

# A study of the UNBANKED & UNDERBANKED Consumer in the Tenth Federal Reserve District *Financial Institution Brief*



FEDERAL RESERVE BANK of KANSAS CITY

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With 30 million unbanked or underbanked households nationally and 2.3 million across the Tenth Federal Reserve District<sup>1</sup>, which encompasses western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico, the Federal Reserve Bank of Kansas City recently conducted a qualitative research project to develop an in-depth and contextualized picture of how this consumer develops and implements strategies to manage their financial service needs.<sup>2</sup>

The project explored a broad range of reasons why unbanked and underbanked individuals choose to use nonbank entities for basic transactions in their financial lives. These issues were addressed through focus groups with 76 low- to moderate-income unbanked and underbanked individuals in Kansas City, Denver, Oklahoma City and Omaha.

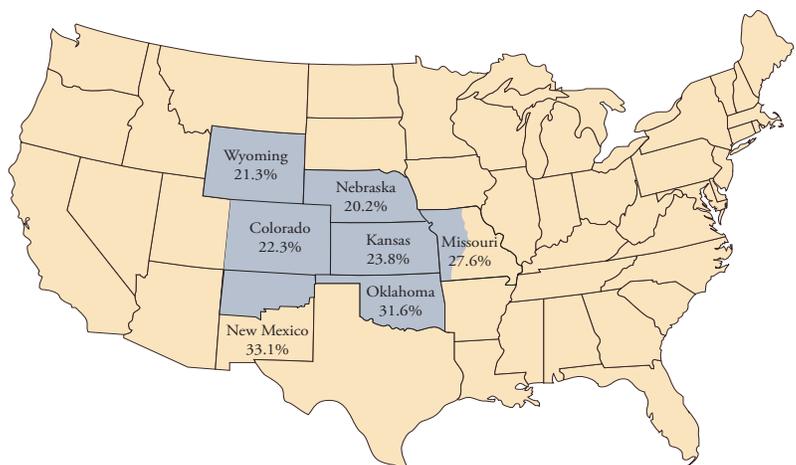
The unbanked and underbanked consumer represents a significant portion of the financial services market. This research shows that they are largely satisfied with the strategies they have developed to meet their financial service needs using cash and alternative services providers. The findings also show, however, that the unbanked and underbanked realize they could benefit from strengthened relationships with mainstream financial institutions to achieve medium- and long-term financial goals, such as building savings and accessing credit.

Federally insured depository institutions have significant opportunities to attract deposits and expand consumer markets if products and services are developed to address the issues raised by study participants. By understanding and responding to the situations, preferences and needs of unbanked and underbanked

consumers as presented in this study, financial institutions can improve the financial outcomes of both this market segment as well as the banking sector itself.

The Federal Reserve Bank of Kansas City undertook this effort to complement existing quantitative research on this population, which includes nearly one in four households in the United States. The research findings will assist financial institutions, community development partners and educators to develop products, services and delivery channels that are responsive to the needs, preferences and cultural settings of the unbanked and underbanked consumer segment. Additional information about this research, the issues it addresses and its application is available by visiting <http://unbanked.kcfed.org> or contacting Tammy Edwards at [tammy.edwards@kc.frb.org](mailto:tammy.edwards@kc.frb.org) or 816-881-2123.

## PERCENTAGE OF UNBANKED AND UNDERBANKED HOUSEHOLDS IN THE TENTH FEDERAL RESERVE DISTRICT



The national average is 25.6 percent

This research suggests the following opportunities and actions for financial institutions to engage the unbanked and underbanked consumer:

**Provide solutions to real and perceived needs:** The assumption that if unbanked consumers are informed of bank products and services then they will become customers does not seem to be sufficient. The primary hook for reaching this market is the same as for other segments – providing solutions to real and perceived needs. This research suggests that alternative financial service providers are doing this, though there is significant room for improvement, especially in the areas of savings and credit products.

**Focus on simplicity of use and transparency of fees:** Predictability, simplicity and transparency were qualities clearly preferred by respondents across a range of issues. These include identification requirements for opening and using accounts, features and fee structures of products, and triggers for penalties and other expenses. In addition, extended hours, accessible locations and professional staff who understood and related well to local markets were also mentioned as important by respondents. A focus on incorporating these qualities into bank processes, as well as directly offering financial education on bank products and policies, would improve the significant misunderstandings and misinformation held by the unbanked and underbanked.

**Offer targeted savings products:** An important advantage of banks in serving this potential market is their ability to offer savings products, which were identified by respondents as the most-desired entry account. The limited income and thin cushion against financial shocks makes a dramatic difference in the financial lives of this market segment. An account promoting emergency savings that is focused on security and accessibility could be a unique offer. Such an account could directly target the misperception stated by many respondents that a high income and savings balance is needed to make a savings account useful and open the door for other misperceptions to be addressed.

**Provide “second chance” programs and dispute resolution assistance:** The financial instability and limited cushion against financial shocks often turned small events into major problems for respondents. Account features and “second chance” programs that support customers in maintaining their accounts are needed. When account disputes do occur, respondents stated they often felt at a disadvantage when trying to resolve a conflict with a bank, and this often led to misunderstandings, mistrust and account closures. A bank that would treat them as equals when working through resolution of disputes was a important need of respondents.

**Develop holistic approach to services:** Respondents develop and satisfy their financial service needs within the context of complex social and cultural settings. The interconnections between financial and other social service needs underline

the importance of taking a holistic approach in providing appropriate financial products and services. While financial institutions have a specific role in developing and offering financial products and services, their outcomes can be strengthened by partnering with organizations that address related needs of customers.

**Review regulatory requirements and guidance:** Banks have regulatory requirements and guidance for addressing many of the issues identified by respondents, such as establishing policies for identification requirements and funds availability. Developing a stance for interpreting and applying these and related policies from the unbanked and underbanked consumer’s perspective can make a critical contribution in improving access to financial services.

A wide range of resources are available to assist financial institutions in meeting the needs of unbanked and underbanked consumers, including:

- **Bank On Programs**  
Bank On programs bring together local government, financial institutions and community organizations to help improve the financial futures of unbanked families. Find additional information and a nearby Bank On collaborative at [joinbankon.com](http://joinbankon.com).
- **Center for Financial Services Innovation**  
The Center for Financial Services Innovation is a non-profit focused on improving the quality and quantity of financial products and services for underbanked consumers. Access market development news and case studies of product innovations at [www.cfsinnovation.com](http://www.cfsinnovation.com).
- **REAL Solutions**  
REAL Solutions is a National Credit Union Foundation program aimed at developing new financial products to meet the needs of underbanked consumers. Program ideas and reviews are available at [www.realsolutions.coop](http://www.realsolutions.coop).
- **The Federal Reserve Bank of Kansas City**  
The Federal Reserve Bank of Kansas City offers a range of resources related to the needs of the unbanked and underbanked consumer market, including the Foreclosure Resource Center, a one-stop source for foreclosure information and resources, and Federal Reserve Consumer Help, a resource for consumers with problems with a bank or other financial institution. These materials are available at [www.kansascityfed.org](http://www.kansascityfed.org).

### Endnotes

- <sup>1</sup>FDIC National Survey of Unbanked and Underbanked Households, 2009.  
<sup>2</sup>For the purposes of this study, unbanked individuals are individuals who do not have a checking or savings account. Underbanked individuals have a checking or savings account at a bank or credit union, but use nonbanks for financial services such as check cashing, money orders, bill payment, remittances or borrowing. These definitions closely conform to those used in the FDIC National Survey of Unbanked and Underbanked Households, 2009.