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What Banking For The Unbanked Means For You

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I write about evolving fintech, from back office to end user.

The COVID-19 pandemic has highlighted the plight of the unbanked and underbanked in America. For all of our progress as a nation over the past decade, [more than a quarter](#) of US households lack access to a basic bank account or other basic financial services.

This segment of the population has been hit particularly hard by the health crisis. Not only have many of them lost their jobs, but because they lack direct deposit capability, they frequently must resort to expensive payday lenders to cash their relief payments.

The good news, however, is that recent innovations—many of them spurred by the crisis itself—are making banking easier and more accessible for these individuals, and for all of us.

Who Are the Unbanked?

By definition, the unbanked are individuals that have no checking or savings accounts. Their income and expense streams are often inconsistent, and they don't always follow a structured budget. The demographics of this group are dynamic and include individuals of varying economic statuses in all stages of life, from young adults and recent college graduates to people over the age of 65.

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While demographics vary, unbanked individuals face similar barriers to a traditional banking relationship. More than [half of unbanked](#) households feel they don't have enough money to keep an account with a traditional financial institution. [Thirty percent](#) don't trust banks, and [9 percent](#) find it inconvenient to use a bank because of their location or hours.

Because of these barriers, many unbanked individuals turn to money order, check cashing and payday loan companies – expensive options that aren't an ideal substitute for real banking services. With a gap to be filled, new fintech entrants are offering different ways for the unbanked to benefit from services usually available only to the banked. Those banking innovations are paving the way for a better banking experience from top to bottom.

Necessity, The Mother of Innovation

The unbanked have three basic needs: electronic funds access, a debit card and the ability to quickly access cash. With traditional financial institutions unable to meet these needs, nontraditional banking services are stepping up to the challenge.

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Digital-only banking options and reloadable general-purpose prepaid cards are coming to the forefront by addressing unbanked individuals' need for fast access to their money. We're also seeing organizations like the [Bill and Melinda Gates Foundation](#) developing digital payment systems to spread the use of reliable digital financial services quickly and affordably.

With so much opportunity to engage the unbanked population, traditional banks are rebalancing their risk portfolios to attract the unbanked. Rather than just evaluating a potential customer based on their credit history, banks are taking other financial criteria into account like rental and utility payments.

Further, the COVID-19 pandemic has exposed the difficulties of providing funding and stimulus to unbanked populations. For example, the IRS has seen great challenges to quickly disburse funds to those who don't have a direct deposit account on file with the agency, and [recently announced](#) they will distribute stimulus checks via Visa v -0.1% prepaid cards.

Meanwhile, as retailers and grocers expanded online shopping and delivery options, people who rely on governmental programs like SNAP to buy groceries [have been shut out](#) of this digital convenience. There are pilot programs enabling these benefits, which have

ramped up quickly since the coronavirus outbreak, for online use. But the slow progress highlights the challenges in accommodating those who lack a traditional banking relationship.

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More Creative Offerings

The goal of any financial institution—whether traditional or digital-only—is to get the individual into a banked relationship which offers some stabilized model of financial planning. So, it's reasonable to expect that traditional banks will become more creative in their offerings to serve the unbanked market.

We see examples of this with banks that focus on single financial solution like a credit card that can transition to multiple solutions like a deposit account. Or setting up a customer's teenager with a prepaid card that matures into a debit card or credit card. For older underbanked individuals, the offerings are more aggressive including automatic and short-term loans.

Technology and Digital Drivers

The technology, data and digital access that is helping the unbanked move into a banked position is also being leveraged for financial services serving the banked population. For example, the Automated Clearing House (ACH) payment technology that drives quick and

seamless access to funds works as well for \$100 at a check cashing service as it does for a \$10,000 transfer within an investment portfolio.

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As the demand for quick, seamless financial transactions continues to increase, we can expect to see more technology that relies on digital channels. This includes features like chatbots and virtual assistants to help people on tighter budgets make better decisions.

Banking, Redefined

The move toward a more digital experience is changing the definition of banking and who banks serve. With banked and non-banked populations using the same technology, there's a leveling of the playing field of sorts.

Whether banked or unbanked, an individual's relationship involving their finances must offer both value and convenience. For the unbanked, this means more benefits as they increase their financial engagement with the provider. The key for banks to offer this lies with digital, data and AI working together in a cost-effective way.

The next time you're transferring funds from one account to another or paying a bill using ACH, consider that the technology behind these actions is also being used in ways that serve individuals who are unbanked. With digital innovation driving change, the unbanked are changing the way that financial tools work. As the push to shift the unbanked into formal banking relationships continues, it will build flexibility for a broader market and open up new capabilities across financial strata.

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I am chief data officer of a \$5.1 billion-dollar banking and payments division of FIS, an industry-leading financial technology services company. Working with FIS for 18 ... **Read More**

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