

A study of the UNBANKED & UNDERBANKED Consumer in the Tenth Federal Reserve District *Financial Educator 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 District¹, 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.²

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.

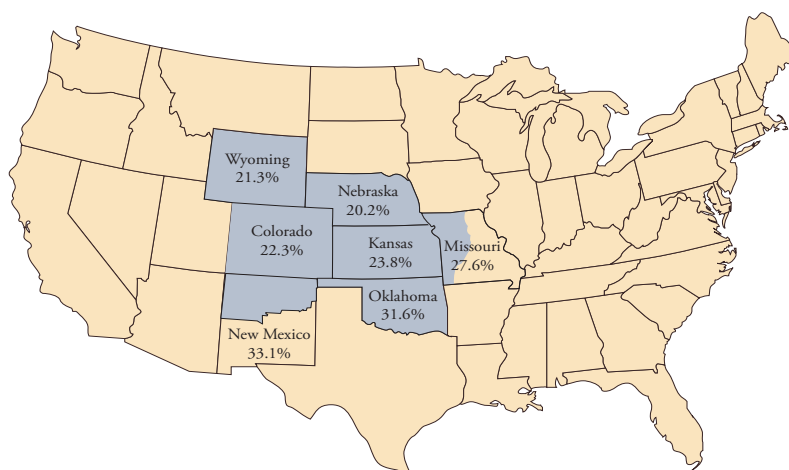
A significant portion of low- to moderate-income individuals are unbanked or underbanked. This research shows that they are largely satisfied with the strategies they have developed to meet their financial service needs using cash and alternative services providers. The findings also show, however, that 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.

The study found a strong interest in financial education opportunities for both adults and their children. By understanding and responding to the situations, preferences and needs of unbanked and underbanked

consumers as presented in this study, financial educators can improve the financial outcomes of this specific market segment and develop effective practices for further expanding financial education opportunities.

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 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 educators to engage the unbanked and underbanked consumer:

Move from awareness to action: Respondents expressed interest in learning more about financial management and showed awareness of financial education options and opportunities. However, only one respondent had attended a financial education program. Financial educators need to focus on developing strategies and techniques for helping individuals make the move from awareness to action. This may include removing barriers that can be presented by the timing, format or location of services to providing appropriate incentives and supports.

Support parents in being role models for their children: One striking leverage point identified in the research for the move from awareness to action was the stated desire of parents to be positive role models for their children. Nearly all respondents stated it was important for parents to be role models in teaching children money management skills. Many of the respondents wanted to ensure that their children did not make the same financial mistakes that they had, often at a young age and with long-lasting consequences. The research suggests there is an opportunity to develop resources and tools to assist parents in being good financial role models. Such a focus would provide an additional motivator for parents to take actions that could have direct positive effects on their current financial lives.

Leverage relationships with schools: Schools were recognized by respondents as a positive influence, but only relevant to younger consumers or those with children. Respondents who were parents of school-aged children approved of financial education programs being offered in schools and thought that they should be expanded. School-based programs could be leveraged to more fully involve and support parents in their efforts to be good financial role models for their children.

Provide holistic approach to services: Respondents develop and satisfy their financial service needs within the context of complex social and cultural settings. The interconnections of financial needs with other social service needs underline the importance of taking a holistic approach in providing appropriate financial education services. Supportive connections could be made between financial education and other initiatives that support positive parenting as well as educational and social development outcomes in families.

Focus on basics: While respondents were largely satisfied with their strategies for cash management and bill payments, many were aware of the limitations they faced in terms of building savings, accessing credit and repairing credit histories. Based on the situations described by respondents, basic information on the relevance, benefits and mechanics of opening and managing checking and savings accounts are needed.

Provide assistance with dispute resolution: Financial educators have a significant opportunity to position themselves as an asset to both financial institutions and consumers through providing assistance with resolving conflicts between the two. 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. By assisting with this critical issue, financial educators could provide a needed and immediate service to consumers and banks, as well as open doors for other financial education activities.

A wide range of resources are available to assist financial educators 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.
- **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.
- **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.
- **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.

Endnotes

¹FDIC National Survey of Unbanked and Underbanked Households, 2009.

²For 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.