



The Benefits of Uniform Checking Account Disclosures

Testing consumer understanding

Overview

Bank accounts are an essential financial product, used by 9 in 10 American households, and need to be safe and transparent.¹ Account agreements and fee schedules provide customers with account costs, terms, and conditions. Among the largest U.S. banks, however, the median length of checking account disclosure documents is 40 pages, and the information is presented in varied formats with inconsistent wording, making it difficult for consumers to easily find the information they need to comparison shop, avoid overdraft and other fees, and manage their money.²

To increase the transparency of checking accounts, The Pew Charitable Trusts developed a model summary disclosure box, similar to a nutrition label for food, that provides clear and concise information about fees, terms, and conditions.³ The 12 largest banks, which together hold more than half of U.S. deposit volume, and the three largest credit unions have adopted a similar summary box that meets Pew's criteria for effective disclosure, but the required information is not consistently formatted. Unlike nutrition labels mandated by the Food and Drug Administration, however, the adopted boxes are not easy to compare because no rules require clear, concise, and uniform disclosures for checking accounts. As a result, consumers may still struggle to compare accounts and determine which would best meet their needs.

This brief summarizes the results of a Pew-commissioned experiment that tested the effect of uniform versus dissimilar disclosure formats on participants' ability to compare accounts. Half of the nationally representative sample of adults viewed summary boxes that were uniformly formatted and worded, and the other half received disclosure forms with differing layouts and language.

The experiment found that uniform disclosures:

- Made it easier for participants to compare account terms and conditions.
- Increased participants' confidence in their understanding of practices and fees.
- Decreased the time users needed to identify account information.
- Increased participants' understanding of account fees and practices.⁴

These findings demonstrate the benefit of uniform disclosure for consumers and align with previous Pew research showing that 78 percent of checking account holders say that requiring banks to provide a one-page summary of key information about their accounts' terms, conditions, and fees would be an improvement.⁵ Accordingly, Pew urges the Consumer Financial Protection Bureau to mandate clear, concise, and uniform disclosures for checking accounts—as it has proposed for general purpose reloadable prepaid cards.⁶

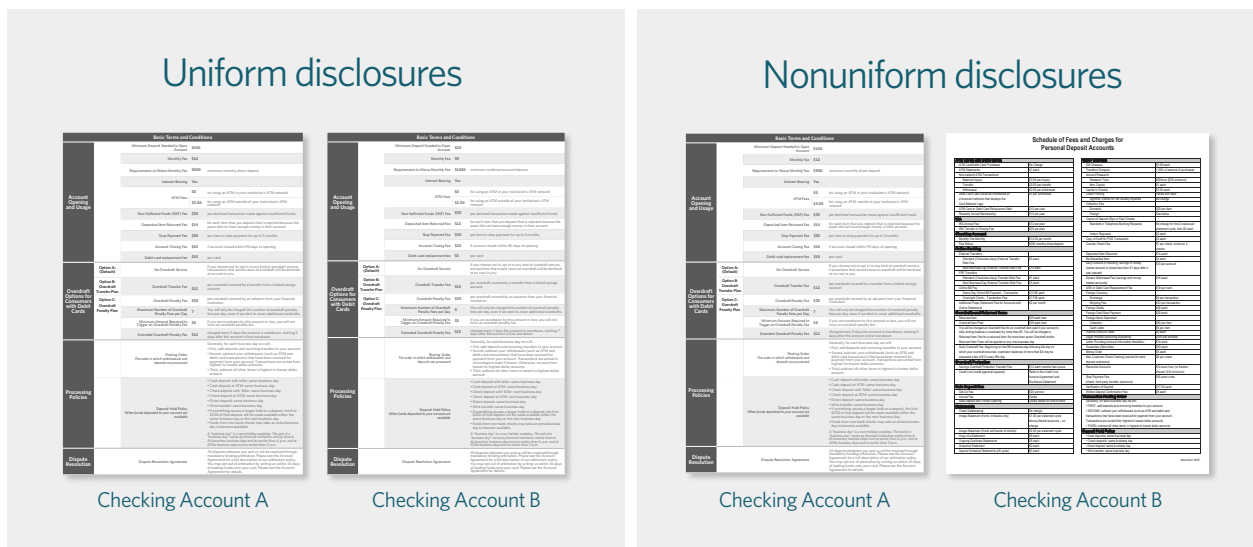
Data and Methods

The experiment was conducted online from Oct. 31, 2014, to Jan. 2, 2015, using two nationally representative, probability-based online panels: Rand Corp.'s American Life Panel and the University of Southern California's Understanding America Study. An online panel is a group of people who have volunteered to participate in online surveys or other research. For this study, participants with Internet access used their own computers, and those without were provided with Internet access and, if needed, a laptop.

To test the effect of uniformity in disclosure formats on participants' ability to compare accounts, a sample of 1,821 adults 18 and older was presented with disclosure documents for two hypothetical checking accounts. As shown in Figure 1, half of the sample viewed two summary boxes with uniformly formatted and worded terms and fees, and the other half received forms with differing designs. Participants responded to questions by comparing the account fees, terms, and conditions and then rating the ease of comparison and their confidence in their understanding.

Full details of the survey data, methodology, and disclosure forms are available at <http://pew.org/1S4psxU>.

Figure 1
The 2 Types of Disclosures Tested



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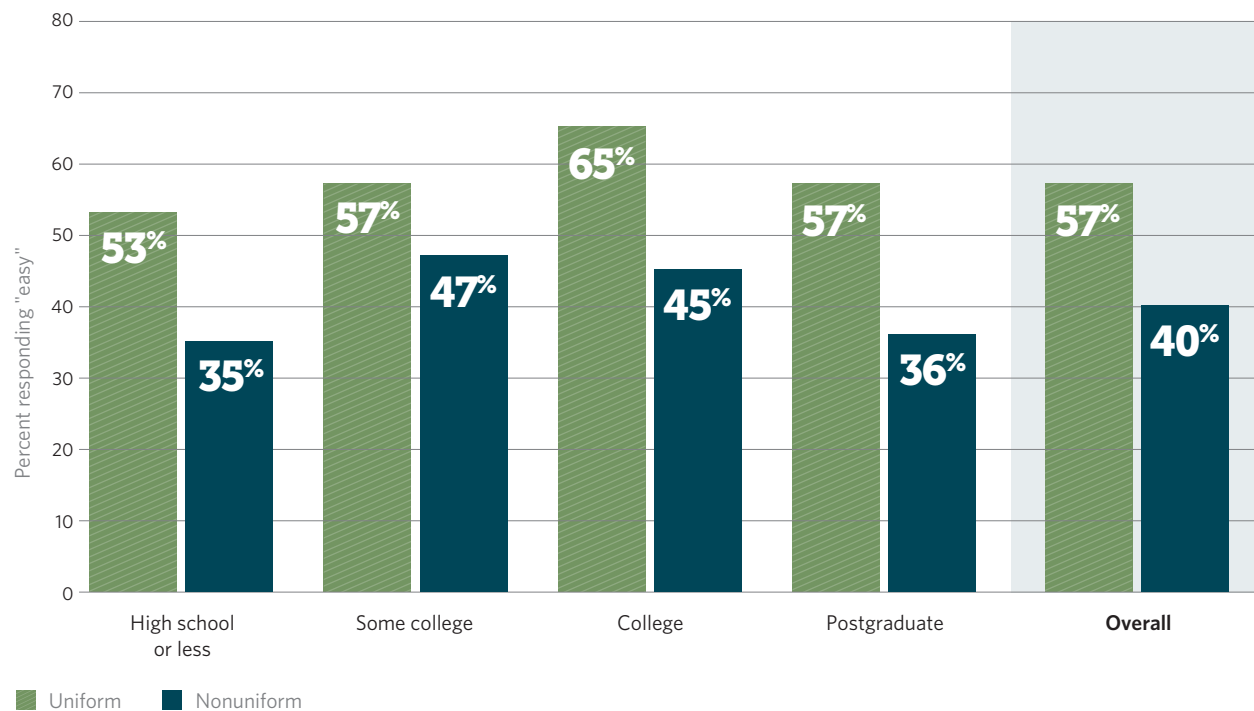
Uniform disclosure increased ease of comparing account information

Presenting information on fees, terms, and conditions for checking accounts in a consistent fashion increased participants' ability to easily evaluate the accounts. Fifty-seven percent of participants who viewed the uniform disclosures indicated that comparing accounts was somewhat or very easy versus 40 percent of those who viewed differing disclosures. This preference for uniformity was consistent across levels of educational attainment. (See Figure 2.)

Figure 2

Uniform Disclosure Format Makes Comparing Accounts Easier

Percent responding 'somewhat easy' or 'very easy,' by educational level and disclosure type



Note: Results are based on answers from 1,714 respondents who were asked, "How easy or difficult did you find comparing the terms and fees of these checking accounts?" This graph depicts the proportion of respondents who answered "somewhat easy" or "very easy."

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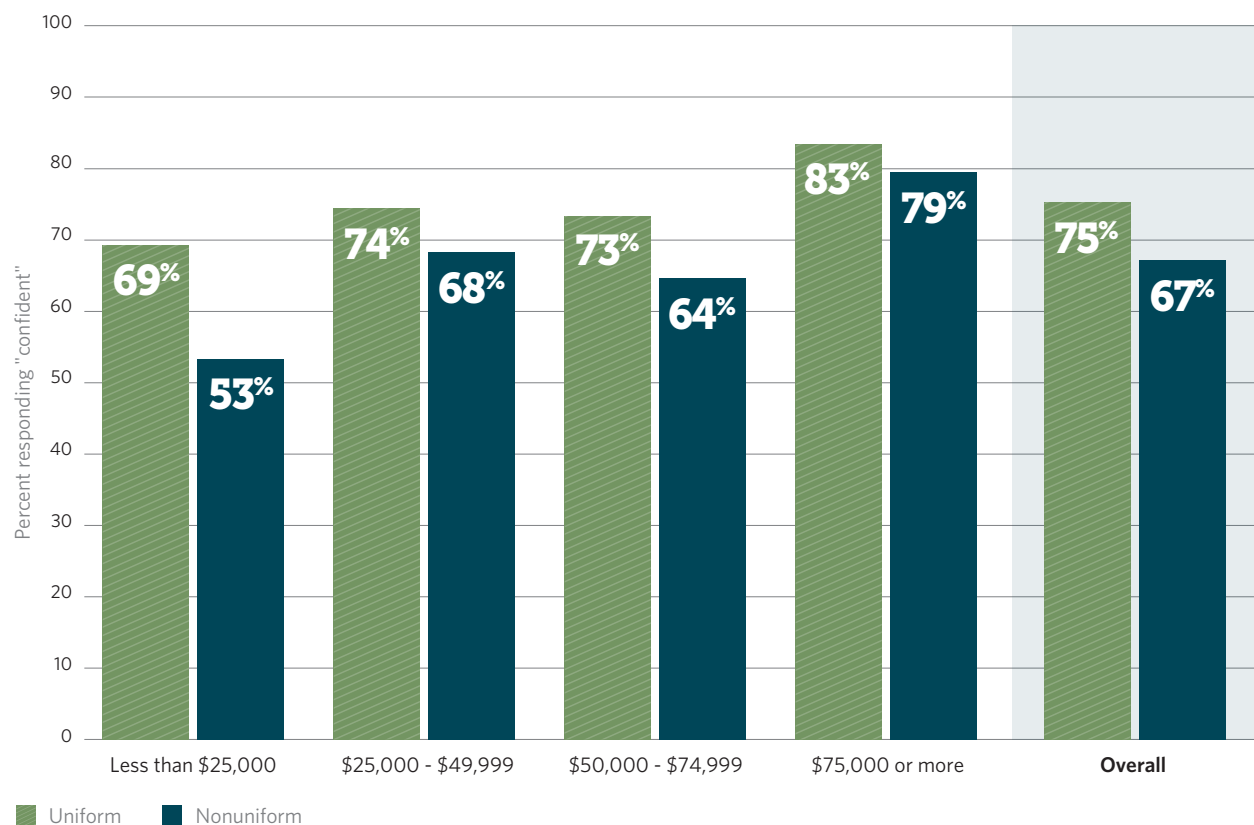
Uniform disclosure increased people's confidence in their understanding of account information

Seventy-five percent of participants who viewed uniform disclosure boxes reported feeling somewhat or very confident compared with 67 percent who viewed the differing documents. The increase in confidence was especially evident among participants with annual household incomes below \$25,000. (See Figure 3.)

Figure 3

Participants, Especially Low-Income, Were More Confident When Comparing Uniform Disclosures

Percent responding 'somewhat confident' or 'very confident,' by income level and disclosure type



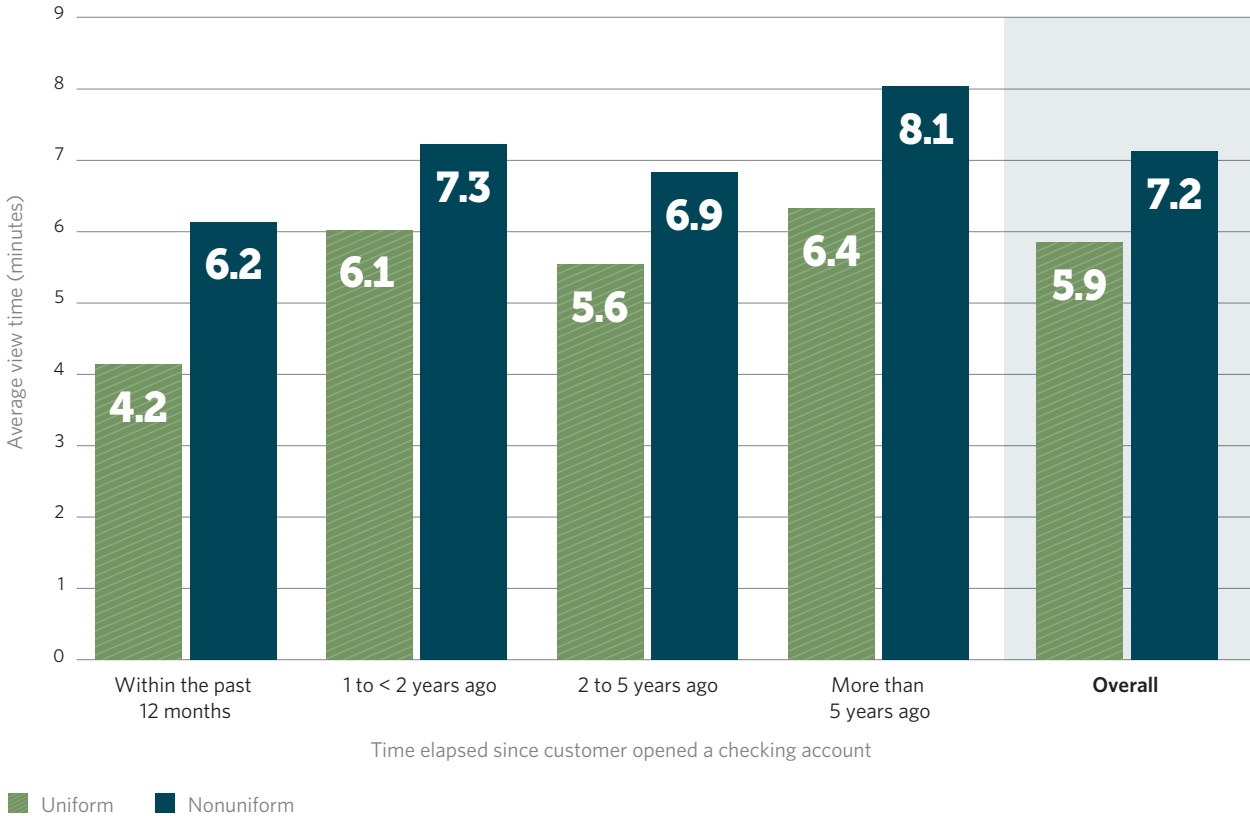
Note: Results are based on answers from 1,715 respondents who were asked, "How confident are you in the accuracy of your answers to the questions comparing these checking accounts?" This graph shows the proportion of respondents who answered "somewhat confident" or "very confident."

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Uniform disclosure decreased the time required to identify account information

Participants who viewed uniform disclosures needed approximately 19 percent less time to determine which account had lower fees and which would reorder their ATM and debit transactions from highest dollar amount to lowest. To put this in context, it is equivalent to shaving five minutes off the average American’s 25-minute commute.⁷ As shown in Figure 4, this time-saving was consistent regardless of how recently participants had opened checking accounts.

Figure 4
Uniform Disclosure Format Makes Comparing Accounts Faster
 Average view in minutes, by time elapsed since customer opened a checking account and disclosure type



Note: Results are based on answers from 1,777 respondents who were asked, “Which [account] do you think is likely to charge you less over the course of a year?” “Which account would cost you less in [overdraft transfer] fees?” “Which account would cost you less in [stop payment] fees?” “Which account will reorder your ATM and debit transactions from highest to lowest, according to dollar amount?”

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Uniform disclosure increased accuracy in identifying account information

When asked to identify which account had lower fees and which would reorder their ATM and debit transactions from highest dollar amount to lowest, participants chose the correct response 9 percent more often when comparing uniform disclosures. Further, accuracy was related to both ease and confidence. The easier the comparison was for participants, the more accurate their responses were. Likewise, the more confident participants felt, the more they identified fees and practices correctly.

Conclusion

These findings illustrate the benefits of uniform financial disclosure for consumers. Participants who viewed consistently formatted and worded disclosures found it easier to compare account fees, terms, and conditions and saved significant time searching for information, such as the transaction ordering practices as well as the monthly, overdraft transfer, and stop-payment fees. This time-saving is especially important when comparing two or more accounts. Further, making disclosure forms easier to compare and allowing consumers to feel more confident in their knowledge was related to an increase in their understanding of the account information. These benefits were evident across demographic groups and regardless of how recently participants had opened a checking account.

Ease of use, consumer confidence, and understanding of account information are critical features for a fundamental, entry-level product that many consumers find difficult to fully understand. Pew urges the Consumer Financial Protection Bureau to ensure that all consumers can realize the advantages of clear, consistent, and transparent checking account information by requiring financial institutions to summarize key fees, terms, and conditions in a concise, uniform format.

Acknowledgments

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Endnotes

- 1 Federal Deposit Insurance Corp., *2013 FDIC National Survey of Unbanked and Underbanked Households* (October 2014), 4, https://economicinclusion.gov/surveys/2013household/documents/2013_FDIC_Unbanked_HH_Survey_Report.pdf.
- 2 The Pew Charitable Trusts, *Checks and Balances: 2015 Update* (May 2015), http://www.pewtrusts.org/-/media/Assets/2015/05/Checks_and_Balances_Report_FINAL.pdf.
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- 4 All of the findings in this report are statistically significant at the 95 percent confidence level.
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