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Partnerships You Can Bank On
Sustainable Financial Institution Engagement in Bank On Programs

By Genevieve Melford
and Michelle Nguyen

March 2012

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I. Introduction

Financial access initiatives aimed at connecting unbanked consumers to mainstream banking products have proliferated in recent years. Among these, Bank On programs have become the fastest growing strategy to address concerns about the number of households that are operating outside the financial mainstream. Since the first Bank On initiative was created by the City of San Francisco in 2006, over 30 more cities, four states, and two regions have officially launched Bank On programs,[1] with dozens more in some stage of development. These are voluntary, public/private partnerships between local or state government, financial institutions, and community-based organizations that provide low-income un- and underbanked people with free or low-cost starter or "second chance" bank accounts and access to financial education. A "second chance" bank account is a checking account designed for consumers who have a history of account mishandling (for example, people who accounts were overdrawn and then closed by them or their bank).

Approximately eight percent of American households are unbanked, meaning that they have neither a checking nor savings account, and another 18 percent are classified as underbanked.[2] The underbanked have at least one checking or savings account, but also use alternative financial services such as non-bank money orders, check cashing services, or loans to manage their financial lives. Together these groups comprise a financially underserved population of 30 million American households. These households spend a significant amount of money on financial services for which most Americans pay little to nothing. In addition, those without a bank account don't have a safe place to store their money, which makes them more likely to be the victims of theft and unable to safely access money during emergencies (see box on the right).

What Does It Cost to Be Unbanked?

In addition to not having a way to save and build a personal safety net, the average full-time unbanked worker can spend $40,000 over the course of a lifetime just to cash paychecks, according to the Brookings Institution.

Moreover, new research from the Darden School of Business has found that in areas where financial institutions have begun to cater to Latino customers, the incidence of armed robberies has dropped significantly due to area residents' reduced reliance on cash-based transactions.

Beyond issues of cost and safety, unbanked individuals do not have a way to save and build a personal safety net,[3] turn savings into asset investments, or to build the robust and positive credit history needed to access affordable credit and succeed in today's increasingly complex consumer marketplace. Many un- and underbanked consumers want a bank account and see it as significant milestone toward financial stability (building savings and accessing credit), but also think that they might not have enough money to warrant having an account. Many also feel that alternative financial services providers offer much greater access and convenience than traditional banks and credit unions.[4]

The goal of Bank On programs is to connect these consumers to affordable, mainstream transaction accounts and other financial services. A key assumption underlying the program model is that financial institutions are able to serve the previously unbanked population in a way that is sustainable to their business operations. Private financial institutions are the scale platform for the Bank On model, so their desire and ability to meaningful participate in these programs over time is critical to the success and longevity of the approach.

As increasing numbers of municipalities and states initiate Bank On programs, some facets of the model that have been key to its strong local appeal – local innovation and decision-making authority – are also becoming challenges to further scale and sustainability. In particular, as the volume of requests to develop unique, customized products and data tracking reports for multiple local markets increases, and as funding requests continue to mount, it is becoming increasingly challenging for national and regional financial institutions to negotiate, coordinate and manage their participation in Bank On initiatives.

The purpose of this paper is to investigate the extent to which financial institution engagement in Bank On programs has been successful to date from the perspective of the participating financial institutions, and to recommend ways to strengthen that engagement in sustainable ways. Our research – based on extensive document review and interviews with financial institution executives and other Bank On stakeholders – indicates that in order for Bank On programs to continue to expand and attract participation from financial institutions, key aspects of the program need to be standardized and streamlined. We also find that many institutions are unresolved as to whether or not Bank On participation truly presents a business opportunity, and should be treated as such in terms of mainstreaming Bank On activities into retail business operations, or if it is ultimately and primarily a charitable and community relations activity. This distinction, and how financial institutions resolve it, is of great importance to the future of the Bank On field.

Many financial institutions are unresolved as to whether or not Bank On participation truly presents a business opportunity, or if it is ultimately and primarily a charitable and community relations activity.

The intended audience for this report includes financial institutions, local and state Bank On program leaders and stakeholders, and state and federal policymakers, all of whom are critical stakeholders in building a sustainable, national system to include more consumers in the financial mainstream.

The remainder of this report is organized in four sections. Section II provides an overview of the key research questions and methodology of the study. Section III includes our key findings that describe the primary motivations for financial institutions in choosing to engage in Bank On initiatives. Section IV details the specific ways in which Bank On programs are requesting the involvement of financial institutions, and describes the range of responses to those requests. Section V provides our conclusions about the primary opportunities and challenges for future sustained financial institution engagement in Bank On programs. We also offer a number of recommendations for how to address those challenges and increase the likelihood of the Bank On model's ability to continue to expand toward greater scale, sustainability and impact.

II. Methodology

RESEARCH QUESTIONS

The key research question for this project was: What facilitates sustainable financial institution engagement in Bank On initiatives? Answering this question required an understanding of both the facts – what is being asked of financial institutions and how are they responding – and the perception that financial institutions have of their experience to date. To this end, we pursued a number of underlying research questions:

- Why have financial institutions participated in Bank On programs to date? How would they define success for themselves in terms of participation, and how has their overall experience been?
- What do they see as the business case for participation?
- What are the additional benefits (such as brand value, partner relationships, and other goodwill outcomes)?
- What requests have been made of financial institutions in order to participate, and how have they responded to those requests?
- What are the barriers to meaningful and sustained participation? What have the main challenges been?
- What have been successful ways to address these challenges?
- What could be done to improve the sustainability of financial institution engagement in Bank On programs?

DATA SOURCES

To answer these questions, CFED's research design included two primary approaches – document review and semi-structured interviews – as well as one site visit.

Dozens of documents of different types – Bank On program operating documents, reports and case studies on Bank On and other financial access programs, surveys of banks and other financial industry reports, research reports on the un- and underbanked, public comment letters on consumer financial policies and initiatives, and news articles – were reviewed and analyzed to shed light on the research questions, provide an understanding of the larger market and policy environment within which Bank On programs operate, and inform the design of interview guides. A list of the documents reviewed is attached as Appendix 1.

CFED conducted interviews with nine individual financial institutions across a spectrum of institution types and sizes that have participated in one or more Bank On programs, eight additional Bank On program experts from nonprofit organizations and local and state government, and three federal regulators and agencies who work with Bank On programs. The interviews were structured to capture both the operational details of Bank On program participation for financial institutions, as well as interviewees' experiences and perceptions of the benefits and challenges of current and continued engagement. A list of organizations and programs interviewed is attached as Appendix 2.

In addition to the semi-structured interviews, CFED also had the opportunity to participate in a Bank On Savannah Data Tracking Committee meeting. This site visit provided a valuable opportunity to discuss definitions and perceptions of success for Bank On participation with a range of participating financial institutions.

III. Why Financial Institutions Engage in Bank On Programs

Financial institutions have different reasons for participating in Bank On programs, and sometimes these reasons create conflicting priorities within a given institution. Some view it primarily as a business activity, focused on attracting and serving new customers including underserved consumers or local government banking clients. Some view it primarily as a charitable or community development activity. All value the opportunity to strengthen relationships with government and community-based organizations, as these relationships advance both business and charitable goals. How an individual financial institution defines success in terms of their participation in a Bank On program depends on their primary reason for participating, as well as the perspective of their key Bank On staff, who may reside in either the retail side or the community relations side of the institution. It has been challenging for many institutions to resolve whether or not Bank On participation truly presents a business opportunity and should be treated as such in terms of mainstreaming Bank On activities into retail business operations, or if it is ultimately and primarily a charitable and community relations activity.

Financial institutions defined their institutional goals for Bank On participation in three ways:

1. **New, sustainable banking relationships.** Institutions are looking for significant numbers of new, previously un- or underbanked consumers to open accounts and successfully manage and retain those accounts over time. Ultimately they would like to serve the new customers with multiple products over time, i.e. "share a wallet" with the customer, and for all the products to be sustainable from a business perspective (sustainable meaning that the product would ideally be profitable but at the very least be revenue neutral and not cause the institution to lose money).
2. **Improving the financial lives of customers.** This is often a primary goal for community relations staff within financial institutions and dovetails with the goals that policymakers and community

groups have for Bank On programs. Namely that by serving the previously un- and underbanked with affordable, appropriate products, the financial institution will “make a difference” in their customers’ lives, by helping them save money through avoiding alternative financial service fees, keeping their money safe, and facilitating savings and access to other mainstream financial services.

3. **Relationships with governments and community groups.** The coalition or partnership approach intrinsic to the Bank On model provides significant opportunities for financial institutions to build or strengthen relationships with government and nonprofit entities. These relationships were cited as valuable for a number of reasons, including: providing access to a consumer segment that would be difficult for the financial institution to reach on its own; providing opportunities for new government banking business; streamlining requests for partnership with community-based organizations that allow the institution to meet its community development goals more efficiently and effectively; and general brand and reputational benefits.

Financial Institutions’ Impression of the Sustainability of Participation

A majority of financial institutions interviewed for this project reported that they had tried to engage the un- and underbanked segment prior to their involvement with Bank On programs, though there was great variation in how individual financial institutions had tried to serve this market, as well as to what extent they had prioritized engaging this population. Several non-bank institutions (credit unions and other non-bank providers of transaction services) were already focused squarely on the unbanked and underbanked markets prior to joining Bank On initiatives.

To the extent that institutions have previously focused on this market as a business strategy, it has largely been through the provision of a second chance checking account. However, half of all unbanked households have never had an account before,[5] which indicates significant potential to attract first time banking customers as well. With concerns about profitability issues, regulatory barriers and fraud, some financial institutions have in the past focused instead on serving this market primarily through philanthropic and community development activities rather than as a true business strategy.

The emergence of Bank On initiatives has helped shift the conversation. Several financial institutions have stated that their participation in Bank On has caused them to be more intentional and focused in serving the unbanked. Other financial institutions have said that the initiative has not changed their strategy at all, as they were already serving this market by offering second chance accounts.

Although most Bank On initiatives are relatively new, some programs have been in operation long enough to re-negotiate a memorandum of understanding (MOU) with financial institutions after having carried out the terms of their first agreement. In these few situations, most financial institutions have signed up to participate again. However, all but the smallest financial institutions have already expressed significant concerns at having too many uncoordinated requests to participate in local initiatives, so this challenge is bound to re-emerge as the time comes for many of these newer programs to re-authorize their MOUs.

In addition, many interviewees said that a lack of reliable data tracking the business impact of their participation (i.e. new accounts opened and sustained and customer relationships deepened *as a result* of Bank On participation) made it difficult for them to evaluate the success of their participation from a business perspective, which is a key factor in their willingness to continue participating over time.

BUSINESS BENEFITS

The business opportunity presented by the potential to tap the underserved market is tantalizing and fairly clear in theory, but as yet somewhat unrealized by many financial institutions.

Business Opportunity

Un- and underbanked households represent the potential for a vast new market. According to a study by KPMG, the financially underserved market in the United States is comprised of 88 million individual consumers with nearly $1.3 trillion in income.[6] And these consumers are already spending vast sums of money on financial services outside of traditional banks and credit unions. Check cashers and other non-bank financial service centers alone provide $106 billion in various products and services to a significant subset of the un- and underbanked population – over 30 million consumers in the United States annually.[7]

All but the smallest financial institutions have already expressed significant concerns at having too many uncoordinated requests to participate in local initiatives.

Financial institutions that take Bank On participation seriously as a business opportunity to attract new individual customers all describe their target customer in the same way: steadily employed un- or underbanked consumers, and especially those who have the potential to receive their paycheck via direct deposit. These are the customers they perceive as being servable in a way that is sustainable to the institution's bottom line. And research indicates that many of the un- and underbanked fit this desirable demographic.

Unbanked households in California pay up to $1 billion a year to cash checks and pay bills through non-bank providers, and nearly 60 percent of these households are paid in checks by employers, including almost 80 percent of working unbanked households.[8] In New York City, 17 and 13 percent of households in two neighborhoods with annual income over $40,000 lack a banking relationship, and 75 percent of all residents in these two neighborhoods use check cashers at least once every few months.[9] A survey done of unbanked households in San Francisco found that "among households lacking a checking account, 52% include at least one full-time worker" and that "a significant share of unbanked households in San Francisco earn between $20,000 to $40,000, a good target market for the [Bank On] initiative."[10]

While basic starter or second chance bank accounts may not be the most profitable products for financial institutions, a new, formerly unbanked customer can represent a good business opportunity if that customer enrolls in direct deposit, uses debit cards (and thus provides interchange fees), uses online banking (to reduce the cost on a bank), and keeps the account over time. Additionally, the opportunity to develop long-term relationships even with less immediately profitable customers means a financial institution may be able to cross-sell other products, such as a (perhaps secured) credit card, automobile loan or home loan.

A new, formerly unbanked customer can represent a good business opportunity if that customer enrolls in direct deposit, uses debit cards, uses online banking and keeps the account over time.

According to a recent scan of the Bank On field, financial institutions participating in local Bank On programs around the country have opened tens of thousands of new accounts – anywhere from just over a thousand to almost 80 thousand new accounts per locale.[11] In many cases, the direct connection between the program and the new accounts is hard to conclusively establish.[12] However, because the Bank On approach provides banks and credit unions with well-connected partners (city and state government officials and community based nonprofits) who can provide a bridge to the large underserved market, Bank On initiatives hold great potential for significant new business development.

Business Challenges

In addition to the potential that Bank On represents for many financial institutions, there are significant challenges to realizing the business opportunity. Many financial institutions perceive the unbanked and underbanked segment to be an unprofitable market based on the constraints of their current operations. For example, one banker commented that the "Bank On" product being offered by his institution was so unprofitable relative to the bank's standard accounts that he hoped that not many people would take it up and therefore did not want to broadly market it. A different banker explained that her institution did not want to create a "Bank On" product that would be so low cost and appealing to a wide spectrum of consumers that customers would want that rather that the bank's standard products. Her bank therefore offers a pre-existing product as the "Bank On" product, and is careful to price it so as not to lose money on it. These observations come from institutions of all sizes and reflect the importance of understanding that Bank On account products exist within a private, for-profit market. As such, if products are not sustainable from that perspective, they simply will not be offered at any meaningful scale.
Some bankers have expressed frustration based on their perception that financial institutions were putting up the risk in the initiative, yet the program leaders (from government or community-based organizations) were the ones "driving the program."

In order to tap into this market profitably, financial institutions may need to cut overhead costs in order to serve these customers more quickly and efficiently. While many financial institutions invest heavily in technology, some are prevented from making swift adjustments because changing existing infrastructures can require significant cost and investment. Financial institutions that have more outdated technology systems and heavily bureaucratic processes may be more limited in creating a product that makes sense for both this customer segment and the financial institution and thus are less able to make a strong business case for serving this market.

What is a Non-Bank?

According to the Consumer Financial Protection Bureau, a non-bank is defined as "a company that offers consumer financial products or services, but does not have a bank, thrift, or credit union charter and does not take deposits."

This includes payday lenders, debt collectors, credit agencies, wire transfer companies, and companies that offer pre-paid transaction cards.

One interviewee suggested that the business case for serving this segment has to do with having the right operating structure to make profit on volume rather than high margins on individual customers or transactions. Non-bank financial service providers may be in a better position to do so if they are less burdened by investments that traditional financial institutions have made in technology systems to support their traditional business models. In addition, they may be less constrained by bureaucratic processes designed to control for risk. Indeed, many of these providers are serving this segment by offering prepaid cards to customers, which is a product that can be designed to control for risk in a way that checks cannot, since it can restrict overdrafting. According to Federal Reserve data, $140 billion was spent using pre-paid cards in 2009.[13]

Concerns about serving this segment have prevented many financial institutions from engaging in this market historically, as revealed in a 2008 FDIC survey. In response to the survey, which was not focused on Bank On participation, but rather on banks' individual efforts to serve the un- and underbanked, banks stated that their concerns included, in order of importance: profitability issues, regulatory barriers and fraud concerns.[14] Financial institutions reported that they most frequently declined new account applications due to a client's negative banking history (62%), insufficient identification (39%) and a low credit score or rating (37%).[15] They were hesitant to provide a service such as cash checking to non-depository customers because they were concerned about losses related to fraud due to identification challenges. They also perceived regulatory barriers as restricting them from offering this service.[16] Case studies conducted separately from the 2008 FDIC survey of banks concluded that banks could therefore "better serve unbanked and underbanked customers by developing debit card-based accounts and pre-paid cards to meet their needs."[17]

REPUTATIONAL AND COMMUNITY RELATIONS BENEFITS

The clearest and most consistent benefit to Bank On participation cited by financial institutions is the value of the partnerships developed with governments and nonprofit organizations. For many, but not all, financial institutions, there have also been brand and reputational benefits. And while many financial institutions have also hoped to receive Community Reinvestment Act (CRA) credit for their participation in Bank On, it has been difficult for banks to receive this benefit.

Value of Partnerships

Almost all financial institutions cited the positive role of partnering with city government and local nonprofit organizations in Bank On programs. Interviewees felt they benefited from a formal, organized connection to community groups, coordinated by city government, as opposed to requests for one-off partnerships with individual organizations, which they would be receiving if not for Bank On participation. According to the FDIC survey of banks' efforts to serve the un- and underbanked, 22 percent of banks already work with external partners (most commonly schools and employers) with the goal of promoting their savings accounts and reaching out to potential customers.[18] City government and local nonprofits can also provide market research to banks by offering important insights into the needs of the unbanked.[19]

Many financial institutions emphasized that their partnerships with community-based organizations gave them a new platform for marketing and led to increased access to a new customer segment. Financial institution staff have noted that "referrals from community groups, churches and schools bring the most Bank On customers."[20] This outreach is seen as very valuable by banks, especially since they historically have not been able to access this target population through their traditional marketing and advertising.

Many interviewees also felt that strong municipal government leadership in Bank On is key to making participation meaningful and attractive to financial institutions. Many financial institutions have valued the opportunity to strengthen their ties to government entities, including developing government banking customer opportunities, from working in Bank On coalitions with local and state government, as well as with federal regulators. There is also the perception that municipal government leadership translates into more intensive and effective Bank On marketing efforts than in initiatives led by nonprofits or other entities.

There was consensus among interviewees that city and state government are able to lend weight to the Bank On program and so can bring financial institutions to the table in a meaningful way that nonprofits alone simply cannot. While community organizations are critical partners in the operation of a Bank On program, government must be seen to be leading the program.[21]

Brand Value

Participating in Bank On initiatives also includes public relations or reputational benefits. Interviewees felt there was definite brand value to be gained by associating with local government and nonprofit groups. Additionally, strong marketing efforts from the local government along with the perception of a governmental "stamp of approval" for their product can be valuable as a branding effort as well as potentially reassuring to a customer base unfamiliar with or wary of traditional banking relationships.

However, aside from benefits gained from associating with local government and nonprofits, the sense of brand benefit was not uniform across financial institutions, depending on the extent to which the Bank

On mission reinforces a financial institution's overall branding strategy. If a financial institution brands itself as a bank that cares about developing relationships with the community, then the Bank On initiative certainly adds to that reputation. If a financial institution already has very extensive and intentional marketing strategies, they may benefit less from the Bank On marketing if it deviates from their overall strategies.

For some mid-sized financial institutions, Bank On can be a great brand builder with the unbanked and broader market, particularly if large banks are not heavily involved in the program. If large banks are recognized leaders in the initiative, however, mid-sized players can get lost in the shuffle and not receive as much recognition for participating as they would like. Smaller financial institutions have generally found it positive to be associated with larger brand-name institutions through the Bank On program.

Community Reinvestment Act

Many financial institutions have hoped that participation in Bank On would help them satisfy requirements under the Community Reinvestment Act (CRA), and a few named CRA as part of their incentive to participate in Bank On. However, financial institutions have either received limited consideration or have faced standards that have been inconsistently applied by bank examiners. CRA exams have three parts: a lending test, an investment test and a service test. Because there is no retail banking activity requirement, it has been unclear under which area of CRA a financial institution would receive consideration for their Bank On participation. Several interviewees thought that Bank On activity would enable them to get positive consideration for the service component, while others stated that financial institutions would be receiving additional consideration for community investments.

Moreover, the circumstances under which a financial institution would receive consideration have been unclear and differed by location. For one Bank On initiative, the local FDIC officer requests proof from a program administrator of financial institution Bank On data tracking and funding contributions, a list of services and products for each participating financial institution, and documentation of either the provision of financial education or receiving financial education referrals. Another regulator stated that a bank would need to prove that 51 percent of Bank On accounts are in low to moderate income (LMI) Census tracts to receive consideration. At least one financial institution that has been very active in more than one Bank On initiative has never been able to receive CRA credit for their participation. Many others have expressed frustration with currently unclear and sometimes conflicting CRA guidelines and award assessment criteria.

IV. The Basic Ways in Which Banks Participate in Bank On

Research from both document review and interviews reveals that there are four primary dimensions of engagement by financial institutions in Bank On programs, each of which has issues and challenges that will ultimately determine if engagement in Bank On can be sustained and have the intended impact over time. The four areas are:

1. **Product Specifications:** A transaction product that meets the guidelines of the local Bank On program. The exact guidelines vary between local initiatives, and some elements may be considered mandatory, and others encouraged;
2. **Data Reporting:** Quarterly reports on various details of accounts opened related to the program, which also may include mandatory and optional elements;
3. **Funding:** Some level of direct funding to support the program's operations and elements such as public education (marketing) and financial education; and
4. **Internal Implementation of Bank On Procedures:** Integrating Bank On procedures into staff training, systems, and consumer outreach and engagement.

This section describes the requests made to participating financial institutions in these four areas, along with their responses, perceptions of challenges, and other considerations.

PRODUCT SPECIFICATIONS

With the low- to moderate-income unbanked population as the target market segment, Bank On initiatives aim to increase the supply of starter or second chance transaction accounts by working with financial institution partners to create or modify existing products to more closely meet the needs of un- and under-banked consumers.[22] During negotiations between financial institutions, government officials, nonprofit partners and other stakeholders, a set of product specifications for a local initiative is determined and hammered out. As the first Bank On initiative in 2006, Bank on San Francisco set the precedent for product specifications on which most future Bank On product negotiations were based. These standards turned out to set more of a ceiling than a floor for product specifications in future Bank On initiatives.[23]

Bank On accounts typically have baseline minimum standards for three categories of the product request:

1. Account access policies
2. Account minimum balances and fees
3. Other account features

Financial institutions are required to meet the standards to be part of a Bank On program and are encouraged to go above and beyond to offer products that are friendly to the unbanked, while minimizing business risk. Financial education, while optional in most initiatives, plays a role in product specifications in that it is sometimes offered as a way for potential customers to gain access to a Bank On account or for existing Bank On account holders to gain additional consumer-friendly features.

Product Specification Requests

Specification Category	Bank On Request	Financial Institution Response
Account Access Policies	■ Provide "second chance" access to consumers with ChexSystems history ■ Accept consular ID to open a Bank On account	General willingness to make adjustments along the requested lines, but varies significantly based on each institution's internal policies and the demographic and political climate of the region.
Account Balances and Fees	■ No or "low" minimum and monthly balance ■ No or "low" monthly fee ■ Waive first overdraft	Fairly consistently provided. FIs were part of this negotiation, and followed through on these agreements. However, this has begun to change as revenue models are changing in the wake of financial regulatory reform.
Other Account Features	■ Debit card ■ Free use of bank ATM ■ Access to additional savings account	Provided by most participating institutions. Typically these requests were fairly easy to meet, as they were features already or easily offered by FIs.
Financial Education	■ Provide referrals ■ Path to "second chance" access ■ Path to enhanced account features	Extremely mixed. Varies widely by both institution and local program.

Account Access Policies

In determining access to accounts, Bank On initiatives have focused primarily on banking individuals with ChexSystems history, as well as accepting foreign ID cards as proof of identification. These two access issues have been prioritized based on market research into the barriers the unbanked face in opening accounts.

ChexSystems, Inc. is a consumer-reporting agency that provides account verification services to its financial institution members to aid them in identifying account applicants who may have a history of account mishandling (for example, people whose accounts were overdrawn and then closed by them or their bank).[24] It is now common for individuals with ChexSystems incidents over a year old to be able to open a Bank On account, though some initiatives are open to allowing customers to open accounts with more recent ChexSystems history. It's also common to see flexibility with this time threshold for Bank On customers, particularly if financial education is completed and/or they pay the restitution fees associated with their previous accounts. No financial institutions are required to accept customers in ChexSystems due to fraud as part of the Bank On initiative.

Also, many financial institutions now accept consular IDs (particularly the Mexican Matricula Consular) as sufficient identification to open a Bank On account, and this is particularly important feature to initiatives that serve large Hispanic and Latino populations. This has been a point of some contention, though, with some financial institutions citing concerns about Patriot Act requirements or just the political climate of the communities they operate in. However, accepting consular IDs to open an account is legal and permitted under federal regulation. Therefore, the decision as to whether a financial institution accepts consular IDs is a matter of corporate policy. In at least one instance, Bank On leaders and participating financial institutions found it politically infeasible to accept these forms of ID in locales that have more anti-immigrant sentiment and have smaller Hispanic and Latino populations.

Account Balances and Fees

A key aspect of Bank On product negotiations is determining account balances and fees, with particular focus on the minimum monthly balance and monthly account fee. For the minimum monthly balance, there has been little controversy – most initiatives have set this at $0 or at the very least have agreed it should be negligible. The reaction to the monthly account fee has been more mixed across initiatives, ranging from a requirement of no monthly fee to a maximum of about $10 per month in original Bank On MOUs. The account fees tend to be higher for second chance accounts than for standard checking accounts, due to the increased risk profile of the consumer. However, fees may be on the rise, as some institutions increased monthly account fees above $10 in 2011 in response to financial regulation reforms. Many financial institutions are willing to waive the monthly account fee under certain conditions, such as if the account holder has direct deposit or maintains a specified minimum balance. Un- and underbanked consumer focus groups have voiced a preference for an upfront and clearly laid out fee structure (i.e. a regularly occurring monthly fee) over a free account with hidden or a poorly understood fee structure.[25]

For the minimum opening balance, some initiatives mandate that this falls within a pre-specified range, while others have no requirement for this and leave it to bank discretion. For initiatives that require a minimum opening balance, the deposit ranges between $25 and $100. Additionally, most Bank On accounts are opened free of charge, without an additional account opening fee.

Finally, many Bank On initiatives require financial institutions to waive one occurrence or set of overdraft fees in the event that a Bank On customer incurs a negative balance. Bank On program administrators pushed for this feature to make the account friendly to the unbanked and to provide a teaching moment for Bank On consumers. Focus groups had shown that overdraft fees were poorly understood by the unbanked,[26] and that 38% of unbanked survey respondents cited fees as a reason to avoid banking, with many recounting negative experiences with overdraft fees.[27] This benefit to the account was more difficult to negotiate before the Federal Reserve modified Regulation E in 2010. Regulation E now stipulates that account holders need to opt-in for overdraft protection rather than it being the default policy[28] and so the negotiations over this feature have been less heated as banks have made preparations to move away from reliance on overdraft fee revenue. However, this also means that banks are moving away from offering "free" checking, so reductions in overdraft fees are being offset with higher monthly account fees. Beyond Regulation E, financial institutions are seeing a greater potential revenue loss due to the Durbin Amendment in the Dodd-Frank Act, which regulates interchange fees. Interchange fees are fees that banks charge to merchants for debit card transactions. Banks historically received 1.0 to 1.5 percent of the purchase amount through interchange fees, and Federal Reserve's response to the Durbin Amendment has been to cap this to 12 cents per transaction. Several financial institutions interviewed stated this would materially change what they offer customers, particularly limiting a bank's ability to offer free checking accounts.

Financial institutions are currently deciding how to adjust their fee schedules to make up for lost revenue. In early 2011, Bank of America, Citibank, JPMorgan Chase and Wells Fargo announced changes to the pricing of their baseline checking accounts, particularly to bring back maintenance fees on basic checking accounts,[29] and changes from more financial institutions are likely still to come. According to a 2010 study, the availability of checking accounts with no monthly service charges and no minimum balance requirement fell for the first time since at least 2003.[30] Other responses have included aggressive advertising campaigns to get customers to sign up for overdraft protection, as well as fee hikes for out-of-network ATM usage.[31]

Several financial institutions interviewed stated the Durbin Amendment would materially change what they offer customers, particularly limiting a bank's ability to offer free checking accounts.

This will clearly affect Bank On accounts, as many banks feel the need to change the product offerings they agreed to under original MOUs, but it will be up to Bank On program administrators whether they will want to keep to previously negotiated standards or begin new agreements with the financial institutions to address this changing situation. Bank On program managers are faced with balancing the previously negotiated fee system with the desire to keep participation as broad as it currently is, which would require allowing some institutions to raise their product fees above the currently specified levels for Bank On participation.

Additionally, the Durbin Amendment does not impose this cap on pre-paid cards, so this may affect the landscape of products offered by mainstream financial institutions in the near future. We have already seen that some financial institutions are moving toward offering pre-paid cards, with American Express becoming the first mainstream financial company to offer a general-purpose reloadable (GPR) prepaid card in June, 2011. According to the latest data available from the Federal Reserve, Americans used their prepaid cards for $140 billion worth in transactions in 2009.[32] However, though prepaid cards are used similarly to checking accounts, they are not regulated similarly and have fewer consumer protections than their transaction and credit card counterparts.

Other Account Features

Bank On programs have allowed for greater flexibility in other account features than they have with account access policies and account fees. Additional account features have been mainly left to the discretion of the financial institution. In the first Bank On program (Bank on San Francisco), the product specifications focused primarily on account access policies, minimum balances and account fees, but later initiatives have requested or required additional account features.

Required features have often included basic services easily provided by financial institutions, such as a debit card, free use of bank ATMs, and also offering a savings account. Many program administrators also strongly encouraged – but did not require – the following optional account features: access to online banking, free direct deposit, and the provision of affordable personal checks, cashier's checks and money orders. Fewer programs requested these optional account features: online bill pay, forgiving fees for non-bank ATM usage, and the provision of affordable remittances, small dollar loans and secured credit cards.

For many financial institutions, offering checks or a debit card is a form of risk – though typically one they are willing to take – because negative balances can be incurred and potentially not recovered. Some banks have mitigated this risk by creating checkless second chance or Bank On accounts to prevent unhealthy or irresponsible financial behavior. One Bank On program actively prohibits the use of debit cards to manage risk. One non-bank financial services provider does not allow for the usage of checks or debit cards and instead offers only pre-paid cards.

Financial Institution Response

The response from financial institutions to Bank On product requests has been as varied and diverse as the financial institutions themselves. While most financial institutions have shown interest in joining Bank On initiatives, they show varying levels of commitment to creating or modifying a product that fits into the Bank On product request. However, the reactions to Bank On product specification requests have generally been divided along the lines of financial institution size and type:

1. **Large national and regional banks.** These banks emphasize standardization and a uniform experience between branches, as they serve a broad audience across dozens of markets and thousands of branches. These financial institutions are not likely to create or modify their products to match a Bank On product request and usually participate using an existing basic or second chance checking account. Because large national banks are sought after for their brand recognition and wide reach, Bank On initiatives sometimes bend their requirements to include these financial institutions.
2. **Smaller banks.** These financial institutions have a smaller footprint and are more able and willing to create or modify accounts to satisfy the Bank On product request.
3. **Credit unions.** These are cooperative, member-owned and controlled financial institutions which also often have a mission that is oriented toward serving the community. Therefore, they face less pressure to profit from their products, and are also most likely to already be offering products that meet the standards of the requested Bank On product specifications.

One thing all participating financial institutions generally have in common is a preference for product guidelines with flexibility, rather than a cookie cutter product model. As private institutions operating in a competitive marketplace, they need the freedom to differentiate themselves to potential customers and do not want to be seen as offering an interchangeable product with no unique value. Originally, many Bank On program administrators entered product negotiations with financial institutions hoping to elicit agreement to create a uniform Bank On account within a specific initiative. This account would be easier to market because of its standard features, and program administrators would then simply have to provide a list of participating financial institutions. However, financial institutions rejected the idea that their products should be identical to their competitor's products.[33]

Moreover, during these negotiations, it was clear that some features that program administrators wanted were not going to be universally adopted by all banks. Program administrators had to balance the tension between adopting standards that were friendlier to the underserved and having wider financial institution participation in the program. This tension has primarily been handled by establishing minimum features for financial institutions to meet and then encouraging them to go above and beyond. However, encouragement can only go so far, and generally only the smaller banks that have the freedom to alter products in a local market and financial institutions that have community-oriented mission statements will take that extra step.

Program administrators had to balance the tension between adopting product standards that were friendlier to the underserved and having wider financial institution participation in the program.

When the FDIC sought comments in 2010 on its early checking and savings account templates for the Model Safe Accounts Pilot,[34] the agency received feedback from financial institutions that in many cases reinforces the perspectives found in research for this project. Comments to the FDIC included: the desire for product guidelines rather than requirements and the flexibility to set prices, concerns about the potential for fraud and legal concerns related to expanded identification options, a desire for CRA credit for offering safe, basic accounts to low and moderate income (LMI) consumers, and the view that pre-paid cards can be an alternative to bank accounts for the LMI market segment.

Financial Education

Financial education also plays a role in Bank On product specifications. While optional in most initiatives, it is sometimes offered as a way for potential customers to gain access to a Bank On account (if they don't meet the ChexSystems requirement, for instance) or for Bank On account holders to gain additional consumer-friendly features, such as an extra set of waived overdraft fees.

For the most part, the ways that financial education is incorporated into Bank On are quite varied across initiatives. The same can be said for curriculum itself as well as the level of financial institution involvement in the provision of financial education. In some initiatives, the financial education curriculum is restricted to account management and geared toward specific Bank On products, while in others, the financial education is more broadly connected to overall financial goals for households. In some circumstances, financial institutions offer the instruction themselves, and in others, the courses are delivered through traditional nonprofits.

Financial education is usually not a requirement for opening an account because it is seen as creating too much of a barrier for unbanked customers. There are some exceptions to this, particularly when a customer has a negative banking history that would normally preclude them from opening an account. In this situation, a Bank On program may ask financial institutions to refer the individual to financial education first and to allow successful completion of a course as recourse for prior bad banking behavior.

One interviewee stated that because of financial education, Bank On customers are generally seen as better customers than the average unbanked person. Though there is some mechanism in all Bank On programs for referring customers to financial education for the purpose of opening a Bank On account, there is also significant variation across initiatives because some programs emphasize financial education more than others.

DATA TRACKING

Data tracking, to gauge the progress of Bank On initiatives, is a core element of the requests made to participating financial institutions. The ability to demonstrate positive outcomes is key to program sustainability and continued funding,[35] and financial institutions themselves need outcome data to internally assess the value of participation. The requested data is meant to serve three primary purposes:

1. **Program monitoring.** Reflecting the relative success of the initiative in meeting its most basic goals back to program managers and key stakeholders, who can use the data to pinpoint effective strategies and make course corrections when necessary. Key questions include:
    a. Are accounts being opened for the target population?
    b. Are accounts staying open and getting used regularly and successfully?
2. **Fundraising and external communication.** Data points that reflect both the success of the program in meeting its basic goals, and data that suggest that account ownership and usage are providing benefits to consumers, all contribute significantly to the amount of support Bank On initiatives are able to secure from key political, civic, and philanthropic stakeholders.
3. **Financial institution engagement.** Communicating with current and potential financial institution partners about the potential return on investment for their participation in a Bank On initiatives. A number of financial institutions feel that in order to justify their continued participation in Bank On programs over the long term, the data need to indicate that successful new customers are gained as a result of their participation.

While all program stakeholders are curious about the outcomes for consumers affected by a Bank On campaign – such as the impact of financial education on account take-up and financial knowledge and skills, and reduction in use of alternative financial services such as check cashing, money orders, and short term credit products – very few Bank On initiatives have had the resources to engage in the kind of survey research that might be able to begin the answer these questions. As a result, account data tracking via financial institutions is the sole method of outcome tracking in most Bank On programs.

Although financial institution responses to data tracking requests vary widely by both individual data measures and financial institutions, two findings are consistent:

- The single biggest challenge related to data tracking is how to define a "Bank On" account; and
- Having different sets of data to provide for each local Bank On program is unsustainable for financial institutions that participate in multiple programs.

The following section describes Bank On data tracking requests and financial institution responses in detail, including the purpose, requested data measures, approaches to defining Bank On accounts, and the process for collecting and reporting data.

Data Measures

Most Commonly Requested Data Points

The data points most commonly requested across all Bank On programs are:

- Accounts opened and closed in the past quarter (by zip code)
- The type of account (checking, savings or other)
- The average account balance
- Some type of information on non-sufficient funds (NSF) activity, which is defined as an attempt at payment from an account with insufficient funds to cover the payment amount (e.g. accounts, incidences, total amount of fees)
- Information on customer referrals from sources such as financial education providers or social marketing campaigns and materials.

Commonly Requested Data Points	Financial Institution Response
Accounts opened and closed in the past quarter	Fairly consistently provided
Type of Account (checking, savings, or other	Fairly consistently provided
Average Account Balance	Fairly consistently provided
NSF Activity	Sometimes provided, against policy of some financial institutions to share
Customer Referral Sources	Usually not provided, due to difficulty of capturing the information in the first place
Customer Demographic Data	Provide account data by customer zip code

Of these data points, the first three (accounts opened and closed, type of account, and average account balance) have been provided fairly consistently by participating financial institutions, and in principle are not terribly challenging from either a technological or policy perspective for financial institutions to report on. However, to determine which accounts to track as "Bank On" accounts is extremely difficult, and has bedeviled every Bank On program and all but the smallest participating financial institutions.

NSF activity is not difficult to report from a technological perspective, but a number of financial institutions do not report on this as a matter of internal policy, while others are comfortable reporting it.

Information on customer referrals is not consistently reported, because most institutions (especially the larger ones) have not been able to build a mechanism to capture this information into their account opening processes and database systems. Some financial institutions said this was the single most challenging data point to collect. Larger banks and credit unions that serve a multi-state or national footprint place high value on consistency of the customer experience, products, policies and procedures across all branches, and therefore have much less flexibility in customizing account opening and data capture procedures to meet the data tracking requests of a local Bank On initiative, whereas smaller, local financial institutions have more ability to modify procedures to meet local data tracking requests.

Demographic Data

Bank On program managers are interested in the demographic characteristics of the actual Bank On consumers because the programs are designed to target the demographic groups that are most likely to be unbanked, such as consumers with lower incomes, and members of certain racial and ethnic groups. However, financial institutions are legally barred from collecting this type of information about their customers. In addition, Bank On programs would like to know information about how individual customers use their accounts and fare over time, and to link account data to data collected about individuals by financial education providers and other community service providers to gain a more robust understanding of their financial lives and the impact of the Bank On program. But financial institutions are barred by privacy regulations from sharing individual level account data with their Bank On program partners.

In response to these two constraints, the best practice that has emerged in the field is for financial institutions to report aggregate account data at zip code level. That is, for each data point, to report averages across all Bank On accounts for each zip code that account holders live in. Program managers and researchers can then look at demographic characteristics of those zip codes as a proxy for the characteristics of the account holders, and the data can be used by both program managers and financial institution staff to understand who is being served and if there are differences in product uptake and use in different customer segments and geographic locations. In places where local household surveys or other research has pinpointed the neighborhoods with the highest concentrations of the un- and underbanked, zip code level data can also shed light on the extent to which these high need areas are being successfully served by the program.

Less Commonly Requested Data Points

Some Bank On programs request additional data of their participating financial institutions, such as:

- Total existing Bank On accounts
- Accounts using direct deposit
- If a Bank On customer was previously unbanked or in ChexSystems
- Reasons for a closed account
- Data on the average number of account transactions (e.g. total, withdrawals or deposits)

Less Commonly Requested Data Points	Financial Institution Response
Total existing Bank On accounts	Fairly consistently provided
Accounts using direct deposit	Fairly consistently provided
Number of customers with ChexSystems history	Sometimes provided, willingness and ability to share varies by institution
Reasons for a closed account	Sometimes provided, willingness and ability to share varies by institution
Average number of account transactions	Challenging to pull this data without access to FI's main database

Of these, the first two are generally provided consistently and comfortably by financial institutions. Accounts with direct deposit is a metric of particular interest to both program leaders and financial institutions, as a measure of meaningful and successful product use by the consumer, and, on the other hand, high probability that the customer will maintain their relationship with the financial institution.

The next two (previous banking history and reasons for account closure) have proved more challenging, for a mixture of both internal policy reasons and whether or not the data are measures that financial institutions are tracking. The ability and willingness to report on these points vary by institution.

Data on average number of account transactions is not a problem in principle. The main challenge is making sure the that financial institution staff who report to Bank On programs have access to account data cut in the requested ways. Since they are usually not the financial institution's core MIS programmers, they often have to make do with whatever data reports are already available to them, as they may not feel that they can ask MIS staff to run specialized reports for them.

Defining and Coding "Bank On" Accounts

Determining which accounts should be reported on as "Bank On" accounts, and creating the policies and procedures for doing so consistently across financial institutions and locations is the most fundamental element of Bank On data tracking, and perhaps the most challenging. Because of the discrepancies in the ways these accounts are flagged and tracked, many financial institutions feel they have no way of determining if participation in Bank On has been good for business and are unsure if they have been accessing the underserved market in any meaningful way. Without clear guidelines and consistent follow through on defining and coding Bank On accounts, any data provided to program administrators or third party data analyzers can be interpreted in multiple ways and reduces confidence in the value of the data tracking project.

Currently, at least four different ways to define Bank On accounts are being used by different financial institutions:

1. If the account holder is over 18 and unbanked at the time of opening the account
2. If the account holder mentions Bank On when opening account or if account was opened at a Bank On event
3. All of a certain account type (e.g. a second chance product)
4. A more complicated estimation procedure based on product type and customer data such as credit score and ChexSystems history.

The first strategy requires financial institutions to incorporate a question about unbanked status into the customer intake process, but there have been challenges here, mainly in training frontline staff to understand the Bank On initiative and to uniformly ask this question. The second strategy requires a customer, voluntarily and unprompted, to self-identify as being connected to the Bank On program. The third strategy uses a financial institution's most basic product as a proxy for accounts opened for the unbanked. And the fourth strategy involves a bank estimating, rather than counting, the number of Bank On accounts, using a formula based on the number of basic accounts, number of account holders previously in ChexSystems, and number of account holders with low or no credit scores.

Most financial institutions that use the first strategy to flag a Bank On account are small- to medium-sized banks and credit unions, while national banks use the second, third or fourth strategies. The national banks we interviewed do not even entertain the first strategy as an option, citing the difficulties in re-training a huge squadron of national frontline staff that already is overburdened and has high turnover, especially when this initiative is not national. One financial institution has integrated instructions specific to Bank On into their computer systems and then uses a special marketing code to bring these instructions up as a way to guide frontline staff through the protocol right when needed. This same institution is considering offering a financial incentive to customers who mention the Bank On marketing code, as a way to make sure it gets flagged for the frontline staff.

Our interviews suggest that the Bank On field has a critical decision to make about whether the point of Bank On data tracking is to capture only people who self-identify as Bank On customers, which would be the narrowest and most conservative way to track, or if it is to get any unbanked adult to open an account. Using the more broad definition could include those that may be influenced indirectly by the Bank On program, via others who have been exposed to the direct public education campaign or by financial institution outreach that they may not realize is linked to the Bank On campaign. While concerns about not overstating the impact of Bank On programs are valid, and may be significant for financial institutions wanting to understand their return on investment for participating in Bank On programs, the true impact of the program may be significantly understated by relying on customers to say the words "Bank On." Customer zip codes, as well as longitudinal tracking of new basic or second chance accounts opened before and after the launch of significant Bank On activities may be the best way to make sure that all relevant accounts are being counted while taking steps to verify that new customers indeed represent the target Bank On market.

The Bank On field has a critical decision to make about whether the point of Bank On data tracking is to capture only people who self-identify as Bank On customers, or if it is to get any unbanked adult to open an account.

How Data is Collected and Reported

Almost all Bank On programs provide a formatted Excel template to participating financial institutions, and ask them to fill it out and email it on a quarterly basis to a local third party data collector. These third party collectors range from regional Federal Reserve Banks and FDIC staff to city or state government agencies, to nonprofits in some cases. Interviewees expressed a preference for a "neutral, trusted" data collector, and generally preferred a government agency to a nonprofit in this role.

While different local programs have experimented with different reporting frequencies (including monthly), the field appears to be converging on quarterly reporting as the standard. This feels manageable for financial institutions doing the reporting, and frequent enough for program managers and other stakeholders to monitor progress, make mid-course corrections if necessary, and gauge the effectiveness of new strategies introduced at different points in time.[36]

At least one initiative asks for reporting via an online form, and another is in the process of switching from an excel template to an online form. Because reporting via an online form is rare, it is unclear if this system is preferable to reporting via emailed spreadsheets. However, several financial institutions stated that it would be less time consuming and therefore preferable for them to submit a spreadsheet rather than manually enter individual data points into a web form.

Data Tracking Challenges

While most Bank On stakeholders bring a lot of good will and sincere effort to negotiating, reporting and analyzing account data, the process is often also frustrating for all partners. In addition to the challenges related to defining Bank On accounts, described above, there are a number of issues with the data tracking procedure itself. Program managers feel like they spend lots of time they can ill afford nagging financial institutions and chasing down data reports, and financial institution staff struggle with reporting requests and guidelines that can be confusing, contrary to internal policies, or difficult to produce from their position within their institutions (i.e. not being database managers or programmers, they must make do with general reports provided to them by MIS departments).

Data tracking and reporting for financial institutions – especially when it is requested and handled differently in each local Bank On market – tends to place added burden and responsibility on financial institution staff. Pulling the data for quarterly tracking reports can be a difficult request for some community relations representatives (often the Bank On representative for the financial institution) to make to their MIS departments. The requests sometimes seem to be treated more like one-off requests rather than permanent modifications to the MIS systems, though this can depend on the exact role and relationship of the Bank On representative with MIS staff. Additionally, there have been some instances where staff have had to collect data by manually reviewing individual accounts, making the reporting even more burdensome.[37] These MIS challenges are apparent across all types of financial institutions, and some interviewees felt that the issue could be addressed, particularly for larger financial institutions, if an organization-wide investment was made to programming their MIS system to account for Bank On involvement in an efficient, consistent manner. While such a solution would likely be helpful for small and mid-sized institutions as well, it is less clear that they have the technological capacity to do so. And for the smallest institutions, the number of Bank On customers may be small enough that a quarterly manual review of account data may be feasible.

With high turnover for frontline staff, it can be a challenge to keep them trained in Bank On program and data coding procedures.

There is also often significant confusion about the precise definitions of some data points. A financial institution may not know how an initiative expects it to collect average balance data: should it report the average daily balance over the past three months or the spot balance on the last day of the third month? Given the different technological capabilities across institutions and the number of separate initiatives some financial institutions are participating in, it quickly becomes a challenge for the reporting financial institution as well as for people interpreting the data. In addition, with high turnover for frontline staff, it can be a challenge to keep them trained in Bank On program and data coding procedures. Some financial institutions have overcome a number of these challenges by deciding on institution-wide policies regarding Bank On data tracking and then clearly explaining these procedures to local staff at all branches participating in Bank On. Interviewees from institutions that do this get out in front of potential issues and felt like they have been able to save time and energy when new local programs are started up in their footprint.

Having a different data collector to report to in each local Bank On initiative is extremely challenging and ultimately unsustainable for financial institutions that are involved in multiple local Bank On programs. However, the emergence of statewide Bank On initiatives has encouraged the streamlining and aggregating of data tracking reports from local initiatives up to the state level. For example, Bank on California launched in 2008, after San Francisco's program had begun and as other local programs were starting up. The statewide initiative created a standard data reporting template for every local California initiative, as well as clear definitions for every data point to be collected. Bank on California also acted as the statewide data collector for each of the local programs, receiving data either directly from financial institutions or indirectly from local coordinators and then aggregating these numbers for quarterly Bank on California account data. Financial institutions that participate in local Bank On initiatives in California have been grateful for the harmonization and coordination of data reporting requests and procedures provided by the umbrella Bank on California program. Larger financial institutions would appreciate being able to report to one entity on all national participation, rather than individual reporting to each initiative.

FUNDING

In exchange for participation in Bank On initiatives, financial institutions are generally expected to contribute funds toward individual programs. The contribution amounts tend to differ based on bank size (e.g. a specified fee per branch) or can follow alongside a sponsorship structure (e.g. bronze, silver and gold levels).[38] Because of variation between initiatives with regard to centralized funding and in-kind resources, there is no set standard for contribution amounts from financial institutions. The funding raised from financial institution contributions generally goes toward a Bank On social marketing campaign or the provision of financial education delivered through community organizations.

A financial institution's contribution to Bank On is typically authorized by community relations staff and thus comes from the bank's community relations budget, rather than from a business marketing or advertising budget. This means that the community relations staff represents the financial institution during Bank On meetings. This has implications for how meaningfully engaged the financial institution can be for product and data tracking negotiations, issues for which community relations staff have little ability to make decisions on behalf of their respective financial institutions.

Some financial institutions feel that their monetary contributions to Bank On programs should exempt them from making concessions on product features and data reporting standards. Additionally, because funding is coming out of community relations budgets, some financial institutions consider the donations to be a tax-deductible charitable activity and so should be used only for financial education activities and not for marketing. These institutions are generally cautious to make the connection between their contribution and a business generating activity.

A final significant challenge that has begun to arise for larger financial institutions is how to deal with ongoing and multiplying requests for funding from different local programs within their footprints. What originally felt like a manageable, two year commitment for one program in one location has greatly expanded, and many institutions are struggling to devise strategies about how respond. Many financial institutions are hoping that a national program, such as the Department of Treasury's Bank on USA initiative, will provide operating support for state and local initiatives so that the financial requests do not feel duplicative and will eventually decline or disappear. Interviewees also felt that a way to streamline and reduce funding requests would be to coordinate support for local for Bank On programs through state level Bank On initiatives.

INTERNAL IMPLEMENTATION

In addition to the three specific asks regarding product specification, data tracking and funding, Bank On participation also requires financial institutions to integrate new Bank On procedures into staff training, institutional systems, and consumer outreach and engagement.

Engaging and training staff to respond uniformly to Bank On account requests has been challenging for financial institutions, particularly for medium- to large-sized institutions with significant numbers of staff. Frontline staff are already burdened with keeping up-to-date with organizational protocols and policies, and learning Bank On onboarding procedures can be an additional hassle. Training can be inconsistent and ineffective if information does not always flow to staff throughout the organization smoothly.[39] As such, some participating banks and credit unions lack proper knowledge of Bank On program requirements. For example, some financial institution branches in a Bank On program were still unclear regarding the legal permissibility of accepting a consular identification card as well as their own internal policy for these forms of identification.[40] In cases like these, customers would be turned away for the wrong reasons.[41] Clearly, improvements could be made to the delivery of information from financial institution leadership to branch managers and tellers, as well as room for improvement in terms of the frequency and provision of training to frontline staff. Several regional banks have developed internal training presentations and clearly laid out fact sheets about the Bank On program, which they deliver to all staff as part of ongoing internal training and which they store as intranet documents. Especially in light of staff turnover, ongoing training is a promising solution in training new staff and re-engaging current staff. More effective branch training seems to serve a double purpose of helping frontline staff identify unbanked customers, but it also "seems to be a simple and effective strategy for reaching out to unbanked and/or unbanked consumers."[42]

Problems with staff training reinforce themselves due to a general lack of awareness about the Bank On initiative. The more interactions staff have with Bank On customers, the more likely they are to remember product and program requirements. Some bank branches have reported that customers rarely or never ask about the initiative.[43] Ensuring that marketing and advertising efforts for Bank On programs are being fully undertaken, including by financial institutions themselves, could improve foot traffic in branches and reinforce training efforts.

V. Conclusions and Recommendations

The Bank On model has been extremely appealing to public, private, and nonprofit stakeholders, and has spread organically around the country at a speed few other policy approaches can claim. It creatively addresses a timely social problem in a way that can serve the interests of multiple organizations and sectors, and has the potential to provide millions of Americans with an onramp to secure, affordable tools to help manage and improve their financial lives. However, our research into the financial institution perspective on their participation to date has revealed two significant challenges to the continued growth and sustainability of the Bank On approach: (1) the piecemeal approach to engagement with larger financial institutions, and (2) the still unproven business case for participation.

CONCLUSION #1: A PIECEMEAL APPROACH TO ENGAGING FINANCIAL INSTITUTIONS IN BANK ON PROGRAMS IS NOT SUSTAINABLE OVER TIME.

However, the creation of state-level Bank On programs that can provide coordination and economies of scale to local programs, and as well as the Bank on USA initiative underway at the US Treasury Department offer significant opportunities to streamline and strengthen the national Bank On field. Many financial institution representatives have stated that a more streamlined Bank On initiative would make for greater ease of participation on their end. In addition, financial institutions themselves can take a proactive role in the development of standardized internal policies and procedures for Bank On participation, as well as the development of new Bank On programs throughout their footprint. This leadership role allows the financial institution to have more input into the development of the program, to ensure the design allows for consistent cross-initiative participation from the beginning.

Recommendations

1. **Establish state-level Bank On programs.** State-level Bank On programs would not replace local programs. Indeed, local branding, leadership, and implementation are critical to the success of the model. Rather, state-level programs serve two very important coordinating functions: (1) Streamlining and harmonizing the requirements and procedures of local programs, and (2) Creating efficiencies and economies of scale that can reduce the resource needs of local programs. A state-level coordinator can organize local programs, provide a clear and focused point of contact for financial institutions participating in multiple local programs, and provide technical assistance and other support to reduce the burden on local programs. The longest running statewide initiative, Bank on California, has been greatly appreciated by financial institutions that previously operated on a piecemeal local approach. To the extent that participating financial institutions play a pro-active role in the development and support of state-level programs, they may be able to help shape the initiative to allow for their meaningful participation over time.

2. **Develop a national standard for data tracking and establish a central data collector who can receive, aggregate, analyze and report the data back out to local initiatives.** The current system of reporting separately and differently to individual Bank On initiatives is not feasible for larger financial institutions. In addition, the absence of any coordinated data collection strategy for local programs prevents financial institutions, public sector agencies, advocates and consumers from understanding the outcomes of these initiatives, assessing the strengths and weaknesses of alternative approaches and creating systems of achieving economies of scale. A majority of both Bank On program managers and financial institutions interviewed requested consistent, national data tracking guidelines - provided that the requested data is technically feasible to track as well as in compliance with internal policies – as well as a central data collector. This role would likely be best served by a government entity rather than a nonprofit organization, and could be played by either a federal government entity alone, or in partnership with state-level Bank On program coordinators. A national system would provide three main operational benefits:

   - Time savings for all participants, who would no longer have to negotiate an agreement about data tracking.
   - Time savings for local Bank On program staff, who would no longer need to devote resources to track down data reports from financial institutions.
   - Time savings and economies of scale for larger financial institutions. The national scale could justify an investment in coding for an institution-wide MIS database that accounts for Bank On data collection requirements and would build these standards into organization-wide account opening procedures. This would facilitate report generation for data reporting and is a far more efficient process than individual report compilation by local or community development staff.

   In addition, it would allow for aggregation and analysis of consistent data from around the country.

3. **Develop and communicate internal financial institution Bank On policies and systems that help streamline operations and procedures across multiple branches and initiatives.** While efforts to coordinate and streamline Bank On programs broadly should be undertaken, there are also many things financial institutions themselves can do to streamline operations internally and reduce inefficient and frustrating elements of Bank On participation. These include:

   - Developing institution-wide policies about what products, data reporting, and funding will be provided in any new Bank On program. When an institution decides at a high level how it wants to participate to achieve its goals in Bank On, this information can be communicated to local managers to empower them to provide clear directives to their staff.
   - Developing training materials for all relevant staff and building them into regular staff training and communications.

- Building Bank On procedural prompts into software systems.
- Building Bank On data collection and reporting functions into institution-wide MIS systems, and tasking one internal data manager with overseeing the system and running the reports for all Bank On programs. While it would be ideal for state or national entities to develop one set of data tracking requirements for all Bank On programs, in the absence of such external coordination an institution itself can decide the basics of what it will provide to everyone and implement an efficient and consistent internal system to do so.

4. **Provide clear policy guidance on financial institution participation in Bank On programs.** The legal and policy implications of many activities requested of financial institutions by local Bank On programs are still not clear to many participants, which results in uneven participation across both local programs and financial institutions. Therefore, it would be extremely helpful for federal policymakers to issue clear guidance to participating financial institutions in the following areas:

    - **Identification guidelines for opening an account.** Because of Bank On program requirements, many financial institutions have adjusted their internal policies on accepting foreign identification to open new accounts. However, some are still unclear as to whether they are able to accept these forms of identification, citing regulatory or legal barriers. This applies to opening new accounts or for providing financial services, such as check cashing, to non-depository customers. As of 2008, only 27 percent of banks were accepting the Matricula Consular ID as an appropriate form of identification for opening new accounts, and just 3 percent accepted it as sufficient identification to cash a check.[44]
    - **Allowable uses of charitable contributions to Bank On programs.** Some financial institutions have insisted that their donations be used only to provide financial education. These banks believe that using the funds for marketing the initiative undercuts its charitable purpose, even though this public education function is a primary component of the program's strategy to bank the unbanked. If banking regulators and the IRS clarify that social marketing and public education are an acceptable use of a charitable donation, this may help alleviate financial institution concerns.
    - **How banks participating in Bank On can qualify for CRA consideration, under the current regulations.** To date, a lack of clear and consistent ability to receive CRA consideration for Bank On participation has been a significant disappointment for participating banks and removes a major incentive to participate. The guidelines could include a number of ways that banks can show that their participation served the LMI population, such as the number of Bank On accounts opened; giving funding to help with program implementation and evaluation; and providing resources for financial education, whether through delivering the education directly, providing the curriculum or giving funds to make it happen. Banking regulators should be clear about the types of bank participation that can warrant CRA consideration, which will most likely be received through the service test.

5. **Create consistent guidelines for product standards that will qualify as "Bank On" accounts.** Larger financial institutions, in particular, need consistency in their products across geographic footprints and would find it tremendously helpful to have consistent national guidelines around products. Local program staff would also very much appreciate this assistance, as they often feel hampered in their ability to negotiate concessions with local representatives of larger financial institutions. National guidelines – perhaps set through a national working group comprised of key stakeholders – would increase clarity for all programs and participating financial institutions, and significantly reduce the time and resource burden on local programs as well the start-up time for new programs. These guidelines would need to allow for flexibility for financial institutions to develop products to differentiate themselves, rather than mandating a specific account template.

CONCLUSION #2: THE BUSINESS CASE FOR FINANCIAL ENGAGEMENT IN BANK ON IS STILL UNPROVEN.

Participation in Bank On programs has caused tension within some financial institutions between their focus on a business bottom line and their charitable activities or commitment to the community. It has been challenging for many institutions to resolve whether or not Bank On participation truly presents a business opportunity, and should be treated as such in terms of mainstreaming Bank On activating into retail business operations, or if it is ultimately and primarily a charitable and community relations activity. This distinction has implications for how a financial institution engages with all four core areas of participation:

- **Product.** Financial institutions that view Bank On primarily as a charitable activity tend to be less interested and willing to tweak their product to fit program standards, sometimes even preferring not to attract Bank On customers at all if they consider the required product offering to be unprofitable. This outcome significantly inhibits Bank On as a scale strategy to bank the unbanked.
- **Data tracking.** Financial institutions are less willing to invest in tracking and reporting account performance data if they are not seeking to tie participation to business development. To the extent that Bank On is seen as a charitable activity, voluntary reporting will result in limited data because of the additional time and resources involved.
- **Funding.** Financial institutions with a charitable focus generally want funding to be used solely for the provision of financial education or related program activities, as opposed to using the contributions to drive marketing or advertising efforts. In addition, some institutions that view their funding contribution as a charitable activity may not wish to make additional concessions on product offerings and data reporting, feeling that their monetary contribution is sufficient for program participation.
- **Internal implementation.** Financial institutions with a primarily charitable approach to Bank On are much less likely to build meaningful implementation into institution-wide staff training, systems, and procedures.

For Bank On to be an effective, scalable, financial access strategy, rather than primarily a financial education strategy, financial institutions must take it seriously as a business activity and be willing to build Bank On activities into their retail operations. This will require both greater consideration of business sustainability needs on the part of Bank On program staff, and more intentional effort to develop products and business models that can sustainably meet the needs of unbanked consumers on the part of financial institutions.

Recommendations

6. **Engage retail and product staff from financial institutions in Bank On committees and negotiations.** Their participation is key to meaningful engagement and serious consideration of Bank On as a business activity. While community relations staff have a crucial role to play in Bank On programs, and have been their biggest champions to date, retail and product staff must also be meaningfully engaged to ensure that a business sustainability mindset will be incorporated in program design and the financial institution's approach to participation.

7. **Run active marketing and outreach campaigns, spearheaded by local government.** Strong social marketing and well-targeted outreach campaigns led by local government and community-based organizations make Bank On participation feel more valuable to financial institutions and provide tangible new business development opportunities. Elected officials have credibility, deep and broad communication channels with consumer households, and depository leverage with financial institutions. Mayoral involvement and leadership are a clear draw for financial institutions. Community-based organizations also provide a valuable conduit for financial institutions to unbanked consumers. They reach the unbanked through existing connections and sometimes by establishing partnerships with local employer groups which can aggregate access to unbanked customers who are appealing in that they are steadily employed. This is useful for banks that do not normally interact with unbanked customers.

8. **Attract and retain new customers by creating products that are useful, safe and appealing.** Financial institutions that design products that seek to consider the perspective of unbanked and underbanked consumers will be more able to develop profitable new relationships in this target segment. Bank On program partnerships can facilitate this process by streamlining expectations about financial institution participation in the programs, and by collaborating across the different Bank On partners to clearly identify the target unbanked customer segments, which would lay the groundwork for and facilitate constructive product design. Desirable product characteristics include:

    - Clear, simple and transparent pricing.
    - A reduced ability to "get into trouble" with account usage, including features such as: checkless checking; no ability to overdraft; and clear, real time notifications of account balance at key

moments. This has the added benefit of reducing financial institution risk, allowing them to charge less and be more inclusive in who they accept as customers.

- Immediate clearance of deposits for quick access to funds.
- The ability to access and make transactions outside of the regular hours of traditional brick-and-mortar banks, which can be via the internet, mobile phones or POS retail locations.
- Reduced hassle and time to open an account and use the products.

In addition to designing products that are genuinely useful with clearly articulated fee schedules, the accounts of course need to be financially sustainable. Though some financial institutions may not believe it is possible to serve this market in a profitable way, there are examples of financial institutions that have been able to do so by having a good understanding of this market or a business or service model that takes into account the specialized needs and opportunities presented by this market.

9. **Analyze the profitability of offering Bank On accounts.** Financial institutions, as well as industry analysts, have a role to play in assessing the profitability of Bank On accounts. This should include a cost-benefit analysis of the Bank On accounts themselves, to understand if they can delivered in a way that is profitable or at least revenue neutral, as well as a broader analysis of the behavior of Bank On customers and whether they maintain banking relationships over time and take up additional financial products that may also be profitable for the financial institution. A further useful inquiry would be to compare the Bank On account approach to other market-based efforts to serve the unbanked, such as pre-paid card offerings, branchless banking models, or inexpensive check cashing services delivered through retailers.

10. **Consider decoupling the financial contribution request from the product and data tracking conditions of participation in Bank On.** While many financial institutions believe in the Bank On approach as a social good and a community relations strategy that they want to support financially, it may be helpful to separate this type of sponsorship request from the product and data tracking conditions of participation. This could help focus and engage the business side of financial institutions' Bank On participation to maximize its potential for providing a true scale platform for financial access. If funded by Congress, a Bank On USA initiative could provide additional support for local program operations, innovation, and research and performance measurement.

A final important consideration that will affect the long-term viability of the Bank On approach is the ability to demonstrate its positive short- and long-term financial outcomes for participating consumers. This will determine the level of policy support it receives, which will create the environment within which financial institutions will decide to engage or not. To date, few resources been invested in meaningful impact evaluation, and as a result little hard evidence of consumer impact has been generated. Solid research in this area going forward will be a critical investment in the future of the Bank On model.

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Bank On Data Tracking Templates from:

- Bank on California
- Bank on DC
- Bank on Denver
- Bank on Evansville
- Bank on Philadelphia
- Bank on San Francisco
- Bank on Savannah
- Bank on Seattle-King County

Appendix 2: Organizations Interviewed

Financial Institutions

Bank of America
Bank of the West
Bank on Savannah Data Tracking Committee (multiple financial institutions)
Boeing Employees Credit Union
JPMorgan Chase
Mango Financial
Old National Bank
Union Bank
United Bank
Wells Fargo

Bank On Program Experts

Community Financial Education Foundation (Bank on DC)
Governor's Office of Planning and Research, State of California (Bank on California)
MPOWER Foundation (Bank on Central Texas)
National League of Cities
San Francisco Office of Financial Empowerment (Bank on San Francisco)
Seattle-King County Asset-Building Collaborative (Bank on Seattle-King County)
Step Up Savannah (Bank on Savannah)
Washington DC Office of the Deputy Mayor for Planning and Economic Development (Bank on DC)

Federal Regulators and Agencies

Federal Reserve Bank of Atlanta
Federal Reserve Bank of Kansas City
U.S. Department of Treasury, Office of Financial Education and Financial Access

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