



Banking by Hand(set)

Using Mobile Banking to Expand Financial Access

By Joe Valenti June 13, 2013

According to the FDIC’s “2011 Survey of Unbanked and Underbanked Consumers,” approximately 17 million adults in the United States, or 8.2 percent of the population, do not have a checking or savings account—a group known as the “unbanked.”¹ Another one in five households in the United States are “underbanked,” meaning they do have some sort of bank account but still use alternative, nonbank financial-services providers such as check cashers and pawn shops.²

Living without a bank account means that these households, which rely largely on cash for financial transactions, may pay more for financial services than those with bank accounts. Check-cashing fees, for example, may range from 2 percent to 5 percent of one’s paycheck or government-benefit check, and these fees have increased over time.³ To pay their bills, consumers may use money orders instead of checks at a minimum cost of \$1.20 per money order through the U.S. Postal Service or at similar rates at other vendors.⁴ A low-income worker who is paid \$700 every two weeks, for example, could spend more than \$30 per month on financial services alone if he or she cashes a check with a 2 percent check-cashing fee and then buys two money orders each month to pay the bills.

While millions of households lack bank accounts, or do not fully take advantage of them, 9 out of 10 American adults now have a cell phone.⁵ In seven states and the District of Columbia, there are more adults with cell phones than households with bank accounts. In every state there are more adults with cell phones than there are “fully banked” households—those that have bank accounts and do not use alternative financial services.

This is a tremendous opportunity. Whether using smartphones or traditional cell phones, having access to a mobile device means consumers have access to banking information and tools at their fingertips. Mobile banking can help expand access to the

financial system for these unbanked and underbanked consumers and help them manage their money better. It goes beyond the limitations of traditional bank accounts and makes low-cost prepaid cards a more powerful and feasible alternative.

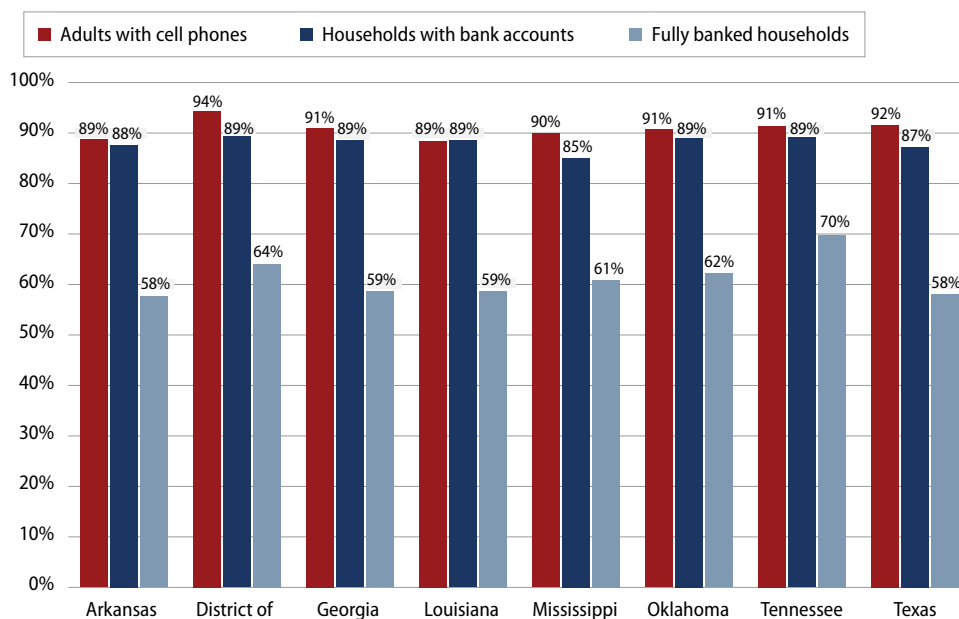
Yet mobile banking is only a partial solution. Underneath this technology lie existing financial products: bank accounts and credit and debit cards, including the growing sector of prepaid debit cards. All of these products have potentially high fees and limitations. Even mobile wallets—tools that allow consumers to buy goods and services using just their mobile phones by automatically identifying and charging the right card or account—generally rely on existing financial products.

Polymakers and regulators need to adjust to a world of mobile banking to ensure both expanded access to banking services using this new tool, as well as consumer protections for those using mobile banking. This means encouraging innovation, as the U.S. Treasury Department and the Consumer Financial Protection Bureau have both done through partnerships with entrepreneurs and developers. It also means encouraging greater consistency in how mobile banking tools should operate and how consumers receive information while using these tools. It means setting standards for data security, especially in cases where a mobile phone is lost or stolen. And it means monitoring the existing financial products that underlie these tools.

This brief discusses the concerns of unbanked and underbanked consumers that make mobile banking an increasingly attractive option, as well as the benefits and challenges of using mobile banking to expand financial access.

FIGURE 1

In seven states and the District of Columbia, cell phones are more prevalent than bank accounts



Sources: National Center for Health Statistics, US Department of Health and Human Services; Federal Deposit Insurance Corporation 2011 Survey of Unbanked and Underbanked Households.

Note: Cell phone data not available for Iowa, Montana, South Dakota, or Wyoming.

The attractiveness of mobile banking

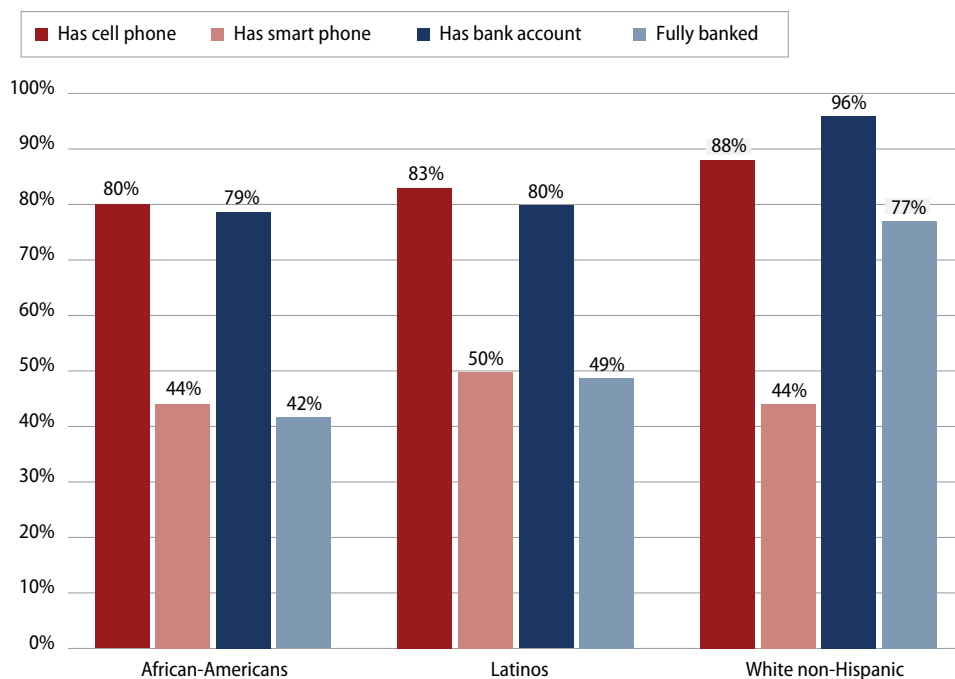
For decades, access to banking centered on having access to bank or credit-union branches in the community where customers could make deposits and withdrawals, along with having access to loans. The limitations presented by a lack of local branches were partially reduced by the advent of ATMs beginning in the 1970s, making it possible to withdraw cash at nonbranch locations and eventually to make deposits in some cases.⁶ Internet banking tools have also made it possible to continually monitor account balance information, manage bank accounts, and pay bills electronically. These trends have contributed to a move away from branches for both banks and consumers: In 2010 the number of bank branches in the United States declined for the first time in 15 years.⁷

Meanwhile, the millions of unbanked consumers in America give several main reasons for not having bank accounts. The most common reason, reported by about one-third of unbanked households, is that they do not have enough money to open a bank account—a general reason that may indicate concern with banks’ fees or simply a discomfort with banks.⁸ The next most-used reason on the list, according to the FDIC survey, is not needing or wanting a bank account. Others report that they lack trust in banks, do not like dealing with them, or that fees and minimum-balance requirements are too high. For about 15 percent of households that once had bank accounts but do not anymore, barriers to banking include having an account that was closed by the bank—potentially for having too many overdrafts or bounced checks—or being unable to open an account due to lack of proper identification or poor banking or credit history.

These consumers may not be comfortable with banks, but they are increasingly using cell phones. According to the Federal Reserve’s 2012 mobile banking survey, 59 percent of unbanked consumers have access to mobile phones, of which about half are smartphones.⁹ Among underbanked consumers, 90 percent have mobile phones, of which 56 percent are smartphones. This is also true for households of color, which are less likely to have bank accounts and tend toward alternative financial institutions relative

FIGURE 2

Cell phone and bank account ownership by race/ethnicity



Source: Federal Reserve.

to white households. Among African Americans and Latinos, four out of five have cell phones, and between 40 percent and 50 percent of both groups have smartphones.

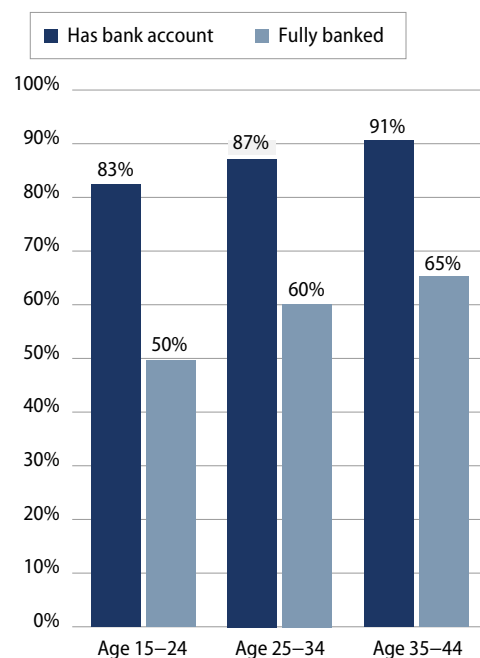
The same is true for younger consumers. About 90 percent of consumers between the ages of 18 and 45 have cell phones, and nearly two-thirds have smartphones, while only between half and two-thirds are fully banked.

For all of these consumers, having a cell phone can be the gateway to the convenience and low cost of affordable banking services even if they do not like banks. For customers who may not want or have access to traditional bank accounts, mobile banking also opens the door to prepaid cards that can be accessed by mobile tools. Some prepaid cards still have substantial fees and limitations, but overall, these cards increasingly resemble bank accounts. They are often marketed as “bank account substitutes,” and it has been suggested that they should share common regulations.¹⁰

The power of mobile banking is particularly poignant for the growing number of consumers who have smartphones but may not otherwise have regular Internet access. Both Latinos and African Americans are more likely to use their mobile devices to access the Internet—76 percent and 73 percent, respectively—than white Internet users.¹¹ Smartphone-banking tools—whether for traditional bank accounts or for prepaid cards—can reach consumers where branches may not exist or may not be convenient. And they can enable access to financial tools without the limitation of time or hours of operation. Prepaid card provider NetSpend, which operates largely through Internet and mobile tools, recently reported that 40 percent of loads, or deposits, are made outside of traditional banking hours.¹²

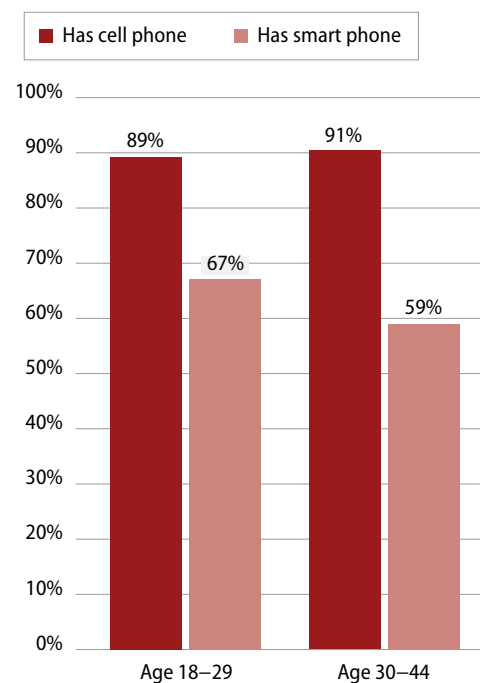
According to the market research firm Nielsen, beginning in 2012 the majority of cell-phone users in the United States have smartphones,¹³ and most mobile-banking features are designed with smartphones in mind. But standard mobile phones can also make banking services more accessible through text alerts. Consumers can opt to receive text messages when deposits or withdrawals are made or when balances are running low, helping them better manage their accounts. Mobile banking has become increasingly popular in the United States, with 28 percent of all mobile-phone owners and 48 percent of all smartphone owners having used mobile banking in the past year, according to a Federal Reserve survey.¹⁴

FIGURE 3
Bank account ownership for Americans under 45



Source: Federal Deposit Insurance Corporation.

FIGURE 4
Cell phone ownership for Americans under 45



Source: Federal Deposit Insurance Corporation.

It is worth noting that in some developing countries, banking has largely evolved using mobile phones—an outgrowth of the telecommunications industry—in areas where less traditional financial infrastructure exists.¹⁵ In sub-Saharan Africa, for example, it is estimated that three out of every four adults is unbanked.¹⁶ As a result, mobile-based financial tools are designed to meet an enormous unmet need for banking services. In contrast, mobile banking in the United States, where the vast majority of adults do have bank accounts, largely relies on accessing existing financial institutions through smartphones.

What mobile banking can and cannot do

Mobile banking can both substitute for existing bank activities and open up new opportunities for unbanked and underbanked consumers. The following are a few cases of mobile-banking innovations in action.

- **Access to balance information and the ability to transfer funds:** Mobile banking can provide instant balance information, making it easier for consumers to track their spending. Understanding account balances can enable consumers to recognize when accounts are running low and respond accordingly by changing behavior, such as reducing or delaying expenses, or transferring funds between accounts. As a result, they are able to avoid costly overdrafts, which typically come with fees of about \$35 per occurrence at most banks.¹⁷ Even consumers without smartphones can benefit from text alerts that notify customers when balances are low or transactions are made. Clarifi, a credit counseling service, has begun one pilot program that takes these alerts a step further. Consumers in this program who are working to get out of debt can receive text-message reminders when their monthly payments are due; and just in case payments are late or financial goals are not met, they can choose to have friends and family receive text-message alerts as well.¹⁸
- **Remote deposit capture:** Remote deposit capture is a way to deposit checks without physically bringing them to the bank. One of the earliest adopters of this technology was USAA Federal Savings Bank in the early 2000s. It allowed regular customers to scan the front and back of a check on a home computer and submit it online as a way for its military-personnel customers to deposit checks no matter where they were stationed.¹⁹ Remote deposit capture now usually involves taking photos of both sides of the check using a mobile phone and then transmitting them through a smartphone app. This allows customers to make deposits without dealing with the limited hours and locations of bank branches or the fees of check cashers; indeed, it allows deposits anywhere a cell-phone signal exists. Not only is this development positive for consumers, but it can also be more affordable for financial institutions, reducing the costs of check processing from 75 cents or more to only 4 cents per check.²⁰

- **Bill payment:** Just as remote deposit capture enables consumers to add funds without accessing financial institutions, bill-pay options using either bank transfers or credit card payments also help customers skip the need for checks or money orders. Again, consumers are able to save money as well as time. The same transactions that could take hours—by visiting different locations for cashing checks, buying money orders, and, in some cases, even paying bills in person—can be handled on a mobile phone in minutes.

At the same time, mobile banking does have its limitations. Remote deposit capture allows funds to be added to an account, but other tools typically only move money from one account to another or help consumers manage existing deposits. Remote deposit capture is also currently only available on smartphones, meaning regular cell phone users do not have access to this feature. Mobile banking also cannot directly help consumers who need access to cash or want to deposit cash. Mobile banking applications may help consumers find free or low-cost ATMs in a hurry, but some prepaid cards—even if they have attractive mobile features—may not have options for free cash deposits and may charge ATM fees for withdrawals regardless of where they are used.²¹

Mobile-banking products ultimately suffer from the same limitations as the bank account or prepaid card underlying them. They may provide up-to-date account information, but this information does not always reflect pending account activity such as restaurant or gas-station purchases or check deposits that may take time to process. To date, mobile banking suffers from some of the same challenges facing prepaid cards: It offers transaction and money-management tools without necessarily expanding access to savings or credit. Mobile-based accounts may make it easier to move money between spending and savings vehicles but do not necessarily encourage savings or build a credit history for the customer.

One of the remaining barriers to broader use of mobile-banking tools is data security. According to the Federal Reserve's most recent survey on mobile banking, while many consumers were not concerned about security, about 40 percent of consumers reported that they did not know whether mobile banking was safe or not.²² Risks of either hackers getting into accounts or phones being lost or stolen topped the concerns that consumers had about mobile banking. For those who do not use mobile banking, data security was similarly one of the most recently cited reasons for not participating. One of the major tradeoffs in providing mobile data security, especially when dealing with the risk of theft or loss, is that security measures designed to safeguard smartphones and their apps, such as passwords and PINs, make it more time-consuming for users to access mobile features.

Recommendations

Mobile banking has grown dramatically in recent years. The following recommendations could make it even more popular and effective in serving both unbanked and under-banked consumers, as well as the fully banked.

Continued public and private support for competitive innovation efforts

In recent years the federal government has been supportive of efforts to innovate in mobile financial services. In 2011 the U.S. Department of the Treasury launched the MyMoneyAppUp challenge in partnership with the Center for Financial Services Innovation and the Doorways to Dreams, or D2D, Fund, which solicited ideas for useful smartphone apps and encouraged partnerships with mobile software developers to launch actual products.²³ The president's budget for fiscal year 2014 features a proposed \$5 million Financial Capability Innovation Fund, which would include competitive grants and contracts for federal agencies and state and local governments to conduct pilots that increase access to financial services, improve savings rates, and improve financial outcomes.²⁴ And through Project Catalyst, the Consumer Financial Protection Bureau has been engaged with Silicon Valley entrepreneurs looking at new financial products.²⁵

Similar efforts have taken place in the private sector, most notably with financial capability innovation grants issued by the nonprofit Center for Financial Services Innovation, which recently launched a second round that distributed over \$2.5 million in grant support.²⁶ All of these investments help drive innovative products that are safe and affordable for consumers and demonstrate new partnerships with financial institutions.

Standardized procedures and disclosures for mobile services

There are two areas where financial institutions' remote deposit-capture policies vary considerably. First, banks have different eligibility requirements before a consumer can take advantage of this service, such as a waiting period after opening an account or certain behaviors that disqualify a customer. These requirements are designed to prevent fraud and reduce the risk of loss.²⁷ Second, banks have different policies about when funds will be made available and at what cost. Some banks and credit unions will make funds available the next business day at no charge unless there is difficulty in processing the check. USBank charges 50 cents for each deposit.²⁸ Regions Bank offers a more innovative approach, with several options at different price points for its bank-account customers: 50 cents for access in two business days; \$3 for deposits processed the same night; and a minimum of \$5 to potentially have funds approved within five minutes. For Regions prepaid customers, the only option is to pay for immediate access.²⁹ Regions' approach is certainly tailored to individual consumers' preferences, and the cost remains competitive with nonbank check-cashing services.

Financial institutions are expected to have some variation in their products to better meet the needs of their specific customers. But there is no clear standard for the information consumers receive about remote deposit capture, including how long it will take and how much it will cost. Financial institutions should make these terms clear in plain language that is easily readable on the screen of a mobile device. This is especially important for bank-account customers, for whom the alternative of depositing a check at the bank may be less convenient but is certainly free.

Clear rules on data security and dispute resolution

As mentioned above, a large number of consumers are unsure whether their financial information is secure when using mobile banking. When unauthorized activity takes place involving a mobile phone, it involves several regulators, including nonfinancial regulators such as the Federal Trade Commission.³⁰ To successfully attract consumers, financial institutions should be required to apply Regulation E provisions for dispute resolution—which limit consumers’ liability when they report unauthorized access—to all mobile-banking products, whether they rely on a credit card, an underlying bank account, or a prepaid card. Some institutions comply voluntarily, but these policies could change at any time.³¹ Financial institutions should also work with smartphone manufacturers to ensure that financial data will not be compromised if a phone is lost or stolen.

Moving toward more standardized regulations across prepaid and bank account platforms

As prepaid cards increasingly resemble bank accounts, the need for common regulations becomes more important. In the case of mobile banking, the differences between these two platforms are quite small. Mobile-banking customers are able to deposit checks, pay bills, and transfer funds whether they are accessing a prepaid card or a bank account in the process. Developing common regulations across platforms will protect consumers regardless of the financial products they choose and will prevent financial institutions from seeking to expand prepaid products as a way of avoiding bank regulations.

Conclusion

Mobile banking is a powerful tool for expanding access to banking services beyond the limits of traditional bank branches. It has enormous potential, particularly among the millions of Americans who may have a cell phone but do not have a bank account. Addressing data-privacy concerns, providing more standardized regulations, and fostering innovation in this sector will help the push toward mobile banking better achieve its financial access goals.

Joe Valenti is the Director of Asset Building at American Progress. The author would like to thank Katie Switzer for her assistance with this brief and Rob Levy, director of research at the Center for Financial Services Innovation, for his helpful insights.

Endnotes

- 1 Federal Deposit Insurance Corporation, "2011 FDIC National Survey of Unbanked and Underbanked Households" (2012), available at http://www.fdic.gov/households/survey/2012_unbankedreport.pdf.
- 2 Ibid.
- 3 Jean Ann Fox and Patrick Woodall, "Cashed Out: Consumers Pay Steep Premium to 'Bank' at Check Cashing Outlets" (Washington: Consumer Federation of America, 2006), available at http://www.consumerfed.org/pdfs/CFA_2006_Check_Cashing_Study111506.pdf.
- 4 U.S. Postal Service, "Domestic & International Money Orders," available at <https://www.usps.com/shop/money-orders.htm> (last accessed June 2013).
- 5 National Center for Health Statistics, Wireless Substitution: State-level Estimates from the National Health Interview Survey, 2010-2011, Number 61 (Department of Health and Human Services, 2012), available at <http://www.cdc.gov/nchs/data/nhsr/nhsr061.pdf>.
- 6 Bernardo Batiz-Lazo, "How the ATM Revolutionized the Banking Business," Bloomberg View Echoes Blog, March 27, 2013, available at <http://www.bloomberg.com/news/2013-03-27/how-the-atm-revolutionized-the-banking-business.html>.
- 7 Nelson D. Schwartz, "Bank Closings Tilt Toward Poor Areas," The New York Times, February 22, 2011, available at <http://www.nytimes.com/2011/02/23/business/23banks.html?pagewanted=all>.
- 8 Federal Deposit Insurance Corporation, "2011 FDIC National Survey of Unbanked and Underbanked Households."
- 9 Board of Governors of the Federal Reserve System, "Consumers and Mobile Financial Services 2013" (2013), available at <http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201303.pdf>.
- 10 Gadi Dechter and Joe Valenti, "It's Time to Regulate Prepaid Cards as Bank Accounts," American Banker, November 29, 2012, available at <http://www.americanbanker.com/bankthink/its-time-to-regulate-prepaid-cards-as-bank-accounts-1054698-1.html>.
- 11 Mark Hugo Lopez, Ana Gonzalez-Barrera, and Eileen Patten, "Closing the Digital Divide: Latinos and Technology Adoption" (Washington: Pew Research Hispanic Center, 2013), available at <http://www.pewhispanic.org/2013/03/07/closing-the-digital-divide-latinos-and-technology-adoption/>.
- 12 Bailey Reutzel, "Prepaid Card Use Shows More Differences from Bank Habits," American Banker, April 9, 2013, available at http://www.americanbanker.com/issues/178_68/prepaid-card-use-shows-more-differences-from-bank-habits-1058162-1.html.
- 13 Nielsen, "America's New Mobile Majority: A Look At Smartphone Owners in the U.S.," May 7, 2012, available at <http://www.nielsen.com/us/en/newswire/2012/who-owns-smartphones-in-the-us.html>.
- 14 Board of Governors of the Federal Reserve System, "Consumers and Mobile Financial Services 2013."
- 15 Ignacio Mas and Daniel Radcliffe, "Mobile Payments go Viral: M-PESA in Kenya," Capco Institute's Journal of Financial Transformation 32 (2010): 169-182, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1593388.
- 16 Asil Demirjuc-Kunt, "Measuring Financial Exclusion: How Many People Are Unbanked?," CGAP Blog, April 24, 2012, available at <http://www.cgap.org/blog/measuring-finaical-exclusion-how-many-people-are-unbanked>.
- 17 Susan K. Weinstock and others, "Still Risky: An Update on the Safety and Transparency of Checking Accounts" (Washington: Pew Charitable Trusts, 2012), available at http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Safe_Checking_in_the_Electronic_Age/Pew_Safe_Checking_Still_Risky.pdf.
- 18 Center for Financial Services Innovation, "Financial Capability Innovation Fund Mid-Term Report" (2012), available at http://www.cfsinnovation.com/system/files/Early%20Learning%20e-version_1.pdf.
- 19 Jennifer R. Grier, "Remote Deposit Capture for Consumers: Is It Niche or Mainstream?" (Atlanta: Federal Reserve Bank of Atlanta, 2009), available at http://www.frbatlanta.org/documents/rprf/rprf_resources/RPRFwp_ConsumerRDC.pdf.
- 20 John Adams, "The Power of Mobile Remote Deposit Capture," American Banker, June 12, 2012, available at http://www.americanbanker.com/issues/177_113/power-mobile-banking-remote-deposit-capture-1050082-1.html.
- 21 Joe Valenti, "The End of Cash: The Rise of Prepaid Cards, Their Potential, and Their Pitfalls" (Washington: Center for American Progress, 2013), available at <http://www.americanprogress.org/issues/economy/report/2013/04/04/59277/the-end-of-cash-the-rise-of-prepaid-cards-their-potential-and-their-pitfalls/>.
- 22 Board of Governors of the Federal Reserve System, "Consumers and Mobile Financial Services 2013."
- 23 U.S. Department of the Treasury, "My MoneyAppUp Partners Announce Winners of the App Design Challenge," Press release, September 28, 2012, available at <http://www.treasury.gov/press-center/press-releases/Pages/tg1723.aspx>.
- 24 Departmental Offices – S&E, FY 2014 President's Budget (U.S. Department of the Treasury, 2013), available at <http://www.treasury.gov/about/budget-performance/CJ14/1.%20DO%20CJ%20FINAL%20508%20OK.pdf>.
- 25 Consumer Financial Protection Bureau, "Consumer Financial Protection Bureau launches Project Catalyst to spur consumer-friendly innovation," Press release, November 14, 2012, available at <http://www.consumerfinance.gov/press-releases/Consumer-Financial-Protection-Bureau-launches-Project-Catalyst-to-spur-consumer-friendly-innovation/>.
- 26 Center for Financial Services Innovation, "Financial Capability Innovation Fund II," available at <http://www.cfsinnovation.com/content/financial-capability-innovation-fund-ii> (last accessed June 2013).
- 27 Grier, "Remote Deposit Capture for Consumers: Is It Niche or Mainstream?"
- 28 U.S. Bank, "Mobile Check Deposit with DepositPoint," available at <http://www.usbank.com/mobile/depositpoint.html> (last accessed June 2013).
- 29 Regions Bank, "Regions Mobile Deposit FAQs," available at http://www.regions.com/faq/mobile_deposit.rf (last accessed June 2013).
- 30 Federal Trade Commission, "Paper, Plastic... or Mobile? An FTC Workshop on Mobile Payments" (2013), available at <http://www.ftc.gov/os/2013/03/130306mobilereport.pdf>.
- 31 Ibid.