2013 FDIC National Survey of Unbanked and Underbanked Households

Executive Summary

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1. Executive Summary and Implications

When households open an account at a federally insured depository institution, they establish a mainstream banking relationship. This relationship provides opportunities for households to deposit funds securely, conduct basic financial transactions, accumulate savings, and access credit on fair and affordable terms.

Despite these benefits, many households—referred to in this report as "unbanked"—do not have an account at an insured institution. Additional households have an account, but have also obtained financial services and products from non-bank, alternative financial services (AFS) providers in the prior 12 months. These households are referred to here as "underbanked." The existence of unbanked and underbanked households presents an opportunity for banks to expand access to their products and services and forge relationships with these underserved groups, ultimately increasing economic inclusion.

The FDIC recognizes that public confidence in the banking system is strengthened when banks effectively serve the broadest possible set of consumers. As a result, the agency is committed to increasing the participation of unbanked and underbanked households in the financial mainstream. The FDIC National Survey of Unbanked and Underbanked Households represents one contribution to this end.

Conducted to assess the inclusiveness of the banking system, and in partial response to a statutory mandate, the biennial survey provides estimates of unbanked and underbanked populations. It also seeks to provide insights that will inform efforts to better meet the needs of these consumers. The FDIC partnered with the U.S. Census Bureau to administer this survey in June 2013, collecting responses from 40,998 households.

Key Findings

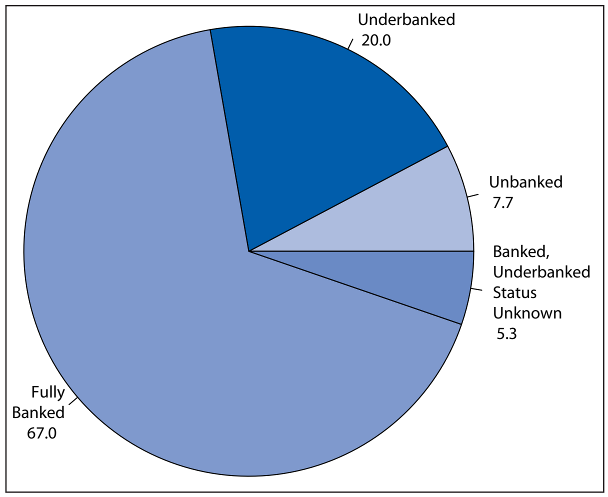
Banking Status of U.S. Households

One in thirteen households was unbanked in 2013. This proportion decreased from 2011, reflecting changed economic conditions and household demographics. An additional one in five households was underbanked in 2013.

- 7.7 percent of households in the United States were unbanked in 2013. This proportion represented nearly 9.6 million households composed of approximately 16.7 million adults and 8.7 million children.[1]

- 20.0 percent of U.S. households were underbanked in 2013, meaning that they had a bank account but also used alternative financial services (AFS) outside of the banking system.[2] Approximately 50.9 million adults and 16.6 million children lived in underbanked households.

Figure ES1. Banking Status of U.S. Households, 2013



- The unbanked rate has varied from 7.6 percent in 2009 to 8.2 percent in 2011 and 7.7 percent in 2013.[3]

    - The 0.5 percentage point decrease in the unbanked rate between 2011 and 2013 can be explained by differences in the economic

[1] Adults are defined as people aged 16 and older. This is a lower-bound estimate of the number of unbanked adults in the United States because it is based on the assumption that all adults residing in a "banked" household are banked in the sense that they may benefit from the account. A banked household may have one or more unbanked adults; these unbanked adults residing in banked households are not included in the 16.7 million adults figure cited in this report.

[2] In the 2013 survey, underbanked households are those that have used at least one of the following AFS from non-bank providers in the last 12 months: money orders, check cashing, remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shops loans, or auto title loans. Underbanked rates from the three surveys are not directly comparable because of changes in the definition of underbanked households in both 2011 and 2013.

[3] All reported differences resulting from direct comparisons described in the text are statistically significant at the 10 percent level unless otherwise noted. In this case, the 2009 and 2013 estimates are each significantly different from 2011 but not from each other.

conditions and demographic composition of households over this period.

- In particular, compared to 2011, households in 2013 had slightly higher levels of employment and income, and were slightly older and better educated.[4] These characteristics are all associated with a higher likelihood of having a bank account.

- The highest unbanked rates continued to be found among non-Asian minorities, lower-income households, younger households, and unemployed households. Relative to 2011, the unbanked rates in 2013 were generally similar for these groups. One exception is Hispanic households.

  - While still relatively high, the unbanked rate for Hispanic households decreased to 17.9 percent in 2013 from 20.1 percent in 2011.

  - Improvements in economic conditions and changing demographics among Hispanic households over this period explain nearly half of the reduction in the unbanked rate among this population.

  - In particular, relative to 2011, Hispanic households in 2013 experienced higher levels of employment, income, and education. These characteristics are all associated with a higher likelihood of having a bank account.

- Among working-age disabled households, 18.4 percent were unbanked and 28.1 percent were underbanked in 2013.[5] This is the first time that the survey has reported estimates for these households.

[4] Household characteristics, such as race, age, education, and employment, are taken to be those of the owner or renter of the home (i.e., "householder"), unless the characteristic is one defined at the household level, such as income or household type. For convenience, some abbreviated language will be used to refer to these household characteristics. For example, the term "black household" refers to a household for which the householder has been identified as black. Note that other members of a household could have different characteristics from those of the householder. For instance, an unemployed household is defined as a household whose householder is unemployed, but other household members could be employed and earning income. The income measures included in this report reflect the income earned by all household members and not only the householder.

[5] Working-age is considered to be between age 25 and 64. Consistent with our approach for other household characteristics such as employment status, we classify a household as one with disabilities based on the characteristics of the owner or renter of the home (i.e., "householder"). Please refer to Appendix I for a detailed discussion of how we classified households as disabled.

Checking and Savings Account Ownership, and Automatic Transfers

Checking and savings account ownership rates remained similar to previous years. For the first time, the survey asked about automatic transfers, finding that most households use them primarily in connection with checking accounts.

- The vast majority of all U.S. households (88.4 percent) owned a checking account in 2013, while less than seven in ten (68.8 percent) owned a savings account.

- Four in five (80.3 percent) banked households had money directly deposited into a bank account or automatically transferred funds between accounts:

  - 94.5 percent of these households directly deposited or automatically transferred funds into checking accounts and 17.3 percent into savings accounts.[6]

  - Among the subset of households with savings accounts, 22.0 percent direct deposited or automatically transferred funds into a savings account.

Household Banking Status Transitions

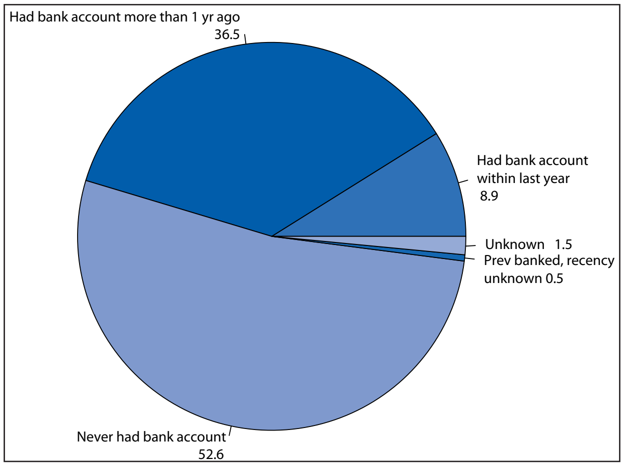
For the first time, the survey asked households about both recent entrances and exits from the banking system as well as the circumstances affecting those transitions. Overall, economic events and motivations, such as job loss or opening an account to receive direct deposits, are found to have a stronger effect on banking status transitions than changes in household structure, such as marriage.

- Consistent with previous survey results, slightly less than half (45.9 percent) of unbanked households in 2013 were previously banked, which represented 3.6 percent of all U.S. households.

- In 2013, 0.7 percent of all U.S. households (or almost one in ten unbanked households) became unbanked within the last 12 months, while 1.6 percent became banked in the last 12 months.

[6] 13.2 percent of these direct deposits or transfers were to both checking and savings accounts. As a result, the total does not sum to 100 percent.

Figure ES2. Previous Banking Status of Unbanked Households



- While relatively small proportions of U.S. households experienced major life events in the past year, households that transitioned in or out of the banking system were more likely to have experienced certain events:
    - Among households that recently became unbanked, 34.1 percent experienced either a significant income loss or a job loss that they said contributed to the household becoming unbanked.
    - Among households that recently became banked, 19.4 percent reported that a new job contributed to their opening a bank account.
- About one-third (34.2 percent) of recently banked households also reported that receiving direct deposits was the main reason they opened an account. This was the most frequently reported reason, followed by "paying for everyday purchases, writing checks and/or paying bills," reported by one-quarter (25.0 percent) of recently banked households.

Reasons Households Were Unbanked

Unbanked households cited both economic and attitudinal reasons for remaining outside the banking system.

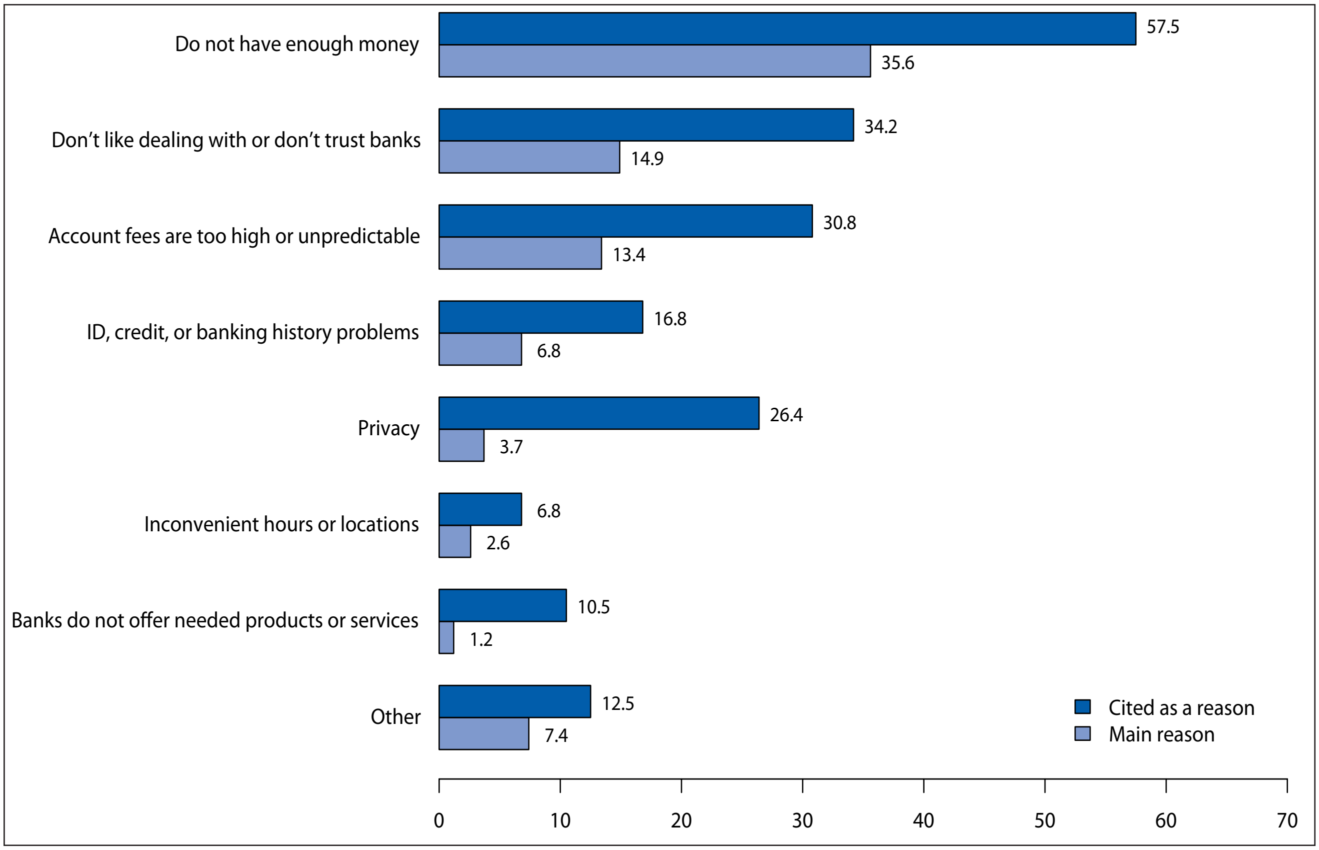
- A majority (57.5 percent) of unbanked households reported not having enough money to keep in an account or meet a minimum balance as one reason they did not have an account and slightly more than a third (35.6 percent) of all unbanked households reported this to be the main reason.
- Roughly one in three (34.2 percent) unbanked households reported their dislike of or distrust in banks as one reason they were unbanked and slightly more than one in seven (14.9 percent) unbanked households reported this to be the main reason.
- Almost one in three unbanked households (30.8 percent) reported high or unpredictable account fees as one reason they did not have accounts and about 13 percent (13.4 percent) of unbanked households reported this to be the main reason.
    - Previously banked households (almost one in five or 17.7 percent) were more likely to say high or unpredictable fees were the main reason they were unbanked compared with households that never had an account (one in ten or 9.8 percent).

Future Banking Plans of Unbanked Households

Higher proportions of households that previously had an account reported being likely to open one in the next 12 months compared with households that had never been banked. How long ago a household last had a bank account also appeared to be correlated with intentions to rejoin the banking system. These results suggest that many consumers who have had experience, especially recent experience, with a bank account find value in having one.

- Almost half (48.6 percent) of unbanked households that previously had an account expressed an intention to open another in the next 12 months compared with only about one-quarter (25.2 percent) of households that had never been banked.
- Almost three out of four (74.8 percent) unbanked households that recently had a bank account, and 42.7 percent of unbanked households that had an account more than a year ago, reported being somewhat or very likely to open another in the next 12 months.

Figure ES3. Reasons Households Were Unbanked



Prepaid Debit Card Use

Prepaid debit cards have emerged in recent years as a new payment method that some consumers use to address their transactional needs. Similar to a checking account, these cards can be used to pay bills, withdraw cash at ATMs, make purchases, deposit checks, and receive direct deposits. Many, although not all, such cards store funds in accounts eligible for deposit insurance. The survey results suggest that sizeable proportions of unbanked households and, to a lesser degree, underbanked households, relied on prepaid cards for many of the same purposes that households associate with checking accounts. Moreover, while some fully banked households used prepaid cards, unbanked and underbanked households accounted for a majority of prepaid card users.

- Nearly eight percent (7.9) of all households used prepaid cards in the last 12 months.
    - Unbanked households had the highest rate of use: 22.3 percent of unbanked households used a prepaid card in the last 12 months, compared with 13.1 percent of underbanked households and 5.3 percent of fully banked households.
    - Within the group of unbanked households, recently unbanked households had the highest rate of prepaid card use: 28.8 percent of this subset used a prepaid card in the last 12 months, compared with 22.0 percent of longer-term unbanked households.
- The highest rate of growth in prepaid card use was among unbanked households: In 2013, more than a quarter (27.1 percent) of unbanked households reported having ever used a prepaid card, up from 17.8 percent in 2011 and 12.2 percent in 2009.
- Unbanked prepaid card users appeared to more actively use their prepaid cards compared with other prepaid card users:
    - They were more likely to have reloaded their prepaid cards in the past 12 months (57.8 percent), relative to underbanked (42.9 percent) and fully banked (23.4 percent) households.

Figure ES4. Banking Status of Households that Used Prepaid Cards in the Last 12 Months

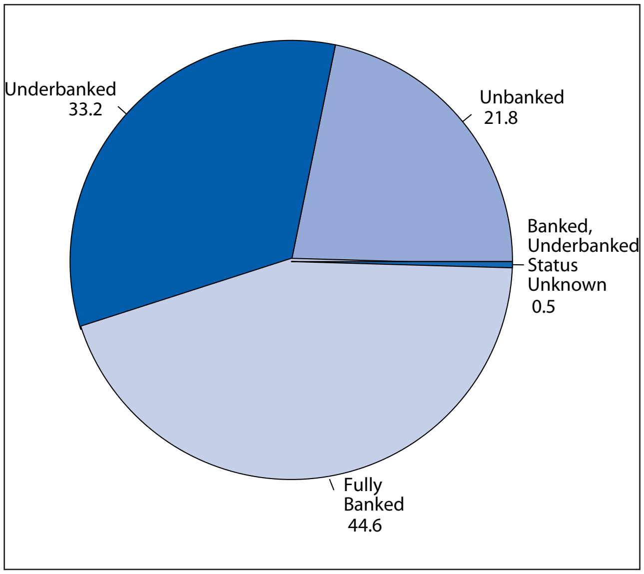
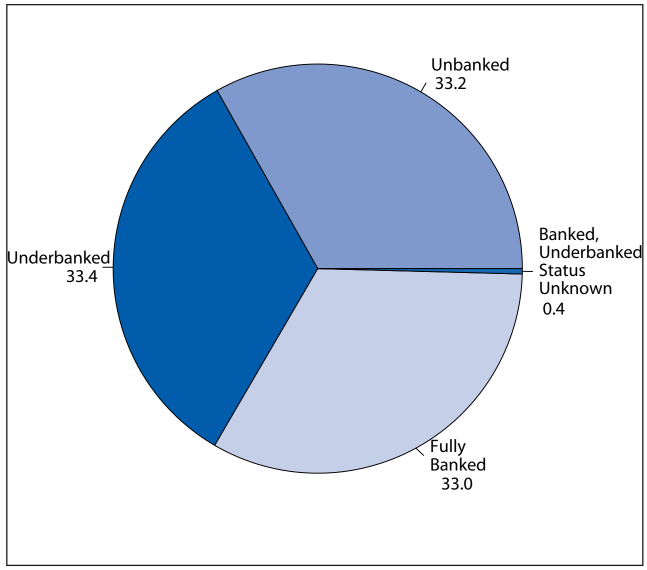


Figure ES5. Banking Status of Households that Used Prepaid Cards in the Last 30 Days



- Unbanked households were also about two and a half times more likely to have used a prepaid card in the last 30 days (16.8 percent) compared with underbanked households (6.6 percent) and almost nine times more likely than fully banked households (1.9 percent).

- A much higher proportion of unbanked households that used prepaid cards in the last 12 months reported doing so primarily to meet their financial transaction needs. Specifically, 79.4 percent of these households cited "to pay for every day purchases or bills" or "to receive payments" as the main reason for using a prepaid card, compared with 53.3 percent of underbanked and 37.6 percent of fully banked households that used prepaid cards in the same period.

- A majority of prepaid card users were unbanked and underbanked households. More than half (55.0 percent) of the households that used prepaid cards in the last 12 months and about two-thirds (66.6 percent) of the households that used prepaid cards in the last 30 days were unbanked or underbanked.

- Almost half (46.5 percent) of unbanked households that used prepaid cards in the last 12 months reported being "very likely" or "somewhat likely" to open a bank account in the next 12 months, compared with 32.6 percent of unbanked households that had not used prepaid cards.

- Relatively few households (one in ten or 10.7 percent) that used prepaid cards obtained their card from a bank branch. Among households that used prepaid cards, fully banked households were the most likely (15.4 percent) to have obtained their cards from a bank branch, while unbanked households were least likely (4.2 percent) to have done so.

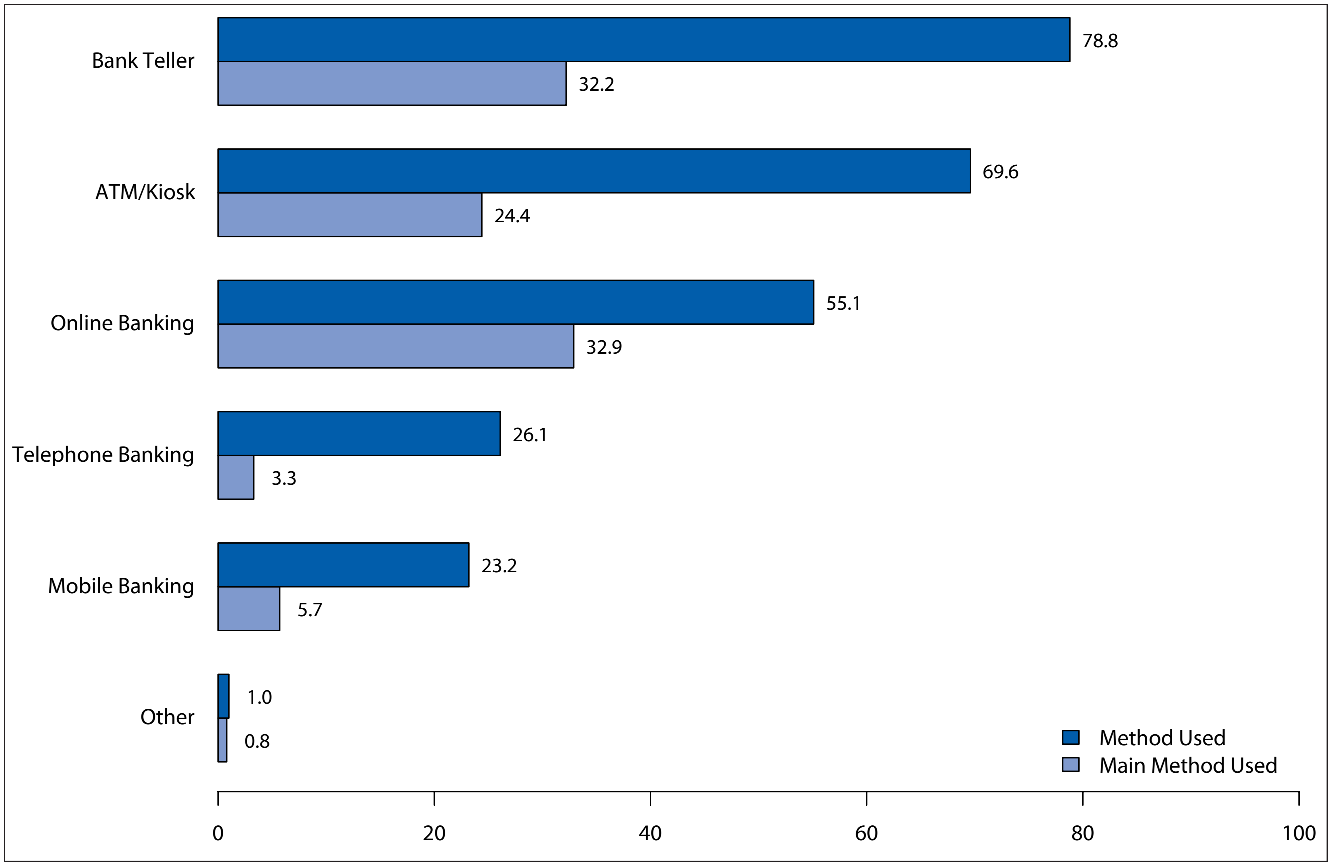
Alternative Financial Services Use

One in four households reported obtaining either transactional products or credit from non-bank providers in the prior 12 months.[7] Households overall reported that "grocery, liquor, convenience, or drug stores" were the most common locations for obtaining transaction alternative financial services (AFS), but unbanked households were more likely to obtain these services from standalone AFS providers.

- Consistent with previous survey findings, about one in four households (24.9 percent) used at least one AFS in the previous 12 months, and 12.0 percent of all households used an AFS in the last 30 days.
    - Transaction AFS products, used by 21.9 percent of all households in the last 12

[7] The 2013 survey asks about nonbank use of three transactional products (money orders, check cashing, remittances) and five credit products (payday loans, pawn shop, refund anticipation loans, rent-to-own services, and auto title loans). Auto title loans were first asked about in the 2013 survey, so the AFS use estimates in this report are not directly comparable to estimates in past reports.

Figure ES6. Methods Used to Access Bank Accounts in the Last 12 Months



months, continue to be more widely used than credit AFS products, which were used by 7.0 percent of all households.

- AFS use continues to be relatively high among unbanked households: 63.2 percent used an AFS in the last 12 months, and 47.0 percent used an AFS in the last 30 days.

- The most common locations from which households obtained transaction AFS were "grocery, liquor, convenience, or drug stores."

  - For example, among households that used non-bank check cashing, 37.8 percent did so at a "grocery, liquor, convenience, or drug store" while 31.4 percent used a large retail or department store and 24.3 percent cashed their checks at standalone AFS providers.

- Among transaction AFS users, unbanked households were more likely than underbanked households to use stand-alone AFS providers. For example, 29.3 percent of unbanked households that used non-bank check cashing went to stand-alone AFS providers, compared to 20.6 percent of underbanked non-bank check cashing users.

Methods of Banking

For the first time, the 2013 survey examines the various ways households access their bank accounts.[8] The results show that bank tellers and online banking were the primary methods relied on by the largest share of banked households – about one-third of banked households primarily used bank tellers and another third primarily used online banking. Underbanked households were less likely to use online banking as their primary means of access, but were more likely to use mobile devices as a primary method. For those that did primarily use electronic means (online or mobile device) to access their account, most used at least two additional methods and many also reported using a teller. These results suggest that electronic means of access continue to be a supplement rather than a wholesale substitute for tellers.

[8] The survey asks whether the household used any of the following methods to access their account in the past 12 months: bank tellers, ATMs/kiosks, online banking, mobile banking, or telephone banking.

- Most banked households (71.1 percent) used multiple methods to access their bank accounts.[9]

- Many households used bank tellers to access their bank account. Nearly four out of five households (78.8 percent) used a bank teller in the past 12 months, one in three (32.2 percent) used bank tellers as their primary method of account access, and 17.5 percent used bank tellers as their only method of account access.

  - Roughly half (54.7 percent) of households age 65 or older, 55.7 percent of households without a high school degree, and 47.5 percent of households with annual income under $15,000 primarily used bank tellers to access their account.

- Use of online banking was also quite common. Over half (55.1 percent) of banked households accessed their account online in the past 12 months, and one in three (32.9 percent) used online banking as their primary means of account access. Underbanked households were less likely to have used online banking as their main banking method (26.6 percent) compared with fully banked households (35.1 percent).

- Among households that primarily used either online or mobile banking, use of additional methods was common. For example, households that primarily used online banking used a median of two additional methods to access their account while those that primarily relied on mobile banking used a median of three additional methods. One commonly used additional method was bank tellers, which were used by more than 70 percent of both groups.

Use of Mobile Technology and Mobile Banking

A majority of households reported having access to smartphones, and almost one in four reported using those devices to engage in mobile banking in the prior 12 months.[10] While a significant share of unbanked households had access to smart phones, their access lagged the population as a whole. In contrast, underbanked households were both more likely to have access to smartphones than the general population and to have used them to engage in mobile banking.

- The vast majority of households (82.7 percent) had access to a mobile phone, of which two thirds (67.4 percent of all with mobile phone access or 55.7 percent overall) were smartphones.

  - Relative to fully banked households (86.8 percent), underbanked households were somewhat more likely to have had access to mobile phones (90.5 percent) and smartphones (64.5 percent of underbanked households compared with 59.0 percent of fully banked households).

  - Notably smaller, but still significant, proportions of unbanked households had access to mobile phones (68.1 percent) and smartphones (33.1 percent).

- Overall, 23.2 percent of banked households used mobile banking in the last 12 months, and a greater share of underbanked households (29.2 percent) than fully banked households (21.7 percent) had used mobile banking.

- Among mobile banking users, underbanked households were considerably more likely (32.4 percent) than the fully banked (21.6 percent) to use mobile banking as their main banking method. In contrast, fully banked mobile banking users were significantly more likely (54.2 percent) to use online banking as their main banking method than the underbanked (38.1 percent).

- Monitoring of account balance or recent transactions was the most common mobile banking activity (86.0 percent of mobile banking users). Only a quarter (25.5 percent) of households that used mobile banking used it to deposit a check. Underbanked households were more likely (51.5 percent) to have used mobile text alerts than fully banked households (44.6 percent).

Implications

The survey results presented in this report suggest implications for policymakers, financial institutions and other stakeholders who are working to improve access to mainstream financial services.

1. **Entrances and exits from the banking system are often associated with changes in employment**

[9] About 5 percent of banked households reported not having accessed their bank account in the past 12 months or did not report whether they had accessed their account in the last 12 months. These households are excluded from the estimates of bank account access presented here.

[10] Mobile banking was defined in the 2013 survey questionnaire as using text messages, mobile apps, or using a mobile phone's Internet browser or email to access a bank account.

and income. Interventions designed to help households maintain and renew their banking relationships through economic challenges may reduce unbanked rates over time.

Banking status is dynamic: many households cycle in and out of the banking system. For these households, financial life events, such as job loss, significant income loss, or a new job, appear to be important explanations for why they enter or exit the banking system.

Stakeholders might consider ways to cushion the impact of adverse financial shocks on a household's ability or desire to maintain a bank account. In particular, opportunities may exist for forbearance of fees, flexible product design, or direct interventions. Interventions could include targeted outreach or financial education for recently unemployed households to encourage them to remain in the banking system, for example.

The most frequently reported reason recently banked households cited for opening an account was to receive direct deposits. This finding suggests that opportunities may exist for bringing newly employed consumers into the financial mainstream by educating them on the use of bank accounts and on personal financial management. Opportunities also may exist to reach out to employers that do not yet offer direct deposit to help them lower costs and help their employees better understand opportunities offered by the mainstream banking system.

2. **Unbanked households are increasingly turning to general purpose reloadable prepaid cards to address their financial transaction needs and are generally obtaining them at non-bank locations. Opportunities may exist to meet these consumers' needs within the banking system.**

Prepaid card use is higher among unbanked households than other banking status groups, and has been growing rapidly. Although many unbanked prepaid card users, like other unbanked households, feel that they cannot have a bank account because they "do not have enough money to keep in an account or meet a minimum balance" or because "bank fees are too high or unpredictable," these households do have financial transaction needs. Many unbanked prepaid card users are using non-bank prepaid cards, instead of banking services, to make and receive payments. Banking products such as a low-cost, safe transaction account or a bank prepaid debit card that meets the specifications of the FDIC Safe Accounts Template could help meet these financial needs while building banking relationships.[11]

In addition, many prepaid card users have prior experience with banking services and are relatively more inclined to enter a banking relationship going forward. Specifically, unbanked prepaid card users are more likely than nonusers to have had a bank account in the past, and to say they are likely to open an account in the future. This implies that, relative to other unbanked households, unbanked prepaid card users may be particularly receptive to entering or rejoining the banking system.

3. **Mobile banking is a potential tool to expand economic inclusion but branches continue to play an important role for many consumers, including those who are underbanked.**

Mobile banking has the potential to help expand economic inclusion. Mobile technologies provide the anytime, anyplace convenience that is highly valued by underserved consumers. The survey results show that mobile and smartphones are accessible to underserved populations, and that many underbanked households are already using mobile banking. Smartphones are more prevalent among underbanked households than among the fully banked. Underbanked households also are more likely than fully banked households to use mobile banking and more likely to use it as their primary banking channel.

Mobile technologies might also become useful tools for bringing unbanked households into the financial mainstream. While mobile phone ownership is less common among unbanked households than among the underbanked and fully banked, it is still sizable. Innovations such as mobile account opening could play a role in expanding access to banking for the unbanked.

In order for mobile banking to help promote economic inclusion, it is important that mobile banking offerings be designed and implemented in ways that are accessible and beneficial to the underserved. For example, to fully avail themselves of mobile banking opportunities, users must often have access to an online banking account. This could prevent underserved consumers who cannot or do not wish to use online banking from accessing and enjoying the benefits of mobile banking services.

[11] The FDIC Model Safe Accounts template provides insured institutions with guidelines on offering cost-effective transactional and savings accounts that are safe and affordable for consumers. See https://www.fdic.gov/consumers/template/.

Notably, the rise of mobile banking as a channel has not rendered other modes of banking unimportant, and non-mobile channels should continue to have a role in economic inclusion and outreach efforts. Other banking modes continue to be widely used by both underbanked and fully banked households. Traditional banking channels, such as branches, provide functions not commonly available through online and mobile banking. In particular, FDIC pilot studies have found that branch staff play an important role in making consumers aware of products, providing basic financial education, and growing their banking relationships.[12] As banking technologies continue to evolve, it is important to continue tracking how households access banking services, and to assess opportunities to increase banking engagement with underserved consumers across all relevant channels.

[12] Rae-Ann Miller, Susan Burhouse, Luke Reynolds and Aileen Sampson, "A Template for Success: The FDIC's Small Dollar Loan Pilot Program," FDIC Quarterly 2010, Volume 4, No. 2 and Sherrie Rhine and Susan Burhouse, "FDIC Model Safe Accounts Pilot: Final Report," April 2012.