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Financial Inclusion: Access to Bank Accounts

Most U.S. consumers choose to open a bank account, such as a checking or savings account, because it is considered a safe and secure way to store money, particularly as the Federal Deposit Insurance Corporation (FDIC) insures up to $250,000 per depositor against an institution's failure. In addition, consumers gain access to payment services through checking accounts, such as the ability to make electronic payments online, direct deposit, paper checks, and frequently a debit card.

For most consumers, a bank account is less expensive than alternative ways to access these types of services. Checking and savings accounts are often the first relationships that a consumer has with a financial institution, which can later progress into other types of financial products and services, such as loan products or financial investments. A key policy question is whether the unbanked population is interested in banking services but unable to access them and, if so, what is the most effective way to bring more unbanked households into the fold. Legislation introduced in the 118th Congress aims to address this issue through different means. H.R. 758 aims to incentivize new bank formation by reducing barriers to entry, while H.R. 8740 would direct the Consumer Financial Protection Bureau to identify the causes leading to and solutions for unbanked households.

Economics of Bank Accounts

Depository institutions, such as banks and credit unions, incur expenses to provide accounts to consumers, which include the costs of providing monthly statements, protecting against settlement and fraud risks, hiring staff, and maintaining retail locations. To recoup these costs and make profits, depository institutions make money from interest on loans and noninterest fees such as minimum balance or overdraft fees, discussed later. Historically, some banks have been willing to lose money on bank accounts to begin a relationship with a client and later get more profitable business, such as a credit card or mortgage loan. Checking and savings account data might allow a bank to better underwrite and price loans to a consumer than without this relationship.

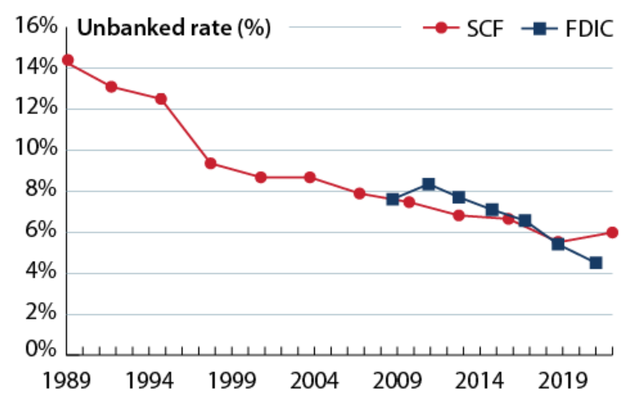
Lower balance or less creditworthy consumers are generally not as profitable for banks to serve. Consumers with low checking or savings account balances provide banks minimal funds to lend out and make a profit with. Less creditworthy consumers may be less likely to develop into profitable relationships for banks if such consumers are not in a position to obtain loans from the banks in the near future. Therefore, bank fees may be seen as the best way for banks to recoup their account costs for these consumers.

Because of the way bank fees are structured, consumers with lower balances tend to incur more fees than higher balance consumers. Some bank accounts require minimum account balances to avoid certain maintenance or service fees. Two common fees that checking account consumers incur are overdraft and insufficient fund fees. Overdraft services, where financial institutions temporarily cover insufficient funds in a checking account for a nominal fee, can help consumers pay bills on time. Overdraft fees can be costly, particularly if used repeatedly. For consumers living paycheck to paycheck or with less financial literacy, maintaining bank account minimums and avoiding overdrafts can be difficult. Since 2019, some major banks have drastically reduced or entirely eliminated overdraft fees.

Unbanked and Underbanked Consumers

According to the Federal Reserve Survey of Consumer Finances (SCF) in 2022, 6% of households in the United States were *unbanked*, meaning that they did not have bank accounts. This is a steep decline from the beginning of the survey in 1989, when roughly 14% of households were unbanked, and a modest decline from 2007, when 8% of households were unbanked (**Figure 1**).

Figure 1. Percentage of Unbanked American Households



Source: Updated from Boel and Zimmerman, *Unbanked in America: A Review of the Literature.*

Note: The FDIC and SCF have separate estimates of unbanked households, relying on surveys of American households. These surveys have similar methodologies, but the SCF has a longer historical time series and a smaller sample size.

Unbanked consumers are more likely to be lower income, racial or ethnic minorities, or in rural areas compared with the general U.S. population. According to the FDIC's 2021 National Survey of Unbanked and Underbanked Households, the states with the highest unbanked shares are Mississippi (11.1%) and Louisiana (8.1%).

Unbanked households most frequently reported that they did not have bank accounts because they did not have enough money, did not trust banks, wanted to maintain privacy, or sought to avoid high and unpredictable bank fees.

In addition, according to the FDIC, another 18.7% of households were *underbanked*, meaning that although these households had bank accounts, they obtained certain nonbank financial services at least once in the past year. These nonbank financial products, called alternative financial services, include check cashing, money orders, payday loans, auto title loans, pawn shop loans, refund anticipation loans, and rent-to-own services.

Banking Account Alternatives

Besides solely using cash, households rely on nonbank alternative financial products and services, particularly transaction-related offerings such as check cashing and money orders, to pay bills and receive income. Alternative financial products can be faster and more convenient with more predictable fees for some consumers. For example, alternative financial products might allow consumers to access cash more quickly, which might be valuable for consumers with tight budgets and little liquid savings or credit to manage financial shocks. Although unbanked consumers may find benefits in using nonbank alternative financial products and services, these may not always have the benefits of bank accounts, such as FDIC insurance or other consumer protections, and would possibly be costlier than a checking account.

General purpose prepaid cards are another popular alternative to a traditional checking account. These cards can be obtained through banks, at retail stores, or online, and they can be used in payment networks, such as Visa and MasterCard. Prepaid card funds can be federally insured against an institution's failure if the card is issued by an FDIC-insured bank and registered by the user. Unbanked consumers are more likely to use prepaid cards from stores or websites. General purpose, reloadable prepaid cards generally have features similar to debit and checking accounts, such as the ability to pay bills electronically, get cash at ATMs, make purchases at stores or online, and receive direct deposits. Prepaid cards often have monthly maintenance fees and other service fees for using ATMs or reloading cash that, cumulatively, can be high compared to bank products.

Possible Policy Responses

In regard to helping consumers manage their finances, some research suggests that consumers may particularly benefit from (1) access to affordable electronic payment system services and (2) a safe way to accumulate and hold emergency savings. These two consumer needs could partially be filled by upstart firms either partnering or competing with banks. However, developing a relationship with a bank may make it easier for a consumer to gain access to credit from the bank in the future. The government, the private sector, and the nonprofit sector all may be in a position to help increase access to these types of financial products for the underserved. More broadly, the FDIC notes that public trust in the national banking system is strengthened when it serves as many people as possible.

The Community Reinvestment Act (CRA; P.L. 95-128, 12 U.S.C. §§2901-2908) currently encourages banks to provide credit in the areas where they collect deposits, and it encourages banks to provide outreach initiatives to low- and moderate-income customers that would promote access to bank accounts and relationships. Certain policymakers suggest that changes to CRA or additional regulatory flexibility could encourage more banks to increase access to bank accounts and/or create new banks or branches in areas that are currently underserved by financial services. In addition, financial education programs or outreach initiatives coordinated by the government, financial institutions, or nonprofit organizations could promote access to bank accounts.

Private industry is already responding to the unbanked population, so no additional policy responses may be needed. The unbanked share shows a clear downward trend since 1989, and new innovations in the marketplace might further decrease the number of unbanked households.

For example, new technologies may reduce the cost of providing more affordable financial products to unbanked and underbanked consumers. In recent years, fintech companies such as Chime, Dave, and Varo have offered no-fee checking account alternatives to those at traditional banks, with a focus on unbanked and underbanked consumers. Yet concerns exist for internet-based products around data privacy and cybersecurity.

Payment system improvements, by either the government or the private sector, may also improve welfare for unbanked or underbanked consumers. Real-time payments offered by banks are expanding rapidly. For example, earned wage access products allow consumers to access a portion of their income prior to their scheduled pay periods. Many of these consumers currently choose alternative financial payment products, such as check cashers, to access their funds quickly.

Other policy proposals include the government directly providing accounts to retail customers (e.g., offering banking services at post offices or online through the Federal Reserve, which already provides accounts to banks). Opposition to these proposals often centers on the appropriate role for the government to compete with the private sector for consumers. Moreover, government bank accounts may fail to attract consumer demand or allocate resources effectively.

Selected Legislation: 118th Congress

Access to bank accounts continues to be a subject of congressional interest and legislative proposals. In the 118th Congress, H.R. 758 would incentivize new bank formation by reducing barriers to entry, which could improve access to banking for underbanked communities. H.R. 8740, would direct the Consumer Financial Protection Bureau to report every two years to Congress to recommend policy changes to increase financial access for unbanked, underbanked, and underserved consumers and coordinate with regulators and industry to assess those findings.

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