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

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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

Mainstream  Alternative  Informal
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
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

Source: Stephens / FISCA
Transparency

(Courtesy of charitylawyerblog.com)
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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