The Meeting of the Advisory Committee on Economic Inclusion

of the

Federal Deposit Insurance Corporation

Held in the Board Room

Federal Deposit Insurance Corporation Building

Washington, D.C.

Open to Public Observation via Webcast

November 13, 2024 – 9:00 A.M.

The meeting of the FDIC Advisory Committee on Economic Inclusion (ComE-IN or Committee) was called to order by Martin J. Gruenberg, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation (Corporation or FDIC).

The members of ComE-IN present at the meeting were Steven L. Antonakes, Executive Vice President for Enterprise Risk Management, Eastern Bank; Marla Bilonick, President and CEO, National Association for Latino Community Asset Builders; Michael Calhoun, President, Center for Responsible Lending; Naomi Camper, Chief Policy Officer, American Bankers Association; Edward DeMarco, President, Housing Policy Council; Thomas Foley, Executive Director, National Disability Institute; Wade Henderson, Senior Advisor, The Leadership Conference on Civil and Human Rights; Margaret Libby, CEO and Founder, MyPath; Brandee McHale, Head of Community Investing and Development, Citi President, Citi Foundation; Jonathan Mintz, President and CEO, Cities for Financial Empowerment Fund; Leigh Phillips, President and CEO, SaverLife; Marietta Rodriguez, President and CEO, NeighborWorks America; Jennifer Tescher, President and CEO, Financial Health Network; and Susan Weinstock, President and CEO, Consumer Federation of America.

Committee members absent from the meeting were Kenneth Kelly, Chairman and CEO, First Independence Corp and First Independence Bank and Ida Rademacher, Vice President, Aspen Institute, Co-Executive Director, Aspen Financial Security Program.

Members of the Corporation's Board of Directors present at the meeting were Martin J. Gruenberg, Chairman, and Michael J. Hsu, Director.

Corporate staff who attended the meeting included James L. Anderson, Alys V. Brown, Luke H. Brown, Susan Burhouse, Garret S. Christensen, Karyen Chu, Angela Dean, Debra A. Decker, Paola L. Diaz, Lewis R. Dorman, Camron A. Doss, Ashley E. Emerson, Keith S. Ernst, David J. Friedman, Fasil Getachew, Shannon N. Greco, Portia R. Hemphill, Nicholas Kazmerski, Stephanie G. Langan, Yan Y. Lee, Christina Mease, Jonathan Miller, Shivli Nangia, Danayet M. Negash, John E. Ochoa Espitia, Elizabeth Ortiz, Yazmin E. Osaki, Tara Oxley, Mark E. Pearce, Jonathan Presler, Ariana L. Rambuyan, Connor Redpath, Marguerite Sagatelian, Danielle M. Samelson, James P. Sheesley, Nefretete A. Smith, Mia C. Sowell, Deva Tarin, Akhbar N. Tajudeen, James S. Watts, Jeffrey Weinstein, Lauren A. Whitaker, Meron Wondwosen, Montrice G. Yakimov, Clarisse A. Young, and Mary W. Zaki.

All materials presented or distributed at the Committee meeting are available on the Committee's webpage (https://www.fdic.gov/advisory-committees/advisory-committee-economic-inclusion-come). These materials are also filed in the records of the Committee and incorporated by this reference into these minutes.

Chairman Gruenberg presided over the proceedings. Elizabeth Ortiz, Deputy Director, Consumer and Community Affairs, Division of Depositor and Consumer Protection (DCP), and the Committee's Designated Federal Officer, served as moderator.

Opening Remarks

Chairman Gruenberg began by thanking the Committee members and welcoming back returning Committee member, Wade Henderson. Next, Chairman Gruenberg provided an overview of the meeting agenda. He then recognized Ms. Ortiz to proceed with moderating the program.

Presentation of the 2023 FDIC Household Survey Findings and Implications

Ms. Ortiz introduced Yan Lee, Assistant Director, Consumer Research, DCP, who introduced the panelists: Jeffrey Weinstein, Senior Research Economist, DCP; Garret Christensen, Senior Research Economist, DCP; Jonathan Presler, Research Economist, DCP; Susan Burhouse, Senior Consumer Researcher, DCP; and Yazmin Osaki, Senior Consumer Researcher, DCP. Ms. Lee began by providing an overview of the presentation agenda.

The panelists discussed the status of U.S. households in the banking system based on the 2023 FDIC National Survey of Unbanked and Underbanked Households (2023 Household Survey). Mr. Weinstein began by noting that the survey data revealed an overall decline in the percentage of unbanked households in recent years. He also discussed several remaining barriers to entry in the banking system according to the survey, including unbanked households' concerns about trust, privacy, and bank product offerings. Mr. Weinstein then summarized survey data related to how banked households primarily access their bank accounts, which revealed an increasing preference for mobile banking options instead of traditional in-person or online banking options.

Mr. Christensen presented data on U.S. households' use of mainstream and alternative credit products and cryptocurrency. The survey found that banked households were more likely to use mainstream credit, including credit cards and auto loans, than unbanked households, while working-age households with a disability, lower-income households, and households with lower educational attainment were less likely to use mainstream credit. Mr. Christensen also noted that unbanked households were more likely to use non-bank alternatives to mainstream credit: a rent-to-own service or a payday, pawn shop, auto title, or tax refund anticipation loan.

Mr. Christensen also discussed whether newer financial products like Buy Now, Pay Later (BNPL) and crypto were a means to improve financial inclusion. The survey revealed that banked households were more likely to use BNPL and crypto. Mr. Christensen also noted that households with a higher income level and households identifying as White or Asian were more likely to use crypto. Based on the survey results, Mr. Christensen concluded that there was not strong evidence that newer products like BNPL and crypto were serving as a means to improve financial inclusion.

Mr. Presler discussed U.S. households' use of non-bank transaction products, such as non-bank online payment services and prepaid cards; paper-based payment products, including cash and money orders; and non-bank transaction services, including non-bank check-cashing and money transfer services. Mr. Presler then discussed how these products may shape our understanding of underbanked households.

Following the survey data presentations, Committee members discussed the decrease in the number of unbanked households and asked whether the FDIC was considering expanding the definition of underbanked households to incorporate the use of certain nonbank credit and transaction products, such as early wage access. Members also discussed the statistical analysis of the survey data, the statistical significance of certain variables, and suggested additional variables to include in future surveys, including consumer experiences with fraud and employment type.

Ms. Lee then summarized additional findings from the 2023 Household Survey, including the increase in access to mainstream credit and new financial product offerings.

Ms. Osaki and Ms. Burhouse then discussed the implications of the survey results. Ms. Osaki specifically noted how the composition and characteristics of unbanked households have changed dramatically in the last ten years. For example, a larger percentage of unbanked households are now age 55 or older and appear to transact primarily in cash. Ms. Burhouse discussed the impact of new technology, including smartphones, on banking access and the composition and needs of households that do not have mainstream credit.

Following the presentation, Committee members discussed age-related trends and ongoing racial disparity in access to banking. One member suggested the creation of an interdisciplinary group to examine issues of racial disparity in greater detail. Members also discussed fees and costs associated with households' use of non-traditional banking channels, products, and services. One member suggested that future surveys include questions related to fees, costs, and financial fragility. One member asked if the survey captured information on newly banked and newly unbanked households and suggested charting this information over time.

The meeting then recessed from 10:41 a.m. to 10:56 a.m.

Members' Roundtable

When the meeting resumes, Ms. Ortiz introduced the members' roundtable discussion before turning the meeting over to committee members to further discuss the 2023 Household Survey results and provide updates on what is happening within their organizations and communities.

The Committee members discussed a broad range of topics related to the 2023 Household Survey results, including the following: the substantial reduction in the number of unbanked households from 2011 to the present; reasons that some households remain unbanked, including trust and privacy-related concerns; unbanked and underbanked households' use of non-bank financial products and services; developing new and expanding the use of bank financial products and services to better meet the needs of unbanked and underbanked households; and increasing public trust in banking institutions.

Several members discussed the remaining racial disparity among unbanked and underbanked households, the importance of meeting the needs of low- and moderate-income communities, the impact of poverty on banking access, and the impact of new and emerging technology on banking access. Several members discussed the importance of meeting the needs of vulnerable consumers, including elderly and disabled consumers, and ways to meet those needs, such as financial coaching. One member noted the financial impacts of climate change on low- and moderate-income communities and suggested financial products and services to mitigate those impacts.

Members also discussed expanding future surveys to gauge new or targeted issues, with individual members suggesting specific issues, such as age, disability, trust, use of mobile payment systems, consumer perceptions of costs and fees associated with financial products and services, and financial health indicators. One member suggested expanding the definition of "household" to capture a broader population in future surveys. Another member suggested periodic reassessments.

Members generally applauded the FDIC's efforts to gauge the status of U.S. households in the banking system. Members also discussed ways to sustain the Committee's progress. Members recommended expanding public-private partnerships, engaging with new stakeholders, developing outreach and education initiatives, supporting community-based organizations' financial literacy and counseling efforts, developing new financial products and services to better meet the needs of unbanked and underbanked households, and conducting additional, targeted research on financial products and services used by unbanked and underbanked households.

Several members highlighted the positive impact of Bank On, with one member suggesting similar collaboration on issues like fraud. Members agreed that the number of unbanked and underbanked households can be further reduced, and that efforts should be made to keep banked households in the banking system. Two members suggested making the economic case for why the Committee’s work is important and should continue.

Ms. Ortiz concluded the roundtable by recognizing the things that can be accomplished by working together.

The meeting then recessed from 12:31 p.m. to 1:48 p.m.

Consumer Perspectives on Banking Today: Qualitative Research Results

Ms. Ortiz introduced Keith Ernst, Associate Director, DCP, to moderate the second panel. Mr. Ernst noted that the presentation would include video interviews with consumers and read a legal disclaimer. Mr. Ernst introduced Susan Burhouse and Yasmin Osaki, Senior Consumer Researchers with DCP to begin to the presentation.

Ms. Burhouse and Ms. Osaki described the objectives of their research, including exploring whether or how consumers distinguish banks from nonbanks, assessing how consumers make decisions about how and why to use different financial products and providers for different reasons, and learning about consumers’ perceptions of consumer protection. The April 2024 Qualitative Research study consisted of eight focus groups, including two in Spanish, and sixteen one-on-one interviews in four different cities. In total, there were 63 participants. The study oversampled unbanked and low-income consumers, along with consumers that use non-bank financial products and services.

Ms. Burhouse described the findings of the study, noting that most consumers were able to distinguish between banks and non-bank entities. Some consumers referred to fintech providers as “like a bank” or “almost a bank” and some consumers were aware that fintechs often have partner banks.

To distinguish between banks and non-bank entities, consumers thought about the functions and features of the providers. Consumers associated certain features, like a physical branch, with a bank. Consumers also associated certain functions, like credit products, lending products, and direct deposits, with a bank. Ms. Burhouse noted that some of these features and functions overlap with non-bank products and services. Many consumers remained able to distinguish between banks and non-bank entities where the non-bank entity offered banking-like products and services. However, consumers viewed non-bank entities with bank-like products as functionally a bank or, in some cases, believed they were a bank.

Ms. Burhouse discussed positive and negative consumer perceptions of banks from the study. For example, consumers liked the relationship-based element of banking, live-person customer service, and reliable security and protection. Many consumers felt banks were evolving and improving by embracing technological advancements, while maintaining the traditional aspects of banking that they enjoy. However, banked consumers complained about costly and untransparent fees, slow transaction processing, and limited enrollment of individuals in their social networks in bank-provided peer-to-peer payment networks. Some banked consumers had privacy-related concerns. Unbanked consumers had much more negative perceptions of banks, including a general lack of trust.

Ms. Osaki then discussed participants’ perceptions of peer-to-peer payment systems and fintechs (providers). Consumers liked the convenience, speed, and ease of use of the platforms. Consumers also appreciated having larger payment networks. Many consumers liked the perks, rewards, and features offered by the providers. Though, consumers were concerned about security and protection measures, including fraud prevention, offered by the providers. Consumers also complained about customer service and the fees charged by providers to perform certain actions. A few consumers mentioned experiencing issues when trying to use their account with a retailer or merchant.

Ms. Osaki then compared the 2024 findings to a 2015 qualitative study on consumers’ perceptions of mobile financial technologies, noting that more consumers are comfortable using these products today.

Following the presentation, Committee members discussed ways to help consumers distinguish between banks and non-bank entities, reasons that consumers may choose non-bank entities instead of banks, improving consumers’ experience with banks, and issues surrounding security and protection and the need to combat industry wide fraud. Members called attention to the peer-to-peer payment needs being met by non-bank entities. Members also highlighted the relationship-based elements of banking. Several members suggested that banks provide a more personalized approach to consumers, including by developing customizable platforms and proactively reaching out to customers with offers and eligibility notifications for products and services.

The meeting the recessed from 2:54 p.m. to 3:08 p.m.

Proposed FDIC Rulemaking on Custodial Deposit Accounts with Transaction Features and Prompt Payment of Deposit Insurance to Depositors

Ms. Ortiz introduced panel moderator, Luke Brown, Associate Director, DCP. Mr. Brown provided an overview of the presentation and introduced the panelists Meron Wondwosen, Assistant Director, DCP; Shivali Nangia, Assistant Director, Claims and Strategic Operations, the Division of Resolutions and Receivership; and James Watts, Counsel, Legal Division.

Ms. Wondwosen began by noting that the FDIC’s Board of Directors approved a notice of proposed rulemaking to establish new standards to strengthen the recordkeeping requirements for certain FDIC-insured banks on September 17, 2024 (proposed rule). Ms. Wondwosen shared the impetus for the proposed rule, describing how non-bank technological innovations are changing the way consumers access financial products and services. She explained that, because of these innovations, non-bank entities and some banks are engaging in third-party relationships through which the banks accept deposits from non-bank entities that have accepted those deposits on behalf of consumers. The proposed rule seeks to reduce certain risks associated with these third-party custodial account arrangements and would be applicable to FDIC-insured banks engaged in such relationships.

Ms. Nangia explained that custodial accounts are generally FDIC-insured with pass-through deposit insurance. Upon failure of a bank, the FDIC makes deposit insurance determinations including determinations related to pass-through deposit insurance. For many third-party relationships, the FDIC relies on records of the third-party entity to identify insured depositors and their deposits. Pass-through deposit insurance regulations govern third-party recordkeeping requirements.

Ms. Nangia described the risks associated with inadequate third-party recordkeeping in the event of a bank or non-bank's failure, as evidenced by the recent bankruptcy of Synapse, and the importance of improving recordkeeping for custodial account arrangements to avoid these risks.

Mr. Watts then summarized the proposed rule, explaining that it would impose new recordkeeping and internal control requirements on custodial deposit accounts with transactional features. Mr. Watts explained in greater detail the proposed recordkeeping requirements, account-based exemptions, internal control requirements, and annual reporting and compliance certification requirements. Mr. Watts also described what constitutes a custodial account with transactional features as an account that: (1) is established for the benefit of beneficial owners, (2) holds comingled funds on behalf of multiple beneficial owners, and (3) allows a beneficial owner to authorize or direct a transfer through the account holder from the account to a party other than the account holder or beneficial owner.

Mr. Watts turned it back over to Ms. Nangia, who noted that the proposed rule allows banks to maintain records using third party vendors and service providers, subject to certain requirements.

Following the presentation, Committee members discussed the applicability of the proposed rule to certain account types; compliance-related issues, including due diligence requirements and reconciliation; and improving transparency surrounding FDIC deposit insurance representations. Members also discussed inquiries related to the FDIC's authority to examine non-bank third parties and third-party auditing. Committee members finally discussed administrative-related matters, including an outstanding request for an extension to the public comment period of the proposed rule and ensuring adequate implementation and compliance dates.

Closing Remarks

Chairman Gruenberg delivered closing comments on the content of the presentations and thanked the members for their contributions to the meeting.

There being no further business, the meeting was adjourned at 4:03 p.m.

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Debra A. Decker
Executive Secretary
Federal Deposit Insurance Corporation
And Committee Management Officer
FDIC Advisory Committee on Economic Inclusion

Minutes

of

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I hereby certify that, to the best of my knowledge, the attached minutes are accurate and complete.

Martin J. Gruenberg
Chairman
Board of Directors
Federal Deposit Insurance Corporation