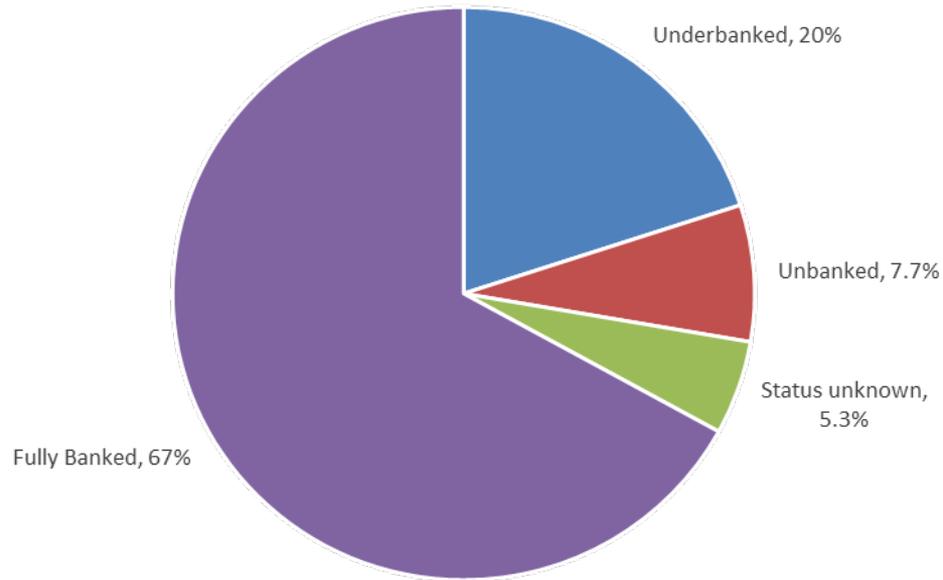


Reframing the Debate About Financial Inclusion: Evidence from an Up Close View of Alternative Financial Services

Lisa Servon
Antonieta Castro-Cosio
The New School

Banking Status of US Households



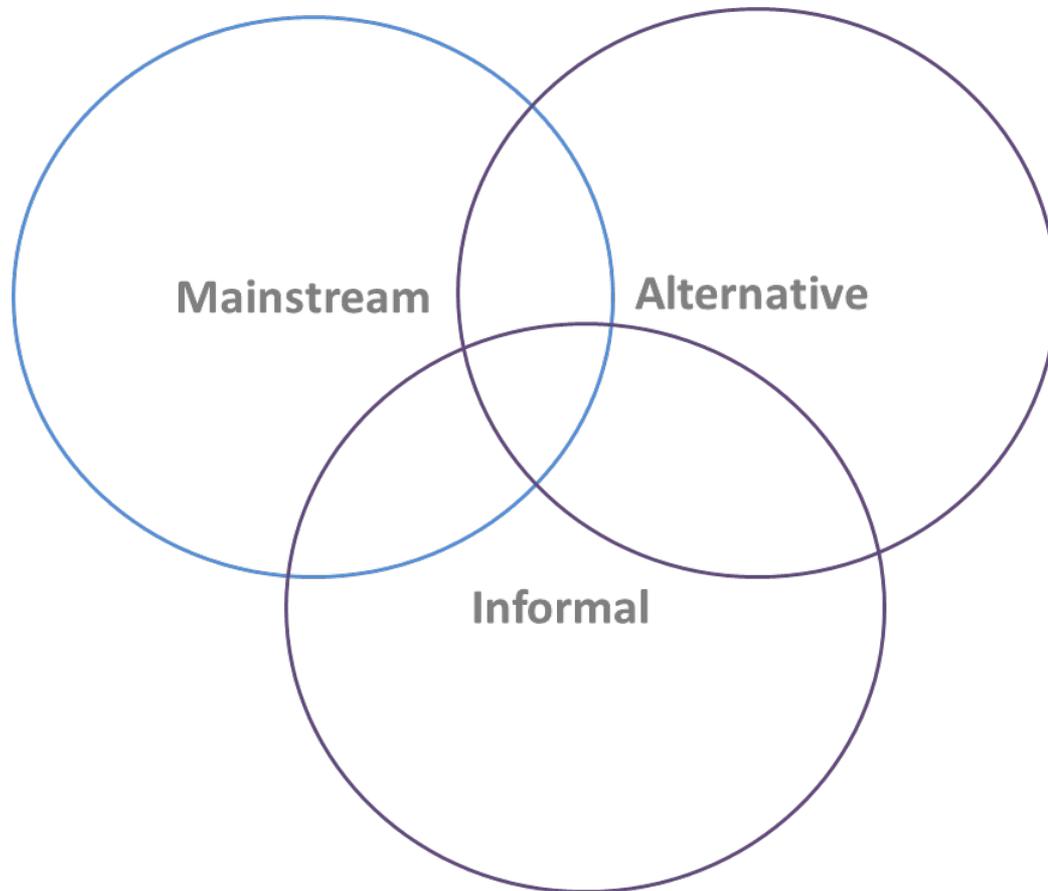
Source: 2013 FDIC National Survey of Unbanked and Underbanked Households

What role do financial services play in economic mobility?

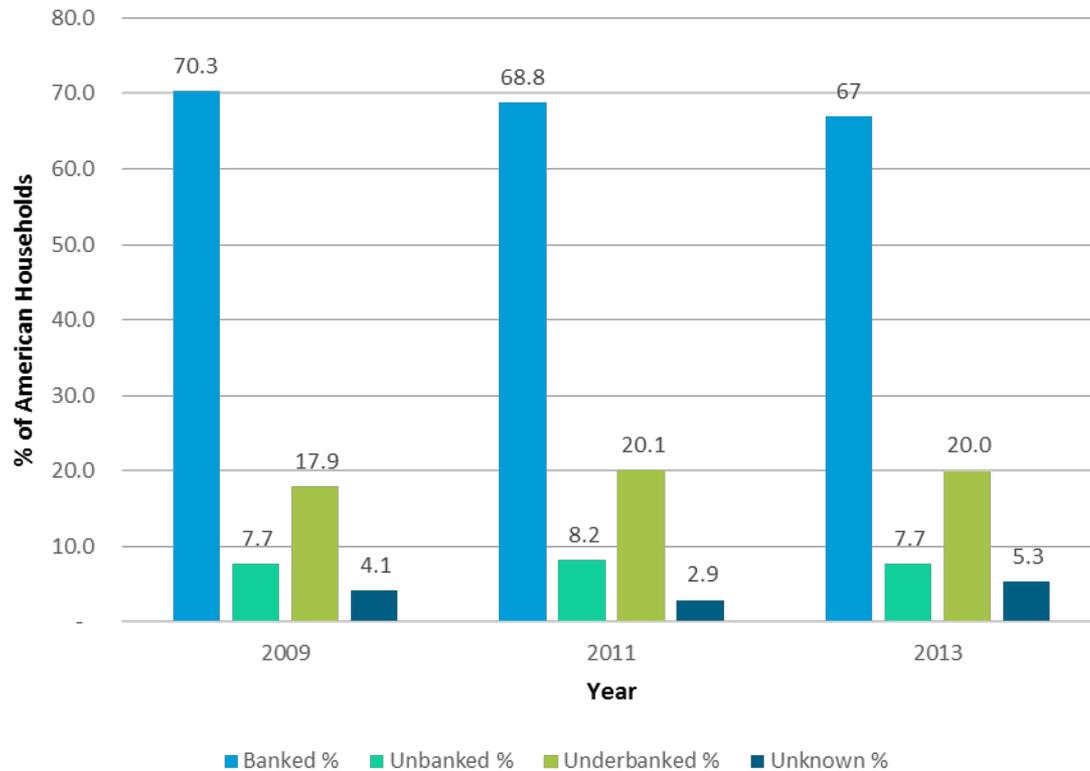
- Assumption that being “banked” leads to stability and economic mobility
- Larger economic forces, policy and bank practices also play critical roles

If alternative financial services are so bad, why do so many people use them?

The Consumer Financial Services System



Growth and Size of AFS Component



Source: FDIC National Survey of Unbanked and Underbanked Households (2011, 2013)

The “Underserved” demographic is expanding

- Declining wages since the mid-1970s (Garcia, 2007)
- Income volatility has doubled (Hacker and Jacobs 2008; Morduch and Schneider 2013)
- Greater reliance on credit/disappearance of small dollar credit (Black and Morgan 1999; Ross 2013)

Methodology

- Embedded ethnography
- 91 interviews with AFS consumers
- Interviews with AFS business owners, policy makers, experts



ENERGY CENTER

Go
Pay 'o
CHECK

STOP
OR PATIENT
PRIVACY,
PLEASE
WAIT HERE

we love
customers



ENERGY CENTER

ENERGY CENTER

The Three Things AFS Customers Value

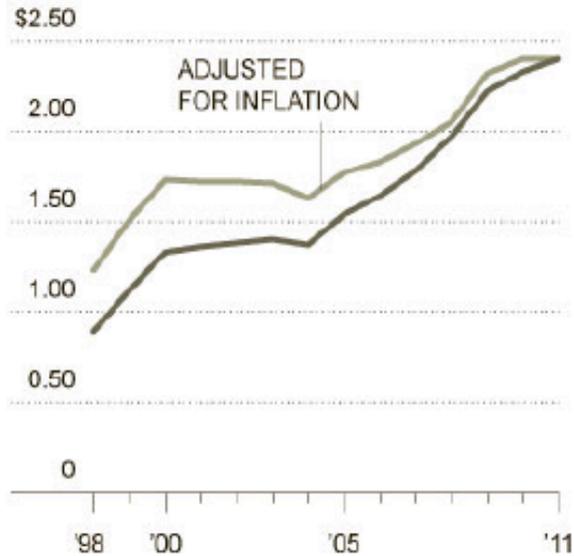
- Lower Cost/Greater Liquidity
- Greater Transparency
- Better Service

Lower Cost/Greater Liquidity

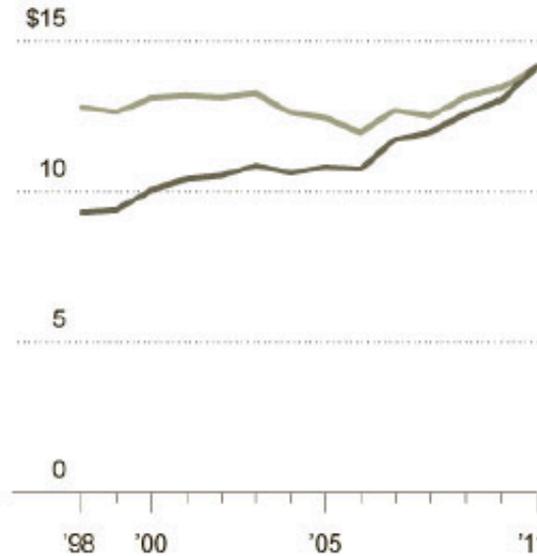
- Bank fees have steadily risen
- Minimum balance requirements
- AFS customers can't afford to wait for their money

Bank Fees are Increasing

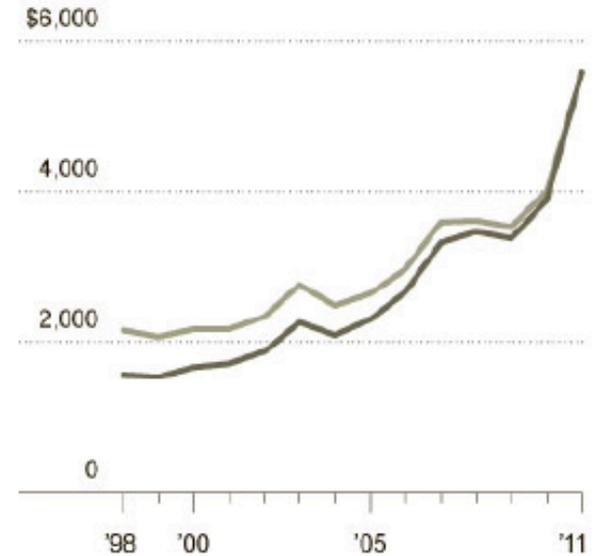
ATM FEE
Charged to non-customers



MONTHLY CHECKING ACCOUNT FEE
Interest-earning accounts



MINIMUM BALANCE
Needed to avoid service fee, interest-earning accounts



Transparency



(Courtesy of charitylawyerblog.com)





RiteCheck

CHECK CASHING & FINANCIAL SERVICES

Check Services
Check Cashing
Cash Advances
Money Orders
Bill Payments

Commercial Check Cashing

10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance

Convenience Services
Money Orders
Cash Advances
Bill Payments
Check Cashing

10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance

Bill Payments
Pay Bills
Electric
Gas
Water
Rent

10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance

MoneyGram
Send Money
Receive Money
Money Orders
Bill Payments

10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance

Prepaid Products
Prepaid Cards
Gift Cards
Travel Cards
Business Cards

10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance
10% Cash Advance

Services



Better Service



Recommendations

- Reframe the debate
- Mandate greater transparency
- Let the market work and continue with smart regulation
- Address the macro problems

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