

MAY 2024

THE CASE FOR CALACCOUNT

A STATEWIDE SOLUTION FOR
EQUITABLE FINANCIAL WELL-BEING

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ACKNOWLEDGEMENTS

This research was sponsored by SEIU.

HR&A Advisors, Inc. helps create more equitable, resilient, and dynamic communities.

HR&A is a different kind of consulting firm. We are a mission-driven group of analysts, planners, and policy experts who care deeply about the future of cities. Working with visionary clients from grassroots activists to elected city and county leaders, the Inclusive Cities Practice centers racial equity and economic justice in economic development, policy, and planning.

HR&A's Inclusive Cities Practice bridges ideas to implementation, centers community voices typically left out of economic development policy and planning processes, and helps clients to increase wealth generation and opportunity for historically marginalized communities.

HR&A analyzed the impact of CalAccount on consumers, the economy, and State finances; and assessed CalAccount's feasibility based on the State's existing successful programs.

- 1.** Lack of banking access hurts Californians, and the impact is disproportionately felt by low-income, Black, Latino/a, and rural households.
- 2.** Implementing CalAccount would bring money into the California economy and could save the State money.
- 3.** CalAccount is a feasible program, given the State's experience operating financial services programs in partnership with private firms.

\$3B+

**CUMULATIVE SAVINGS
FOR ALL CALIFORNIANS**

\$5B

**ECONOMIC ACTIVITY
GENERATED IN CALIFORNIA**

\$1,300

**AVERAGE HOUSEHOLD SAVINGS
FROM UNIVERSAL BANKING ACCESS
(FOR UN/UNDERBANKED HOUSEHOLDS)**

Executive Summary

One in five California households are unbanked or underbanked, creating destructive cycles of financial vulnerability.

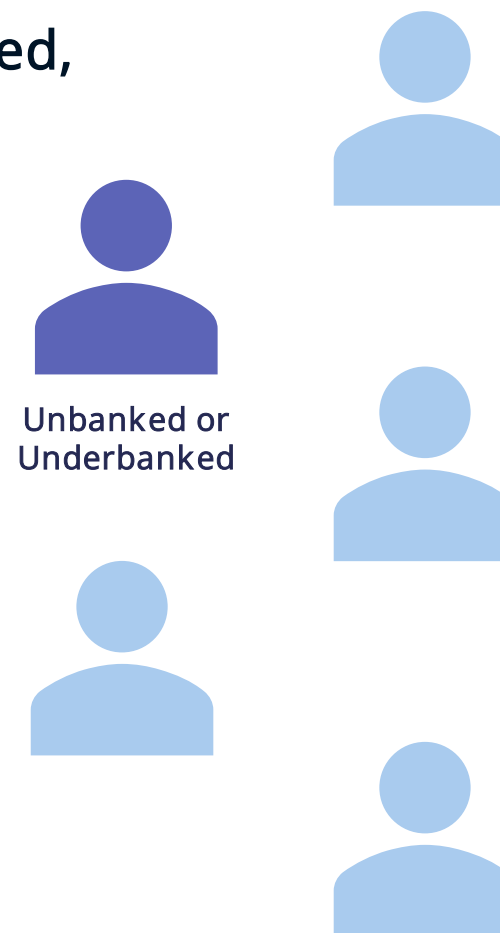
The unbanked are primarily low and very-low-income households. Black, Latino/a, and single-female headed households are most likely to be underbanked or unbanked in the United States.

2.0M UNBANKED

In unbanked households, no one has a checking or savings account at a bank or credit union.

5.5M UNDERBANKED

Underbanked households are banked *but* used at least one non-bank transaction/credit product in the last year (e.g., check cashing).



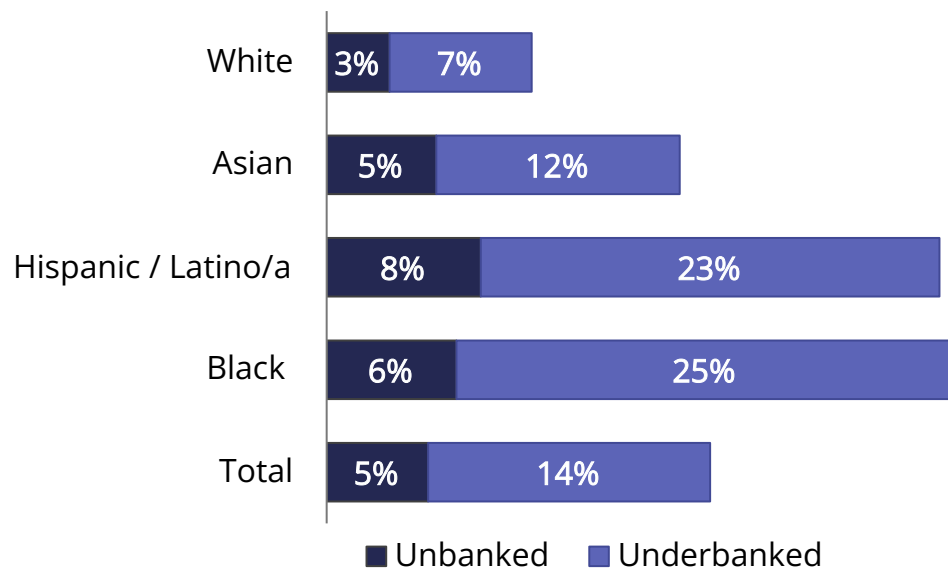
Executive Summary

Black, Latino/a, and low-income households are most likely to be un/underbanked.

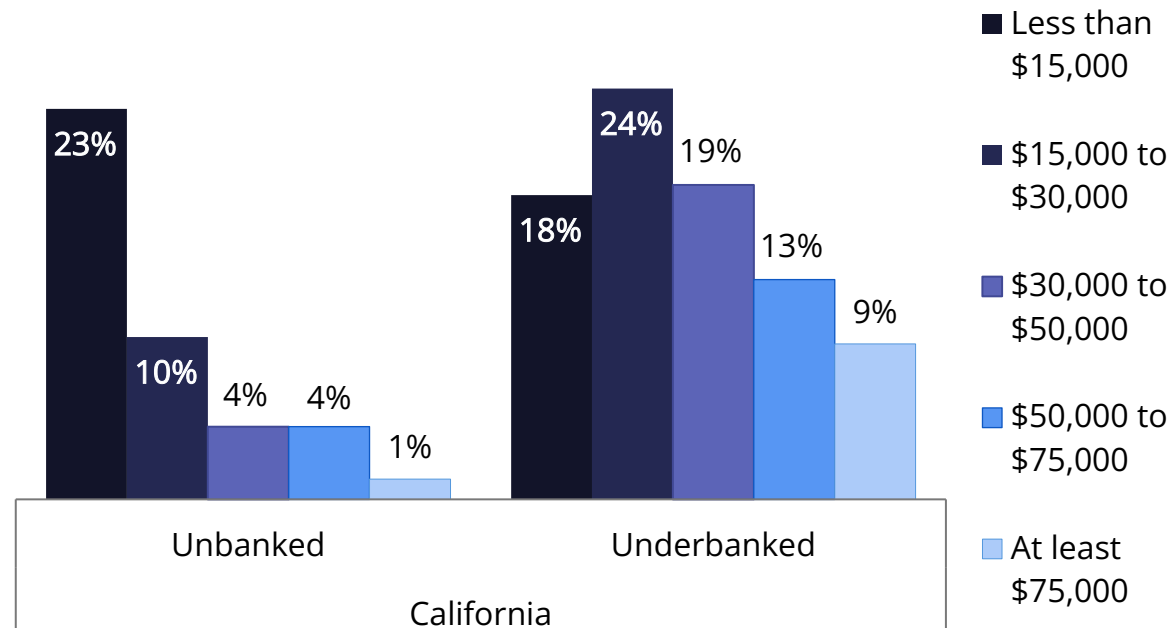
Deep inequalities persist in banking access, part of a broader lack of equity in economic opportunity and wealth building for Black, Latino/a, and low-income households.

BANKING ACCESS BY RACE/ETHNICITY (CA, 2021)

Source: FDIC



BANKING ACCESS BY INCOME (CA, 2021)



Executive Summary

CalAccount's fee free checking account will save residents on transaction and depository services, such as overdraft fees, account maintenance fees, ATM fees, money orders, and check cashing.

\$1,300

**HOUSEHOLD SAVINGS FROM
UNIVERSAL BANKING ACCESS**
(FOR UN/UNDERBANKED HOUSEHOLDS)

\$3.1B

**CUMULATIVE SAVINGS
FOR ALL CALIFORNIANS**

\$5B

**ECONOMIC ACTIVITY
GENERATED IN CALIFORNIA**

Executive Summary

With its existing partnerships and capacity to administer large financial programs, the State demonstrates relevant experience to successfully execute CalAccount, meeting three key factors of feasibility.

CALACCOUNT IS NEEDED TO IMPROVE BANKING ACCESS FOR CALIFORNIANS

CalAccount offers a solution for over 7 million underbanked and unbanked households who say they often cannot meet minimum balance requirements or find bank account fees too high or unpredictable.

CALACCOUNT ACHIEVES REASONABLE PROMISE OF SUCCESS

The State can build on its experience to give CalAccount a high likelihood of success. Existing programs with similar features demonstrate the State's capacity to deliver financial services, incorporate program improvements to manage risks, and establish a strong user base.

PARTNERS HAVE EXPERIENCE RELEVANT TO CALACCOUNT

The State already works with many financial firms that provide services like banking, card networks, payment processing, and digital access. The State could work with these companies to meet program requirements and deliver CalAccount in a robust and user-friendly way.

Assessing the Need for CalAccount

The Problem

Who are the unbanked and underbanked?

Since 2009, the Federal Deposit Insurance Corporation (FDIC) has surveyed American households biennially on their access to banking services. These surveys are the basis for estimating the number and characteristics of unbanked and underbanked households in California.

The FDIC did not report state-level underbanked statistics for its 2019 survey on household use of banking and financial services. For consistency, any longitudinal comparisons of unbanked and underbanked households presented in this study are between the 2021 and 2017 FDIC survey data unless otherwise noted.

UNBANKED

No one in a household had a checking or savings account at a bank or credit union.

UNDERBANKED

The household was banked AND used at least one nonbank transaction or credit product often used by unbanked households in the last 12 months (e.g., money orders, check cashing, rent-to-own, payday loans, or pawn shops).

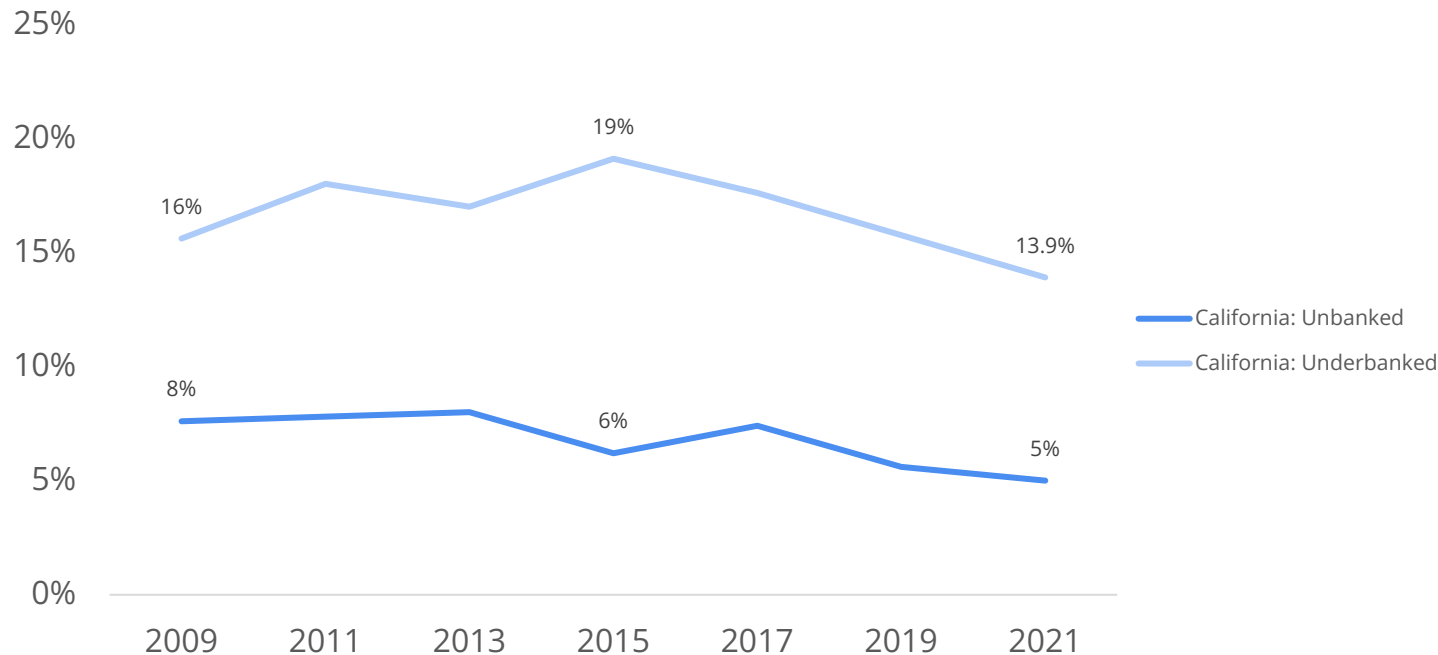
The Problem

One in five California households are unbanked or underbanked.

Banking access in California has not substantially improved since 2009, despite year over year fluctuations. The U.S. has seen similar trends.

PERCENT OF HOUSEHOLDS UNBANKED AND UNDERBANKED

Source: FDIC



19%

**OF CALIFORNIANS ARE
UNBANKED AND
UNDERBANKED**

2.0M

**UNBANKED
CALIFORNIANS**

5.5M

**UNDERBANKED
CALIFORNIANS**

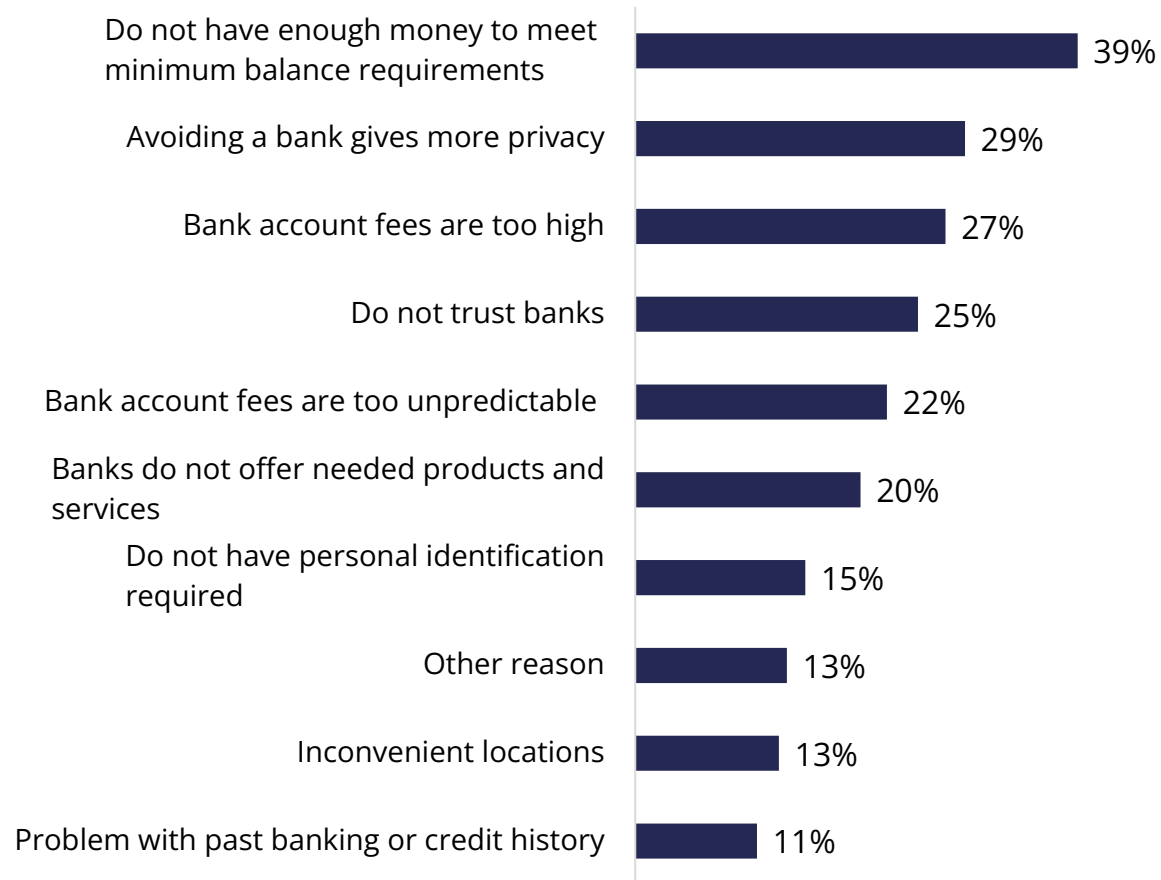
Reasons for being Underbanked or Unbanked

The most common reason households cited for being unbanked was a lack of sufficient resources to meet minimum balance requirements, indicating the steep financial cost of even basic banking transactions. Other common reasons include high or unpredictable fees.

Many of these barriers would be addressed by California's CalAccount proposal, which has no minimum balance, no fees, and does not require the same level of identification as traditional banks.

CITED REASONS UNBANKED

Source: FDIC



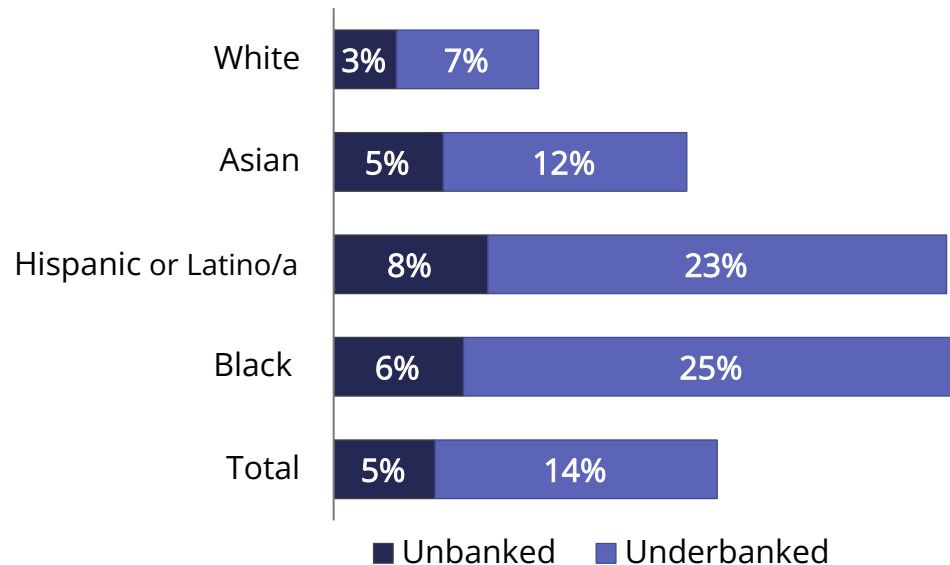
Inequality in Financial Access

Black households are 3.5 times more likely to be underbanked than white households.

Black and Latino/a households are also more likely to be unbanked. This lack of financial access is part of a broader lack of equity in economic opportunity and wealth building for Black and Latino/a households, which have the lowest median household incomes in the state.

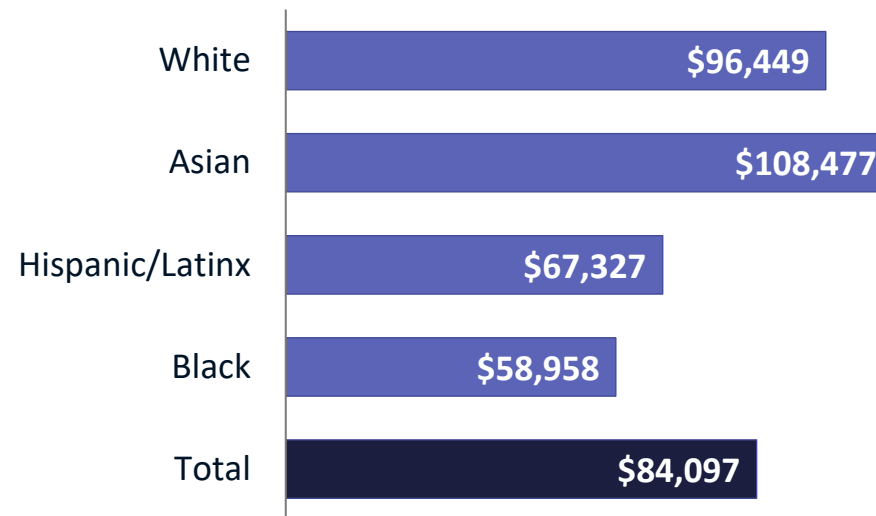
BANKING ACCESS BY RACE/ETHNICITY (CA, 2021)

Source: FDIC



MEDIAN HOUSEHOLD INCOME BY RACE/ETHNICITY (2021, CA)

Source: ACS 2021 5-Year Estimates



Inequality in Financial Access

Immigrants face significant challenges obtaining financial services.

41% of noncitizens in California are unbanked or underbanked, almost three times the rate of U.S.-born citizens. Noncitizens continue to have the lowest rates of access, and progress has been stagnant since 2017.

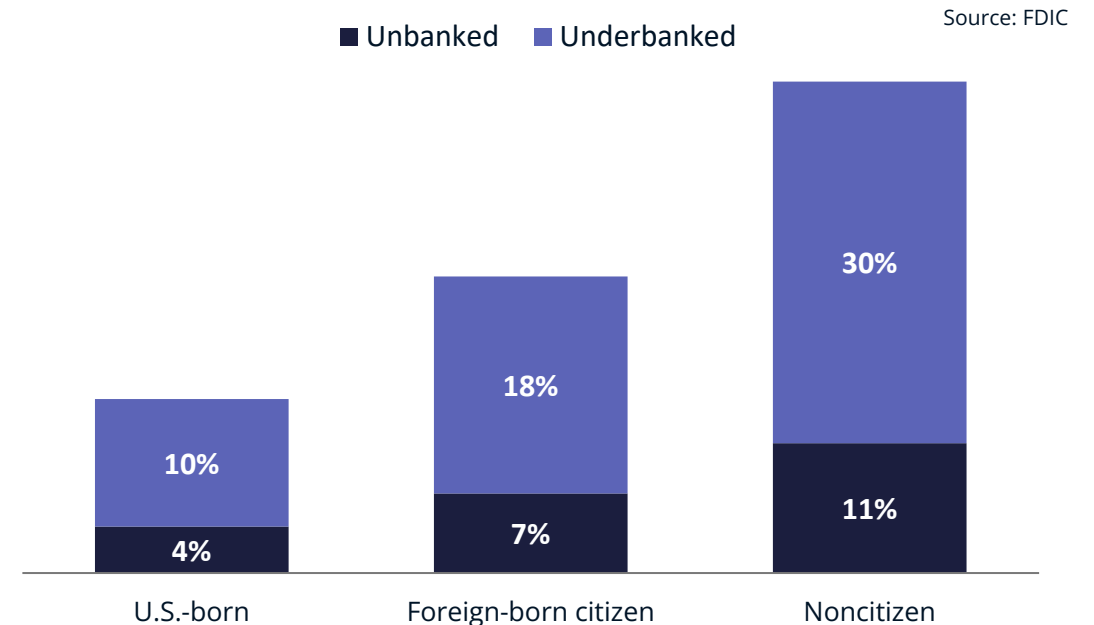
Noncitizens represent 12% of CA households but 26% of unbanked households, meaning they are significantly overrepresented as a share of the unbanked. The same is true of underbanked households.

Foreign-born citizens are also overrepresented, but less so: they represent 14% of California, and 18% of the un/underbanked.

Identification requirements and privacy concerns are two top reasons households cite for being unbanked.

Banks' sometimes arbitrary identification requirements, beyond those required by law, are often pressing concerns for noncitizens, potentially contributing to the lack of progress in increasing banking access for immigrant populations.

UNBANKED AND UNDERBANKED BY CITIZENSHIP STATUS



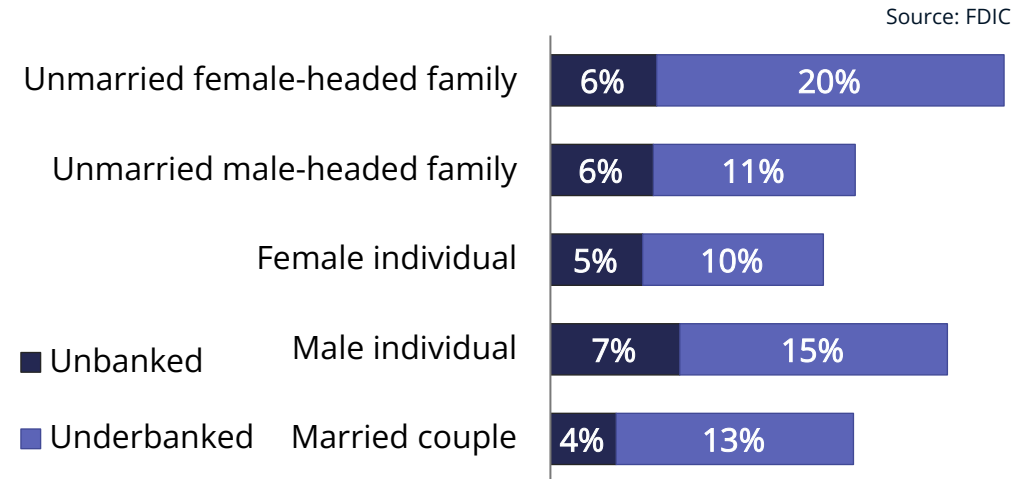
Single female-headed households are disproportionately represented among California's unbanked and underbanked.

Single female-headed households represent 18% of the un/underbanked while comprising 12% of total households. This group's un/underbanked rate (26%) is at least 4 percent points higher than any other family type.

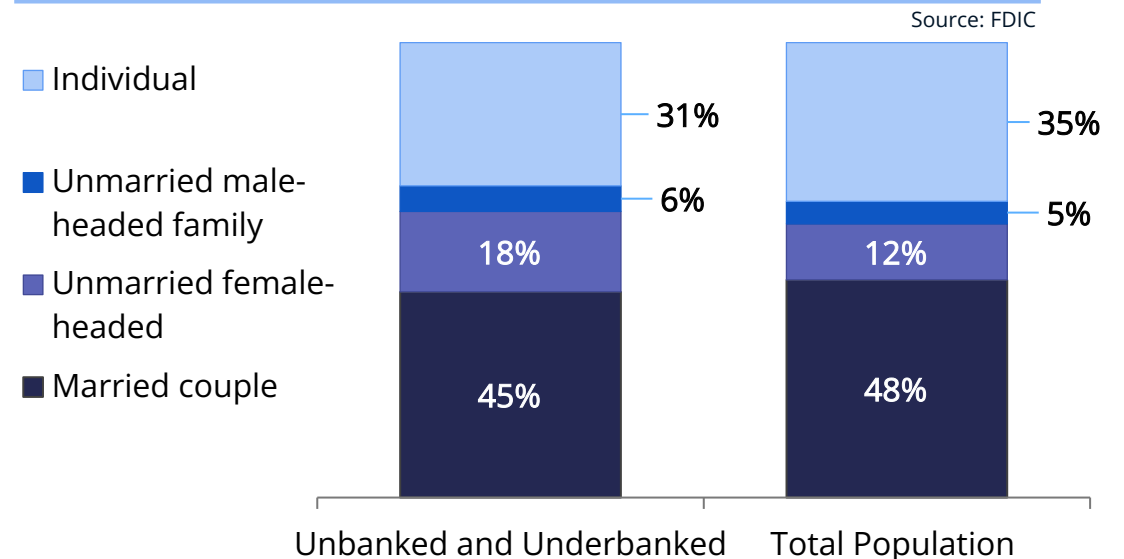
The next-highest rate is among male individuals with an un/underbanked rate of 22%. Male individuals represent 18% of the un/underbanked while comprising 15% of total households.

Female individuals, single male-headed households, and married couples all have significantly lower rates.

UN/UNDERBANKED BY FAMILY TYPE



SHARE OF UN/UNDERBANKED & POPULATION



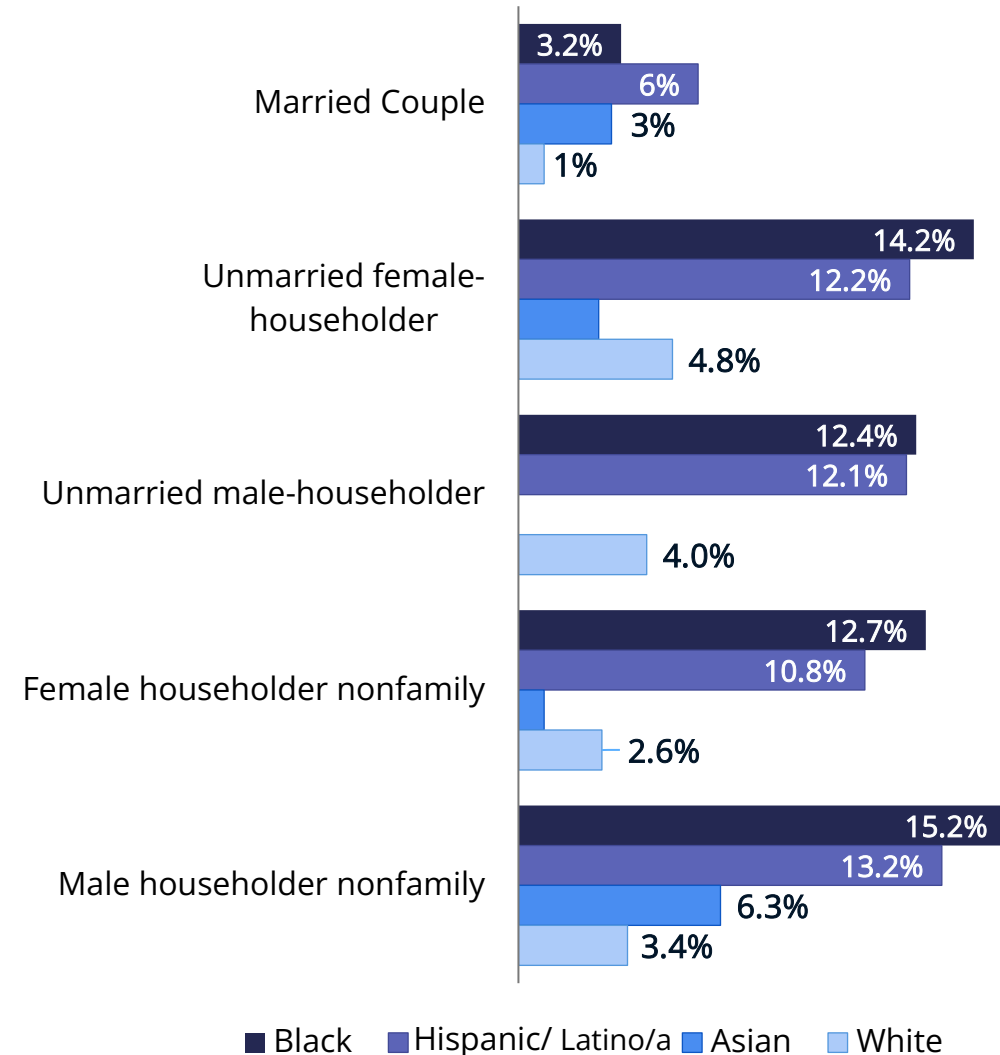
Financial Access – Race and Ethnicity

Race, not household type, remains the determining factor in access to banking.

Within each family type, deep racial and ethnic inequalities persist: Black and Latinx households of all types are unbanked at significantly higher rates than white or Asian households.

UNBANKED BY FAMILY TYPE & RACE/ETHNICITY (US)

Source: FDIC



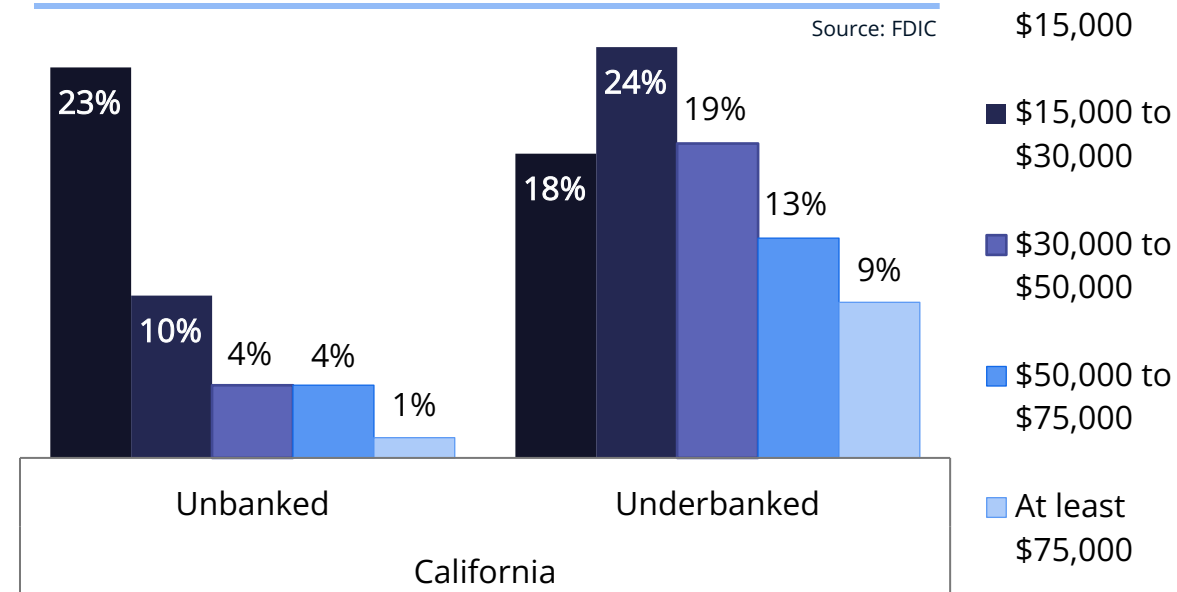
Financial Access – Income

Financial exclusion affects low-income households most.

Most of the unbanked population in California is composed of low-income households. Sixty-one percent of unbanked households make less than \$30,000 annually and 41 percent make less than \$15,000 annually.

Being underbanked affects a wide spectrum of Californians. Forty percent of underbanked households make more than \$75,000 per year. Yet even here, low-income households are overrepresented, with 29% of underbanked households making less than \$30,000 annually while comprising 18% of California's households.

INCOME LEVELS OF UN/UNDERBANKED



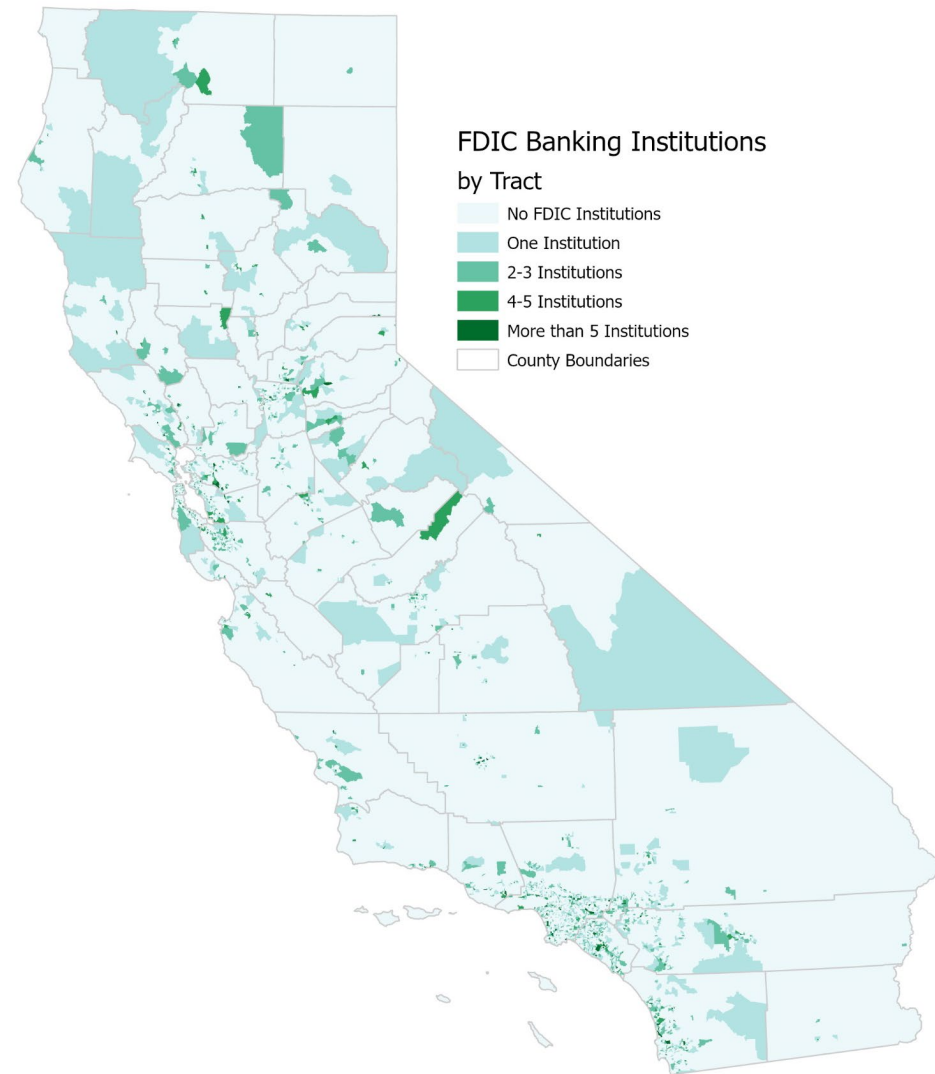
The income spread of underbanked households is wider for several reasons, including nuances to the definition of unbanked. Lower income households may have a bank account and use services like payday loans when money is tight. Similarly, households across the income spectrum may use International remittances, which are counted in the definition of underbanked. Similarly, rent-to-own services, which have expanded rapidly in recent years, are used by households across the income spectrum.

Banking deserts reflect barriers in rural and urban areas.

The geography of formal banking institutions reveals banking deserts in rural areas as well as within cities. **70 percent of census tracts in California do not have any physical banking outlets** and another 15 percent have only one banking outlet. Furthermore, cities have large contiguous areas with very few banking outlets.

From 2019-2023, the share of bank branches lost in low/moderate income areas was higher than middle/upper income areas, and banking deserts grew faster in majority-Black areas than the nation overall. New branches are also concentrated in middle/upper income, predominantly white communities.

BANKING DESERTS IN CA (2023)



Household Savings And Economic Impact

Interest and Fees

Households pay substantial interest and fees to access banking services. CalAccount would reduce these costs.

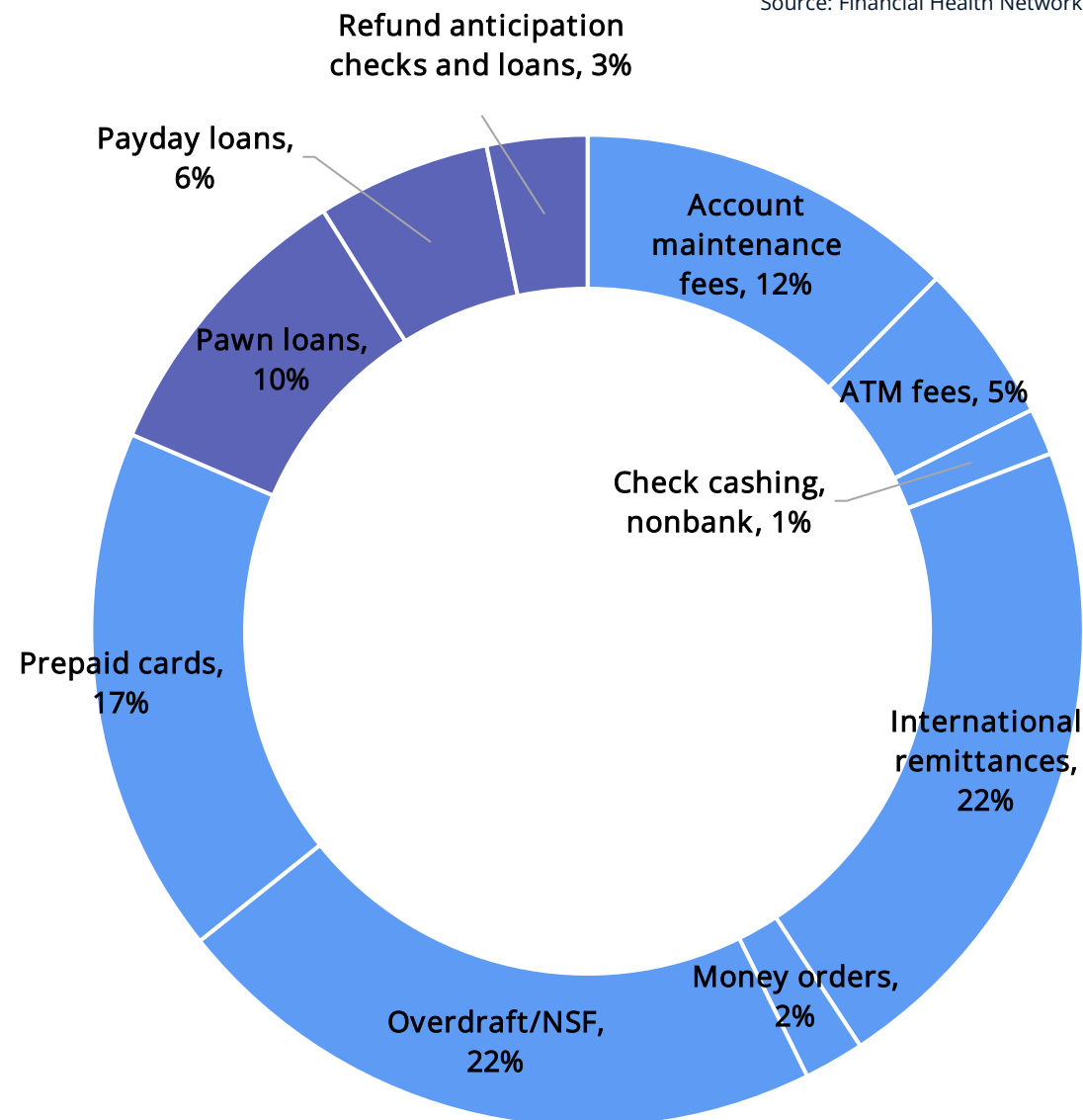
Interest and fees are typically divided into two categories: transaction and deposit services, and credit services. CalAccount will primarily affect **transaction and deposit service fees** such as account maintenance and overdraft/NSF fees.

CalAccount will likely reduce interest and fees accumulated through **pawn and payday loans**, which are categorized as credit services but are often used by low-income households when traditional bank services are inaccessible. Currently, payday lenders serve as “overdraft competitors” because they often offer cheaper short-term loans than the fees incurred from overdrafts.

As currently designed, CalAccount will not directly affect credit card fees or other credit services.

2022 INTEREST AND FEES AFFECTED BY CALACCOUNT (US)

Source: Financial Health Network



CalAccount could save Californians up to \$3.1 billion annually

Low-income households will benefit the most from CalAccount since they are more likely to incur punitive fees for overdrafts and are less likely to have enough cash in their bank account to avoid minimum balance charges. Low-income households are also more likely to use services like payday loans or other short-term, high-fee credit.

If all unbanked and underbanked California households had full banking access through CalAccount, Californians would save more than \$3 billion each year -- \$2.2 billion in deposit and transaction fees, and almost \$855 million in non-depository fees (credit services).

CUMULATIVE SAVINGS FOR CALIFORNIANS

UNBANKED SAVINGS	\$1,032
UNBANKED HOUSEHOLDS	613,751
UNDERBANKED SAVINGS	\$1,418
UNDERBANKED HOUSEHOLDS	1,733,963
TOTAL SAVINGS	\$3.1 Billion

Based on the Financial Health Network's analysis of fees paid and financial health, HR&A estimated potential per-household savings for unbanked, underbanked, and fully banked households that utilize CalAccount's fee-free services. The estimates take into consideration which households are most likely to incur each type of fee – for instance, unbanked households do not currently incur account maintenance fees, while fully banked households are less likely to incur check cashing fees. Savings rates for unbanked and underbanked households were then applied to the number of unbanked and underbanked households in California, generating an estimate of the total savings CalAccount could generate for Californians.

Interest and Fees

Some of the largest fee categories have declined in the last 5 years, but others have increased and continued progress is not guaranteed.

Banks often create new fee structures to avoid regulatory reform – for instance, when Congress imposed limits on debit card swipe fees, banks offset the losses by increasing monthly maintenance fees. Similarly, in January 2024 when the CFPB proposed a rule to rein in excessive overdraft fees, the banking industry pushed back on the rule and sued to block similar rules. A lawsuit is currently underway to block a new CFPB rule limiting late fees on credit cards.

This shows the importance a program like CalAccount can play in setting new norms on the right to financial access. In addition to policy levers, **governments can change market behavior by acting as a first-mover.**

OVERDRAFT FEES

Overdraft and non-sufficient funds fees have declined significantly in the past 5 years, decreasing from \$25.4 billion in 2018 to \$10 billion in 2022 due to changes in banking policies and practices.

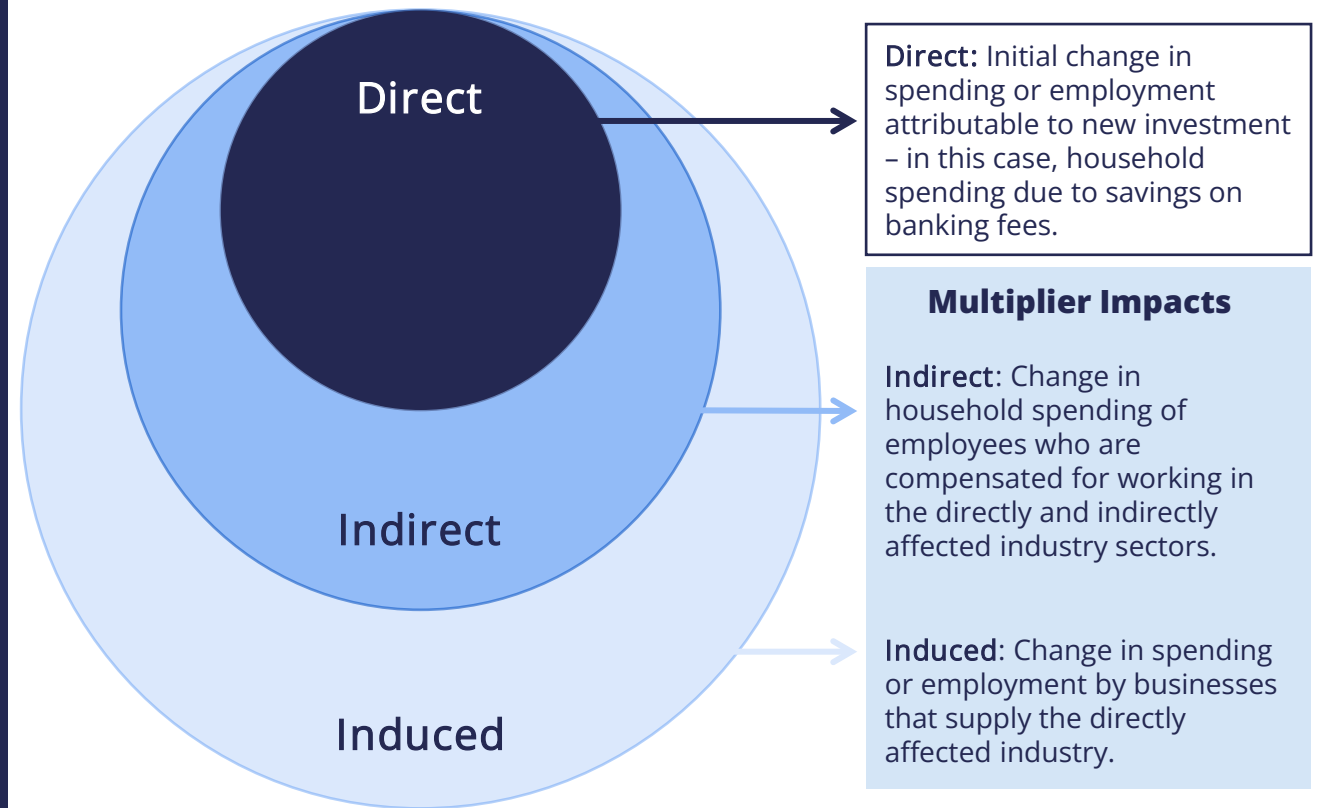
One major reason for this change in overdraft policy is pressure from the federal government. In 2021 the CFPB started focusing on big bank's overdraft policies and procedures and the Senate and House both passed separate bills to provide Americans with overdraft protection. Increased competition also plays a role. Many neo-banks which are largely only digital (e.g., Chime) are offering generous overdraft policies, setting a norm to allow low overdrafts (e.g., \$100-200) without incurring a fee.



\$3.1 billion in household savings will generate almost \$5 billion for California's economy.

The \$3.1 billion saved on interest and fees will flow through the economy as households spend a portion of these savings in other categories: for instance, households may spend more on groceries, recreational activities, or healthcare. As this money flows through the economy, its economic impact will be greater than the \$3.1 billion in savings, due to multiplier effects – changes in spending or employment by businesses in directly and indirectly related industries.

To quantify the impact of these changed spending patterns, HR&A completed an economic impact analysis on the household savings due to expanded banking access.



These estimates **do not consider the economic losses resulting from payday lending** and other non-depository financial institution operations due to universal banking access. Research indicates that these financial products have a net negative impact on the economy. One study found that for every dollar of interest spent on a payday loan, \$0.24 is lost to the economy. Therefore, universal banking access **would likely have an even larger impact** on the California economy.

These estimates also **do not include the full impact of bringing new customers into the formal banking system** (such as immigrants without US identity documents), which would further increase economic activity and government revenues (see pg. 26).

Economic Impact

CalAccount will generate almost \$5 billion for California’s economy annually.

The total effect of \$5 billion on the CA economy includes \$2.7 billion from direct household spending and \$2.3 billion through indirect and induced effects of that spending.

ONGOING GROSS ECONOMIC IMPACTS FROM CALACCOUNT

IMPACT CATEGORY ¹	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT
Employment <i>(jobs created)</i>	13,876	4,495	5,511	23,883
Employee Compensation <i>(wages, benefits, other comp.)</i>	\$790 M	\$330 M	\$340 M	\$1.46 B
Total Economic Output <i>(total economic activity generated)</i>	\$2.7 B	\$1.16 B	\$1.17 B	\$4.9 B

¹ Employee Compensation and Total Economic Output values are stated in 2024 dollars.

Economic Impact

These estimates are likely conservative, and the full impact may be much greater.

RELIEF FROM PAYDAY LENDING'S NEGATIVE EFFECTS

This impact analysis does not net out the negative effect of payday lending. One study found that for every dollar of interest spent on a payday loan, \$0.24 is lost to the economy.

Including this loss would increase the net positive impact of universal banking access, but economic modeling software cannot accurately capture this nuance.

FORMALIZATION OF IMMIGRANT SPENDING

CalAccount would allow noncitizens to use identification documents from their countries of origin to open accounts. Bringing immigrants without work authorization into the banking system could generate significant economic activity and tax revenue for California.

If these immigrants entered the banking system at the same rate as U.S. born citizens, it could generate between \$2,650 and \$7,000 per person in total economic output, and \$100-\$260 per person in State and local tax revenue. This could result in an additional \$5-13 billion in economic activity in CA, and \$185-\$485 million in State and local taxes.

Economic Impact

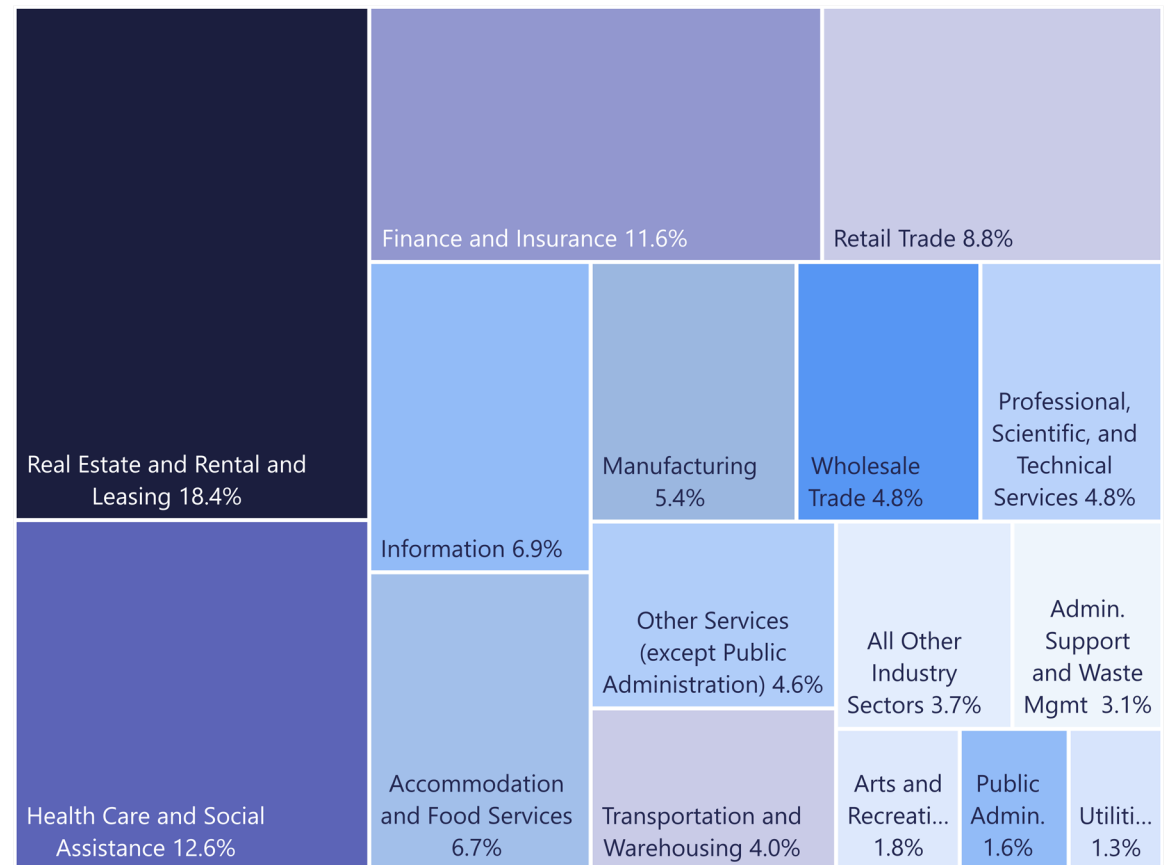
The economic impact of CalAccount will affect a wide range of industries. Much of household spending happens locally, so the impact will benefit local businesses and economies.

Spending on basic needs like housing, health, and everyday goods account for a large portion of the impact: industries like real estate, health care, retail, and accommodations and food services make up more than 50% of expected household spending.

Many of the jobs increased spending would support are in service industries with low pay, such as food service and retail. Nevertheless, about 25% of the new jobs would offer annual wages above the California living wage for an average household (2 working adults, 1 child) of \$26.61 per hour or \$54,517 annually.

ECONOMIC OUTPUT BY INDUSTRY

Source: IMPLAN, HR&A Analysis



Potential State Savings

Future research should investigate potential savings CalAccount could enable.

There are opportunities to leverage CalAccount's infrastructure and network to streamline state benefit programs currently contracted to private financial firms.

DIRECT SAVINGS

Direct savings could emerge from streamlining the operations of benefits programs, incorporating such programs into the CalAccount system, particularly through the disbursement of funds/benefits.

INDIRECT SAVINGS

Indirect savings could result from universal access to a banking account, with household savings reducing demand for other state social services and benefit programs.



Potential State Savings

There are several opportunities to leverage CalAccount's structure and streamline existing state programs.

Programs like CalFresh, CalWORKs, and other cash benefit programs rely on private financial services firms for distribution. For the programs inventoried, **California currently has at least \$1.5 billion in active contracts with companies that are responsible for providing financial transaction services and card issuance and management services.**

Many benefit programs offer unrestricted cash assistance and could be consolidated into CalAccount, like Unemployment Insurance and aid for foster families. Programs with strict spending restrictions may not be able to be fully integrated with CalAccount (e.g., CalFresh can only be spent at certain stores on certain items).

There would also be time savings, leading to faster benefit disbursement. If benefits recipients are already connected to CalAccount, the state would not need to conduct time-intensive identification verification and could instead immediately begin disbursing benefits.

Lastly, by having one integrated system, **the state would save time and money on standing up new benefit disbursement systems for each new program or fund** – for instance, COVID-19 relief could have flowed directly through CalAccount rather than requiring costly new contracts.

CalAccount's Feasibility

CalAccount is Feasible

With its existing partnerships and capacity to administer large financial programs, the State demonstrates relevant experience to successfully execute CalAccount, meeting three key factors of feasibility.

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The State already works with many financial firms that provide services like banking, card networks, payment processing, and digital access. The State could work with these companies to meet program requirements and deliver CalAccount in a robust and user-friendly way.

Benefits of CalAccount

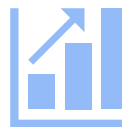
CalAccount would protect the underbanked and unbanked from predatory, discriminatory, and costly alternatives, offering Californians access to a voluntary, zero-fee, zero-penalty, federally insured retail banking transaction account.



Limit the harmful cycle of costs and penalties for unbanked households.



Reduce risk of poverty and homelessness.



Increase financial inclusion and security and reduce the societal and economic impact of financial exclusion.

CalAccount Required Features

The California State Treasurer’s Office identified the following features for CalAccount to meet the program’s goal:

NO FEE TRANSACTION ACCOUNT

A zero-fee and zero-penalty transaction account with no account minimum amount to enroll.

DIVERSE ACCESS MECHANISMS

Diverse ways to access funds and deposit funds through ATM networks, online banking, and potentially other methods.

ACCOUNT MANAGEMENT TOOLS

Tools to help accountholders manage their finances online and automate payments, such as direct deposit.

DESIGNED FOR LOW INCOME

Tailored to meet the needs of low- or fluctuating-income individuals, including those without permanent housing or a state government-issued ID.

SAFE AND SECURE BANKING

CalAccount should ensure safe and secure banking infrastructure aligned with industry standards, especially for debit card security.

Main Factors of Feasibility

For CalAccount to be implemented, the State and its partners should have reasonable experience, ability to successfully execute a business plan, and manage risks (e.g., fraud, identity theft) at a reasonable cost to the state.



Our analysis of banking access demonstrates that **there is a need for CalAccount** and that it can **improve banking access and economic outcomes** for Californians and the State.



The program **achieves a reasonable promise of success**, including with its potential risk management capacity.



Program partners have **reasonable experience** and ability to ensure successful operations.

Relevant Experience

The State of California has experience in deploying and operating financial services programs for millions of people and delivering them in partnership with private firms that it selects based on the right expertise, track record, and mission alignment.



EXISTING PROGRAMS

California has several **existing programs** that **demonstrate the State's capacity** to deliver financial services with features similar to those of CalAccount.

ROBUST MARKET FOR PARTNERSHIP

The State will need private vendors to deliver CalAccount, and there is a **robust market of financial services providers** in banking, card networks, payment processing, and digital access with whom the State could partner.

SCALABLE USER-BASE

Existing State programs also provide a **user base through which the State could rapidly scale CalAccount**. By rolling out the program and voluntarily enrolling participants in other State services, CalAccount can achieve critical mass and impact more rapidly.

Five Main Features of CalAccount

CalAccount will be structured to provide main five features.

The main component will be a zero-fee transaction account, with additional features to facilitate access, money management, and security for users.

CalAccount's features are aligned with the needs of unbanked people.

In a 2019 survey, unbanked people reported that the most compelling benefits of having a bank account were: fraud protection, no minimum account balance fees, no overdraft fees, and account security through the ability to lock a lost or stolen debit card online or through an app.

1 **ZERO-FEE AND ZERO-PENALTY ACCOUNT**

CalAccount should feature a transaction account that does not charge any fees, penalties, or require a minimum balance to open an account.

2 **DIVERSE ACCESS MECHANISMS**

CalAccount should have geographically diverse and convenient ways for accountholders to access funds across the state, whether urban or rural, to access their funds through ATM networks, online banking, and potentially other methods.

3 **ACCOUNT MANAGEMENT TOOLS**

CalAccount should provide tools to help accountholders manage their finances online and automate payments such as direct deposits, preauthorized electronic fund transfers to registered payees, and automatic disbursement rules.

4 **DESIGNED FOR LOW- OR FLUCTUATING-INCOME**

CalAccount should be tailored to meet the needs of people with low or variable incomes, ensuring financial inclusion and support. Additionally, CalAccount should facilitate accounts for individuals without stable housing and who may not have a federal- or state-government issued photo ID.

5 **SAFE & SECURE BANKING**

CalAccount's infrastructure must meet industry standards for antifraud and security measures. For example, debit cards especially must use cybersecurity and antifraud technology consistent with industry standards.

Existing Program Infrastructure

California has existing programs that show the State’s capacity to implement CalAccount.

The State operates a range of benefits programs with more than 9.5 million enrollees. Existing programs have similar features to CalAccount, and users can manage multiple accounts on an integrated platform.

The State has expertise managing financial service programs with private partners.

Each existing program requires vendor selection and management, demonstrating experience and lessons learned that the State could use to inform CalAccount.

Existing Program	Enrolled	Partners	Zero-Fee Account	Designed for Low Incomes	Account Tools	Safe (fraud protection)	Robust Access
Unemployment Assistance (EDD) Debit Card	850K	Money Network	✓	✓	✓	✓	✓
CalSavers	425K	Ascensus Financial Services	✓		✓	✓	N/A
CalKids	3.7M	ScholarShare Investment Board, TIAA-CREF Tuition Financing, Inc.	✓	✓	✓	✓	N/A
CalFresh and California Food Assistance Program (CFAP)	4.5M	California Office of Technology and Solutions Integration (OTSI), Fidelity Payment Services	✓	✓	✓	✓	✓

California now administers a [Benefits Portal](#) where users can access and manage multiple benefits account at once. Most programs provide fraud detection and safety measures through their partners such as [ScholarShare](#), [Money Network](#), [Ascensus](#), and [Fidelity Payment Services](#).

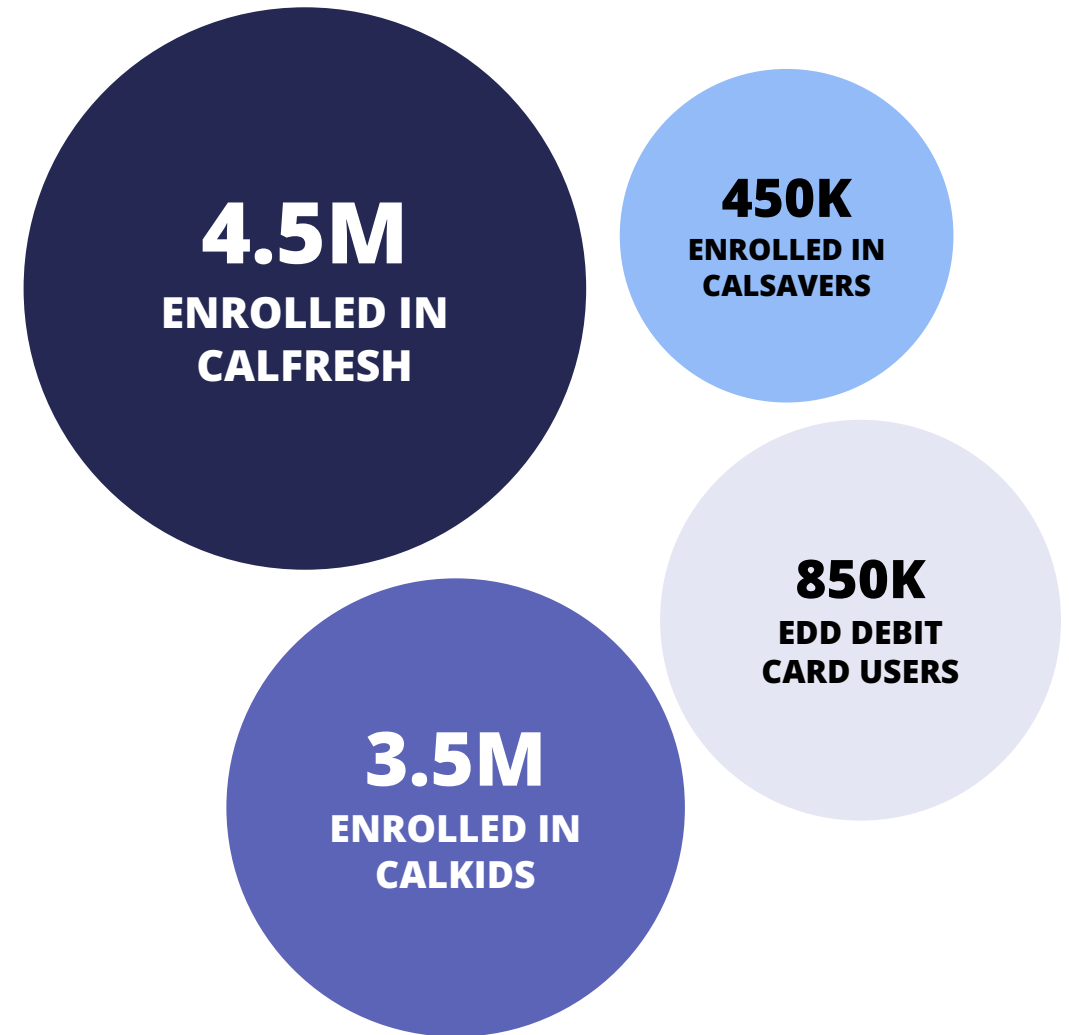
Existing Enrollment

By rolling out the program and enrolling participants in other State services, CalAccount can achieve critical mass and impact more rapidly.

California has the nation's largest public benefit system with more than 9.5 million current participants across just four programs, and more in other programs. Though some people access multiple programs, this represents a potential user base in the millions.

Existing benefits programs can be channels for the State to reach Californians who would especially benefit from the program such as populations more likely to be unbanked or underbanked.

Existing users will help the program reach scale and achieve impact quickly, maximizing its benefits to California and all its residents. With millions of benefits users already and an existing integrated benefits portal, CalAccount can benefit from this initial user base.



Existing Improvement Plans

CalAccount will benefit from investments in improving California benefits services, such as EDD's customer service and fraud protection improvements.

The State is improving fraud protection by deploying new technology and selecting vendors that specialize in identity verification, offering a risk management blueprint which CalAccount can incorporate into its infrastructure to ensure account, identity, and transaction security.

PROGRAM IMPROVEMENTS

EDDNext is a \$1.2 billion EDD project to improve service delivery, online account management, call center operations, identity verification, and introduce direct deposit by partnering with Salesforce and Amazon.

INNOVATIVE FRAUD MITIGATION

EDD will integrate solutions for fraud mitigation with existing benefit applications. The solution will support thousands of identity proofing requests per month and will scale based on demand.

ALIGNMENT WITH CALACCOUNT

The State can align CalAccount's identity verification process with EDD's solution for fraud mitigation, which can be easily integrated with common platforms.

Market of Financial Services

The State can select multiple partners to establish CalAccount. By working with multiple partners, the State can integrate all required features and services from leading providers.



FDIC LICENSED BANKS

FDIC Licensed Banks will issue and manage the main transaction accounts for CalAccount users. They typically already partner with firms that provide card networks and payment processors.



NEOBANKS

Neobanks can provide the digital components of CalAccount, such as apps and websites.



CARD NETWORKS

Card networks can provide the card infrastructure and technology to process payments with cards and works with issuing banks.

Banking Partnerships

There is a robust market of potential partners in financial services providers in banking, card networks, payment processing, and digital access.

CalAccount can identify the right partners based on expertise, track record, and mission alignment, selecting one or more capable partners to deliver the program successfully. Potential partners could include:

- **Larger financial institutions** that bring established banking services and card and payment networks.
- Newer entrants like **neobanks**, which lead the market in providing zero-fee and zero-penalty digital accounts.
- **Credit unions**, which offer programs tailored to specific populations.
- **Other providers** that specialize in services like transactions or international transfers.

CalAccount can choose a combination of providers to tailor the right set of services for the Californians it would serve.



Alignment with CalAccount

Firm	Users	Partners	Zero-Fee Account	Designed for Low Incomes	Account Tools	Safe (fraud protection)	Robust Access	Public Sector Experience
Alliant Credit Union	800K	Visa (partner card network)	✓		✓	✓	✓	
Bancorp	N/A	U.S. Bank National Association, Chime				✓	✓	✓
Money Network	65M	MetaBank, Visa (partner card network)			✓	✓	✓	✓ <i>EDD Partner</i>
Lower East Side People's Credit Union	90K+	Mastercard (partner card network), CitiBike, CardNav by CO-OP (anti-fraud)	✓	✓	✓	✓		✓ <i>Immigrant Services</i>
Current	4M	Choice Financial Group, Cross River Bank, Visa (partner card network)	✓	✓	✓	✓		
MoCaFi	95K	Sunrise Banks N.A., BNYS Mellon, Mastercard (partner card network)	✓	✓	✓	✓	✓	✓
Chime	14M	The Bancorp,Stride Bank,Visa (partner card network)	✓	✓	✓	✓		
Varo Bank	7M	Visa (partner card network)	✓	✓	✓	✓		
SoFi	5.6M	MetaBank, Wells Fargo, Mastercard (partner card network), and others	✓	✓	✓	✓		✓

This is a subset of firms shown to offer an idea of the landscape, but it is not an exhaustive list or recommendation. We based the list on size and other characteristics important to CalAccount. Lower East Side Credit Union provides services designed to increase financial inclusion and serve unbanked or underbanked populations, particularly for immigrants.

No-Fee Products

Underbanked and unbanked Californians need CalAccount because despite no-fee accounts from neobanks, there have been issues with account closures, low adoption, and a lack of physical locations for transactions.



ACCOUNT CLOSURES

Fintech customers often experience unexplained account closures and blocked accounts according to a 2022 survey.

LOW FINTECH ADOPTION RATES

Low-income Black and brown communities have the lowest fintech adoption rates, suggesting a form of digital redlining.

LACK OF PHYSICAL LOCATIONS

While neobanks accept checks, cashing them in person is a challenge as they lack physical access locations.

CalAccount is Feasible

Based on the State's experience and potential partners, it is feasible for it to implement CalAccount and improve the lives of unbanked and underbanked Californians.



CalAccount offers a solution for more than 7 million underbanked and unbanked Californians.



Existing programs show the State's capacity to deliver financial services and provide a user base through which the State could scale CalAccount.



There are financial services providers with whom the State could partner to meet program requirements and deliver CalAccount in a robust and user-friendly way.

Further Research

Further Research

Further studies should evaluate:



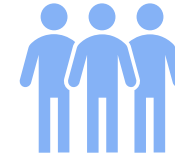
STATE SAVINGS

Potential savings enabled by leveraging CalAccount's infrastructure to streamline state benefit programs currently contracted to private financial firms.



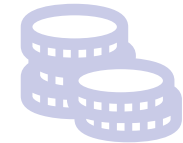
INTEGRATIONS

Whether existing innovations and improvements from programs and agencies can integrate with CalAccount.



IMPLEMENTATION

How CalAccount can reach the hardest-to-serve populations, including rural residents and immigrants without work authorization.



PREDATORY LENDING

The economic losses caused by payday lending and other predatory services, and the full net benefits realized from eliminating the need for these services.

Appendix

Existing Alignment with CalAccount

The EDD card transfers financial benefits to users directly on a debit card.

Enrollees must be fully or partially unemployed (includes layoffs, furloughs, reduced wages, or reduced hours) and have citizenship or U.S. work authorization.

EDD partners with Money Network to provide critical program services.

The Employment Development Department (EDD) recently switched from partnering with Bank of America to a partnership with Money Network that will provide prepaid debit card services, multilingual customer support, and direct deposit features.

Sources: https://edd.ca.gov/en/about_edd/faqs_the_edd_debit_card/;
<https://calmatters.org/newsletter/california-edd-unemployment-contractor/>;
<https://unemployment.edd.ca.gov/guide/benefits>

1 ZERO-FEE AND ZERO-PENALTY ACCOUNT

- No monthly fees and no fees to withdraw cash at ATMs, pay bills, or make purchases
- EDD debit cards do not incur penalties.

2 DIVERSE ACCESS MECHANISMS

- Free withdrawals at in-network ATMs.
- Point of sale transactions (wherever debit cards are accepted), digital wallet integration, and tap-to-pay.
- Online and mobile account access for management, transfers, and checking balance.

3 ACCOUNT MANAGEMENT TOOLS

- EDD provides a mobile banking app for users and online account access with ways to transfer funds and manage EDD money

4 DESIGNED FOR LOW- OR FLUCTUATING-INCOME

- By design, EDD serves those with fluctuating incomes
- Connects users to other social services they may need (e.g., Medi-Cal, CalWorks)
- Additional multilingual support for people who are limited English proficient (LEP).

5 SAFE & SECURE BANKING

- Fraud protection from a Zero Liability Policy
- Consumer protection with card chip, protecting against fraud and skimming attacks
- Automated alerts which provide text message notifications for deposits, low balances, or unusual activity

Economic Modeling Methodology

The \$3.1 billion saved on interest and fees will flow through the economy as households spend a portion of these savings. Total economic impacts are estimated to be greater than initial savings through multiplier effects.

To measure this economic impact, HR&A completed an economic impact analysis on the household savings due to expanded banking access to all California households.

- Since household savings mean lower expenditures on transaction and deposit services and alternative financial institutions, we reconstructed household spending patterns for each economic bracket.
- We then translated these new spending patterns into total spending by commodity for all affected households.
- In this case, direct effects refer to household spending due to savings. This direct spending is lower than the \$3.1 billion due to spending outside of California (i.e., leakage) and the fact that some savings might stay as savings, particularly for higher-income brackets.

- Indirect effects refer to spending or employment by businesses that supply the directly affected industry (e.g., retail wholesalers).
- Induced effects refer to the change in household spending of employees who are compensated for working in the directly and indirectly affected industry sectors (e.g., food and beverage spending by new service workers).

HR&A modeled both the effects of savings from in deposit and transaction fees and credit service separately and then added employment, employee compensation, and total economic output results to calculate the aggregate impact of household savings from CalAccount.

HR&A did not net out the potential economic losses from payday lending and other non-depository services, because IMPLAN's industry sectors are too broad to accurately portray this detail. However, research indicates that these financial products have a net negative impact on the economy, which would mean the overall positive economic impact of CalAccount would be even higher.

Methodology

Household Savings Methodology

Based on the Financial Health Network’s analysis of fees paid, HR&A estimated potential per-household savings for unbanked, underbanked, and fully banked households that utilize CalAccount’s fee-free services. The estimates take into consideration which households are most likely to incur each type of fee – for instance, unbanked households do not currently incur account maintenance fees, while fully banked households are less likely to incur check cashing fees.

Savings rates for unbanked and underbanked households were then applied to the number of unbanked and underbanked households in California, generating an estimate of the total savings CalAccount could generate for Californians.

FEES INCLUDED IN HOUSEHOLD SAVINGS

Fee Category	Unbanked Households	Underbanked Households
Account maintenance fees		✓
ATM fees		✓
Check cashing, nonbank	✓	✓
International remittances	✓	✓
Money orders	✓	✓
Overdraft/NSF		✓
Prepaid cards	✓	✓
Pawn loans	✓	✓
Payday loans		✓
Refund anticipation checks/loans		✓

	Per-HH Savings	Households in CA	Total Savings
Unbanked	\$1,032	613,7510	\$633 Million
Underbanked	\$1,418	1,733,963	\$2.5 Billion

= **\$3.1 Billion in total household savings**