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Free Market Solutions to Banking the Unbanked

By Jennifer Grier

This article represents the Community Affairs section's continued effort to present innovative products that seek to address the deposit and credit needs of low- and moderate-income individuals. This article is for informational purposes only and is not an implied or direct endorsement of the company or its products.

Banking the nearly 12 million unbanked households in the U.S. has been elusive or even avoided by most financial institutions. Although representing a significant market potential, this population often opts not to use traditional banks or is declined banking services because of a previous history of mishandling accounts. However, an innovative product developed by Directo, Inc. (Directo), a for-profit company in Atlanta, may serve as an inexpensive alternative to turning these potential customers away.

Demand Deposit Accounts for Unbanked

Directo offers two distinct demand deposit account products for the unbanked customer — Direct2Cash and Acce\$0 cards.

Direct2Cash is a debit card account that provides an inexpensive way for individuals to access cash who may be accustomed to paying the often exorbitant fees charged by check cashing outlets. The only requirements are that the customer be employed and that the employer offers direct deposit for payroll checks. A significant benefit to the employer is that the accounts help to decrease payroll costs by increasing its workforce participation in direct deposit.

Bank Advantages

Directo markets the Direct2Cash product to banks as an alternative to declining a potential customer who does not qualify to open a checking account because of a record on Chex Systems or derogatory credit history.

There is nominal risk to the bank since Directo actually owns the relationship and the funds are held at its correspondent bank, Cardinal Bank in Fairfax, VA. Also, the potential for fraud is significantly mitigated because the account is only accessible by ATM or point-of-sale terminals, and the account can not be overdrawn.

Essentially, the participating bank acts as a referral service for Directo in providing the Direct2Cash accounts. However, the bank receives monthly fee income and retains the option to cross-sell other banking services to the customer. Another benefit to the bank is being able to reduce its lobby congestion by the number of individuals who previously cashed their payroll checks who will now be paid electronically.

In addition, the bank may graduate Direct2Cash account holders to conventional products once the account has been handled satisfactorily for a period of time. Although on the surface this may appear to be counterproductive for Directo, the company's ultimate objective is to train the unbanked to become bankable customers.

Significant Savings on Wire Transfers

The Acce\$o card is considered a companion card to the Direct2Cash account. The card can be given to a spouse or family member and is treated as a sub-account to the "master" Direct2Cash card. The primary account holder predetermines the amount that will be made available on each Acce\$o card (up to 10 sub-accounts) tied to the account.

This product was initially developed in response to a rapidly growing Hispanic population working in the United States who were experiencing difficulty opening checking accounts and were paying significant fees to wire money to family members in Latin America.

With the Acce\$o card, the worker can designate the amount of the paycheck that can be withdrawn at an ATM by the companion cardholder. Family members outside of the country can access cash using ATMs at a nominal fee versus incurring high money transfer and currency conversion fees.

Benefits to Banks and Unbanked

Directo initially recruited employer participation in the program and currently has 19 major corporate accounts, including Georgia Pacific and OneSource Corporation. These companies represent thousands of employees who instead of receiving payroll checks are having their funds deposited in a Directo account. Each employee is issued a debit or Direct2Cash card that can be used to access their funds at ATMs and retail point-of-sale outlets. The cards can also be used to make recurring, preauthorized bill payments.

Citizens Trust Bank of Atlanta was the first bank to distribute Direct2Cash cards, and four additional banks have signed on subsequently. Directo provides extensive training and support to bank personnel on how to guide the customer through the process. In addition, Directo offers a toll-free customer service number to its cardholders as well as a monthly statement of their accounts.

Most financial institutions have struggled to accommodate the growing number of unbanked households who typically represent high-volume accounts with low balances and low profitability. Consequently, many of these individuals are disconnected from the traditional banking system and are relegated to check cashing outlets with far more expensive fee structures. The Direct2Cash and Acce\$o cards represent a win-win situation for the bank and the customer by providing a less expensive, risk-free account that will help to transition many households into mainstream banking.



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