



“Bank On” Transaction Accounts Helped Support Financial Inclusion during the Pandemic

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Households without a bank account must rely on higher-cost and less convenient alternatives from nonbank financial service providers for financial products and services. These households, referred to as “unbanked,” are predominantly low-income, and their unbanked status is a barrier to full integration into the American economy. Fortunately, much progress has been made over the past decade in reducing the percentage of unbanked households.¹

The banking industry has played a key role supporting this progress, especially through its support of the “Bank On” initiative. This national program, implemented through many local Bank On coalitions in collaboration with the Cities for Financial Empowerment (CFE) Fund, advances financial inclusion through expanded access to low-cost bank transaction accounts. Currently more than 200 banks, comprising 56 percent of national deposits, offer Bank On certified accounts.²

These accounts’ low-cost features that facilitate financial inclusion include very low or regularly waived monthly maintenance fees with no minimum required balance, no overdraft or non-sufficient funds fees or payments, and an initial deposit of just \$25 to open an account. Thus, for example, a consumer unable to meet the typical \$500 balance requirement to avoid the \$12 monthly fee for a traditional, no-interest checking account could save as much as \$144 per year and avoid the risk of incurring overdraft fees by opening a Bank On certified account.³ For the 4 million or more households with Bank On accounts, this can readily sum into hundreds of millions of dollars of cost savings.

This post updates earlier research examining take-up and usage of Bank On certified accounts in relation to area characteristics, based on data collected from the subset of Bank On affiliated institutions that have agreed to contribute to the program’s “National Data Hub.”⁴ This standardized data collection was initiated in 2018 by the CFE fund and the Federal Reserve Bank of St. Louis and provides detailed information on program performance through 2020. The analysis confirms the effectiveness of the Bank On program as an approach to increase financial inclusion.

A net increase of roughly 1.25 million Bank On certified accounts occurred in 2020 at the institutions that contributed to the Data Hub.⁵ Relative to the estimated 7.1 million unbanked U.S. households as of 2019 and

¹ Every other year, beginning in 2009, the FDIC Survey of Household Use of Banking and Financial Services estimates the percentage of U.S. households that are unbanked (defined as no one in the household having a checking or savings account at a bank or a credit union.) Based on these data, the percentage of unbanked households in the U.S. increased from 7.6 to 8.2 percent between 2009 and 2011, likely because of financial setbacks from the recession that ended in 2009. It fell to 7.7 percent in 2013 and then continued to decline steadily, to 5.4 percent as of 2019. See the FDIC’s [2019 Household Survey Report](#), page 1.

² See the [Bank On National Account Standards](#). Under the account certification standards, monthly maintenance fees that are waived for depositors with at least one digital or electronic transaction in a month are capped at \$10. Otherwise, the fees are capped at \$5.

³ According to a report from [bankrate.com](#), the most common, monthly maintenance fee on no-interest checking accounts is \$12 and the average minimum required balance to avoid the monthly fee is about \$500.

⁴ See [“Bank On Transaction Accounts and Financial Inclusion.”](#)

⁵ As of January 1, 2020 there were roughly 2.5 million Bank On certified accounts reported open in the Data Hub public dataset; by year-end the count was 3.75 million.

considering the weak employment conditions in 2020 due to the COVID-19 pandemic, this is a substantial take-up rate.⁶

Additional, pertinent findings include:

- High relative take-up rates for Bank On accounts during 2020 in areas with predominantly low- or moderate-income (LMI) populations
- High relative take-up rates for Bank On accounts in neighborhoods with predominantly minority populations
- Take-up rates for Bank On accounts were lower in areas with high unemployment rates during 2020, but still considerable

DATA SOURCES

The CFE Fund and Federal Reserve Bank of St. Louis in 2018 initiated an annual, standardized data collection to establish and maintain a “National Data Hub” to help develop insights into the market for Bank On certified accounts.⁷ As of 2020, 17 institutions are contributors to the Data Hub sample, including the five largest U.S. banks (JPMorgan Chase, Bank of America, Citigroup, Wells Fargo and U.S. Bancorp.)

These data, fully disaggregated to the ZIP code level, are publicly available, subject to exclusion of ZIP codes for which fewer than three of the participating banks report data. This public data set constitutes the core sample for our analysis.⁸ Some summary information about the sample, along with corresponding information about the full (non-public) sample published by The Federal Reserve Bank of St. Louis, is shown in Table 1.⁹

Table 1: Summary information from the National Data Hub 2020 sample

	Public Dataset	Full (Non-Public) Dataset
Number of ZIP codes represented	19,935	33,695
Number (1,000’s) of accounts ever opened	8,327	8,446
Number (1,000’s) of open accounts as of year-end	3,842	3,890
Number (1,000’s) of (new) accounts opened during the year	2,206	2,233
Percent of new accounts opened by customers new to the institution	80	82

⁶ Moreover, the study sample understates the full contribution of Bank On. Although the 2020 data collection included the four largest U.S. retail banks, many other sizeable banks that participate in Bank On are still in the process of being incorporated into future data collections.

⁷ A list of the 23 account activity metrics included in the annual data collection was included in the previous BPI research note on Bank On. There are three categories of metrics: account opening and closing; account usage and consistency; and online or digital access. These are collected from each institution at the ZIP code level.

⁸ The data can be downloaded from the National Data Hub [webpage](#) maintained by the Federal Reserve Bank of St. Louis.

⁹ The published report is available [here](#).

Sources: National Data Hub [public data](#) and Federal Reserve Bank of St. Louis [2020 report](#).

As of year-end 2020 more than 3.8 million Bank On certified accounts were open and active at the banks contributing to the Data Hub. These banks’ customer populations span more than 33,000 ZIP codes, or 80 percent of all U.S. ZIP codes.¹⁰

Data merges. The Data Hub sample is then merged with information on the demographic and income composition of each ZIP code. Neighborhood demographic information is obtained, by census tract, from the 2010 Decennial Census dataset and allocated to ZIP codes using the tract-to-ZIP mapping available from the U.S. Department of Housing and Urban Development (HUD).¹¹ The share of a ZIP code’s population that is LMI is obtained, by census tract, from the 2011-2015 American Community Survey, and again allocated to ZIP codes using the HUD mapping.¹² In addition, state and metropolitan area unemployment rates from the Bureau of Labor Statistics as of June 2020 are incorporated into the study sample.¹³

We also use data from the FDIC Summary of Deposits database on number of full-service retail branches by ZIP code, as of June 2020, for each of the 17 institutions that contribute to the Data Hub. These data are used in our analysis to benchmark the geographic coverage of these institutions.

BANK ON TAKE-UP ACTIVITY BY NEIGHBORHOOD CLASSIFICATION

Since unbanked individuals and households are concentrated among lower-income and minority populations, one way to assess the reach of Bank On into the unbanked population is to examine the distribution of account take-up at the neighborhood level, which allows for the assessment of take-up rates within those populations. The previous research note examined 2019 take-up activity by neighborhood classification; we update that analysis here.

Table 2 presents the updated findings.¹⁴ Three take-up metrics are considered alongside two comparison benchmarks.

¹⁰ The restriction to ZIP codes with at least three reporting institutions reduces geographic coverage (number of ZIP codes represented) by 41 percent compared to the full, non-public samples, but results in exclusion of only about 1 percent of accounts by any of the three measures shown in Table 1 (accounts ever-opened, accounts currently open, or accounts opened during the year).

¹¹ The demographic measures utilized are share of the population that identifies as non-white (Black or African American, Hispanic, Asian-American, or Native American or Native Hawaiian.)

¹² See the previous research note, [“Bank on Transaction Accounts and Financial Inclusion”](#) for further details.

¹³ Unemployment rates peaked in April 2020, with employment recovering faster in some states and cities compared to others. The June unemployment rate provides a reasonable indicator of the severity and persistence of the adverse economic shock across states and localities.

¹⁴ For these calculations, 194 ZIP codes associated with 130,708 open accounts are dropped from the sample due to missing demographic information.

Table 2: Account take-up activity as of year-end 2020 by neighborhood category, relative to benchmarks

	Neighborhood (ZIP Code) Categories			
	> 50% Minority	< 15% Minority	> 50% LMI	< 25% LMI
	(Percent)			
Neighborhood share of ever-opened accounts	33.52	16.05	41.91	9.68
Neighborhood share of currently open accounts	32.06	15.63	40.02	11.38
Neighborhood share of accounts opened in past year	32.05	16.29	39.60	10.82
Neighborhood share of in-sample ZIP codes	13.23	49.43	20.74	13.31
Neighborhood share of branch locations of the 10 banks	14.16	31.17	21.18	21.52
Share of new accounts opened by new customers of the bank	26.69	12.83	33.24	8.17

Source: National Data Hub 2020 [public data](#) and 2010 Decennial Census.

The take-up metrics are the ZIP code category’s share of ever-opened accounts; the category’s share of accounts open as of year-end; and the category’s share of new accounts opened in 2020. The first comparison benchmark is based on the study sample’s ZIP code distribution: the percentage of sample ZIP codes within each category. The second benchmark is based on the overall branch location distribution of the 10 reporting institutions: the percentage of total branches (including branches with ZIP codes that are not in the analysis sample) within each ZIP code category.¹⁵ In addition, the table shows the percentage of new accounts that are associated with customers new to the institution, by neighborhood category.

Consistent with the previous BPI research findings, Bank On certified accounts are associated disproportionately with areas that have predominantly minority populations. About a third of accounts ever-opened, currently open (as of year-end 2020), or opened in 2020 were in ZIP codes that are more than 50 percent minority, more than double the share of participating institutions’ branches within this neighborhood category.

Likewise, Bank On certified accounts are disproportionately associated with areas that are predominantly LMI. About 42 percent of ever-opened accounts, and 40 percent of accounts currently open and of those opened in 2020 were in ZIP codes with a greater than 50 percent LMI population, compared to 21 percent of the participating institutions’ branches located in those areas.

¹⁵ For additional context, note that about 13 percent of U.S. Zip codes are majority minority and about 21 percent are majority low- or moderate-income.

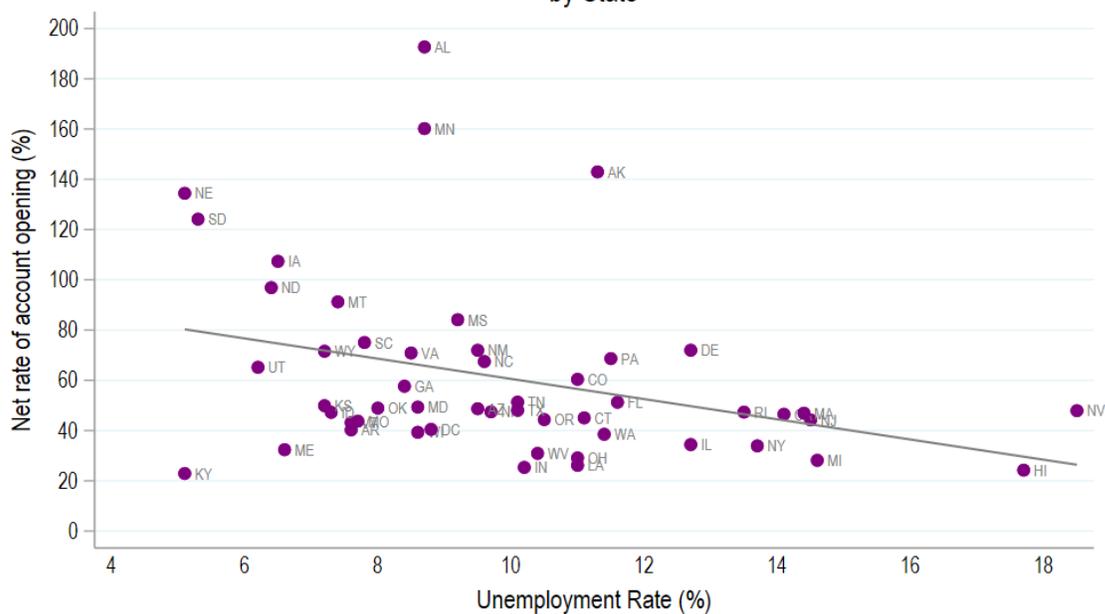
BANK ON TAKE-UP ACTIVITY IN RELATION TO AREA UNEMPLOYMENT RATES

The Bank On program’s effectiveness in supporting financial inclusion during the pandemic can be further assessed by quantifying account take-up activity in relation to economic conditions across geographic areas. To the extent that the program was effective with broad scope, substantial take-up activity would be observed even in areas with weaker employment conditions.

An intuitive measure of the program’s effect on financial inclusion is the *rate of account openings net of closings*, calculated as number of accounts opened minus the number closed during a year, divided by the beginning-of-year number of open accounts. The overall, net rate of account opening for the study sample is 48.6 percent, suggesting that the program was meeting a need of many households for safe, affordable banking options during the pandemic.

Chart 1 presents a scatter plot of the net rate of account opening in 2020 in relation to the unemployment rates by state. Take-up activity exhibits a modest, inverse relationship to the state unemployment rate, which is statistically significant, meaning accounts grew by somewhat more in states with lower unemployment rates.¹⁶ However, all states experienced substantial growth in Bank On accounts during 2020, with net rates of account opening uniformly greater than 20 percent.

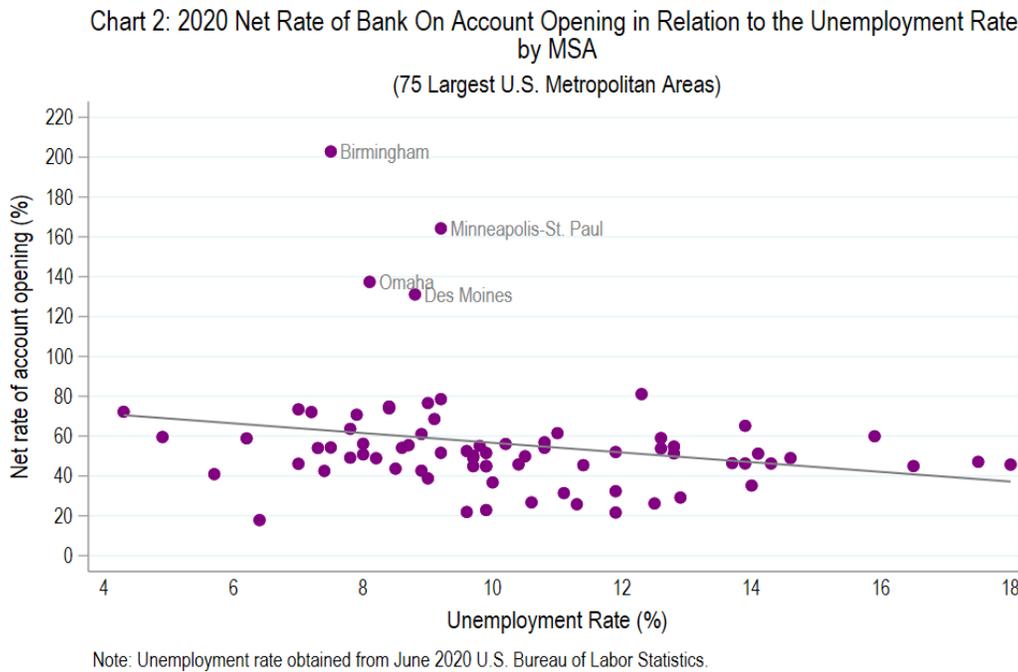
Chart 1: 2020 Net Rate of Bank On Account Opening in Relation to the Unemployment Rate, by State



Note: Unemployment rate obtained from June 2020 U.S. Bureau of Labor Statistics.

¹⁶ The estimated relationship is statistically significant at the 5 percent level in a univariate regression equation.

Chart 2 presents an analogous scatter plot for net rate of account opening across the 75 largest U.S. metropolitan areas. Again, an inverse relationship is observed.¹⁷



Conclusion

The Bank On program, coordinated by the CFE Fund, seeks to connect traditional banks with unbanked and underbanked individuals and families. The analysis confirms that take-up activity has been particularly strong in neighborhoods with predominantly minority and lower-income populations. It also highlights consistently strong growth in Bank On accounts across states and metropolitan areas during 2020.

As the analysis is based on data from just 17 of the more than 200 banks currently offering Bank On accounts, it provides only a partial view. As the program builds on its current momentum, and as more of the Bank On institutions join the National Data Hub effort, a fuller picture will emerge.

Nonetheless, the findings are suggestive of a material role of the Bank On program in fostering financial inclusion. These findings argue for policymakers to take further action to publicize and encourage even broader customer usage of Bank On accounts, and for more banks to consider joining the Bank On movement.

Disclaimer: The views expressed do not necessarily reflect those of the Bank Policy Institute's member banks, and are not intended to be, and should not be construed as, legal advice of any kind.

¹⁷ The estimated relationship is statistically significant at the 5 percent level in a univariate regression equation. With the exclusion of the outliers, the relationship remains negative but flattens somewhat, and the significance level declines to 10 percent.