

MARKETS

Bank Accounts Designed for Low-Income Customers Find Broader Audience

Online banking functions appeal to young people who don't use checks and cost-conscious customers who want to avoid incurring overdraft fees



Citigroup's checkless product has accounted for more than 20% of newly opened accounts since 2017. PHOTO: MARK LENNIHAN/ASSOCIATED PRESS

By Yuka Hayashi

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WASHINGTON—No-frills bank accounts developed for low-income customers are gaining popularity among a broader swath of customers.

The accounts, known as checkless bank accounts or safe-transaction accounts, include ATM access, debit cards and mobile banking for small fees and minimum deposit requirements. They don't include paper checks or overdraft protection, two features that aren't as popular amid a customer shift to digital banking.

Banks started offering affordable checkless accounts around 2014 as part of a government-backed effort to help “unbanked” and “underbanked” consumers enter the banking

system, and reduce their reliance on more expensive nonbank services such as check cashing and money transfers. The accounts also are designed to help banks improve their record under the Community Reinvestment Act, which requires banks to help meet the credit and banking needs of lower-income communities. Regulators, including the Federal Deposit Insurance Corp. and the Consumer Financial Protection Bureau, have promoted them.

A study by Federal Reserve Bank of St. Louis determined four of the early participants in the program— Bank of America Corp. , JPMorgan Chase & Co., Wells Fargo & Co. and U.S. Bancorp —had a combined 1.3 million certified accounts open and active in 2017, including 600,000 accounts newly opened in the year. The report, released in October, was the first comprehensive survey on these accounts. “These data demonstrate the vibrant market for these accounts,” St. Louis Fed said in the report.

Banks say the accounts have also appealed to a broader base of consumers, particularly young people who don’t use checks and cost-conscious customers who want to avoid incurring overdraft fees. The accounts’ increasingly sophisticated online banking functions, from bill pay to mobile check deposit, have boosted their appeal.

Citigroup Inc.’s checkless product has accounted for more than 20% of newly opened accounts since 2017, said Bob Annibale, Citibank Global Director of Community Development and Inclusive Finance. “What we are finding is it’s meeting the needs of quite a wide range of people,” he said. At KeyCorp’s KeyBank, the “Hassle-Free” checkless account has become its most popular offering, with more than 800,000 accounts already opened, according to a spokeswoman.

Some bank analysts are skeptical of the growth potential of such accounts because they don’t earn as much in fees for banks, particularly overdraft fees that are a large source of revenue for the industry. Others say there are better account products that offer more for customers.

“My advice for customers is to find a free checking account with overdraft,” said Mike Moebis, chief executive of Moebis Services, a banking research firm. He said having the ability to write paper checks is still necessary because some merchants or service providers, particularly

David Albertazzi, a senior analyst for Aite Group, a financial-services research firm, said the banks are using the accounts as a starting point for shifting customers later to more profitable

services such as credit cards and mortgages. “It will take time for those relationships to become profitable,” he said.

Jason Martin, the executive in charge of checking and debit product management at Bank of America, said his company is taking a long view.

“We don’t look at it on an individual account profitability basis. We look at it relationship wide,” Mr. Martin said. He said the bank’s Advantage SafeBalance account has become “more and more mainstream” in the past two years in part due to a greater marketing effort targeting students.

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Currently, 25 banks offer affordable checkless accounts that meet the standards set by Cities for Financial Empowerment Fund, a group funded by top banks and credit-card companies to promote financial inclusion.

The accounts’ availability is set to grow as 25 more banks and credit unions are working to get certified.

Jonathan Mintz, CEO of CFE Fund, said the accounts’

fast growth proves their broader appeal at a time when consumers shift to digital banking.

“This is where banking is headed,” he said.

The accounts don’t have overdraft functions to prevent consumers from spending more than they have in their accounts and incurring fees—typically \$35 for each overdraft. Experts say overdraft, while convenient for many customers, puts disproportionately heavy burdens on people living paycheck to paycheck, making it the main reason why people lose their bank accounts and leave the banking system. According to the FDIC, 6.5% of U.S. households were “unbanked” in 2017, meaning they didn’t have a bank account, down from 8.2% in 2011.

The largest 10 banks collected \$11.45 billion in overdraft fees in 2017, according to the FDIC. Adding costs for banks, the no-frills accounts also face a high annual closure rate of 25%, meaning one in four customers loses their account. That is far higher than the 3%-5% closure rate for the overall market, analysts say.

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