



Improving Financial Equity

New disbursement options
support unbanked and
underbanked residents.



Introduction

A growing number of people lack access to traditional banking services. This not only limits their interactions with the financial system, but also impacts their transactions with government programs and services, which often rely on paper checks for payments to residents.

Giving people more options to receive payments helps agencies support underbanked and unbanked populations while saving money, reducing fraud and improving overall constituent satisfaction. “For agencies committed to providing the best services to all constituents, this is an easy win,” says Daren Jackson, senior vice president of disbursements at Tyler Technologies.

Serving Diverse Populations

Nearly 6 million U.S. households are considered unbanked, meaning they don’t have checking or savings accounts. Minority, low-income and single-mother households are significantly more likely to be unbanked, according to a 2021 FDIC report.¹ Banks have also closed more customer accounts in recent years, contributing to the number of constituents with limited access to financial institutions and services.

Unbanked and underbanked residents face a variety of challenges, including fees from check-cashing services, which can be as high as 12%.² In many cases, residents must pay a fee to cash checks and then another fee to purchase money orders to pay bills. Carrying cash is not always safe, and lack of access to financial institutions makes it difficult to save money or prepare for emergencies.

Many government leaders consider improving access to financial institutions an issue of equity. “You shouldn’t be at a disadvantage because you’re unbanked,” says Sloane Wright, Tyler’s senior vice president of payments.

Yet many agencies rely on paper checks for disbursements, despite their high costs, potential for fraud and inconvenience for many constituents. The average cost of processing a paper check ranges from \$7.78 to as much as \$20, according to Tyler. Mailed checks also open the door to fraud. Eighty percent of organizations

experienced payment fraud attacks or attempted attacks in 2023, according to the Association for Financial Professionals.³

These factors are prompting agencies to explore electronic pay disbursements for an array of use cases, ranging from refunds and jury duty to child support payments and other benefits. Electronic payments to constituents are more secure, cheaper to process and more convenient. But while many agencies offer multiple digital options for residents to pay bills and fees, electronic disbursements by government are often limited to direct deposit or automatic clearing-house (ACH) payments — which aren’t available to unbanked residents.

Governments can improve equity by expanding disbursement options. In addition, these options provide immediate support for unbanked populations during natural disasters, pandemics and other emergencies that require direct government payments. Lack of disbursement choices can also unintentionally alienate residents who have moved away from traditional banking services, like younger constituents who prefer services like PayPal, Venmo or prepaid debit cards.

“The challenge governments face is they have to serve all these demographics,” Jackson says. “Ultimately, governments need to provide services at the consumer’s discretion — people should get to choose.”

Enabling Constituent Choice

Modern payment disbursement technologies let governments improve financial equity and overall constituent experience. Electronic disbursement technology provides residents with a variety of choices. And because it's offered as part of a cloud-based payments platform, this technology can evolve as new methods emerge.

But agencies need to consider a range of issues as they explore electronic disbursement options — it's not the same as accepting electronic payments. "People are starting to understand they're two different animals and have different challenges to solve," Jackson says.

Potential disbursement options

- Physical checks
- Direct deposit/ACH
- Debit/payment cards
- Venmo, PayPal and other payment apps
- Digital wallets (Apple, Google and others)
- Gift cards
- Charitable donations

First, agencies must identify use cases for electronic constituent payments and determine the best disbursement method for each one. Recurring payments like child support need different options than one-time payments such as jury duty, which can be readily handled by immediate transactions or prepaid debit cards. In some jurisdictions, laws dictate specific payment types for some transactions. Leaders should also ask residents which disbursement options they prefer.

Appropriate financial controls are critical when adding payment options that are transacted instantly. "The real-time nature of these payments means that you have to have your internal processes together," Wright cautions.

Agency leaders should also consider these factors when evaluating payment vendors and solutions:

- ✓ Understand how well and how easily potential payment solutions integrate with your accounting and ERP systems.
- ✓ Ensure payment vendors comply with industry standards like PCI for credit cards and have the necessary money transmission licenses and partnerships with financial institutions. "When you're dealing with public funds, you want that extra diligence," Wright says.
- ✓ Look for payment platforms that integrate identity verification — both to ensure the integrity of payments and provide a better resident experience.
- ✓ Seek vendors that help you educate constituents about different payment options. Some vendors provide white-label documentation to include on payment sites to guide residents. "There's a learning piece for constituents," Jackson says. "You need to help them understand what's available and which option to choose."

Better Equity and Service

Adding disbursement options provides equity for unbanked and underbanked residents — and it improves service and convenience for everyone.

Just as important, electronic disbursements cut processing costs and mitigate security threats associated with paper checks, which helps make sure vital government benefit dollars reach residents in need.

Agencies have made impressive progress on expanding options for constituents to pay bills, fees, taxes and fines. Now it's time to address the other side of the coin by modernizing disbursements to residents and improving equity for unbanked populations.

"We're early in our journey in looking at opportunities to help out these residents," Wright says. "But it's a critical issue for government leaders."

1. www.fdic.gov/analysis/household-survey/2021execsum.pdf
2. <https://www.federalreserve.gov/publications/2020-August-consumer-community-context.htm>
3. <https://www.afponline.org/training-resources/resources/survey-research-economic-data/Details/payments-fraud>

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