TECHNOLOGY IS THE NEW BRANCH:

4 Solutions to Reach Underbanked Communities

EVERFI

About the Authors

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At EverFI, Meg researches the interplay between education, financial institutions, and social factors in influencing financial capability. She also measures the impact of financial education courses on learners using assessment and survey data, providing reports of course impact to sponsors, districts, and schools around the country. Prior to EverFi, Meg held a similar role assessing the impact of online and offline educational programming for youth sports coaches. Meg holds a degree in economics from the University of Virginia and an MBA from San Diego State University.

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Steve has built a career around the union of technology, education, and finance. His diverse background includes teaching and serving on school boards, working for innovative technology companies like LivingSocial and AOL, and serving as a tech consultant for Coca-Cola. At EverFi, he combines his savvy tech skills with his experience as an educator to generate financial literacy for learners of all ages.
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About EverFi

Our mission at EverFi is to drive lasting, large-scale change to the financial capability of learners of all ages.

We help banks and credit unions make transformative impact on the livelihoods of their communities, consumers, and employees through online education, data and services.

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Introduction

For the first time in over 50 years, the majority of U.S. public school students are in poverty.[1] While the downstream effects and implications of this statistic remain to be seen, today it means that many of these students live in households that are considered underbanked—while they may have a bank account, they also rely on alternative financial services including check-cashing outlets and payday loan stores. For this reason, underbanked families often end up seeking higher-cost options for emergency funds, perpetuating a cycle of debt.

According to a 2013 survey from the FDIC, nearly 25 million households in the United States were considered underbanked, accounting for roughly 20% of the population at the time.[2] Without access to a formal financial education program, teens and young adults from underbanked households can be more likely to remain underbanked as they transition to adulthood, lacking the knowledge to handle difficult financial situations.

Reaching these underbanked populations presents a huge opportunity for financial institutions that want to go above and beyond to help communities improve their financial wellbeing.

While traditional methods of reaching underbanked populations, such as opening branches in underbanked communities, have had some success in the past, these communities can be notoriously hard to reach. Today, successful financial institutions are reaching these communities through technology by providing digital financial education to communities at scale.

In this guide, we'll examine who these underbanked teens are—and how their attitude, behaviors, and upbringing affect their financial readiness. Then, we'll investigate how financial education programs can impact these behaviors, and propose actionable solutions that banks and credit unions can use to increase banking in underbanked communities. In fact, implementing a strong financial education program not only helps financial institutions stay compliant—it can also earn them new customers at the same time.

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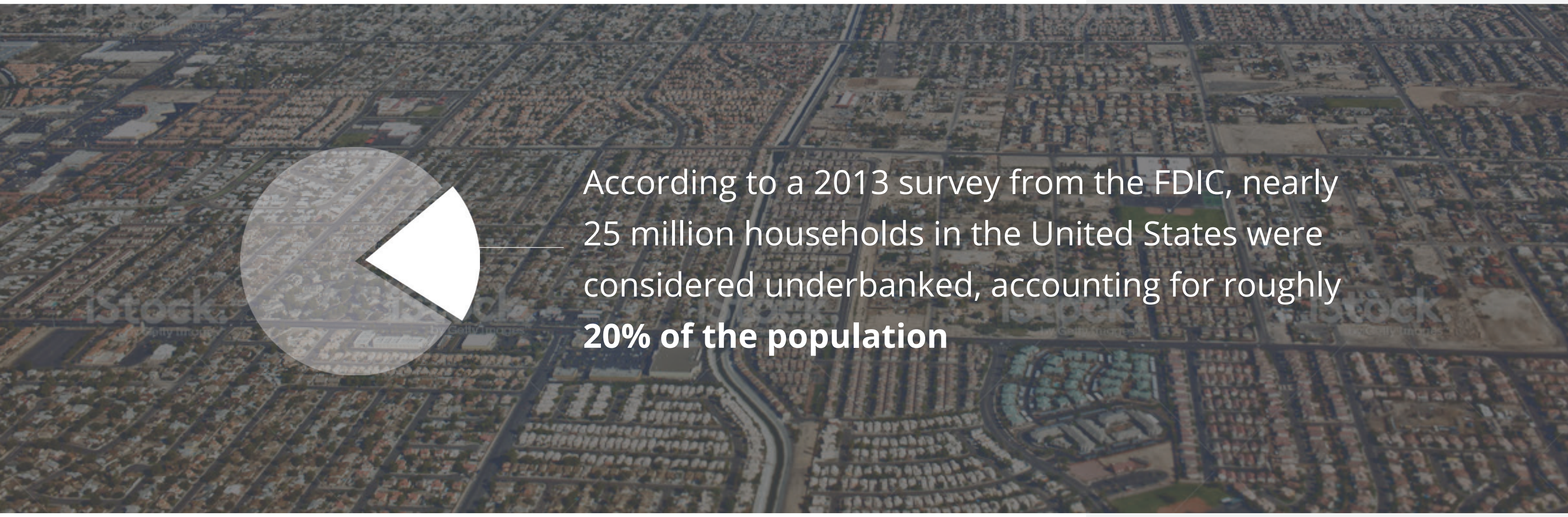

1.Layton, L. (2015, January 01). Majority of U.S. public school students are in poverty. Retrieved July 07, 2016, from https://www.washingtonpost.com/local/education/majority-of-us-public-school-students-are-in-poverty/2015/01/15/df7171d0-9ce9-11e4-a7ee-526210d665b4_story.html

2. Federal Deposit Insurance Corporation. (2014, October 28). Retrieved July 5, 2016, from https://www.fdic.gov/householdsurvey/ (PLACE ON PAGE 3 BELOW THE Washington Post Article)

The Potentially Underbanked Teen

To understand how growing up in an underbanked household affects the financial readiness of teens and young adults, EverFi conducted surveys with 40,000 high school students. The research used two variables to identify what was termed the "potentially underbanked teen":

1. the income status of the school they were attending, based on the percentage of free and reduced lunches provided by the school, and
2. the highest level of education achieved by their parents.

Further informing these two identifying factors is what is known about the typical underbanked household. The same 2013 survey from the FDIC revealed that underbanked households are more likely to be:

- lower income,
- less educated,
- non-Asian minorities, and
- younger.

How Underbanked Teens Differ from Peers

EverFi's research revealed that potentially underbanked students are identifiably different from teens more likely to live in banked households. Not only is their behavior different, but they also have a different understanding and impression of banking than other populations. Even at their young age, potentially underbanked teens are already exhibiting gaps in confidence when it comes to navigating personal finances. Underbanked teens are:

- 10% less likely to understand payment types and how to choose between them,
- 9% less likely to know how to make spending and saving decisions, and
- 6% less likely to rate themselves as "good" at dealing with day-to-day financial matters.

Underbanked teens also learn and talk about money differently from their peers. While they are less likely to discuss or seek out information about money matters with their parents or a financial institution, they are slightly more likely than their peers to seek information through their own research or by talking to friends—and 23% more likely to learn from an afterschool program.

The Impact of Financial Education Programs

The great news is that it is possible for banks and credit unions to reach underbanked teens and make a major impact in their financial literacy. Based on EverFi's research, after potentially underbanked students participated in financial education programs, they become more likely to engage in the financial system in a number of impactful ways:

- 40% of underbanked students identified themselves as more prepared to make financial decisions,
- 15% said they were more likely to bank on a computer or smartphone,
- 8% were more likely to open a checking account in the next year, and
- 6% were more likely to get their own credit card.

Underbanked teens are **10%** less likely to understand payment types and how to choose between them

Additionally, financial education programs have an impact on a cross-generational level. Students from underbanked households who did not talk to their parents about financial decisions prior to taking the course were 9% more likely to have those conversations after taking the course. This is especially important given the amplifying effect cross-generational conversations can have on financial preparedness; in fact, students who already did talk to their parents prior to taking the course identified themselves as nearly 50% more likely to be prepared to make financial decisions than their peers who do not talk to their parents.

Perhaps most indicative of the impact that financial education programs can have on underbanked teens is the teens' desire to receive these services. Underbanked students were just as likely as their peers to identify financial education as something they wanted and needed: 75% of all students agree financial education helps them make better choices about money and 74% believe all students should receive financial education in school.

Considering the unique needs and circumstances of potentially underbanked students, school-based financial education provides a solution for meeting those needs at both scale and scope. By reaching underbanked teens while they are still in school—an environment that makes educating large groups easier and more accessible than ever—banks and credit unions can encourage improved financial readiness before this population transitions into adulthood.

40% of underbanked students identified themselves as more prepared to make financial decisions after taking a financial education program

Solutions for Increasing Banking in Underbanked Communities

Financial institutions have an opportunity to increase their banking in underbanked communities. By leveraging technology to spread financial education to both school-aged and adult populations, banks and credit unions can both maintain compliance and expand their business into new populations—a win-win scenario from both a compliance and growth perspective.

Reaching underbanked communities is particularly effective when banks and credit unions target future banking customers, like teens and young adults. By capturing these populations early, financial institutions can help underbanked students and young adults achieve financial readiness before poor financial habits are too firmly established.

4 Ways to Use Financial Education to Reach Underbanked Populations

1. Utilize Mobile

Mobile usage is very high among both millennials and people with low-to-moderate income (LMIs). Particularly in low-income communities, people are more likely to buy a smartphone than a computer since their phone can perform most of the functions of a computer—in addition to acting as a communication device. By enacting a comprehensive mobile strategy, banks and credit unions can reach both millennials and LMIs, making financial education platforms more accessible and desirable, and getting more out their investment.

2. Embrace Digital

In the past, financial institutions often fulfilled their financial education requirement by teaching one-to-one: hosting financial education seminars in church basements, or coming in as a guest speaker in a local high school. Unfortunately, this strategy reaches only a very small segment of the population, making its effectiveness quite limited. However, if someone can access the same classes through their mobile device and do it on their own time, suddenly the segment of the population that banks and credit unions can reach grows exponentially. As an additional benefit, the quality of the program is guaranteed for each student, putting less pressure on individual bank and credit union employees, who may or may not have a teaching skill set.

3. Overcome Language Barriers

According to a 2014 study by the National Council of La Raza, 33% of Spanish speakers chose their bank based on their ability to "communicate in their own language." Considering the important decisions involved in choosing a financial institution, it makes sense that consumers would feel more comfortable banking in their own language—and the same goes for learning. By offering financial education solutions in Spanish and other languages, banks and credit unions can solve the language-barrier problem for many members of the underbanked community.

With digital programming at their disposal, underbanked populations can achieve greater, larger-scale financial independence

4. Evaluate Beyond FICO Scores

Millennials and LMIs have posed another problem for banks and credit unions. Since these populations are less likely to have a credit card, it's harder for banks and credit unions to evaluate them based on earlier credit behavior. In fact, FICO reports that 53 million people don't have a credit score and, without this standard, banks are unsure how to evaluate financial risk, making it harder for these populations to get loans.

However, not every millennial or LMI is a high-risk consumer, and, by ignoring these populations, banks and credit unions are missing out on a valuable opportunity to earn new customers. Instead, forward-thinking banks and credit unions are considering new metrics to evaluate non-traditional customers—and financial education is one of those metrics. For example, if a participant scores well on a financial education course—or even demonstrates the initiative to take a course in the first place—that is an indicator that they may be a lower credit risk.

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Conclusion

Students and young adults from underbanked households are more likely to be less informed and less confident about financial decision-making as they transition into adulthood than their peers from households engaged in the banking system. By taking steps to bridge these knowledge gaps with school-based financial education programs, particularly when those programs are designed to take the unique qualities and needs of students and young adults into consideration, banks and credit unions can reach this young population, creating a strong generation of financially literate adults—and customers.

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