

Who are the Unbanked? What Will Happen When they are Required to Become Banked?

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Federal and state governments provide almost \$500 million in benefits to 86 million recipients each year. The American Bankers Association has estimated that 10 million recipients of these benefits do not have a checking account. By January 1999, these "unbanked" recipients will be required to become banked as the Electronic Funds Transfer Act requires that all recurring government payments be made electronically.

Scott (1988) conducted a survey of 150 unbanked consumers who reported that checking accounts were too expensive and bank hours or locations were inconvenient. The lack of accessible banking institutions in low-income neighborhoods and the desire for immediate cash has forced many consumers into the alternative financial sector. Swagler, Burton and Lewis (1995a&b) and Burton, Swagler and Lewis (1996) found that low-income consumers, who typically have short time horizons, are attracted to the alternative financial sector. Burton, Swagler and Lewis (1996) also cite the absence of technology as cause for the poor to turn to the alternative financial sector. Many banks have closed neighborhood branches which may not be adequately replaced by ATMs in poorer neighborhoods due to security concerns. Shields (1996) supported the notion that rising bank fees and reduced services have helped to force low-income consumers into the alternative financial sector.

The Federal Reserve's 1992 Survey of Consumer Finances (SCF) was used to identify and characterize the "unbanked" population. The banked and the unbanked appear to be very different groups. Higher income levels and net worth appear to independently relate to an increasing likelihood of having a checking account. Those with higher levels of installment debt are also more likely to have a checking account. Older respondents were more likely to be banked while those in larger households were more likely to be unbanked. The likelihood of being unbanked also falls as levels of education rise. Married and widowed respondents were more likely to be banked than single respondents, while divorced and separated respondents were more likely not to have a checking account. Members of Hispanic households appear much less likely to have checking accounts, as

do members of the Black and Asian population. Those with bad credit history also appear to have been shut out of the banking system. A full-time job appears to lead to participation in the banking system. Finally, an extreme attitude toward risk (either self-identifying as risk averse or a substantial risk taker) tends to correlate with lower participation levels in the banking system.

The implications of this characterization are most relevant to two groups working with and for the unbanked population. The first group includes the financial services professionals led by the policy initiative that requires some form of participation before 1999. The second group consists of those working in education or counseling for individuals who are not participating in the banking system.

References

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Endnotes

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