

Liquid Savings and Potential Market Opportunities

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Funds held in liquid savings accounts can be easily accessed by families to help cover financial emergencies, pay for unexpected expenses, or generally fill the gap between income and expenses when needed. These savings, usually kept in basic savings accounts, money market accounts, certificates of deposit, and brokerage call accounts, can help families maintain financial stability and resiliency against financial setbacks or economic downturns and can also positively contribute to a household's ability to accumulate assets and build wealth during economic upturns. For financial institutions, promoting savings account ownership can be beneficial in reaching new consumer markets, maintaining current customers, and providing additional value to checking account holders by establishing a link to transfer funds from savings to checking to cover overages as needed. Despite the potential benefits of possessing liquid savings, more than 36 million U.S. households are without some type of liquid savings account.

This study draws on empirical findings from the 2013 Unbanked and Underbanked Supplement to the June CPS which collects extensive information about households' choice of bank and nonbank financial services, including checking and savings deposit accounts as well as use of a variety of nonbank financial services. This nationally representative data is employed to identify consumer profiles that represent potential market opportunities for financial institutions and other organizations interested in encouraging savings.

These profiles are used to describe the magnitude of these consumer markets and to illustrate strategies that financial institutions can consider. Each illustrative strategy is summarized below:

Building on Product Affordability and Sustainability. *Having access to all electronic, low-cost savings accounts may be a pathway toward financial stability and resiliency for the 26 million low- and moderate-income (LMI) households who are without a liquid savings account. Setting an affordable minimum monthly balance could also help another 28 million LMI households retain their savings account overtime. Banks that offer reasonably priced savings accounts could further develop LMI market opportunities and help these families accumulate saving.*

Engaging in Cross-Selling and New Customer Acquisition. *Financial institutions can reach out to the 26.8 million households that possess only a checking account to encourage savings account ownership. Having a liquid savings account can also be a way to bring at least a portion of the more than 9.5 million unbanked households into the financial mainstream. Together, about 36 million new accounts could be opened by these consumer segments.*

Developing a Broader Customer Base. *Over 23 million black, Asian and other racial groups, Hispanic, and foreign born households are without liquid savings accounts and may not have a buffer against life's risks and uncertainties. Financial institutions can take steps to broaden their customer base by directing a portion of the branch, marketing, and advertising activities to these consumer segments.*

Capitalizing on Generational Preferences. *By designing products, employing technology-driven channels, and producing marketing messages that resonate with families in specific generational groups, banks can more effectively establish and strengthen customer relationships. For example, banks can gain the attention of the 9.5 million Generation X and 12.1 million Baby Boomer households who are without a liquid savings account through generationally-appropriate messaging about the benefits of holding liquid savings accounts.*

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Launching Savings Programs from the Workplace. *More than 18 million employed households do not have a liquid savings account. For workers, having liquid savings can help create a financial cushion against unstable income, unexpected expenses, and other financial stresses. Financial institutions can collaborate with employers to offer employees direct deposit and automated savings transfers as a way encourage savings and possibly checking account ownership. These efforts can help bolster a bank's relationship with its commercial customers and provide value to workers.*

From a policy perspective, efforts to encourage savings behavior and savings account ownership can help families maintain financial stability and resiliency, while creating market opportunities for financial institutions.