Five Strategies To Engage the Unbanked & Underbanked

business customers international diversity

Summary: According to the FDIC, there are approximately 7MM US households that remain unbanked and over 50MM that are underbanked. These groups have received more attention from regulators lately. While we know you are reaching out to them in your communities, we give you five strategies to help engage these potential customers.

There are four true deserts in the US: Great Basin, Mojave, Sonoran, and Chihuahuan. These all fit the basic definition of a desert as being a place of very low rainfall and limited plant life. Located in the southwest of the country, collectively they cover some 500K square miles or 13% of US land. As you can imagine, there aren't many people living in these vast, dry areas.

With 99% of the population living within 10 miles of a bank branch, the US banking sector is no desert and there is room to grow business. According to the FDIC, an estimated 5.4% of US households (approximately 7.1MM) are unbanked, meaning that no one in the household has a checking or savings account at a bank or credit union. Another 16% are underbanked — those who have a checking or savings account, but also use high-cost alternative financial services, such as money orders, check cashing and remittances, auto title loans, payday loans, or paycheck advances.

Community financial institutions (CFIs) have an opportunity to increase their customer base and boost their financial inclusion efforts by reaching out to this segment with targeted offers that meet their needs. An understanding of the demographics, as well as the reasons for their reluctance to adopt traditional financial services, is fundamental to developing effective strategies.

Understanding the unbanked & underbanked

Unbanked and underbanked households are younger, poorer, and less likely to identify as white. In 2019, 13.8% of Black households and 12.2% of Hispanic households were unbanked. There are also regional and metropolitan status variations, with the South housing a greater proportion of the unbanked, and urban households accounting for 8.1%, compared to 6.2% of rural and 3.7% of suburban households.

So why are individuals shunning financial institutions, often resorting to more costly services? The main reason — cited by 29% of respondents in an FDIC survey — was that they "*don't have enough money to meet minimum balance requirements,*" while the second most cited reason was a lack of trust in banks.

Given this reality, here are **five strategies CFIs could use to reach these groups** in and around your communities.

1. **Tailor your outreach.** Targeted financial education could help tackle the misinformation and lack of awareness regarding the financial benefits of a checking account compared to non-banking alternatives. Providing financial education may also help build trust with these groups.

Furthermore, CFIs need to be aware that new immigrants may encounter additional challenges due to a language barrier. By employing 25 interpreters speaking 17 different languages, one $5B-asset CFI in IA is able to offer a more welcoming environment to its immigrant community.

2. **Go mobile.** Due to the widespread use of smartphones, many underbanked communities are best reached through mobile channels. Leveraging mobile banking upgrades from the pandemic, CFIs could lower customer acquisition and service costs. In turn, this could enable institutions to offer more affordable products to those who struggle with minimum balance requirements.

3. **Offer targeted products.** Minimum deposits, monthly fees, and other costs often stand in the way of consumers signing up for a bank account. This further highlights the need for transparent and affordable products. A $7B-asset CFI in CT is targeting its underbanked customers with a new deposit banking account featuring no overdraft, minimal monthly fees, and a $25 opening deposit. "*The account enables us to improve individual and family financial stability using conventional banking services as a viable alternative to high-cost options,*" says a company executive.

4. **Provide international services.** Immigrants with international ties regularly send funds to their home countries. In 2019, US remittances totaled $70B, at an average cost of 5.22% for each transaction. Offering an efficient and affordable way to access international money services could be a good way to onboard new customers and introduce them to further products. One Midwest CFI with $100MM in assets is doing just that by offering employers a supplemental payroll model that enables employees to send their paychecks directly abroad, instantly, and for a nominal fee.

5. **Leverage data to boost lending.** About one in 10 Americans are credit invisible. By adding alternative measures to the mix, such as spending habits and bill payment history, CFIs can gain better insight into the true credit risk of potential customers. What's more, artificial intelligence and machine learning make it possible to process large sets of holistic data in a short amount of time and at a lower cost. Institutions can also help customers establish a credit history, with products such as one offered by a $324MM-asset CFI in MI, described as "*a combination loan and savings program designed to help you build or rebuild credit.*"

Thanks to the central role they play in their communities, CFIs are uniquely positioned to serve the unbanked and underbanked. An understanding of who these customers are demographically, as well as their financial goals, will help institutions create solutions that best meet their needs and grow their customer base.

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ECONOMY & RATES

Rates As Of: 05/26/2022 08:03AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.06	0.21	1.00
6M	1.52	0.11	1.33
1Y	1.97	-0.12	1.59
2Y	2.47	-0.25	1.73

5Y	2.71	-0.25	1.45
10Y	2.77	-0.17	1.25
30Y	3.01	0.01	1.11

FF Market	**FF Disc**	**IORB**
0.83	1.00	0.90
SOFR	**Prime**	**OBFR**
0.78	4.00	0.82