

FDIC Model Safe Accounts Pilot Final Report

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Purpose

Conduct a one-year pilot to determine the feasibility of insured depository institutions offering safe, low-cost transaction and savings accounts to help meet the needs of the almost 26 percent of U.S. households that are either unbanked or underbanked.

Consumer Protections

- These low-cost accounts are:
 - FDIC insured
 - Covered under consumer protection laws and regulations, such as Regulation E (Electronic Funds Transfer)

Participating Financial Institutions

- **Bath Savings Institution**, Bath, Maine
- **Citibank**, New York City, New York
- **Cross County Savings Bank**, Middle Village, NY
- **First State Bank**, Union City, Tennessee
- **ING DIRECT**, Wilmington, Delaware
- **Liberty Bank and Trust Co**, New Orleans, Louisiana
- **Pinnacle Bank**, Lincoln, Nebraska
- **South Central Bank**, Glasgow, Kentucky
- **Webster Five Cents Savings Bank**, Webster, Massachusetts

FDIC Model Safe Accounts Template

- Provides insured institutions with guidelines for offering cost-effective transaction and savings accounts that are safe and affordable for consumers.
- Guiding principles are:
 - Transparent charges
 - Fees that are reasonable and proportional to costs
 - Access to banking services that feature FDIC insurance and other consumer protections
- Standard customer identification rules applied.

Core Features and Fees

Transaction Acct

- Electronic, card-based account
- No overdraft or NSF fees
- Free: direct deposit, automatic saving, and online access
- Open bal. \$10 - \$25
- Monthly min bal. \$1
- Monthly maint. fee up to \$3
- Money orders/e-checks
2 free/mo

Savings Acct

- Interest bearing
- Free: direct deposit, automatic saving, and online access
- Opening bal. \$5
- Monthly min bal. \$5
- Monthly maint. fee
free if min balance met

Auxiliary Services and Features

- Transaction and Savings Accounts
 - Financial education
 - Link transaction and savings account
 - Line of credit
 - Small-dollar loans
 - Kiosk bill payment
 - Domestic/international wire transfers

RESULTS

Transaction Accounts

- Account retention was in line with other transaction accounts:
 - 662 opened
 - 126 closed
 - 536 (81%) remained open
- Average opening balance among banks was \$244, ranging from \$200 to \$400
- Average monthly balance among banks was \$243, ranging from \$200 to \$300

Savings Accounts

- A relatively small number of savings accounts closed during the pilot
 - 2,883 opened
 - 141 closed
 - 2,742 (95%) remained open
- Different business models were employed for opening savings accounts. This resulted in widely varied average opening and monthly balances across institutions.

Feasibility

- The majority of institutions reported that the cost of offering Safe Accounts was roughly the same if not lower than the costs of offering other deposit accounts because the pilot accounts have no paper check-related costs.
- Measurement issues and complicating factors include:
 - Different accounting methodologies, creating a lack of uniformity in defining and allocating fixed and variable costs
 - Varied general business operations across institutions
 - Limitations from technology infrastructure

LESSONS LEARNED

Emerging Business Models

- Many different business models emerged, suggesting that the Model Safe Accounts Template is flexible enough to be used in a wide variety of circumstances.
- Models employed by participating banks are:
 - partnership
 - re-entrant
 - new entrant
 - cross-selling
 - internet

Real Time, Front-Line Relationship Building

- Real time, front-line relationship building provided by tellers and customer service representatives was important for many of the pilot banks.
- Tellers/Customer Service Reps were trained to offer Safe Accounts and provide basic financial education to potential customers who would be ineligible for other deposit accounts.

Potential Risks

- Banks concerned about fraud and overdraft risks
 - The incidence of accounts holding negative balances was reported to be relatively low.
 - Several pilot institutions stated that any concerns they may have harbored about potential fraud risk at the beginning of the pilot were not realized.
 - A number of pilot banks stated that they found Safe Accounts to be no more risky than other deposit accounts.

CHALLENGES

Marketing and Advertising

- A challenge noted by several institutions was the difficulty of effectively marketing and advertising Safe Accounts.
- Some banks mentioned that budgetary and resource constraints, exacerbated by difficult local economic conditions, made it hard to spend adequate time and money on advertising.

Establishing a Presence in New Markets

- **Competition**—Several banks spoke about the challenge of reaching potential customers in communities where there is a strong presence of non-bank financial services providers.
- **Attracting Customers**—A few pilot banks found it difficult to reach consumers who either had little experience with banks or had a negative perception of banks.

Ensuring Adequate Staff Training

- A few pilot banks described the importance of providing effective staff training about Safe Accounts.
- With effort, institutions met with success in training staff about Safe Accounts and offering these accounts to unbanked and underbanked consumers.
- As a result of this training, consumers who might have otherwise been turned away, were able to open a Safe Account.

Summary

- The results of this one-year pilot suggest that opportunities exist for financial institutions to offer safe, low-cost transaction and savings accounts to underserved and LMI consumers.
- The fact that a large proportion of accountholders remained banked during the year suggests that consumers can maintain successful banking relationships using Safe Accounts.
- The relatively low overdraft risk, in combination with the higher retention rates, suggests that there may be greater account longevity and lower costs associated with Safe Accounts.

Concluding Remarks

- Undertaking this pilot was important to informing economic inclusion efforts.
- On the whole, pilot banks' experiences suggest potential improvements on the template, such as decreasing emphasis on auxiliary services in the early stages of a customer's banking relationship.
- The majority of participating banks reported that they learned from the pilot and were encouraged by their initial experiences with offering a safe, low-cost account designed to meet the needs of underserved and LMI consumers.