

Bringing Safe, Low-Cost Deposit Accounts to Underserved Consumers:

Lessons from the FDIC Model Safe Accounts Pilot

**CFED Assets Learning Conference
September 2012**

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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.

Participating Banks

- **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

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

FINDINGS

High-Level Findings

- A majority of banks stated that Safe Accounts performed on par with or better than their other deposit accounts.
- Most institutions reported that the cost of offering Safe Accounts was roughly the same if not lower than the costs of offering other deposit accounts
- A large proportion of consumers remained banked, suggesting that consumers may be able to maintain successful banking relationships using Safe Accounts.
- Potential risks associated with account mismanagement or fraud were unrealized.
- The higher retention rate, combined with lower risks suggests that Safe Accounts may have greater longevity and lower costs than other accounts.

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

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
- Establishing a presence in new markets
- Ensuring adequate staff training

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 higher retention rates, in combination with the low fraud and overdraft risk, suggests that there may be greater account longevity and lower costs associated with Safe Accounts.