The Unbanked and Underbanked

BRIAN SULLIVAN: Hey, welcome back to the FDIC podcast where we talk about banking and how our banks impact our financial lives. I'm Brian Sullivan with the Federal Deposit Insurance Corporation.

Every other year, the FDIC releases a national survey of unbanked and underbanked households. Working with the U.S. Census Bureau, the FDIC seeks to measure the number and percentage of U.S. households who either don't use our banking system very much or not at all.

The 2021 National Survey of Unbanked and Underbanked Households is *just* released. And joining us to unpack the numbers are Karyen Chu, the FDIC Chief of Banking and Consumer Research and Keith Ernst, Associate Director of the FDIC, Consumer Research and Examination Analytics Branch…two numbers people, but analysts who have been involved in the survey for many years. Karyen and Keith, welcome to you both!

KARYEN CHU: Thank you, Brian.

KEITH ERNST: Good morning.

BRIAN SULLIVAN: Hey, Karyen, let's begin with you. Give us a sense of what this 2021 survey tells us.

KARYEN CHU: All right. Well, so the 2021 survey found that despite facing unprecedented challenges due to the COVID 19 pandemic, the number of U.S. households that were banked increased by 1.2 million between 2019 and 2021. In 2021, 4.5% of U.S. households…That is 5.9 million households were unbanked, meaning that no one in the household had a bank or credit union account. That 4.5% unbanked rate is the lowest level since our survey began in 2009. And the 2021 survey is the fifth consecutive survey over the last decade that has shown a decline in the unbanked rate.

BRIAN SULLIVAN: Well, presuming that we all believe that it's better to be banks and not to be bank. These are good numbers, right, Keith?

KEITH ERNST: Yeah, absolutely. So the proportion of households participating in the banking system is at a record high. And what that really tells us is that more Americans than ever before are benefiting from the banking system. You know, at the FDIC, our fundamental mission is promoting confidence in the system. And part a big part of that is making sure Americans can participate and take advantage. I mean, in many ways, participation is the ultimate vote of confidence in the system.

BRIAN SULLIVAN: And COVID was a pretty big moment for the banks…

KEITH ERNST: Right, sure. Going into the survey, we really did not know what to expect. There were every reason to believe that the unbanked rate could have gone up, not down. I mean, people were losing their jobs, there was a lot of uncertainty in the economy, and in the past when those sorts of things have happened, what we've seen is an *increase* in their unbank rate. But this time what we saw was the opposite. More people coming into the system and there are probably some very good reasons for that.

BRIAN SULLIVAN: Well, with all the government stimulus that was being distributed to individuals and businesses all across the country…Paycheck Protection Program…Economic Impact Payments. People put that in the bank.

KEITH ERNST: Exactly right. And people had every incentive to do that, not just to keep that money safe and secure…or that that's a great reason to have a bank account…but to be able to receive those funds quickly. I mean, people may remember back when the government was distributing the economic stimulus payments, there was a big emphasis on getting that money to household quickly. We were in an economic emergency and the quickest way to do that is by direct deposit.

In fact, the FDIC, recognizing this, partnered with the IRS and with banking trade organizations to get the word out about safe, affordable bank accounts that households could open remotely, many times without ever even going into a branch. We also launched a public awareness campaign called *Get Banked*, all with a focus of taking advantage of what we thought of as a very bankable moment. So if you think about it, at this moment in time, there was a unique opportunity to help households who were looking to get that money quickly and securely to find a bank account that they could open for that very purpose.

KARYEN CHU: ...and the survey really found that key bankable moment. That what we saw was that, in fact, for households that became banked since March of 2020, the receipt of these government benefit payments were an important contributor to that household becoming banked. Specifically, among recently banked households that received a government benefit payment, almost half, 45%, said the payment contributed to their opening an account.

BRIAN SULLIVAN: That's a big finding, right?

KEITH ERNST: Yeah, that's a very strong relationship between receiving that benefit and identifying that as a factor that contributed to the household decision to open a bank account. I mean, most of our decisions are, when we think about it, are very complex, driven by a lot of different factors. And to have such a high proportion of households who receive that benefit and open a bank account, connect those two…is a really solid signal that that mattered to them.

BRIAN SULLIVAN: If we if we dive a little deeper into the numbers, Karyen, though, we're still seeing that there's a big difference in the unbanked rates among Black and Hispanic households, right?

KARYEN CHU: Yes. So while, you know, the 2021 survey results do show an increased participation in the banking system, certain population segments continue to be more likely to be unbanked. These include Black and Hispanic households. However, I'd like to point out that these differences in unbanked rates between White households and Black and Hispanic households have improved in 2021 compared with previous years but, the gap remains large.

BRIAN SULLIVAN: Right. Still more work to do. Keith, give us a sense of why people aren't banked.

KEITH ERNST: So people cite a variety of reasons for not having a bank account. They may cite reasons about not having enough money to meet minimum balance requirements. They might cite fee-related reasons, although I would I would be quick to add that, in fact, while those are leading reasons, the proportion of households citing those is on the decline and it dropped notably between 2019 and 2021. I don't know if you have that figure, Karyen…

KARYEN CHU: I do. In fact, the proportion of unbanked households that cited fees or minimum balance-related reasons for not having a bank account fell from 38 percent in 2019 to 29.2 percent in 2021.

KEITH ERNST: Right. And in fact, you know, this may be evidence of a changing marketplace. So one of the developments that's been really interesting in recent years to watch has been the spread of something that is often referred to as Safe Accounts. So, these are bank accounts designed with low barriers to entry. So low or no minimum balance requirements, low or no monthly fees…and maybe most importantly, structured in such a way that households can't incur overdraft or insufficient fund fee charges on those accounts. So these are appealing to a lot of different consumers. And in fact, today, according to our latest analysis, banks accounting for 60 percent of all insured domestic deposits offer one of these accounts in the marketplace. So we may be seeing evidence here in real time, in the survey, of the effect of a marketplace that's offering these sorts of accounts to consumers.

BRIAN SULLIVAN: Maybe there's this lag in perception, because people just remember back in the day when these accounts were not available and now they are.

KEITH ERNST: Yeah, that certainly could be the case. I mean, part of what the FDIC really does try to do is help people understand how the marketplace is changing and where the options are that they can connect with. Again, I mentioned at the top of this conversation sort of the *Get Bank* campaign where the FDIC invested in getting the word out. And it's important because a lot of factors influence household perceptions of the banking system. Cost is a key one of them. But Brian, you asked a couple minutes ago about, you know, what are the *other* reasons households are not banked? And two that we regularly hear in the survey that rise to a level of significance involve household trust in the system and their concerns about potential loss and privacy associated with joining the banking system.

BRIAN SULLIVAN: Well, it seems as though this goes to the very heart of why you do this household survey is to understand where those tension points are and then work to overcome those.

KEITH ERNST: Right. I mean, for the FDIC, this survey plays a critical role in helping us understand the extent to which households are participating in the banking system and the extent to which there are needs that the banking system could sort of extend further and help meet and so we build off that every day in our national community affairs program, working with partners across the country.

BRIAN SULLIVAN: Okay. So, Karyen, people describe how they use the banking system, but a lot of people use products and services out there provided by *non-bank* institutions of some kind. What is the survey tell us about that?

KARYEN CHU: Absolutely. Well, so first, let me say that the survey is found in 2021 that 14.1 percent of all households were underbanked…meaning that the household had a bank or credit union account, as you say, and also used non-bank financial transaction services or non-bank credit products that are, in this case, disproportionately used by unbanked households.

KEITH ERNST: Yeah. You know, one of the great things about this survey is really how rich and how much data it makes available. You know, I'm struck when Karyen and I have worked on this survey together for over a decade now. And when we're out talking with bankers, when we're out talking with community-based organizations, we hear all the time sort of comments from people about how they have turned to the survey, how they've turned in the underlying data that people can get at FDIC.gov at the respondent level to understand more about the needs of consumers in their marketplace. And that's really what the underbanked data is telling us. It's telling us something about the opportunity for the banking system to extend itself and to address a broader set of needs. Readers can certainly look to the report for really insightful analysis and to learn more about that. They also can generate tables from our website or work with the data itself!

BRIAN SULLIVAN: Let's talk about online payment services. You know, the big ones are obvious to people the PayPal, the Venmo and other sort of peer-to-peer payment systems. What does the survey tell us about the use of this new way people pay each other?

KARYEN CHU: Great question, Brian. Well, as you noted, the survey added a new question in 2021 asking about non-bank online payment services such as PayPal, Venmo and Cash App. You referred to these as, you know, peer-to-peer payments. But actually our survey has found that many households use them for many more transactions than that. Overall, we found that half of all households, 46 percent, were using non-bank online payment services at the time of the survey. There were differences in how banked households were using these types of accounts compared with unbanked households and how they were using these accounts.

So almost three quarters of *banked* households that had an online payment service account linked to their online service payment account to their bank account, using them *both* for a variety of transactions. More than half of *unbanked* households with online payment services did not link any other type of account, such as a prepaid card or a credit card to their online payment service account, suggesting that they were using those accounts in lieu of a bank account to conduct everyday financial transactions.

KEITH ERNST: Those numbers are really powerful, Karyen. In fact, I think what this really illustrates to me is what happens when unbanked households outside of the system are trying to meet their needs. They have real financial services needs and are finding an increasingly diverse array of options for where to turn.

So in some ways, again, this represents another opportunity for the banking system to recognize a potential increase in their customer base but it also calls attention to sort of a broader set of concerns. You know, when people are in the banking system, they can have confidence that their money is safe and that a range of consumer protections apply. So those are things like protections against unauthorized transactions, guarantees that they'll get timely access to their funds after they deposit a check, and most importantly of all, deposit insurance…the notion that your money is safe and secure and will be given back to you when you need it. And for how could going outside the banking system in an increasingly diverse system of financial services, those questions can be a little bit harder to sort out.

And so it's really important for regulators, for nonprofit organizations and everybody working with consumers to help them understand the risk and how their rights may vary in different conditions.

BRIAN SULLIVAN: Karyen, you've been doing this long enough to have noticed a trend. Have you seen it continue in terms of how often people use their phones and computers to bank?

KARYEN CHU: Yes! The 2021 survey found continued growth in household use of mobile banking. In 2021, 43.5 percent of banked households used mobile banking as the primary method for accessing their bank account. And this is up tremendously from 15.1 percent in 2017.

KEITH ERNST: You know, this is a really powerful trend. People have clearly become increasingly comfortable with using their phone, their mobile device, to access their bank account, you know, do things like pay bills, check their balances, including at point of sale. And, you know, that's a tremendous resource for consumers. I think one thing that's really important to notice here is that this trend, while it continued through the pandemic, clearly predates the pandemic. You know, these are long-term changes that show every appearance of being here to stay.

BRIAN SULLIVAN: You've been doing this for years, Karyen, and you've tracked the trends over time. It seems like, broadly speaking, we're headed in the right direction if the goal all along has been to get more people into the banking system.

KARYEN CHU: Does appear that way.

BRIAN SULLIVAN: And Keith, just going back this this surveys like this, the data, the raw numbers, state, local, national actually do drive the work to bring people into the banking system. Right.

KEITH ERNST: Right. The FDIC itself certainly turns to these data to understand where we should be investing our resources, where there are opportunities to connect people to the banking system. And as I said, you know, we see external partners doing the same and it's these issues**. [11:39]** really, I think, a testament to the value that is created when the FDIC invests in research, invests in creating data like this…that really provides an authoritative basis for exploring

BRIAN SULLIVAN: Well, Keith Ernst and and Karyen Chu, thank you so much for returning to the FDIC Podcast and unpacking this household survey. It's just a wealth of information. And we use it all the time, don't we?

KEITH ERNST: Absolutely. And thank you for having us, Brian.

KARYEN CHU: Yes, thank you.