Remarks by

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Introduction

First, let me begin by welcoming you to the FDIC's Sixth Annual Consumer Research Symposium. Each year, this event provides an important opportunity for the FDIC's researchers and analysts to engage with and learn from leading scholars. Over the years, this event has matured into something that we—and I think it is safe to say many of you—look forward to attending.

I would like to recognize the contributions of the team that has done the work to bring us together today. Ryan Goodstein, Alicia Lloro, Jeffrey Weinstein, Harriet Newburger, and Sarah Campbell, along with their research colleagues in the Division of Depositor and Consumer Protection, go to great lengths to ensure a high-quality event. I have had a chance to review today's program, and the areas of focus are all of great interest and relevance to our work. So let me add my thanks also to the authors, discussants, and to all of you for your participation.

Research has long been a core function of the agency, informing the FDIC from its earliest days.

In 1934, the FDIC's Board established the Division of Research and Statistics. As recounted in that year's annual report, the division was staffed by a manager; six research assistants and technicians; and 20 calculating machine operators, clerks, and stenographers.

In its first year, this modest unit developed uniform data on the condition of 93 percent of the licensed commercial banks in the United States, conducted a study of depositor losses from 1865 to 1934, and analyzed efforts to stabilize the banking system. As you may recall, 1933 was

not a particularly good year for banking, with an estimated 4,000 bank failures. So I can imagine that this research was greatly appreciated.

Today, research continues to play a key role as the FDIC seeks to address significant challenges to the U.S. financial system. One example is the FDIC's work to expand access to, and use of, mainstream financial institutions by unbanked and underbanked households in the U.S.

Increasing households' access to safe, secure, and affordable banking services improves their ability to build assets and create wealth, makes them less susceptible to discriminatory or predatory lending practices, and can provide a financial safety net against unforeseen circumstances.

Through a banking relationship, consumers can take an important step toward full participation in our economy. To take advantage of economic opportunities, households need to be able to securely receive and safeguard funds, make payments, and build and access credit. By providing financial products and services that meet these needs, banks help U.S. households pay their bills, finance necessities like homes and cars, and save for the future.

Also, when households find that the banking system treats them fairly and helps meet their needs, public confidence in the banking system grows stronger. As a result, informing and supporting efforts to expand economic inclusion in the banking system is a key component of the FDIC's work.

Unbanked and Underbanked Survey

Just last week, we released results from the 2015 FDIC National Survey of Unbanked and Underbanked Households.

Through this survey, the FDIC provides detailed national, state, and local data to inform understanding of this issue and support economic inclusion efforts. We regularly hear from a wide variety of stakeholders, including banks, community-based organizations, and government officials that the survey's data have informed their efforts to better serve those outside the financial mainstream.

The survey measures the share of households that are unbanked, meaning no one in the household has a bank account.

It also examines the extent to which households with a bank account look outside the banking system to meet transaction or credit needs. To this end, we define underbanked households as those with an account that also use nonbank, alternative financial service providers.

This afternoon, I would like to share with you some of what we have learned from the 2015 survey.

Main findings

First, we see positive indications for consumers: The unbanked rate fell to 7 percent in 2015, the lowest level yet in the survey. This represents a significant decline from the 7.7 percent unbanked rate reported in 2013 and from the 8.2 percent rate reported in 2011. Moreover, the change over the four-year period outpaces what one would expect even in light of improving economic conditions.

In other encouraging signs, the changes are occurring broadly, across population segments, including among households that are most likely to be unbanked.

For example, unbanked rates among black households dropped from 20.6 percent to 18.2 percent. For Hispanic households, it fell from 17.9 percent to 16.2 percent. Similarly, unbanked rates among households with very low incomes, less than $15,000 per year, fell from 27.7 percent in 2013 to 25.6 percent in 2015, while rates among households without any college education declined from 15 percent to 13.7 percent.

Despite these positive changes, some populations either did not experience significant changes or actually saw an increase in unbanked rates. Notably, unbanked rates for Asian households increased from 2.2 percent to 4 percent during the two-year period.

Underbanked rates are similar to those found in the 2013 survey, with approximately one in five households identified as underbanked in 2015.

Taken together, 27 percent of households in the U.S. today are unbanked or underbanked. However, for some population segments, the combined rate is substantially higher. For example, among households earning less than $30,000 per year, some 42.1 percent were unbanked or underbanked. Among black households, 49.3 percent were unbanked or underbanked; for Hispanic households, 45.5 percent were unbanked or underbanked. And, among households headed by a working-age individual[1] with a disability, 46 percent were unbanked or underbanked.

[1] For purposes of the survey, a working-age individual is age 25 to 64.

So it is clear that even though the unbanked rate has declined, many U.S. households remain underserved by mainstream financial institutions. Through the survey, we try to understand why.

Reasons for being unbanked

Households cite a variety of reasons for being unbanked. Some of the most common are: high and unpredictable fees for bank accounts, a lack of trust in banks, or the feeling among households that they do not have enough money to justify an account.

This year, for the first time, the survey asked consumers: "How interested are banks in serving households like yours?"

The results reveal a divergence of perspectives between banked and unbanked households. A majority of unbanked households reported that they believed that banks were not at all interested in serving households like theirs. This level contrasts sharply with the four-in-five banked households who indicated banks were very or somewhat interested in serving households like their own.

Together, these results underscore the importance of building bridges between banks and underserved communities. Consumers who do not trust banks or who view banks as uninterested are less likely to consider banks as an option to meet their financial needs.

This finding is consistent with qualitative research[2] we released earlier this year at a meeting of the FDIC's Advisory Committee on Economic Inclusion.[3] For that study, our

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[2] Rengert, Kristopher M. and Sherrie L. W. Rhine, "Bank Efforts to Serve Unbanked and Underbanked Consumers," May 25, 2016, https://www.fdic.gov/consumers/community/research/QualitativeResearch_May2016.pdf.

researchers interviewed bank and nonprofit executives, and convened focus groups of unbanked, underbanked, and low- and moderate-income consumers. One of its key findings is that trust is crucial to building strong relationships with unbanked and underbanked consumers.

Effects of variable income

In addition to their perceptions of banks, consumers' economic circumstances drive their banking choices. In our 2013 study of unbanked and underbanked consumers, we learned that many households enter and exit the banking system for job-related reasons.

The 2013 study found that about one-third of those exiting the banking system in the previous year reported that the transition was connected to a reduction in income or a job loss. Similarly, about a third of those opening an account in the previous year reported that the development was connected to a new job or to take advantage of direct deposit.

We continue to explore the reasons that households may be unbanked. In the 2015 survey, we asked respondents how much their incomes fluctuated. The answer was striking: A significant share of households, about one in five, told us that their incomes fluctuate from month to month.

Intuitively, it is easy to see that when income is not regular, families can face increased challenges managing their finances.

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[3] For more information on the FDIC's Advisory Committee on Economic Inclusion (ComE-IN), go to https://www.fdic.gov/about/comein/.

To understand how these conditions affect banking choices specifically, the survey asked fully banked, unbanked, and underbanked households whether their income remained about the same, varied somewhat, or varied a lot from month to month.

From the data, we see that households with variable incomes are more likely to be unbanked. This pattern is evident at all income levels.

For example, 4 percent of households with stable incomes earning between $30,000 and $50,000 annually were unbanked. In that same income range, the unbanked rate more than doubled to 8.5 percent for households with incomes that varied a lot.

These results suggest that it would be useful for banks to consider whether they can be more responsive to the needs of customers, or potential customers, experiencing variable income. For example, banks could offer low-cost, safe, and transparent transaction accounts without overdraft fees and with low minimum balance requirements designed to improve the sustainability of banking relationships for consumers. Such accounts would help households with variable incomes avoid the fees, such as overdraft fees, that prove challenging for them to understand or manage, and which may result in accounts being closed.

In 2011, the FDIC initiated a pilot with nine financial institutions to test the feasibility and effectiveness of offering such Safe Accounts.[4] In an April 2012 study,[5] the FDIC reported that these accounts are sustainable for consumers and for the financial institutions that offer them.

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[4] 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.

[5] Burhouse, Susan and Sherrie L.W. Rhine, "FDIC Model Safe Accounts Pilot Final Report," April 2012, https://www.fdic.gov/consumers/template/SafeAccountsFinalReport.pdf.

Since the Safe Accounts pilot program was completed, a number of large institutions have developed a variety of Safe Account products. According to our latest data, 87 percent of U.S. households live in a county with a full-service branch of a financial institution that offers a Safe Account. The FDIC, in consultation with its Committee on Economic Inclusion, is helping to facilitate the creation of partnerships around the country, through efforts such as Bank-On coalitions and Alliances for Economic Inclusion. These state and local efforts bring together banks, nonprofits, and local governments with a focus on helping connect unbanked and underbanked consumers to these accounts.[6]

Financial services use

The unbanked and underbanked survey also seeks to better understand how consumers use financial products and services, which can provide insights that enable banks to better address consumer needs.

This year's survey provides the most complete picture of financial choices to date. It examines households' use of a wide range of transaction and credit products from banks and alternative financial service providers.

It also explores the extent to which households have potential credit needs that could be met by banks.

Finally, it examines whether households are setting aside funds for emergencies and, when they are, asks how the money is stored.

[6] See "Remarks by Chairman Martin J. Gruenberg for Bank On/Cities for Financial Empowerment National Launch of Account Standards; San Francisco, CA", October 27, 2015, https://fdic.gov/news/news/speeches/spoct2715.html.

On these latter points, the results provide a dramatic illustration of the consequences of being unbanked in the United States. One in five (20.2 percent) unbanked households reported saving for unexpected expenses or emergencies in the past 12 months. This was about one-third the rate of emergency saving among banked households.

In addition, the survey shows an even bigger difference in *how* households save. Some 67.8 percent of unbanked households reported keeping emergency savings "in the home, or with family or friends." This contrasts sharply with the 88.2 percent of fully banked households that deposited their emergency savings in a bank account.

For these banked households, the funds are secure, guaranteed against loss, have the potential to generate earnings, and may be used for other purposes, such as securing access to mainstream credit. On the other hand, unbanked households that keep savings at home receive none of these benefits.

While we do not have time today to touch on all of the results pertaining to household use of financial services, I can say that the data suggest opportunities for banks to continue to address the needs of underserved consumers. Among those needs are saving; using responsible, mainstream consumer credit; and paying regular bills and commitments using safe, convenient payment methods.

Continued growth in mobile and online banking

Finally, today, I would like to touch on the channels through which households are accessing their bank accounts.

As you are no doubt aware, consumers are increasingly turning to mobile and online banking to access and manage their accounts. Consumers appreciate the control and convenience that these channels can provide.

Our survey results bear this out, as increasing proportions of consumers continue to turn to online and mobile banking channels. The proportion of consumers using online banking increased from 55.1 percent in 2013 to 60.4 percent in 2015. During that same period, the share using mobile banking grew substantially, from 23.2 percent to 31.9 percent.

At the same time, the survey shows that 75.5 percent of consumers visited traditional brick-and-mortar branches.[7]

As you might expect, younger households are more likely to use technology to access banking through mobile channels. Older, rural, lower-income households, and households with less education are more likely to rely on bank branches.

But our survey data have also shown technology use that might not match your expectations. For example, underbanked households are more likely to own a smartphone, more likely to use it to access their bank account, and more likely to use it as their primary means of managing their account than fully banked households.

To learn more about how mobile financial services can help expand economic inclusion in the banking system, late last year, the FDIC conducted 18 focus groups of underserved consumers across the country, including four in Spanish. In these focus groups, participants told

[7] This finding is consistent with other research from the FDIC. See Breitenstein, Eric C. and John M. McGee, "Brick and Mortar Banking Remains Prevalent in an Increasingly Virtual World," *FDIC Quarterly*, Vol. 9, No. 1 (2015), pp 37–51, https://www.fdic.gov/bank/analytical/quarterly/2015_vol9_1/FDIC_4Q2014_v9n1_BrickAndMortar.pdf.

us about their preferences for control, access to their money, convenience, and affordability, among other necessities.[8] They saw significant benefits from immediate access to account information, as well as helpful reminders and balance alerts to help keep them on track with their finances.

These results indicate that by providing more information on balances and transactions—and more timely information—mobile financial services may give consumers an important element of control over their financial lives and may help address some of the underlying reasons consumers report for being unbanked. These reasons include unexpected fees and worries about low balances. Solutions to these concerns might be particularly helpful to the households managing variable incomes.

Although we know that mobile services are being rapidly adopted by a wide variety of consumers and institutions, it is not clear if the technology's full potential is being leveraged to expand inclusion in the banking system. In order for that to happen, banks must make it a goal to pursue economic inclusion through mobile banking, and integrate that goal into their overall business strategies.[9]

In May, the FDIC requested feedback on a research project designed to demonstrate the economic inclusion potential of mobile financial services. The FDIC is particularly interested in demonstrating how the technology affects outcomes for consumers and for institutions deploying

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[8] Burhouse, Susan, Benjamin Navarro, and Yazmin Osaki, "Opportunities for Mobile Financial Services to Engage Underserved Consumers," May 25, 2016, https://www.fdic.gov/consumers/community/mobile/MFS_Qualitative_Research_Report.pdf.

[9] Burhouse, Susan, Matthew Homer, Yazmin Osaki, and Michael Bachman, "Assessing the Economic Inclusion Potential of Mobile Financial Services," June 30, 2014, https://www.fdic.gov/consumers/community/mobile/Mobile-Financial-Services.pdf.

it. This information should help financial institutions more generally understand how technology might enhance their economic inclusion efforts.

Conclusion

As I hope my remarks have underscored, research has been, and continues to be, an important focus at the FDIC. It helps build a solid foundation for many of the activities we pursue to meet our mission, including our work to promote economic inclusion.

We are keenly aware that we have more to learn in this area. For example, if changing economic conditions explain only some of the increased participation in our nation's banking system, what other factors are playing a role? Conversely, what factors may be constraining participation in the banking system? And, more broadly, are there opportunities for banks to better address the financial services needs of consumers, particularly low- and moderate-income consumers?

I know these questions present substantial challenges. While our FDIC research team takes them up, I am sure they will seek to continue to learn from you and the larger community of scholars.

We look forward to this continued engagement, and encourage your interest in seeking out information to help promote economic inclusion for all Americans.