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WHITE PAPER

Why the Unbanked Dread Receiving Checks

How Government Agencies Can Better Serve Unbanked Residents



Why the Unbanked Dread Receiving Checks

The evolution of technology has drastically changed the payments landscape, especially when it comes to disbursements of money. For most, receiving money digitally or by check doesn't present a problem. While much of the population enjoys the convenience, simplicity, and security of modern banking, there remains a surprising amount of U.S. residents that are unbanked — and relying only on cash.

Unbanked people are at a disadvantage in many ways: They are subject to exorbitant check-cashing fees, cash-only payment hassles, delays in receiving funds, financial exclusion, and even potential loss or theft that can arise from carrying too much cash.

Government agencies at all levels have a duty to create equitable solutions that reach this population and pull them into financial inclusion.

In this guide, we will dive deep into unbanked consumers by the numbers, exploring the disadvantages and challenges they face, as well as how government can leverage technology to create equitable solutions for all.

WHO ARE THE UNBANKED?

The unbanked members of the U.S. population are those that don't have a checking or savings account at a bank or credit union, primarily use cash for transactions, and store assets only in physical, offline formats.^{1,3}

According to the most recent FDIC report in 2021, unbanked consumers in the U.S. comprised 5.9 million households. The percentage of unbanked individuals was higher in Black, Hispanic, low-income, less-educated, and single-mother households. Households with married couples made up 1.8% of the unbanked population, compared to 15.9% of single-mother households, and southern states led the unbanked with 4.9% of the population.¹

There are several reasons consumers remain unbanked:

- Previous financial behavior
- Bank mistrust
- Balance requirement concerns
- Privacy concerns
- High or unpredictable bank fees¹
- Inaccessible banking options²
- Generational preferences



While the receipt of government benefits such as unemployment and stimulus payments have helped offset some of the reasons consumers had for being unbanked in recent years, the effects of furlough, reduced hours, or joblessness have played a major role in the closure of many bank accounts, to the tune of 21.1% since March of 2020¹, further solidifying the need to identify appropriate payment methods for this population and promote financial inclusion.

DISADVANTAGES FACING THE UNBANKED

Unbanked consumers prefer to receive cash. However, cash has its challenges, which include the risk of loss, as well as decreased safety and theft.

“Cash is not a friend of the poor,” said Shamina Singh, president of the Mastercard® Center for Inclusive Growth. “Think about 2 billion people around the world who are trapped in an economy where they can only transact with people they know and they can see, and in a very small geography,” Singh continued.

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“[The unbanked] are excluded from the financial systems that allow for economic mobility,” she explained.

Alternatively, the most common way for government to disburse funds is by check. Without bank accounts, checks create many challenges, leading to:

- A lack of savings for the future, as well as emergencies
- Difficulty paying bills online
- High check-cashing costs: The average is 1% to 12% of the value of the check²
- Lost economic opportunities

CHALLENGES FACING GOVERNMENT AGENCIES

The Association for Finance Professionals' 2022 Payments Cost Benchmarking Survey reports that 86% of organizations use checks for their disbursements, with the typical organization processing between 500 to 999 checks each month.⁴



Government agencies at all levels face immense challenges when issuing paper checks to unbanked residents. Aside from the fact that paper checks are expensive to produce and mail, there are other problems when a check goes uncashed.

The first is the loss of employees' valuable time and productivity due to a longer account reconciliation process.

Also stemming from uncashed checks is unclaimed property, and eventually escheatment, the process of the state taking control of unclaimed property after a period of time, usually five years.⁵ Escheatment incidents also drain agency employees' time and focus away from other areas of need. While unbanked consumers are certainly not responsible for all unclaimed funds, they do contribute to the problem since they're less likely to cash checks. In fact, more than \$5 billion in funds are returned by states each year.⁶

From a time and a financial aspect, paper checks are costly to print and mail initially, and that cost certainly doesn't diminish when agencies must manage unclaimed property. Paper checks, with all their challenges, can lead to frustrated, unsatisfied employees and residents.

HOW TECHNOLOGY HELPS

Technology has made it easier than ever for residents to receive money from their government via direct deposit, but those without bank accounts continue to be left out when it comes to receiving money effortlessly.

The Digital Disbursements Transformation

Digital disbursements technology has advanced rapidly over the last decade, driven by technological innovation, changing consumer preferences, and regulatory developments. These advancements have made paying disbursements faster, more convenient, and more secure, revolutionizing the way people and government agencies transact financially. While digital disbursements are typically associated with consumers that have bank accounts, there is real opportunity for government to leverage technology to serve its unbanked residents.

One major way government agencies can pay unbanked residents is through pre-paid card issuance. With a pre-paid card, no bank account or government-issued ID is needed for a resident to access their money.

A card can be used anywhere major cards are accepted, including ATMs and online. Payees are not subject to check-cashing fees and enjoy the added security of eliminating large amounts of cash in their wallets.



By eliminating the use of paper checks for disbursements, government agencies have been able to better serve the needs of a larger percentage of residents, while also reducing costs and administrative headaches.

Serving the Unbanked: Card Issuance in Action

There are numerous examples of how unbanked residents can benefit when government eliminates paper check disbursements. A few prominent examples include inmate release, natural disaster relief, and court-mandated child support payments.

Inmate Release

When an inmate is released from jail, they're issued a pre-paid debit card that contains the money from their inmate trust or commissary account or from the facility's gate money fund. The card provides them easy, immediate access to their money, without the need for a bank account or ID. The resident has one less thing to worry about as they rejoin the community.

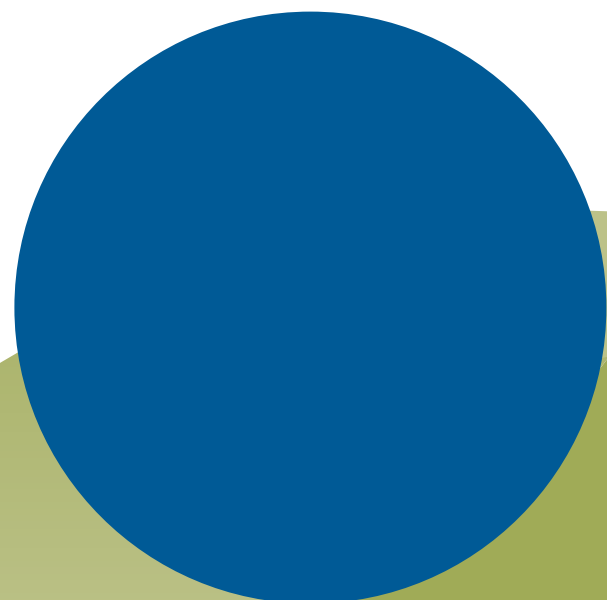
Natural Disaster Relief

When natural disasters strike, the last thing victims want to worry about is the hassle of cashing a check as they put their lives back together. Pre-paid cards get desperately needed funds to disaster victims much quicker and they're able to purchase the things they need when they need them, allowing more time to focus on getting back on their feet.

Court-Mandated Child Support Payments

The U.S. Census Bureau's latest study in 2017 showed that of the \$30 billion in child support funds owed to families, only 45.9% of those families received the full amount they were owed.⁷ Pre-paid debit cards greatly reduce delays in receiving payments, and allow custodial parents the ability to focus more of their time and resources on their children.

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QUESTIONS TO ASK

As your agency sets out on a path toward inclusivity for unbanked residents, there are important questions you should ask potential technology vendors.

Information you will want to obtain:

- Does this software vendor understand government and have deep expertise in the unique challenges your agency faces? Is the solution purpose built for government?
- Will this card issuance software solution integrate with your existing accounting system?
- Will the card issuance software integrate with your other existing systems for ERP, court management, case management, jury management, commissary, and more?
- Will you need to get your IT department involved? If so, to what extent?
- What is the implementation process?
- Average time necessary for implementation — how much time to get up and running?
- What is the cost to your office for implementation?
- Can it be done while maintaining current work?
- Will there be special or additional equipment or software you'll have to purchase?
- How much training will the card issuance software require on your end?
- Who will train your people, and is that included in pricing?
- Will there be a need for ongoing training?
- What ongoing customer and technical support will the software vendor provide and are there enhanced levels if necessary (ask for their Service Level Agreement)?
- Is there a dedicated support person or team for your agency?

Technological advancements have made paying disbursements faster, more convenient, and more secure, revolutionizing the way people and government agencies transact financially. While digital disbursements are typically associated with consumers that have bank accounts, there is real opportunity for government to leverage the technology to serve unbanked residents.



CONCLUSION

Disbursements via paper checks present problems for the unbanked and government agencies alike. For the unbanked residents, paper checks exclude them from economic opportunities, are costly to cash, lead to delays in receiving funds, and cause cash-only payment hassles.

For government agencies, paper checks are costly to produce and mail, lead to extensive account reconciliation delays, unclaimed funds, escheatment, lost productivity, customer service issues, and unsatisfied residents.

Ultimately, by eliminating check-based disbursements, government can become more financially inclusive, better serve unbanked residents, and help provide families more economic opportunity.

By eliminating the use of paper checks for disbursements, government agencies have been able to better serve the needs of a larger percentage of residents, while also reducing costs and administrative headaches.

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