The Bank Staff Perspective on Reducing Financial Exclusion through Affordable Bank Accounts

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Background

Although most banks are aware that their market area includes un- and underbanked population (”financially excluded”), few offer products, including accounts, designed for that population (FDIC, 2009).

FDIC’s (2016) qualitative interviews found that lack of trust in banks is a key driver.

As a response, Cities for Financial Empowerment (CFE) created voluntary national bank account standards modeled on FDIC “Model Safe Accounts Pilot” (FDIC, 2011).

Background - Bank On Standards

- Today, few banks (#34) offer accounts that meet those standards, despite some benefits, possibly including Community Reinvestment Act “Service Test” requirements (Cities for Financial Empowerment, 2019).
- Standards include benchmarks for account costs, functionality, and consumer protection.
- Examples:
    - Account opening - $25 maximum
    - Monthly maintenance fee of $5 or less (if not waivable), or $10 or less if waivable
    - Has Point of Sale Capability via debit or prepaid card
    - Is FDIC-insured

Background

The Community Reinvestment Act (CRA)

- One of the few regulatory incentives for banks to offer affordable account products.
- Through regular assessments, regulators issue CRA credits, or points, for qualifying activities.
- Points are then used to issue each bank a CRA performance rating.
- Rating are considered when banks apply for charters, branches, mergers, and acquisitions among other things (Congressional Research Service, 2019).

Project Rationale

Few studies have examined the bank response to the financially excluded from the *bank* perspective.

The major goal of this study is to examine the banks' efforts to serve LMI populations, including financially excluded from the *banking perspective*.

This study focuses on the opinions, motivations and attitudes of the banking community that can help inform social policy efforts to more effectively serve the financial needs of the financially excluded.

Methods

The study conducted structured interviews with 22 bank staff from 15 banks in a mid-sized Midwestern city with a history of a high unbanked and underbanked rate, especially among racial minorities.

- Researchers recruited bank staff members of a CRA-related bank association for in-depth interviews.
- Member banks include large, national banks with local branches, medium size regional and local banks, and small community banks.
- The vast majority of member banks have had positive CRA ratings in recent years.

Methods

Selecting Member Banks

- All 37 banks listed as current association members in the Summer of 2018 were recruited for the study during the Summer of 2018-Spring of 2019.
- The number of member banks potentially recruited was lowered to 31 during the recruitment period because: a) three banks had merged or been acquired by another member bank; b) two banks did not offer consumer lending and services; and c) one bank dropped their membership.
- A total of eight never responded to any recruitment letters.
- Two banks declined to participate.
- A total of 20 initially accepted, but five banks did not follow-up to schedule an interview time or sign the consent form.

Methods

The Interview

- Prior to interviews, institutional bank data were gathered from bank and government websites, as well as about the features of the bank’s most basic checking account.
- After obtaining informed consent, interviews were conducted on-site at the bank (14) or over the phone (1) in English.
- Each respondent was interviewed once, with interview times ranging from 50 minutes to 120 minutes.
- All of the interviews, with one exception, were recorded and transcribed.

Methods

The Interview

- The interview guide included:
    - The accuracy and correction of bank-specific data gathered by the authors from public data
    - Products/services for financially excluded
    - The process of development/maintenance of products/services for financially excluded
    - Perspectives on policy ideas for addressing and reducing the problem of financial exclusion
- The interview guide was pilot-tested with the first two interviewees, and minor revisions were made.
- Grounded theory was used to guide the analysis (Bryand & Charmaz, 2010).

Methods

Respondent Bank Account Characteristics:

-Minority of banks have Bank On Certified accounts (20%).

-Most common missing standards are: 1) allowing overdrafts/NSF (67%); 2) allowing dormancy/inactivity fee (60%); and 3) not offering prepaid card (47%).

-Banks are missing an average of about four features.

-Banks are regulated by all three regulators (FDIC (47%), OCC (20%), and Federal Reserve (33%)).

-The majority of the banks (67%) are considered large under CRA and are privately owned (60%).

Results

Six Main Themes:

1. Banks are aware of the problem of financial exclusion.
2. While financial education is important, it poses challenges to deliver, and has a lack of demonstrated outcomes.
3. Small monetary or regulatory rewards are evident for offering basic checking accounts.
4. Little advocacy pressure is evident for affordable accounts.
5. Regulatory and other pressures fail to facilitate solutions for financial exclusion.
6. Solutions to financial exclusion are a mix of policy, organizational capacity, and methods to influence behavior.

Results

Banks Awareness of Financial Exclusion

- Bank G explained, "…and we have, … one of the worst underbanked and unbanked rates."
  - In response to the initial FDIC 2009 Unbanked/Underbanked report, many of the banks have created affordable checking accounts (that do not meet all of the Bank On standards, 12/15) aimed at LMI populations and communities. 3/15 have accounts that meet Bank On standards.

Promotion of Affordable Accounts

- Bank I, "It's not marketed. It's up to the bankers to educate, and internal staff."
- Locating the most basic account was difficult from the websites. The researchers selected the wrong basic account product from the websites for 60% of the banks.

Results

Financial Education Challenges

- All respondents deliver adult and/or youth financial education in the community as part of their CRA Service Test obligations.
  - Respondents overwhelmingly expressed frustration with the turnout and/or usage of their financial education resources.
  - Bank C explained, “God, there’s too many times when we have events and they either get cancelled at the last minute or, you know, we get two people”.
  - None of the respondents could point to long-term benefits of their financial education efforts, and expressed frustration about this.
  - Bank B said, “...So, the unrealistic expectations to think, just because someone has financial literacy classes that’s going to have an immediate impact on behaviors is unrealistic…”.

Results

Incentives for Accounts

- The motivation for offering basic accounts is varied but is generally weak.
    - Bank A explained, “Frankly, the regulators spend more of their time on the loan side than anything ‘cause that’s 50% of our grade and then they look at investments—[they] spend more time on that.”
    - For the Service Test aspect, the regulators check that the products are offered, but Bank I noted that: “… *they may ask ‘do you offer these products?’. But the weighting that they give to these products is probably minimal…they don’t ask how many, they don’t ask for impact, they don’t for…anything outside of, ‘Do you offer them?’...but you know there is no—there is no push from the regulatory agencies.”*

- A few of the banks (3/15) offer Bank On certified accounts and find some benefits.
    - Bank B mentioned, “Then of course, there is reputation and regulator benefit, which I think also …adds to that bottom line as well.”

Results

Incentives for Accounts

Business Development

Bank N noted, "*… as people get banked… they're in a product that maybe isn't profitable right now, but the hope is that, you know, with the fresh start after six months of showing positive bank membership, they can become profitable…*"

Social Reasons

Bank L explained, "*But the objective wasn't to make money because that's not what that's going to do…We're allowing you the opportunity to have training wheels on an account… It's a social responsibility. If I can help, why wouldn't I help them?*"

Results

Little Account Advocacy Perceived

- A few banks expressed that Bank On National Account Standards are a step in the right direction with a helpful framework.
    - As Bank K stated, "*I give CFE Bank On initiative a lot of credit for helping banks create something where we could come along and go, 'Yeah, we've been wanting to do that.'*"
    - Bank I explained that "…*we don't hear it from the community groups much…. I wouldn't say that there is pressure about the products.*"

Results

Weak Regulatory Pressure for Financial Exclusion

-Bank regulators can work at cross-purposes with one another.

-Bank K noted, "*How can we meet that need [un- and underbanked] in a way that's safe? We have safety and soundness measures. The [regulator] tells us all of the time too. So, how can we do that? This is the way to do it with these types of products*."

-There is little regulatory incentive under CRA to promote bank cooperation or innovation, as most banks receive a satisfactory CRA rating without having Bank On products.

Results

Solutions to Financial Exclusion are a Mix

- Bank I said, "*It's not …something that a bank alone or even nonprofit organizations can do alone. I mean, if the unbanked want to be unbanked, they are going to be unbanked.*"

Change CRA

- As Bank D suggested, "*But if there was some way where banks were rewarded for good CRA scores, then there would be …more effort, …across the board to do more than to- to meet the true meaning of CRA.*"
- Bank B suggested that *"...more consideration should be given to product mix and technology… products and services and technology as the primary factor being evaluated and bricks and mortar and ATMs being secondary.*"

Results

Increased Capacity of Other Entities

- Some banks agreed that increasing the capacity of Community Development Financial Institutions (CDFIs) and non-profits.
- Bank G suggested that, “*But they [financially excluded populations] seem to trust [a local CDFI] because they're located right there. … So, I do think that's probably the way to go.*”

Results

Apply CRA Standards to Other Financial Providers

- Some banks suggested that CRA standards should be applied to other financial providers beyond banks to encourage basic accounts and lower the number of financially excluded.
- Bank J suggests that AFS providers should have CRA regulations as well: *“So maybe also when we were talking about the CRA, like put the regulations on them [AFS providers] that we get.”*
- Bank A agrees, “*If there were some more recognized standard …. That might be easier if everybody had to do it. We’d figure out a way to make it break even or profitable if we all had to do it.*”

Results

Increased Financial Education

- Many banks expressed the need for policy to encourage increased education and outreach to the financially excluded.
- Bank B felt as though education could “…fight against misinformation and mischaracterization of what it means or what it looks like, … to have an account with a bank.”

Results

Financial Management Behavior and Trust

- Banks expressed that solutions to the challenge of un- and underbanked must involve policy that shapes individual behavior and garners trust in banks within these populations.

- Bank N shared, "…*there's a segment of the population, they're so ingrained that you don't want to deal with a bank. You don't want it. You want to be cash basis, so sometimes, you know, saying a bank doesn't offer the products because you we didn't service the unbanked or underbanked population. It's not true. Because those are the people who don't want any accounts at all.*"

Discussion

In one mid-size Midwestern city with a historically high rate of financial exclusion, banks are aware of challenges and the need for basic accounts and financial education, however their efforts are not resulting in significant decreases of the rates of financial exclusion.

Banks are not heavily marketing their basic account nor prominently feature them on their website.

All respondent banks offer financial education and basic accounts with some standards met or Bank On certified accounts.

- Respondents expressed frustration at the challenges of delivering financial education
- The evidence is weak that financial education translates into positive adult financial management behavior (Friedline & West, 2016; Willis, 2011).

Banks have weak external incentive to offer accounts that meet all the Bank On core features from either a profit or a regulatory perspective.

Discussion

Bank decisions about offering account products are shaped by a variety of factors, including profitability, competition, their sense of mission, and the ways in which they meet their CRA Service Test requirements.

Banks are acting as rational actors in the marketplace by aligning their profit goals with CRA compliance.

- Banks do not experience significant advocacy or regulatory pressure or incentive under the CRA Service Test to offer affordable, safe accounts (Quercia, et al. 2009).
- While many banks express a social mission above and beyond their regulatory requirements, they are also balancing the “safety and soundness” regulatory requirements with their overall CRA compliance requirements.

Discussion

Major Policy Solutions

- Expand capacity of CDFIs and nonprofit organizations.
- Change CRA incentives for banks to offer basic accounts (e.g., weight Service Test more heavily, weight *impacts* of activities/products).

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