a more positive outlook on their ability to use banking services.

This spring we released a report and road map that provides opportunities for others to learn from the pilot. We also launched the Youth Banking Network in which banks can share information on providing youth banking and financial education in schools and communicate with other engaged institutions.

During 2017, we will be revamping our adult curriculum to provide more current information on accessing credit and managing debt, and to strengthen its design and relevance for people with disabilities.

As we offer these resources, we simultaneously help build the networks needed to strengthen access to mainstream financial services.

Across the country, we meet  with Bank On organizations, asset-building groups, and FDIC-sponsored Alliances for Economic Inclusion to exchange ideas and expand connections between community organizations, local employers, government agencies, and banks in an effort to serve consumers better.

For example, the FDIC sponsors the Los Angeles Alliance for Economic Inclusion, whose members include bankers and community leaders.  Since 2014, the alliance has collaborated with the America Saves campaign to promote safe and low-cost savings opportunities with a focus on unbanked households.  In 2015, with the launch of the LA Saves campaign, the alliance led outreach efforts across the city that resulted in a total of 1,015 pledged savers.  In 2016, LA Saves reached a year-end total of 1,367 pledged savers, saving nearly $150,000 monthly, to achieve goals like building an emergency fund, reducing debt, and purchasing a home.

I encourage each of you to work in your local communities to bridge the gaps between your organizations and consumers and communities that are wary of banks or concerned about bank access, and to contact the FDIC with suggestions for how we can provide support.

**Conclusion**

In conclusion, let me thank all of you for participating in this conference. It is encouraging to me to see the number of people engaged and committed to addressing this issue.

I would especially like to recognize the members of the FDIC's Advisory Committee on Economic Inclusion joining us today (prompt to stand). Many of you have advised the FDIC for the full 10 years over which the Committee has been active. We have benefited from your insights over the years and know that we will do so again today.

The issue of economic inclusion goes to the heart of the FDIC's mission of maintaining the public's confidence in the banking system and providing a safe and secure place for people to access financial services. The progress we have made from initiating the unbanked and underbanked survey, developing the model safe transaction account, seeing it offered by financial institutions around the country, and exploring the potential of mobile financial services to expand access, among other initiatives, has been remarkable.

Today's conference is a great opportunity to review the lessons learned and to point the way to future initiatives.

Thank you again for being here today. I am looking forward to the program.