A study of the Unbanked & Underbanked Consumer in the Tenth Federal Reserve District

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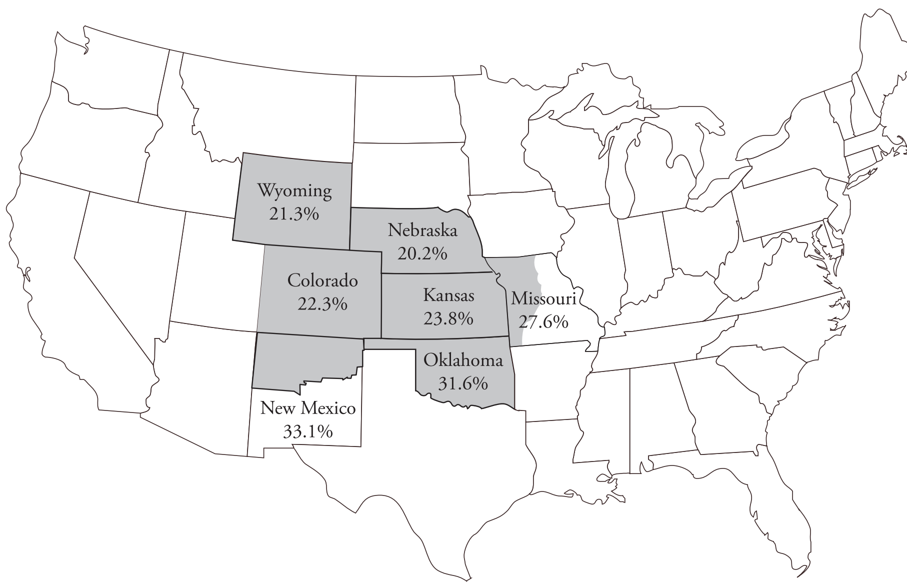
Federal Reserve Bank *of* Kansas City

1. OVERVIEW AND PURPOSE

Research has shown there are 30 million unbanked or underbanked households nationally with 2.3 million across the Tenth Federal Reserve District[1] (Tenth District), which encompasses western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. The Federal Reserve Bank of Kansas City, which covers the Tenth District, recently conducted a qualitative research project to develop an in-depth and contextualized picture of how unbanked and underbanked households develop and implement strategies to manage their financial service needs.[2] The project explored a broad range of reasons unbanked and underbanked individuals choose to use nonbank entities for basic transactions in their financial lives.

Percentage of Unbanked and Underbanked Households in Tenth District States



The national average is 25.6 percent

For the purposes of this study, unbanked individuals are individuals who do not have a checking or savings account. Underbanked individuals have a checking or savings account at a bank or credit union, but use nonbanks for financial services such as check cashing, money orders, bill payment, remittances or borrowing.

Specifically, the research focused on the following: a) Why do unbanked and underbanked individuals often mistrust banks, or at the least, choose other institutions to meet their financial service needs? b) How is that mistrust perceived and defined, developed over time, communicated to others, and compensated for by consumers? and c) How do unbanked and underbanked consumers develop strategies for managing their payment needs outside the traditional banking system?

These questions were addressed through 24 focus groups (six of which were in Spanish and one dedicated to Native Americans) held in Kansas City, Denver, Oklahoma City and Omaha in

December 2009 and January 2010. A total of 76 low- to moderate-income unbanked and underbanked individuals were interviewed. Participants were selected based on their usage of financial products, income, gender, ethnicity and immigrant status in order to ensure a diversity of perspectives and experiences. For comparison purposes with other studies, the percentages of unbanked or underbanked households in the seven Tenth District states are similar to the national average. Based on the consistency of the data across the focus groups and with related quantitative studies, findings from this project are believed to be indicative of the experiences of unbanked and underbanked consumers in other regions of the United States.

The Federal Reserve Bank of Kansas City undertook this effort to complement existing quantitative research on this population, which includes nearly one in four households in the United States. The goal of this research is to assist financial institutions, community development partners and financial educators to develop products, services and delivery channels, including education, that are responsive to the needs, preferences and cultural settings of the unbanked and underbanked consumer segment.

2. METHODOLOGY

This study was concerned with understanding the reasons unbanked and underbanked individuals use alternative financial services and how they develop strategies to satisfy their basic transaction needs outside of relationships with mainstream financial institutions. The research team conducted a literature review to inform the development of the research questions and the study design.

To address the questions that emerged from the literature review, the research team decided to use small focus group sessions, or ”triads”. The triad design, comprised of three respondents and a moderator, was chosen for this research initiative because it allows for in-depth conversations, follow-up with probing questions and pre-focus group home-based assignments to reveal deeper and contextualized information about attitudinal and behavioral characteristics of the participants. Triads also facilitated more flexible configurations of attitudinal, behavioral and demographic groupings.

Six sessions were held in each of the research sites of Denver, Kansas City, Oklahoma City and Omaha with a total of 76 participants. Three sessions were held with only Spanish-speaking respondents in both Denver and Kansas City, and one session in Oklahoma City was with Native American respondents. The sessions followed a common format using a standard moderator protocol and discussion guide developed to encourage open and honest participation by all participants. Participants were asked to complete pre-focus group home-based assignments, which included a Financial Transaction Log summarizing money management activity over the prior week and an image collage representing their “Financial Life and Goals.” These materials were used primarily as “ice breakers” and to stimulate the thinking around the discussion topics. The research team developed the moderator protocol, discussion guides and pre-focus group home-based assignments in both English and Spanish.

Triads were 90 minutes in length, which provided sufficient time to review pre-focus group work and explore respondent stories and emerging themes in-depth, while at the same time eliminating respondent fatigue. Each triad session was conducted at a focus group facility to permit observation and recording of the interviews.

Participant composition for the triad sessions attempted to reflect the general demographic characteristics of lower-income individuals in the four cities, including: ethnicity, income, presence of children in the household, and usage of banks and alternative financial service providers. Focus group facilities were directed to recruit four people for each triad in anticipation that at least three would show up for each group. The sample size is not projectable to the overall population of interest, but it is of a comparable size to other qualitative research studies for retail bank and consumer products.

The contracted focus group facilities recruited participants in accordance with the screening and recruiting protocols. The facilities used advertisements and other outreach methods to reach unbanked and underbanked individuals. The Federal Reserve Bank of Kansas City reached out as needed to its partner organizations serving potential respondents in some markets. All respondents received an honorarium for their participation in the study. The following chart describes the demographic composition of the respondents in each research location:

Respondent Demographics

	Total	Denver	Kansas City	Oklahoma City	Omaha
Total Respondents	76	21	17	23	15
Banking Status					
Unbanked	29	8	3	8	10
Underbanked	47	13	14	15	5
Annual Income					
<$15,000	20	6	4	4	6
$15,000-$19,000	12	2	3	1	6
$20,000-$24,000	20	8	2	7	3
$25,000-$29,000	12	2	4	6	
>$30,000	11	2	4	5	
Gender					
Male	37	10	9	11	7
Female	39	11	8	12	8
Age					
<30	20	4	4	7	5
30-39	24	7	8	6	3
40-49	15	5	2	3	5
>49	16	4	3	7	2
Ethnicity					
African American	23	5	8	4	6
Caucasian	28	3	2	14	9
Hispanic	21	13	7	1	
Native American	4			4	
Primary language					
English	59	10	11	23	15
Spanish	17	11	6		

Note: Age and income data was not collected from one respondent in Denver.

3. Financial Wishes and Worries

Early in each triad session, individuals were asked to share their financial wishes and worries with the group. There was a high level of commonality among participants' financial wishes and worries irrespective of regional and demographic characteristics. Most identified a desire to budget, save for retirement and have access to credit from banks at some point to support their common goals of buying a home, helping their children attend college, or attending college themselves. These wishes and worries may not be very different from the many Americans using mainstream financial services.

The table below lists the most commonly mentioned wishes and worries by all of the groups and by specific demographic groups.

Mentioned By:	Wishes	Worries
All groups	▪ Own a home ▪ A nice car ▪ More income	▪ Losing my job ▪ Not having enough money ▪ Not be able to pay bills ▪ Healthcare costs/medical problems ▪ Economy
Underbanked	▪ Have savings plan ▪ Have emergency fund ▪ Have credit ▪ Have money to retire ▪ Pay off debt	▪ Can't send children to college ▪ Healthcare costs/medical problems ▪ No savings; no retirement savings ▪ Unexpected large expenses ▪ Sinking into more debt ▪ Foreclosure
Unbanked	▪ Save for the future ▪ Have college fund for children ▪ Better budgeting ▪ Not live paycheck-to-paycheck	▪ Healthcare costs/medical problems ▪ How to save and not waste money ▪ Being bankrupt ▪ Debt
Hispanic	▪ Education for self and children ▪ Have a bank account ▪ Learn how to save money ▪ Learn English ▪ Have savings plan ▪ Have credit ▪ Have money to retire ▪ Own a business	▪ Savings for children ▪ Savings for retirement ▪ How to save money ▪ Sinking into debt
African-American	▪ Financial stability ▪ Save for future ▪ Pay off car loan ▪ Reduce debt ▪ Clear up credit problems ▪ Vacation and travel	▪ Being bankrupt ▪ Budgeting money ▪ Increasing debt ▪ Borrowing [money] ▪ Less-than-perfect-credit rating ▪ Losing car ▪ Losing house

Caucasian	▪ College fund for children ▪ Education for self ▪ Begin to save ▪ Vacation and travel ▪ Better budgeting	▪ Paying off student loans ▪ Debt ▪ College for children ▪ Retirement ▪ Healthcare costs/medical problems ▪ Not having financial records
Native American	▪ Fewer emergency spending occurrences ▪ Pay off credit cards ▪ Planned budget	▪ Unexpected large expenses ▪ Getting behind on bills ▪ Credit cards ▪ Bad credit

Two broad categories can be seen in the lists of wishes and worries. First, participants identified desired "end states" or outcomes such as a new car, home, or children's education. The second category consisted of "enablers" or products and processes that help obtain the end states. These include: savings for retirement, good credit, reduce debt, get ahead of paychecks, learning to budget and having a savings plan. Products and services to support the development of relevant means and ends through financial services can be created or tailored to meet the needs of low-income consumers based on this information.

4. Situational Pressures and Constraints

Unbanked and underbanked respondents reported facing a number of factors that shape their preferences for financial services. This section describes five significant factors that emerged during the focus group sessions that seem to influence the financial strategies participants use and outcomes they experience.

a. Living paycheck-to-paycheck due to limited and unstable income.

A common theme underlying the expressed desires and concerns of the respondents was their limited and often unstable incomes. Many participants commented about not having enough money left over at the end of each week to make it worthwhile to keep their money in a bank account. This concern seemed to be heightened for many respondents because of the effects of the general economic recession when the research was conducted. As one unbanked individual in Denver stated, "I wish I could have money to handle. I don't have any. What I'm learning about myself is that I'm really trying to survive. Right now, I'm not working as much because of the economy, so I'm really having a hard time."

Living paycheck-to-paycheck had a number of direct effects on the participants' needs for financial services. Bank accounts had a perceived limited usefulness for many because respondents expressed a need for immediate access to their funds. While ATM withdrawals and debit cards effectively provide such accessibility, respondents generally did not perceive this as equivalent to having physical control of cash.

Holds or limits on funds availability when cashing checks or depositing money into an account was a barrier reported by many respondents. The respondents stated that they often needed their cash as soon as possible to pay their bills. This is related to the barrier that minimum balance requirements often create—participants do not have enough cash to cover all of their living expenses with enough remaining for the minimum balance, which could result in fees. Not having a financial cushion in terms of savings may turn even small problems (a repair for an automobile, for example) into an emergency for respondents.

b. Past experiences with banks were primarily negative, and the perceived benefit and relevance of a bank relationship was not clear.

The respondents stated that their past experiences with banks had been on the whole negative for a number of reasons. A primary experience recounted by respondents focused on overdraft fees and unexpected account and transaction fees they had been charged. Overdraft fees in particular seemed punitive to many of the respondents, and several stated that they were often unfairly assessed. Many respondents felt that banks often cleared checks in a way that intentionally created a greater number of NSF charges by clearing larger dollar checks first. Many respondents stated that banks should refuse to honor checks rather than charge overdraft fees.

The comments of an underbanked man in Kansas City were typical of the experiences cited by many of the respondents: "What banks should do is be more honest and reject my check when I don't have enough money, but they don't do this because they want to charge you the overdraft fee, which is very high."

Many respondents mentioned similar dissatisfaction with overdraft protection products as expressed by the views of an underbanked man in Kansas City: "I got caught up in their racket, where they were charging me $35 every time I looked around, for something I didn't ask them for. And you get the bill and it's got all of these little 33 cent and 88 cent and 44 cent and all this kind of stuff on there, and you don't know what all this is for."

This sense of mistrust was reinforced by other perceived examples of "money being taken" from accounts. Inactivity fees, check order charges and other "hidden" fees were mentioned by many respondents. Often, changes in a respondent's situation could cause fees to be triggered. For example, one respondent reported being assessed an account fee when the direct deposit of her paycheck was stopped because she was laid off from her job. Another respondent claimed that a state agency had withdrawn funds for child support even though he had been paying them through a different state. In both cases, the respondents' limited financial cushion made these events even more financially and emotionally significant.

In general, respondents noted that they felt at a disadvantage when trying to address issues related to bank-assessed fees—those not understood by the participants and those perceived as erroneous charges. Respondents stated that when such occurrences lead to disputes they do not feel "listened to" or "believed" because of factors such as their lower income, manner of dress or language.

This power imbalance is often reinforced during the account-opening process. Identification requirements were considered to be a barrier by many respondents, especially Hispanic consumers. Immigrant Hispanic participants stated identification requirements for opening an account or cashing a check to be the greatest barrier to a banking relationship. Respondents said that the acceptable forms of identification were often unclear and that they could be different from bank to bank.

For many respondents, their initial account was opened by a family member for them before they were ready, and they soon got into trouble after they were on their own. As an example, a young unbanked mother had started out with a checking account that her parents helped her open, but she was unprepared to manage the account due to inadequate recordkeeping of debit card purchases. This led to her having the account closed, forced her out of the banking system and damaged her credit:

"I think a big part of it was with the debit card, you know not writing down my transactions so I was just swiping it and swiping and swiping it, and then it was overdrawn. For instance, when you go to get gas, if it's a debit card it only puts through like one dollar, it authorizes one dollar if you do credit or whatever. So then say I only had ten dollars in there and it authorized a dollar, well then when I pump like 20 or 30 dollars worth of gas and it's overdrawn. Then I get the fees."

Based on their experiences, many respondents concluded that the costs of overdrafts, the uncertainty of other fees and expenses and the potential for losing funds outweighed the benefits of keeping accounts at banks. Overdrafts, surprise charges, fees and disputes related to poor recordkeeping led many of the participants to adopt a cash system for budgeting and bill payment.

c. Consumer misunderstandings and misinformation about bank services and products is a significant barrier.

As in the case reported by the young mother, misunderstandings and misinformation about how checking accounts and debit cards work, the complexity of managing account records and the difficulty in understanding account rules and procedures often played a significant role in the problems that respondents related having with bank accounts. One male respondent reported not knowing that he had to have money in his account to use his checks. Instead, he thought that as long as he had checks in his checkbook he could use them. Many of the respondents recognized their own need for greater education about banking products and services in order to make better use of them. Banks were also seen to contribute to misunderstandings by some respondents. As an underbanked woman in Kansas City stated, "Sometimes the bank does not explain well the situation to us and then we make mistakes, and we have to pay for those mistakes. I feel that they should give us more time to be informed of the things that they are offering us."

d. Retailers are often easier to use than banks for basic payment services.

The majority of respondents noted that retailers are often easier to use than banks for basic transaction services such as cashing checks and buying money orders. A range of providers were mentioned, including supermarkets (with Walmart specifically cited), convenience stores, and check cashing outlets. Participants reported turning to retailers before banks due to simpler identification requirements, more transparent pricing, no hidden fees or penalties and immediate funds availability. As a result, respondents often viewed banks as being more expensive than other options.

A married father of two children working multiple jobs to support his family presented a story common to many respondents. While he has a bank account, he chooses to cash his checks at local grocery stores that he finds to be more convenient than going to his bank's location. He defined convenience by the store's location and the ability to do other tasks such as paying bills and shopping at the store. As an unbanked respondent in Omaha stated, "I cash my checks at Walmart because I can make one stop, and then if I want to send money to anybody, their [service] is right there. Everything is right there. Prescriptions, everything is there. It's like just one stop."

In addition to the convenience and cost, a number of respondents stated they feel less likely to have mistakes happen when using these nonbank alternatives as compared to a bank. They also expressed having as a greater sense of control using supermarkets, convenience stores, and check cashing outlets for some of their financial services.

e. Need for physical control of and immediate access to their money.

A common theme, especially among the Hispanic respondents, was the desire to directly and physically control their cash rather than put it in a bank. The greater risks of theft or loss were overshadowed by the need for greater access to the funds by most respondents. Respondents expressed a variety of reasons for this strong need for physical control.

A respondent stated that he may need cash to respond to a business opportunity: "Everything I do is cash. I don't like putting my money in a bank. I don't trust nobody with my money but me. I never know when I'm going to need it. Somebody might call and say, 'I've got this right here. You can get it right now.'"

Some participants also wanted to avoid unauthorized, surprise withdrawals for child support or for unexpected debt collection. Others were concerned that they may not be able to access their funds if they needed to move quickly. Each of these situations was shaped by the respondents' limited financial resources, the need to juggle often-competing financial obligations and their life experiences.

5. Strategies for Meeting Financial Service Needs Without Banks

Respondents reported often-complex financial management strategies using a mixture of products and service providers to satisfy their financial services needs based on cost, comfort and convenience considerations. This section presents descriptions of common strategies used by the respondents to manage their transactions and bill payments, savings and credit needs.

a. Transactions and Bill Payment

The majority of respondents relied on cash and money orders to pay for transactions and bills. For most respondents, bills were fairly limited to a few recurring ones such as rent and utilities, in addition to ongoing payments for child-care services, groceries, clothing and other daily expenses. Many respondents noted that rent, their largest bill, could not be paid for by check, but rather only in cash or by money order, which significantly reduces the utility of a checking account.

While some respondents were paid in cash, the first task for many of respondents was to cash their paycheck. As mentioned in the previous section, the majority of respondents used a retailer such as a supermarket, convenience store or check cashing outlet. This provided increased flexibility in terms of locations, as well as the opportunity to do other tasks such as shopping. Another important reason for using such a service provider is that the transaction is finalized on the spot with immediate funds availability and without concerns about holds that might be placed on a check deposited into a bank account. Fees are also assessed at the point of transaction as opposed to showing up later on an account statement.

In terms of payments, respondents found the finality of using a money order to be appealing. Several respondents mentioned the uncertainty of paying with a check and then waiting for it to clear. This uncertainty, coupled with the often-difficult task of recordkeeping, created a stumbling block for respondents and a potential trigger for incurring an overdraft.

Respondents were aware of the prices of check cashing services and money orders at a range of nonbank locations. While price was a strong consideration, respondents also considered location and other services offered when selecting a retailer. There was a general trend suggesting that non-Hispanics preferred Walmart and other large grocery chains, and Hispanics preferred smaller grocery and convenience stores that catered to the Hispanic market. Many respondents, however, mentioned going to any outlet without a strong preference.

For most respondents, the bill-paying routine involves several different people and multiple steps. For example, an underbanked male respondent in Oklahoma City gets money orders at 7-11 convenience stores by checking his balance at an ATM and then withdrawing cash to pay for them. "Normally when I first get paid, I'll go to 7-11 in the morning and check my balance, pull out some money, then I'll get gas every Friday, I get gas once a week, every week. Then my wife will tell me what money orders I need to get, and I'll get the money orders while I'm there at 7-11. I try to handle everything all at once. That way I can get everything covered, and what we have left is what we have," he explained. In a similar manner, an underbanked respondent with a bank account explained that he deposits his paycheck in his account, but he then withdraws cash through ATMs to purchase money orders to pay his bills.

Many respondents described making payments in person at utility company offices. An unbanked mother in Kansas City reported cashing her checks at a local grocery store and then making her payments directly in cash and money orders. "We go and pay cash at the office for water. I pay cash, and I know where the office is. I have learned where to go to the specific places," she stated. As was the case with several other respondents, she also organizes family members to take payments to different places as part of her routine.

Some respondents noted the primary drawback of such practices was the lack of proof that payments, especially those in cash, were actually made. Several respondents, for example, said they do not regularly receive receipts for rental payments. While money orders were preferred by some respondents because they do provide a receipt copy, several respondents stated they have a difficult time keeping the receipts organized.

b. Savings and Credit

In general, respondents reported being satisfied with the systems they had developed for tracking and transacting business with their money. However, many respondents were aware of the limitations this presented, particularly in terms of building savings and accessing credit. Importantly, respondents reported that their cash-based money management methods made it more difficult to save money safely.

A savings account was mentioned as the desired entry product among unbanked participants, if they were to put their money in a bank. An unbanked mother in Denver stated, “I would like to have my money in a very safe place, not in my house, not in my home. I would like to be able to invest, slowly a little at a time and start saving little by little for my children. So even if it is a little bit at a time, I could save for my children.”

Many respondents, however, felt that they didn’t have enough income to effectively use a savings account. Many respondents stated they would like to use banks for savings when they have a “larger amount” to start with. A general threshold reported to justify opening and using a bank savings account was $5,000. For amounts less than $5,000, many respondents thought it better to keep the money out of the bank so that it is readily accessible.

Respondents also viewed a bank account as a key milestone on the path toward building a good credit history, and providing access to mortgages and other loans. While there wasn’t widespread understanding of credit reports, respondents recognized their importance. As a recent immigrant stated, “Here in this country, it is important to have credit history. So to have a credit history is my wish.”

Several respondents mentioned specific times that they were not able to purchase something on credit, such as a cable television service or consumer appliances, because they did not have a credit history. One unbanked man in his mid-60s who had lived in the same apartment building for 25 years and had no established credit history told of needing a co-signer when he applied for a loan. Another unbanked respondent in his mid-50s posed a common question, “If you have never had credit, how do you establish credit?”

Many of the respondents reported using alternative financial service providers to meet their credit needs, such as payday lenders, pawnshops and auto title lenders. In general, respondents openly acknowledged the risk and high cost of these credit sources and noted that they should be avoided if possible. However, several respondents mentioned that banks would not lend the small amounts that were needed or the process would take too long to get the credit. In either case, the high fees were outweighed by the access and convenience offered by the alternative lenders.

6. Influences on Strategies

Respondents developed these financial management strategies through personal experience and the influence of others. An understanding of these influences can help in providing information and education to the unbanked and underbanked consumers to improve the effectiveness of their financial management strategies.

The most important influence on the financial management skills of the respondents were family members, with parents and grandparents mentioned as having the greatest impact. Many of the respondents recounted learning to distrust banks from an early age. One underbanked respondent in Oklahoma City said that her grandfather taught her to never use credit but only cash. “I’ve gone back to the old method, cash and money orders,” she stated. Along similar lines, one respondent commented that he learned to distrust banks from his father, stating, “I guess you would say it [my distrust of banks] was inherited.”

While family influence was important, it can constrain individuals from learning more effective methods for managing personal finances. Nearly all respondents, whether or not they had benefited from positive role models themselves, stated it was important for parents to be role models in teaching children money management skills. This was prompted in part because many respondents had negative experiences in their late teenage years with poor management of their checking accounts and hoped that others, namely their children, could avoid the same experiences.

Participants expressed a desire for financial education, specifically around savings and how to access credit, and to repair or restore credit so they can access loans at lower interest rates than are available through alternative sources. While there was awareness of programs offered through local community organizations, only one respondent stated that she had taken such a course. Community and faith-based organization outreach was not reported as a strong influence. Banks were not mentioned as a resource for financial education beyond mortgage loan seminars.

Schools, however, were recognized by respondents as a positive influence, but only relevant to younger consumers or those with children. Respondents who were parents of school-aged children approved of financial education programs being offered in schools and thought that they should be expanded. Several respondents, however, stated that the classes should stress even more the negative consequences of poor money management practices.

7. What Participants Had to Say to Banks

Respondents were asked to describe the characteristics of an ideal bank that would be attractive to them. The following characteristics were identified based on their previous experiences with banks and their financial service needs. These characteristics were broadly shared across the different focus group study sites and represent a fairly minimum set of standards and expectations. From the respondents’ perspective, these are expectations rarely met by banks, yet they are exhibited by many of the alternative financial service providers that they use.

Simplicity of use and transparency of fees
Predictability, simplicity and transparency were qualities clearly preferred by respondents across a range of issues. These include identification requirements for opening and using accounts, features and fee structures of products, and triggers for penalties and other expenses. Some respondents stated that banks should provide education services to assist with understanding the products and policies as well as more general topics such as savings, budgeting and credit repair.

Convenient access to money
Several components of access were mentioned by respondents. A convenient physical location and hours of operations were mentioned by some as important. Respondents cited the need to get money and make purchases after hours, at night and on Sundays—hours typically not accommodated by retail banks. However, access could also be through ATMs, if fees were considered reasonable. Another dimension of access included simple and transparent funds availability policies with limited restrictions on checks and deposits.

Good customer service
A welcoming atmosphere and personal relationships were mentioned as important by many respondents. Simply stated, respondents wanted to be greeted in a friendly fashion and treated with courtesy and respect. This could be expressed through helpful, knowledgeable and respectful local service staff. As one respondent stated, "Treat people the way you want to be treated. And then educate them so that they don't have those fees and if you educate somebody and you help them, who do you think they're going to be the first person to come to when they need help?" Hispanic respondents also mentioned the need for Spanish-speaking staff.

Accuracy and fairness
Accuracy and fairness was a key issue that resonated with the feeling of general mistrust of banks shared by many respondents. Accuracy and prevention of errors is particularly important because a small problem may quickly escalate into a financial crisis for many with limited resources. Respondents wanted a bank that would treat them as equals when working through resolution of disputes.

Confidence that money will be safe
Several respondents mentioned the need for FDIC insurance on deposits. Other respondents mentioned protection from fraud and identity theft as a need that a bank should fill.

8. CONCLUSIONS

The unbanked and underbanked consumer represents a significant portion of the financial services market. This research shows that they are satisfied with the strategies they have developed to meet their financial service needs using cash and alternative services providers. Unbanked and underbanked individuals are finding checking and savings accounts with significant fees, potential penalties and nontransparent policies are less relevant to their financial lives.

The findings also show however, that the unbanked and underbanked realize they could benefit from strengthened relationships with mainstream financial institutions to achieve medium- and long-term financial goals such as building savings and accessing credit. By understanding and responding to the situations, preferences and needs of unbanked and underbanked consumers as presented in this study, financial institutions, policymakers and community organizations can improve the financial outcomes of this market segment.

Federally insured depository institutions have significant opportunities to attract deposits and expand consumer markets if products and services are developed to address the issues raised by study participants. While banks have invested significant resources in education programs for consumers, respondents did not recognize banks as a resource for financial education. The traditional assumption that if unbanked consumers are informed of bank products and services they will become customers does not seem to be sufficient.

The primary hook for reaching this market is the same as for other segments—providing solutions to real and perceived needs. This research suggests that alternative financial service providers are doing this, though there is significant room for improvement. The characteristics of an ideal bank, placed within the context of the expressed needs and strategies of the respondents, provides a starting point for assessing a bank's product and service offerings.

An important advantage of banks in serving this potential market is their ability to offer savings products, which were identified by respondents as the most-desired entry account. The limited income and thin cushion against shocks makes a dramatic difference in the financial lives of this market. An account tailored to promoting emergency savings that is focused on security and accessibility could be a unique offer. Such an account could directly target the misperception stated by many respondents that a high income and savings balance is needed to make a savings account useful, and open the door for other misperceptions to be addressed.

While not sufficient, financial education remains an important component of improving the financial outcomes of the unbanked and underbanked. Respondents expressed interest in learning more about finances and awareness of options and opportunities. However, there is a wide gap between this awareness and action. One striking leverage point identified in the research was the stated desire of parents to be positive role models for their children.

Many of the respondents wanted to ensure that their children did not make the same financial mistakes that they had—often at a young age and with long lasting consequences. The research suggests there is an opportunity to develop resources and tools to assist parents in being good financial role models. Such a focus would provide an additional motivator for parents to take actions that could have direct positive effects on their current financial lives.

Connections could be made between such an approach and other initiatives that support positive parenting as well as educational and social development outcomes in families. Similarly, employers are beginning to adopt financial education programs in the workplace, much as they have adopted wellness programs, because of the programs' contribution to building more stable employees.[3] Such connections point to the importance of taking a holistic approach to meeting the financial needs of unbanked and underbanked families. While financial institutions have a specific and particular role to play in developing and offering financial products and services, their outcomes can be strengthened by partnering with organizations that address related needs of customers.

Finally, several of the issues raised by respondents suggest policy-related responses. The overdraft protection programs and fees mentioned by many respondents are being addressed by the recent changes to Regulation E, which requires individuals to opt-in or -out of such programs. Similarly, regulations provide banks with requirements and guidance for establishing identification policies for account opening and usage. Developing a stance for interpreting and applying these and related policies from the perspective of the unbanked and underbanked consumer will make a critical contribution toward improving their financial services access outcomes.

Continued development of financial services practice, educational programming and policy frameworks that promote the financial inclusion of unbanked and underbanked consumers rests on a detailed knowledge of their financial service needs, preferences and opportunities. This research provides insight into these areas to inform bankers, financial educators and policy-makers in their efforts to develop responsive products, services and delivery channels.

Endnotes

[1] FDIC National Survey of Unbanked and Underbanked Households, 2009.

[2] For survey data on the demographic characteristics of the unbanked and underbanked, see the FDIC National Survey of Unbanked and Underbanked Households at *www.economicinclusion.gov*.

[3] For a discussion of workplace-based financial education programs, see the Federal Reserve Bank of Kansas City Research Working Paper "Weighing the Effects of Financial Education in the Workplace" by Kelly Edmiston, Mary Gillett-Fisher and Molly McGrath, available at *www.kansascityfed.org/publicat/commaffrsrwp/carwp09-01.pdf*.