

FDIC Model Safe Accounts Pilot

Final Report

Federal Deposit
Insurance Corporation



April 2012

Executive Summary

The FDIC is committed to ensuring that all consumers have access to safe and affordable banking services at federally insured financial institutions. On January 1, 2011, the FDIC launched a one-year pilot program, the Model Safe Accounts Pilot, with nine financial institutions to determine the feasibility of offering safe, low-cost transaction and basic savings accounts (Safe Accounts) to help meet the needs of underserved and low- and moderate-income (LMI) consumers.

Safe Accounts are checkless, card-based electronic accounts that allow withdrawals only through automated teller machines, point-of-sale terminals, automated clearinghouse preauthorizations, and other automated means. Because they are driven largely by electronic payments, Safe Accounts have limited acquisition and maintenance costs. These accounts followed the FDIC Model Safe Accounts Template, which focuses on lower-cost, electronic payments and prohibits overdraft or nonsufficient funds fees. Most pilot institutions set up programs tailored to the needs of specific consumer segments, such as young adults and unbanked individuals who previously had been banked.

Each quarter the FDIC collected basic information about the number of Safe Accounts opened and closed, and the average opening and monthly balances. Major findings from the pilot include the following:

- More than 3,500 Safe Accounts—662 transaction accounts and 2,883 savings accounts—were opened during the one-year pilot.
 - Account retention rates exceeded pilot institution expectations, with more than 80 percent of transaction accounts and 95 percent of savings accounts remaining open at the end of the pilot.
 - The monthly balance was fairly consistent across institution transaction accounts, averaging \$243 during the pilot period. For savings accounts, the balances varied widely, depending on the institution's particular business model and savings program.
- Most institutions reported that the cost of offering Safe Accounts was roughly the same if not lower than the costs of offering other accounts because the pilot accounts do not have any paper check-related costs.
 - Calculating the cost recovery or profitability of Safe Accounts was a challenge largely because pilot institutions tended to have different accounting methodologies, varied business operations, and technology infrastructure limitations.
- The participating institutions shared a number of valuable insights and lessons learned, including the following:
- Many different business models emerged, suggesting that the FDIC Model Safe Accounts Template is flexible enough to be used in a wide variety of circumstances. Pilot institutions used a partnership model, re-entrant model, new entrant model, cross-selling model, or Internet model.
 - Real time, front-line relationship building was important. Many of the pilot institutions trained their tellers and customer service representatives to offer Safe Accounts and provide basic financial education to potential customers who would be ineligible for other deposit accounts.
 - Pilot institutions reported a relatively low risk of overdrafts, and some pilot institutions stated that they found Safe Accounts to be no more risky than other deposit accounts.
 - Several pilot institutions stated that any concerns that they may have harbored about potential fraud risks at the beginning of the pilot were not realized.
- Pilot banks noted some challenges with traditional marketing and outreach strategies, but reported that training staff about the benefits of Safe Accounts and how to offer them to underserved and LMI consumers was often a successful strategy. For many banks, one

of the most effective ways to reach potential customers was through the operation's front line—teller windows or customer service desks. Pilot banks also reported that collaborating with community-based partners was useful for identifying target consumers.

The results of this one-year pilot suggest that opportunities exist for financial institutions to offer safe, low-cost transaction and savings accounts to underserved and LMI consumers. The fact that a large proportion of accountholders remained banked during the first year suggests that consumers can maintain successful banking relationships using Safe Accounts. The relatively low overdraft risk, in combination with the higher retention rates, suggests that Safe Accounts may have greater longevity and lower costs than other deposit accounts. Safe Accounts performed on par with or better than other transaction and savings accounts.

As a voluntary pilot project with nine institutions, the information collected on the accounts cannot be taken to represent the banking industry or consumers nationwide. Rather, the descriptive data provided in this report are simply the combined account information for all pilot institutions and, as such, provide insights about these institutions' experiences and observations.

Undertaking this pilot was important to informing the FDIC's efforts on economic inclusion. For example, the banks' experiences suggest that the FDIC may choose to revise the Model Safe Accounts Template by decreasing the emphasis on auxiliary services in the early stages of customer banking relationships. Overall, most participating institutions reported that they learned valuable lessons from the pilot and were encouraged by their initial experience of offering a safe, low-cost alternative that appeared to meet the needs of underserved and LMI consumers.

Model Safe Accounts Pilot

Introduction

On January 1, 2011, the FDIC launched a one-year pilot, the FDIC Model Safe Accounts Pilot, with nine financial institutions to determine the feasibility of offering safe, low-cost transaction and savings accounts (Safe Accounts) to help meet the needs of underserved and low- and moderate-income (LMI) consumers. Safe Accounts are checkless, card-based electronic accounts that limit acquisition and maintenance costs. These accounts allow withdrawals only through automated teller machines, point-of-sale terminals, automated clearinghouse preauthorizations, and other automated means. Overdraft and nonsufficient funds fees are prohibited with the transaction accounts. Because they are driven largely by electronic payments, Safe Accounts have limited acquisition and maintenance costs. Safe Account funds are FDIC-insured and are subject to applicable federal and state consumer protection laws. Figure 1 lists the names of the nine institutions selected for the pilot, as well as their asset size and location.

This report discusses the FDIC's broader economic inclusion efforts, the pilot's results, the lessons learned, and the challenges encountered during the pilot. The pilot showed that safe, low-cost accounts are valuable to consumers and feasible for banks. Several business models for deploying these accounts emerged from the pilot. As a result, pilot institutions adopted diverse outreach and marketing strategies to reach specific consumer markets.

Banks opened more than 3,500 Safe Accounts during the pilot. Retention of these accounts exceeded expectations. More than 80 percent of transaction accounts and 95 percent of savings accounts remained open at the end of the one-year pilot period. Safe Accounts performed on par with or better than other transaction and savings accounts.

The institutions viewed the pilot experience as valuable, and many found that Safe Accounts could help grow their customer base. Several institutions plan to continue to offer Safe Accounts, and some spoke about the possibility of graduating pilot accountholders to traditional deposit accounts. Insights from this pilot suggest that more institutions might find it attractive to offer safe, low-cost accounts to underserved consumers.

Promoting Consumer Access to Safe Financial Services Products

The FDIC is committed to ensuring that all consumers have access to safe and affordable banking services at federally insured financial institutions. Participation in mainstream financial markets improves consumers' ability to build assets and create wealth; promotes

Figure 1

FDIC Model Safe Accounts Pilot Participating Financial Institutions	
Name of Institution	Asset Size (\$000s)*
Bath Savings Institution Bath, Maine	636,748
Citibank New York, New York	1,288,658,000
Cross County Savings Bank Middle Village, New York	411,653
First State Bank Union City, Tennessee	1,646,228
ING DIRECT Wilmington, Delaware	92,212,498
Liberty Bank and Trust Company New Orleans, Louisiana	559,358
Pinnacle Bank Lincoln, Nebraska	3,171,239
South Central Bank Glasgow, Kentucky	276,250
Webster Five Cents Savings Bank Webster, Massachusetts	558,872

*Note: Total assets as of December 31, 2011.
Source: FDIC

savings and financial stability; helps protect consumers from theft and discriminatory, predatory, or otherwise deleterious lending practices; and provides a financial safety net against unforeseen circumstances. Access to banking services at an insured financial institution also ensures that consumer funds are safeguarded from loss and that they benefit from statutory protections.

Guaranteed federal deposit insurance is fundamental to promoting confidence in the banking system and is the foundation of a safe and secure financial system.¹ Consumers who hold deposit accounts at insured financial institutions benefit from never having to worry whether their money is at risk, up to the insurance limit. Applicable state and federal consumer protection laws also provide many other consumer rights. For example, the Electronic Funds Transfer Act, implemented by Regulation E, protects consumers who use electronic funds transfers, with regard to dispute resolution and the availability of account statements.²

As part of its commitment to economic inclusion, the FDIC sponsors two biennial surveys to better understand the demand for and supply of financial services for underserved consumers.³ The first survey, the FDIC Survey of Unbanked and Underbanked Households (Household Survey), is conducted as a special supplement to the U.S. Census Bureau's Current Population Survey. The 2009 survey findings determined that an estimated 7.7 percent of U.S. households, representing approximately 9 million households (accounting for at least 17 million adults), were unbanked. Approximately one-half of all unbanked consumers previously held a bank account at an insured financial institution. Unbanked consumers cited various reasons for not holding a bank account.

¹ More information about FDIC insurance coverage is available at <http://www.fdic.gov/deposit/>.

² More information about Regulation E is available at <http://www.consumerfinance.gov/guidance/supervision/manual/efita-narrative/>.

³ Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (Reform Act) requires that the FDIC conduct surveys to determine how the financial services industry is serving unbanked and underbanked households and to identify the financial services used among these households.

The most common explanations were not having enough money, incurring too many overdrafts, not wanting or needing an account or not seeing the value of an account, and not trusting banks.⁴ The second survey, the FDIC Survey of Banks' Efforts to Serve the Unbanked and Underbanked (Bank Survey), is a nationwide survey of FDIC-insured depository institutions that reports on banks' efforts to serve unbanked and underbanked individuals and families. This survey, also published in 2009, found that most banks were aware that their market areas contained significant unbanked and underbanked populations, but relatively few banks had made it a priority to target these market segments. Moreover, many banks offered basic checking accounts to all customers, but few offered deposit, payment, credit, and electronic products that address the differentiated needs of unbanked and underbanked customers.⁵

The findings from the Household and Bank Surveys help inform FDIC policy and provide the basis for initiatives like the FDIC Model Safe Accounts Pilot. Underserved and LMI consumers would benefit from obtaining safe, reasonably priced, opportunities to cash checks, store and save funds, gain access to cash when needed, pay bills, purchase money orders, make account-to-account money transfers, and send or receive remittances. The findings from the FDIC Model Safe Accounts Pilot provide insights into the feasibility of offering safe, low-cost accounts that allow unbanked individuals to establish bank relationships or bring former bank customers back into the system.

Participating pilot institutions offered electronic, card-based deposit accounts with product features identified in the FDIC Model Safe Accounts Template.

⁴ See FDIC December 2009 Household Survey report.

⁵ The December 2009 Household Survey report can be accessed at <http://www.economicinclusion.gov/>, and the Bank Survey report published in February 2009 can be accessed at <http://www.fdic.gov/unbankedsurveys/2008survey/index.html>. Administration of the second Household and Bank surveys will result in reports expected to be published in 2012.

The Template provides guidelines about the core and auxiliary features and fees for transaction and savings accounts.⁶

Listed below are the main features and fees included in the Template.

- Overdraft and NSF fees are prohibited for transaction accounts.
- Opening balance requirements are low. Transaction accounts can be opened with as little as \$10, and savings accounts can be opened with as little as \$5.
- Monthly balance requirements are low. The Template suggests minimum monthly balances of \$1 and \$5 for transaction and savings accounts, respectively.

Pilot Results

Each quarter during the 2011 pilot period, participating banks submitted brief reports on the number of accounts opened, the number of accounts closed, account balances, and other data on account features. To collect more subjective and difficult-to-quantify information, the FDIC called each institution every quarter. These conversations provided additional details on the accounts, the operation of the pilot, and the institutions' unique challenges and circumstances.

As a voluntary pilot project with nine institutions, the information collected on the accounts cannot be taken to represent the banking industry or consumers nationwide. Rather, the descriptive data provided in this report are simply the combined account information for all pilot institutions and, as such, provide insights about these institutions' experiences and observations.

In all, the nine participating banks opened more than 3,500 transaction and savings accounts during the pilot.

⁶ For more information about the features and fees included in the FDIC Model Safe Accounts Template, see Figure 5.

Transaction Accounts

Most of the pilot institutions focused primarily on transaction accounts, which generally serve customers coming into the banking system for the first time or re-entering the banking system. Seven of the nine pilot banks offered both types of Safe Accounts—transaction and savings—while two institutions offered only savings accounts. Those seven pilot banks opened 662 transaction accounts during the pilot period. As shown in Figure 2, pilot transaction account openings were fairly consistent from quarter to quarter, ranging from about 130 to 190 per quarter. The number of accounts opened by each institution varied, but most banks opened approximately 10 to 25 each quarter, and between 50 and 100 for the year.

One promising result of the pilot is that a relatively small number of accounts were closed. Of the 662 pilot transaction accounts opened, 126 (about 20 percent) had closed by the end of the fourth quarter, leaving 536 pilot transaction accounts open. As expected, the number of closed accounts climbed throughout the pilot as more accounts were opened and the accounts became seasoned; however, the overall account retention rate at the end of the pilot exceeded 80 percent, implying that the accounts are sustainable. Conversations with the banks confirmed that the retention rates were at least as good as, and often better than, those on other transaction accounts at the institutions, and some bankers stated that the account performance exceeded their expectations.

Although roughly 20 percent of the transaction accounts were closed by the end of the pilot, industry sources suggest that up to 30 percent of new account holders close their account during the first year. The lower pilot account closures offer some optimism that these accounts may have performed at least as well as if not better than the industry average.⁷ The relatively high Safe Accounts retention rates suggest that opportunities exist for keeping consumers in successful banking relationships using Safe Accounts.

⁷ See "Cut New Account Holder Attrition in Half," Quarterly Industry Newsletter, Harland and Clark, accessed at <http://harlandclarke.com>, December 2011, and Retail Banking Data Statistics, Insight Ecosystems, accessed at www.insightecosystems.com/Resources/Statistics.aspx, December 2011.

Figure 2

FDIC Model Safe Accounts Pilot Transaction Account Openings and Retention					
	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Total</u>
Accounts Opened	173	167	189	133	662
Accounts Closed	8	23	50	45	126
Retention Rate					81%

Source: FDIC

Figure 3 shows that pilot institution transaction accounts were opened with an average of \$244.20 over the pilot period. Most banks saw transaction accounts opened with an average of between \$200 and \$400. Institutions reported average monthly balances that were more consistent across quarters: between \$200 and \$300 each quarter, or \$242.89 across all four quarters.

Figure 3

FDIC Model Safe Accounts Pilot Banks' Transaction Account Balances*					
	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Average</u>
Opening Balance					
Mean	\$179.57	\$219.08	\$402.83	\$175.31	\$244.20
Median	\$222.00	\$180.00	\$290.23	\$90.91	
Monthly Balance					
Mean	\$235.02	\$237.45	\$291.69	\$207.40	\$242.89
Median	\$235.00	\$230.06	\$246.87	\$183.81	

*Notes: Means and medians presented in this table are calculated based on the averages of the participating institutions and are not based on account-level data.
Source: FDIC

Savings Accounts

Several pilot institutions said they perceived greater customer need and demand for the pilot transaction accounts than the pilot savings accounts, and that customers found it challenging to set aside the additional funds required to maintain a savings account while also trying to manage a pilot transaction account. However, other pilot banks opened large numbers of pilot savings accounts and reported few concerns with consumer use.

As mentioned above, seven of the nine pilot banks opened both types of pilot accounts, and two institutions opened only savings accounts. As shown in Figure 4, banks opened 2,883 savings accounts during the pilot. The number of pilot savings accounts opened each quarter varied between approximately 600 and 800. The number of accounts opened by individual institutions differed dramatically, depending on the institution's program, and ranged from less than 20 to more than 1,000.

Like the pilot transaction accounts, retention rates on pilot savings accounts were high. Of the 2,883 savings accounts opened as part of the pilot, only 141 had closed by the end of 2011, leaving 2,742 open. At the conclusion of the pilot, the retention rate for savings accounts was 95 percent. The retention rate was consistent across institutions, regardless of the program or business model used. Pilot institutions reported that they were pleased with the retention and performance of the pilot savings accounts.

Although retention rates were high, banks' experiences with the pilot savings accounts varied widely because institutions used different business models. Some banks focused exclusively on pilot savings accounts, while others considered savings account openings secondary to pilot transaction account openings. For example, while one bank offered pilot savings accounts in conjunction with a very narrowly targeted program run by a large nonprofit organization, other banks offered the accounts more widely, to a broader range of customers. As a result, average opening and monthly balances on the pilot savings accounts ranged from \$20 to over \$3,000.

Figure 4

	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>	<u>Total</u>
Accounts Opened	824	617	693	749	2,883
Accounts Closed	13	37	53	38	141
Retention Rate					95%

Source: FDIC

Costs and Feasibility

The pilot institutions had difficulty calculating the cost recovery or profitability of Safe Accounts. They did not uniformly define and allocate fixed and variable costs. Further, the business operations for the institution’s portfolio of financial products likely differed somewhat from the business operation needed to run a one-year pilot. Information technology infrastructure limitations also made it difficult to monitor and track costs and revenues for single lines of business, such as the Safe Accounts, and not all financial institutions chose to do so because of the added cost.

In discussing the viability of offering these accounts, many pilot institutions reported that the marginal costs of the accounts were nominal or approached zero. The revenues generated from interchange fees earned on the debit card transactions and possibly from revenues collected for the monthly maintenance fees could help cover the costs associated with Safe Accounts, making them a viable product in the marketplace.

When asked how these accounts compared to their other deposit accounts, most of the pilot institutions reported that the cost of offering Safe Accounts was roughly the same if not lower because the pilot accounts do not have paper check-related costs. Institutions also said that the potential overdraft risk was relatively low. In fact, a number of the banks stated that they found the Safe Accounts to be no more risky than other deposit accounts and may have actually been less risky. Coupling the relatively low overdraft risk with the higher account retention rates suggests that Safe Accounts may have greater longevity and lower acquisition costs than other accounts.

Lessons Learned

During quarterly conversations, institutions shared some of the lessons they learned during the one-year pilot. Of particular importance was the emergence of different business models among pilot institutions; the value of real time, front-line relationship building; and the rarity of account fraud and overdrafts. Pilot institutions also found that performance measures such as Safe Account retention rates exceeded their expectations.

Different Business Models Emerged. A variety of business models emerged from the pilot, demonstrating that the Model Safe Accounts Template is flexible enough to be used in a wide variety of circumstances and can be tailored to meet the needs of specific consumer segments within the institution’s footprint, or offered more broadly. The business models should not be viewed as mutually exclusive. Indeed, several pilot institutions found it particularly helpful to use a blended approach that included features from more than one of the following business models.

Partnership Model – Several institutions established and leveraged partnerships with third parties as a way to advance outreach and marketing efforts and to identify potential account applicants. Numerous pilot institutions partnered with nonprofit organizations, community groups, businesses, and local or state government agencies and officials to conduct outreach and market Safe Accounts to underserved consumers. Banks described partnerships that took several forms, from working with a well-established, worldwide nonprofit microfinance organization to collaborating with a local temporary employment agency and offering pilot transaction accounts to unbanked workers. Pilot institutions found partnerships to be particularly useful in reaching the targeted unbanked and underbanked consumers.

Pilot banks reported that identifying suitable partners and developing relationships was a challenging process that often took time. Nonetheless, several institutions were committed to pursuing longer-term, relationship-building efforts with organizations in their communities. In these cases, some of the relationships likely will continue after the one-year pilot.

Re-Entrant Model – Several pilot institutions offered Safe Accounts as “second chance” accounts to consumers who had prior banking problems and were listed with a consumer reporting agency such as ChexSystems, or who otherwise were ineligible to open a deposit account.⁸ Banks that used this model were pleased that they could help these consumers rejoin the financial mainstream.

New Entrant Model – A number of pilot institutions marketed Safe Accounts to individuals who had never had a bank account, especially young adults. For example, one bank used this model to provide transaction accounts to at-risk young adults in conjunction with a job training program.

Cross-Selling Model – Several pilot institutions that focused primarily on either savings or transaction accounts took the opportunity to cross sell the other account type. One of the savings institutions, for example, offered transaction accounts to its existing savings account customers, while other institutions offered both types of accounts to applicants who came in seeking an account.

Internet Model – One pilot institution ran its operations entirely through an Internet platform. The institution launched several marketing and advertising campaigns to offer savings accounts to consumers in four distinct markets.

⁸ ChexSystems is a consumer reporting service used by financial institutions to keep track of negative information relating to how consumers manage or use their deposit accounts, such as repeatedly overdrawing accounts or depositing fraudulent checks. More information about ChexSystems is available at www.consumerdebit.com/consumerinfo/us/en/index.htm.

Real Time, Front-Line Relationship Building Was Important. For many banks, one of the most effective ways to reach potential customers was through the operation’s front line—teller windows or customer service desks. Many pilot institutions trained their tellers and customer service representatives to offer Safe Accounts to potential customers who would be ineligible for other deposit accounts because of banking history problems, low incomes and/or account balances, or other risk factors. This training also included helping consumers understand how to manage and monitor their accounts. Tellers provided useful, hands-on financial education, an important step toward relationship building. As a result of effective teller training, several institutions were better able to match consumers with viable, safe deposit accounts. Banks reported that in the absence of this option, many of these customers would likely have been turned away.

Concerns About Risk Not Realized. A few institutions shared their initial concerns about the potential risk of opening accounts to consumers who either had no experience or bad experiences with mainstream financial institutions. Some institutions were concerned about fraud and worried that accountholders would try to take advantage of the institution by, for example, making empty envelope deposits or purchasing third-party checks for the pilot’s checkless, card-based account. Fortunately, instances of fraud or intentional mismanagement were rare and isolated. Banks reported that account performance, in terms of retention rates and overdraft risk, exceeded their expectations. Importantly, even though these accounts were designed not to include overdraft fees and were set up to minimize the potential for an accountholder to overdraft their account, some institutions believed that offline transactions would make overdrafts possible. However, pilot banks overwhelmingly reported that the instances of overages on the accounts were no higher than those experienced on other deposit accounts. At the conclusion of the pilot, several institutions spoke about how their experience with the pilot allayed their concerns about potential fraud and overdraft risks.

Challenges

The challenges institutions experienced during the pilot primarily focused on marketing, advertising, and developing relationships with consumers either unfamiliar with or wary of banks.

Marketing and Advertising. Several institutions said they found it challenging to effectively market and advertise the Safe Accounts. Some banks mentioned that budgetary and resource constraints, exacerbated by difficult local economic conditions, limited the time and money spent on advertising. Other banks found it difficult to reach the intended customers, without being so broad as to lower applicant quality.

Establishing a Presence in New Markets. Several banks spoke about the challenge of reaching potential customers in communities with a strong presence of nonbank financial services providers. Because of this competition, pilot banks found it difficult to reach residents who were more familiar with those providers. These consumers also may have had either little experience with banks or may have had a negative perception of banks.

Ensuring Adequate Staff Training. A few institutions described the importance of providing effective staff training on Safe Accounts. While staff training was an effective way to reach potential customers, a few institutions said that they had to help staff adapt to the Safe Accounts business model, which often had more flexible eligibility requirements than other accounts. As a result, institutions successfully trained their staff on how to offer the accounts to unbanked and underbanked consumers, helping these consumers to return to the financial mainstream.

Some banks overcame these challenges by working with community-based partners, others turned to their own branch staff to spread the word, and some tested more traditional approaches such as direct mail and email. Most bankers viewed participation in the pilot as a valuable venue for learning more about how to market and conduct outreach to consumers who have always been unbanked, to those who were formerly banked, and to the underbanked.

FDIC Model Safe Accounts Template

Every bank that participated in the FDIC Model Safe Accounts Pilot agreed to offer transaction accounts, savings accounts, or both according to the guidelines in the FDIC Model Safe Accounts Template. The Template establishes criteria for transaction and savings accounts that are safe and affordable for consumers and cost-effective for banks.

Background

On April 1, 2010, the FDIC shared with its Advisory Committee on Economic Inclusion (ComE-IN) a draft Model Safe Accounts Template for discussion and comment. The FDIC incorporated feedback from the ComE-IN and on May 7, 2010, published the draft Template for public comment. The FDIC received 46 comments by the June 6, 2010 deadline. After considering the comments, the FDIC presented a revised Template for additional discussion and comment at a second ComE-IN meeting on June 24, 2010. On August 10, 2010, the FDIC Board of Directors approved the FDIC Model Safe Accounts Pilot, based on the Template displayed in Figure 5.⁹

Guiding Principles of the FDIC Model Safe Accounts Template

The Template describes checkless, card-based, electronic accounts that do not permit overdraft or NSF fees. These features are integral to the goal of providing consumers with safe, low-cost accounts that are also feasible for banks. Overdrafts also are one of the reasons why previously banked consumers closed their accounts, making the curtailment of overdraft and NSF fees important for the FDIC's economic inclusion mission. However, during the comment process on the Template and the selection process of banks for the pilot, it became clear that some banks hesitated to give up the substantial revenue that these fees generated.

⁹ More information about the FDIC's efforts for the Model Safe Accounts Pilot and the creation of the Template is available at <http://www.fdic.gov/consumers/template/>.

Figure 5

The FDIC Model Safe Accounts Template provides insured institutions with guidelines for offering cost-effective transaction and savings accounts that are safe and affordable for consumers. The electronic deposit accounts are designed to meet the needs of underserved consumers. The accounts reflect the following guiding principles: transparent rates and fees that are reasonable and proportional to costs, access to banking services that feature FDIC insurance, and the protections afforded by applicable federal and state consumer protection laws, regulations, and guidelines. Standard customer identification rules would apply, including verification through the use of a variety of well-established, permissible forms of identification (see 31 C.F.R. § 1020.220). FDIC Model Safe Accounts also would be subject to all other applicable federal and state laws and regulations.

Elements of the FDIC Model Safe Accounts		
	Transaction Account	Basic Savings Account
Core Features and Fees		
Card-based electronic account	√	√
No overdraft or NSF fees	√	--
Interest bearing	--	√
Direct deposit	Free	Free
Automatic saving	Free	Free
Online and mobile banking/ bill pay	Free	Free
Electronic statements (with consumer's consent)	Free	Free
Opening balance	\$10 - \$25	\$5
Monthly minimum balance	\$1	\$5
Monthly maintenance fee	Up to \$3	None, if minimum balance is met
Money orders/e-checks	2 free per month, additional for a fee that is reasonable and proportional to the cost	--
Check cashing	Drawn on insured institution: Free Not drawn on insured institution: Fee that is reasonable and proportional to cost	Drawn on insured institution: Free Not drawn on insured institution: Fee that is reasonable and proportional to cost
General funds availability (subject to appropriate exceptions, e.g. large deposits)	Same day or next day from an established customer	Same day or next day from an established customer
Auxiliary Services and Fees		
Financial education	Free	Free
Linked savings account	Transfer fees that are reasonable and proportional to cost	--
Line of credit	Rates and fees that are reasonable and proportional to cost	--
Small-dollar loans (less than \$2500)	Terms and conditions consistent with the FDIC's Safe, Affordable, and Feasible Template for Small-Dollar Loans	Terms and conditions consistent with the FDIC's Safe, Affordable, and Feasible Template for Small-Dollar Loans
Kiosk bill payment	Fees that are reasonable and proportional to cost	Fees that are reasonable and proportional to cost
Domestic and international wire transfers	Fees that are reasonable and proportional to cost	Fees that are reasonable and proportional to cost

Because the Template provides for accounts that are checkless and electronic, the possibility of overages is reduced, lowering the risk for banks. These electronic accounts also reduce bank maintenance costs, making the accounts more feasible to offer in the absence of revenue from overdraft fees.

Opening Balance and Monthly Minimum Balance

For transaction accounts, the Template suggests an opening balance of between \$10 and \$25 and a monthly minimum balance of no more than \$1. For savings accounts, the Template suggests an opening balance of \$5 and allows for a monthly minimum balance of \$5 in order for consumers to avoid a monthly maintenance fee. These parameters were designed to remove common barriers to opening a deposit account for consumers. Pilot banks reported that these account features were reasonable.

Monthly Maintenance Fee

For transaction accounts, the Template allows for a monthly maintenance fee of no more than \$3. The fee is designed to generate revenue for banks while still allowing the account to remain affordable for consumers. Several banks in the pilot chose not to charge a monthly maintenance fee, while a few banks did charge a fee. The banks that charged a fee said that the revenue it generated supplemented other revenue sources, like interchange fees, helping to sustain the accounts. Pilot participants suggested that a monthly maintenance fee that is reasonable and proportional to cost allows institutions the flexibility to account for factors such as regional cost differentials.

Direct Deposit

The ability of the consumer to benefit from direct deposit depends on the willingness of the employer to either work with their financial institution or third-party payroll processor to offer this option to employees. Most pilot banks did not have the capacity to monitor Safe Accounts for direct deposit use, but virtually all agreed that this feature would be advantageous to their customers and their institution because of the reduced processing costs as well as lower account funding risk associated with direct deposit.

Electronic Statements

Electronic statements were included in the Template as an option to consumers because they are important in helping reduce account maintenance costs for banks, which was supported by the pilot results. One bank that charged a monthly maintenance fee plans on continuing to offer Safe Accounts but will only charge a maintenance fee to consumers who receive paper statements. Another bank stated that electronic statements save their bank \$1 per account every month.

Money Orders and E-Checks

The Template is designed to allow consumers to meet all of their banking needs within the banking system. The Template included money orders or e-checks so consumers had a non-electronic payment option for rent and other bills. During the pilot, many banks said that few accountholders expressed or showed interest in obtaining money orders or e-checks, while others stated that some accountholders did obtain these products, but that the number was difficult to track. Even for those banks that observed accountholders getting money orders or e-checks from the teller, the occurrence seemed to be infrequent. While difficult to trace in the pilot, it would be helpful to learn whether some accountholders used their debit card and cash in lieu of money orders and e-checks or whether they obtained money orders or e-checks from nonbank sources such as post offices, check cashers, or retail establishments.

Online and Mobile Banking and Bill Pay

Pilot banks reported low consumer usage of bill pay services. This feature was intended to give consumers an additional means to conduct transactions without paper checks. However, one bank suggested that it was easier for consumers to pay bills over the phone using their debit card number. Online and mobile banking were included in the Template to provide consumers with more ways to make transactions at little additional cost to banks. By offering online and mobile banking and bill pay, banks can encourage consumers to use lower-cost financial services delivery channels, lowering overall maintenance costs. As financial services evolve, these features may become more important.

Check Cashing and Funds Availability

The check cashing and funds availability elements of the Template were intended to address the day-to-day financial fragility of some underserved and LMI consumers and to respond to their need for immediate access to their funds on payday. The funds availability element in the Template mirrors existing legal requirements and encourages banks to be more flexible about making funds available immediately if they choose to offer this option.¹⁰ Check-cashing services may also help ease the transition for consumers entering or re-entering the financial mainstream after a period of relying on nonbank financial services providers. However, at least one bank was reluctant to cash checks because it did not want to be misassociated with the nonbank financial services industry. However, funds availability is an important element in serving LMI consumers. To address these concerns, some banks promoted financial education and direct deposit to decrease the need for check cashing and support more sustainable banking habits for consumers.

Automatic Savings

The pilot institutions reported that automatic saving is a relatively sophisticated banking service that may be beyond the scope of the Template. For consumers just entering the financial mainstream or re-entering the banking system, long-term, regular saving may not be an immediate priority and may not seem feasible to them at account opening. However, saving and financial stability are important goals that benefit all consumers. Opening a transaction account is an important first step for consumers trying to reach financial stability and enjoy economic inclusion. Opening a safe, low-cost savings account might be considered a valuable second step for some consumers. When ready, consumers can benefit from automatic savings. However, according to the pilot banks, consumers seldom requested or used automatic saving.

¹⁰ Funds availability is covered by Regulation CC. More information is available at <http://www.federalreserve.gov/pubs/regcc/regcc.htm>.

Financial Education

Many pilot banks offered financial education to consumers. The most successful financial education focused on the basics of how a consumer uses the Safe Accounts. Tellers usually delivered this information in one-on-one discussions with consumers. This type of financial education is integral to helping consumers build financial stability, and it promotes trust and positive relationships between consumers and banks.

Auxiliary Services

Also included in the Template was a list of auxiliary services, such as small dollar loans or line-of-credit products, that banks could offer accountholders. Pilot institutions were most interested in offering consumers transaction and/or basic savings accounts, and consumers were focused on the basic mechanics of opening and maintaining one or both of these accounts. Most of the auxiliary features were either beyond the immediate basic financial needs of pilot accountholders or did not interest the bank or the accountholder. However, pilot banks viewed credit products and features, such as linked savings accounts, as potentially useful for customers as their banking relationship matures.

Conclusion

The results of the Model Safe Accounts Pilot suggest that opportunities exist for financial institutions to offer safe, low-cost transaction and savings accounts to underserved and LMI consumers. Perhaps the most encouraging finding was the high account retention rates. The fact that a large proportion of accountholders remained banked during the first year suggests that consumers can maintain successful banking relationships using Safe Accounts.

Pilot institutions reported relatively low overdraft risk on these accounts, and a number of institutions stated that they found Safe Accounts to be no more risky than other deposit accounts. Pilot participants also learned that fraud concerns were largely unfounded. In general, the relatively low overdraft risk, in combination with the higher retention rates, suggests that Safe Accounts may have greater longevity and lower costs compared to other deposit accounts.

Pilot banks noted some challenges with traditional marketing and outreach strategies, but they reported that training staff about the benefits of Safe Accounts and how to offer them to unbanked and underbanked consumers was a successful strategy. For many banks, one of the most effective ways to reach potential customers was through the operation's front line—teller windows or customer service desks. Pilot banks trained tellers not only to identify potential customers for these accounts but also to provide account management financial education. Pilot banks also reported that collaborating with community-based partners was a useful technique for identifying target consumers. Pilot institutions set up programs that were tailored to meet the needs of specific consumer segments such as college students and unbanked individuals who previously had been banked.

Safe Accounts followed the FDIC Model Safe Accounts Template, which focused on lower-cost, electronic payments and the prohibition of overdraft or NSF fees. Many business models emerged from the pilot, demonstrating that the Template is flexible, and across models, banks deemed the accounts successful on a number of measures. Pilot banks' experiences suggest potential improvements to the Template, such as decreasing emphasis on the importance of auxiliary services in the early stages of customers' banking relationship.

Undertaking this pilot was important to informing the FDIC's efforts on economic inclusion. Participating institutions reported that they gained valuable information from the pilot and were encouraged by their initial experiences offering a safe, low-cost alternative that appeared to meet the needs of underserved and LMI consumers.

Authors:

Sherrie L.W. Rhine, Senior Economist, Division of Depositor and Consumer Protection; srhine@fdic.gov

Susan Burhouse, Senior Financial Economist, Division of Depositor and Consumer Protection; sburhouse@fdic.gov

The authors would like to thank Michael Barry for his valued assistance with this report, and the successful launch and completion of the pilot. In addition, we thank the staff at all of the banks that participated in the FDIC Model Safe Accounts Pilot for volunteering to work with us and sharing their experiences and insights throughout the pilot. We are grateful to Bath Savings Institution, Citibank, Cross County Savings Bank, First State Bank, ING DIRECT, Liberty Bank and Trust Company, Pinnacle Bank, South Central Bank and Webster Five Cents Savings Bank for their hard work and dedication to the project.

Brief Description Of Pilot Institutions

Bath Savings Institution

Bath, Maine

Bath Savings, a mutual savings bank, offered a new eSafe transaction account and its existing Basic Savings account at its locations in coastal Maine. Not all of the institution's savings customers are transaction account customers, so Bath Savings marketed its new eSafe transaction account to existing savings account customers. This cross-selling opportunity was a way for the bank to broaden its product offerings and provide increased value to its customers. The bank opened eSafe Accounts as second chance accounts for unbanked consumers and as first transaction accounts for college students in the area. The bank trained its employees to identify a variety of opportunities to promote eSafe Accounts across customer market segments; personalized marketing was found to be a particularly effective strategy. Bath Savings staff was trained to identify a variety of opportunities to promote these accounts across customer market segments. Direct contact marketing through customer service representatives was a more personal and effective approach than using marketing materials.

Citibank

New York, New York

Citibank offered pilot savings accounts in several New York City branches in Upper Manhattan and Queens in partnership with Grameen America, an organization that provides affordable micro-loans to low-income entrepreneurs to enable them to start or expand small businesses and establish formal credit histories. All of the accounts were for women, most of whom are self-employed and living in New York's underserved neighborhoods. The Citibank accounts — which feature enhanced electronic access, debit cards, no minimum balance and minimal or no fees — enable Grameen members to build assets and gain access to mainstream financial services such as debit cards and ATM networks. Citibank continues to offer the accounts beyond the pilot program and has opened approximately 4,000 of the accounts in total through March 2012. The partnership relies on a structured program in which micro-loan borrowers are encouraged to make regular, small savings deposits,

with savings goals that are as low as \$2 per week so as to be achievable by even very-low-income individuals. Citibank and Grameen America have teamed up to provide education and other assistance to new customers learning how to manage financial products. The program requires an investment in partnership and program development but can help develop longer-term, scalable and profitable relationships. Citibank believes that partnerships like this enable unbanked people to transition into mainstream banking while building financial capability and asset building.

Cross County Savings Bank

Middle Village, New York

Cross County offered pilot transaction and savings accounts in all of its branches in New York City, including some in underserved areas. During the pilot, Cross County celebrated an important milestone: a new branch opening in the Bronx in a Banking Development District, an area the city identified as being underserved by financial institutions. Cross County focused its efforts and resources on promoting the new branch and its product offerings, and worked with local nonprofit groups and government officials to help establish a presence in the community. The bank also emphasized in-branch marketing, making sure that staff in all branches were fully trained on how and when to offer pilot Safe Accounts. Cross County realizes that it takes time to make inroads into new markets and to increase product and name recognition, especially among consumers who may not be accustomed to dealing with financial institutions. Cross County remains committed to offering safe transaction and savings accounts to benefit the residents and neighborhoods they serve.

First State Bank
Union City, Tennessee

First State Bank was active in opening both transaction and savings accounts and found a niche market in new entrants to the banking system. First State's pilot accountholders generally had not experienced banking problems in the past but rather had never had a banking account or banking relationship before. Recognizing the difficulty of marketing to an audience that might be more familiar and comfortable with alternative financial service competitors, the bank chose to use collaborative outreach strategies instead of broad, traditional marketing activities. First State worked with key community partners to identify and reach out successfully to new entrants to the banking system. While the bank worked with several nonprofit organizations, one of its most successful endeavors was a business partnership with temporary employment agencies. The agencies promoted the safe transaction account at orientations for new employees, who were required to have a bank account to accept direct deposit of payroll checks. First State plans to continue similar business partnerships, and is committed to finding ways to compete with local alternative financial service providers.

ING DIRECT
Wilmington, Delaware

ING DIRECT's participation in the pilot allowed the institution to explore the feasibility of using the Internet delivery channel, in conjunction with email and direct mail marketing, to open savings accounts for underserved populations in targeted markets across the country. Because the bank's savings account product requires customers to have an existing transaction account with a depository institution, it had a unique focus on customers with unrealized potential. For the pilot, ING DIRECT focused on the Orange Savings Account, their flagship product (which is consistent with the Template). In its effort to engage underserved consumers, the bank strove to demonstrate how and why its savings product could provide important benefits. ING DIRECT's marketing emphasized that customers needed only \$1 to open an account, and that accounts had no minimum balance requirement. As a result of the pilot, ING DIRECT reports that they have learned important lessons about reaching out to the underserved market while offering a product that can be beneficial to different market segments.

Liberty Bank and Trust Company
New Orleans, Louisiana

Liberty Bank and Trust Company offered its new E-Cash transaction and savings accounts to consumers in the greater New Orleans area. The bank partnered with two local trade schools to provide accounts, financial education, and direct deposit for students. Liberty also offered the Safe Accounts to consumers as second chance accounts. Notably, the bank felt that their E-Cash accounts were a way to provide consumers with a deposit account and not have to turn them away. Liberty's tellers offered Safe Accounts to many applicants that did not qualify for a traditional account. The bank found that the Safe Accounts performed better than its traditional accounts and was pleased with the higher account retention rates and relatively low overdraft rates. Liberty attributes this success to the motivation of its customers. In the bank's experience, second chance customers are particularly motivated to have successful banking relationships because they do not want to be shut out of the banking system again.

Pinnacle Bank
Lincoln, Nebraska

Pinnacle offered Safe Deposit transaction and savings accounts in its offices across Nebraska, Kansas, and Missouri. The bank instituted an electronic training program for branch staff that was quite effective. Pinnacle's new accounts representatives understand the Safe Deposit account products and are able to identify potential customers that may benefit from access to these accounts, including consumers that had experienced difficulty managing bank accounts in the past. Pinnacle is committed to reaching underserved consumers in its market area and believes that these new customers may eventually transition to more traditional deposit products, providing the bank with new cross-selling opportunities in products like auto loans. Even without these opportunities, Pinnacle believes that these accounts are viable and sustainable. Moreover, Pinnacle believes that offering Safe Deposit transaction and savings accounts has allowed the bank to develop relationships with customers who they otherwise might have turned away.

South Central Bank
Glasgow, Kentucky

South Central Bank offered new transaction and savings accounts at its branches in Kentucky. To reach underserved consumers, the bank used a grassroots marketing campaign through community partnerships. South Central believed that partnerships with local community organizations, schools, nonprofit groups, and local government agencies would be the most effective and respectful way to connect with underserved consumers, with the added benefit of not requiring a large budget for a one-year pilot project. The bank received substantial interest from its potential partners early in the project, which led to early success for the bank in the form of new customers. South Central also learned that it needed to continue to engage with its partners to maintain momentum for the accounts and believed that their partners would have benefited from quarterly meetings to keep up enthusiasm and interest. Nonetheless, South Central believes that the market segments reached by this pilot represent an opportunity for the bank to expand its customer base while meeting the needs of the community.

Webster Five Cents Savings Bank
Webster, Massachusetts

Webster Five offered its card-based First Step Checking Accounts and Passbook Savings Accounts as part of the pilot and will continue to offer both accounts in the future. The transaction account was a new product for the bank, and the savings account is a staple product that the bank offers in electronic and traditional passbook forms. Webster Five opened most of its First Step Checking Accounts as second chance accounts for consumers who have had difficulty managing accounts in the past. The bank also opened several transaction accounts for young adults who may have been new to the banking system and who did not want or need checks. These consumers used ATMs and point-of-sale terminals for most of their transactions. While some of these young consumers signed up for Webster Five's online banking, few used the bill payment services, likely preferring to pay bills with their debit card or with money orders offered at the bank. Webster Five believes that the functionality and affordability of these accounts are important for reaching consumers.

