Building Financial Resilience

"Microcredit for the poor wins praise, while payday loans are seen as exploitative, but is it really so simple? Jerry Buckland provides an even-handed and wide-ranging assessment of the financial products, policies, and programs that increasingly shape the lives of low-income families. He gives readers the evidence and framework needed to understand how finance today affects the most vulnerable—and, ultimately, how finance can be improved."

—Jonathan Morduch, *New York University, USA; co-author of The Financial Diaries: How American Families Cope in a World of Uncertainty*

"This valuable book comprehensively tackles the question of whether financial inclusion efforts help build the financial resilience of vulnerable people. The book finds that such efforts are double-edged swords, with the potential to help if appropriately created and deployed, and the potential to harm if not. Buckland convincingly argues that a consideration of the nuances of potential actions is crucial. Such a cautionary note is particularly welcome in the financial inclusion literature."

—Charles Klingman, *Expert and Moderator of the US-based Unbanked Listserv*

Jerry Buckland

Building Financial Resilience

Do Credit and Finance Schemes Serve or Impoverish Vulnerable People?

palgrave
macmillan

Jerry Buckland
International Development Studies
Menno Simons College, Canadian Mennonite University, & University of Winnipeg affiliate
Winnipeg, MB, Canada

ISBN 978-3-319-72418-8 ISBN 978-3-319-72419-5 (eBook)
https://doi.org/10.1007/978-3-319-72419-5

Library of Congress Control Number: 2017964428

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature
The registered company is Springer International Publishing AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

This book is dedicated to my wonderful colleagues, friends, family, and loved ones, past, present and future.

Foreword

Neoliberalism and financialization have had pervasive effects on social welfare policies and provision across the world. These effects have been felt by citizens in developed and less-developed countries alike, although their precise nature, speed of implementation, and consequences differ both between these two broad groupings of countries and within them.

Neoliberal political ideology and economic theory had its roots in the doctrines of Friedrich Hayek and, later, Milton Friedman and espouses less state control and regulation of the economy. Individual freedom and well-being, it is maintained, can only be guaranteed by free global markets. In the words of Harvey (2005) it is:

> *… a theory of political economic practices that proposes that human well-being can best be advanced by the liberating individual freedoms and skills within an institutional framework, characterised by strong property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices.*

Its two most prominent proponents were Ronald Reagan and Margaret Thatcher, although the ideology has permeated governments across the world as well as key development organizations like the International Monetary Fund and World Bank. In developed countries it has led to widespread privatization of state-run services, including a market-based approach to social welfare. In many less-developed countries it formed the bedrock of the development of such services.

As such, neoliberalism provided the foundation for a process of financialization, defined as:

> *… the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies.* (Epstein 2005)

While this took place at a number of levels, it is the *financialization of the everyday* (Martin 2002; Van der Zwan 2014) that is most directly relevant to the lives of ordinary citizens. This has seen financial services play an ever greater role as individuals take on responsibility for their own social welfare and that of their families. A corollary of this has been the shift in focus from individuals as citizen beneficiaries of state-provided welfare services to their role as consumers in the financial services marketplace.

This shift in policy and practice raises a number of questions:

- Have the markets responded with appropriate products and services that promote the financial resilience and financial well-being of all individuals and their families?
- Are individuals able to make appropriate decisions that promote financial resilience and financial well-being?
- Is consumer protection regulation fit for purpose?

And, consequently,

- Can a market-based approach ensure the financial resilience and financial well-being of all, including people who are poor or marginalized?

Taking the response of financial markets, first, individuals require access to a range of products and services in order to meet their own social welfare needs and those of their family. This includes credit, savings (and pensions), insurance, and transactional banking. And in all of these areas, there has been a rapid increase in the number and variety of products offered by mainstream financial services providers. Despite this, academic and other researchers have questioned whether access to financial services and products is both universal and appropriate to all sections of the population—that is whether or not there is full financial inclusion. Such studies have found a number of key market failures in developed economies that disproportionately affect poor and other marginalized people (see e.g., Buckland 2012; Kempson et al. 2000; Leyshon and Thrift 1996) and raise challenges for providers of banking services in less-developed countries where financial inclusion is not the norm (Kempson et al. 2004). These include restricted access by poor and marginalized people (through risk assessment, money laundering regulations, lack of physical access, and lack of marketing), inappropriate product or service design, including inappropriate terms and conditions, affordability, and psychological and cultural barriers including a lack of trust in mainstream providers. In other words, a combination of exclusion and self-exclusion.

This has resulted in the emergence of a range of alternative providers who seek to fill the gap. These include a range of not-for-profit microfinance organizations, especially in less-developed countries, offering credit and savings products in particular. They also include commercial companies offering credit products such as payday loans and banking in the form of check cashing (often referred to as "fringe banks" (Caskey 1994)) particularly in Anglophone-developed economies and mobile telephone banking, such as M-PESA in Kenya and bKash in Bangladesh, bringing simple transaction banking to large numbers of people without access to mainstream banking services in less-developed countries. As this book notes, some of these new services promote the financial well-being of poor and vulnerable people, some actually harm it, and many simply do no harm but with no demonstrable benefit either.

There have also been concerted efforts by both national governments and inter-state bodies to promote greater financial inclusion which have led to the creation of a worldwide network, the Alliance for Financial Inclusion. But, as the World Bank has noted:

> *…effective financial inclusion means responsible inclusion… Financial inclusion does not mean increasing access for the sake of access…* (World Bank 2014)

This brings us to the second question: *Are individuals able to make appropriate decisions that promote their own financial resilience and well-being and that of their families*? Neoliberal policies implemented through a process of financialization of the everyday lives of citizens have led to a rapid growth in the number and diversity of products offered by a variety of providers, spanning the mainstream, not-for-profit and alternative commercial providers. Consequently, citizens must operate in an increasingly complex financial marketplace to meet their own social protection needs and those of their household. This has raised concern about the extent to which they are equipped to do so.

The earliest manifestation of this concern was in studies of financial literacy, which assessed knowledge levels of particular populations or groups within them and interventions developed that sought to raise knowledge levels. This approach is in line with standard economic theory that well-informed individuals will act rationally, and when they fail to do so, it is because they either lack information or are unable to understand or use it (Garcia 2013).

In the mid-2000s, however, a discussion began in earnest about whether policymakers should focus more on what people do rather than what they know—giving rise to the concept of financial capability, led by the Financial Services Authority, the then UK regulator (Atkinson et al. 2006). This approach has proved to be very influential in the thinking of policymakers.

At much the same time, behavioral economists were raising similar concerns about the focus on knowledge, arguing that psychological factors are the main determinants of the behavior of individuals. These included traits such as present-bias, loss aversion, overconfidence, use of heuristics, confirmation bias and inertia, or status quo bias (World Bank 2015).

More recently still, researchers and policymakers have turned their attention to the outcomes of the decisions and actions of individuals as they seek to meet their social protection needs—giving rise to surveys of financial well-being, which encompass both current finances and resilience for the future. The most recent of these is investigating the relationships between financial well-being, financial capability, financial literacy, psychological traits, and socio-economic environmental factors. Early reports seem to show that financial well-being is primarily determined by a combination of behaviors (most notably spending restraint, borrowing restraint, and active saving) and environmental factors that are beyond the control of individuals. Knowledge does have an indirect effect, by influencing these behaviors, but it is a minor role compared with psychological factors (Finney 2016; Kempson et al. 2017).

As with financial inclusion, many national governments and regulators along with inter-state bodies have promoted strategies to raise levels of financial literacy and capability. Much of this work has been led by the Organisation for Economic Co-operation and Development (OECD) through their International Gateway for Financial Education network (known as IGFE) (OECD 2015).

With the greater use of a diversity of financial services by a wider range of citizens, including many who are potentially vulnerable, it is appropriate to ask whether consumer protection regulation is fit for purpose. The neo-liberalist approach has tended to dominate much of the thinking with regard to regulation of financial services in recent years, with an emphasis on information and disclosure by providers, supplemented by financial education of "consumers". However, as noted above, the knowledge individuals have plays a fairly minor and indirect role in determining their financial well-being; personality traits are far more important. More importantly, early results of research on the determinants of financial well-being show that a focus on the individual alone will not ensure their financial resilience and well-being. Structural factors also matter and call for structural solutions. In other words, we need a shift from the current regulatory focus on the individual as consumer to one where the individual is seen as both citizen (with rights) and consumer (with responsibilities). Looked at from this perspective—of individuals as citizen-consumers—it is clear that a market-based approach to social welfare cannot ensure the financial resilience and well-being of all.

That is the conclusion of this book, which offers a *critical and constructive* overview of policy, practice, and academic research across all of the areas discussed above, with a focus on poor and other marginalized people and on their access to credit and transaction banking services in particular. In doing so *It critiques the changes associated with this process while at the same time not idealizing past development practices or socio-economic realities* and … *endeavours to cast particular light on the problematic consequences for poor and marginalised people*. It looks at the roles played by mainstream providers, NGOs, and other not-for profit institutions, as well as new commercial players such as payday loan companies in some developed economies (the Global North), microfinance providers mainly in less-developed economies (the Global South), and mobile phone-based services in less-developed ones across developed and developing countries. The book concludes with a review of the role that the state plays and needs to play to ensure that the financial resilience and financial well-being of vulnerable people are promoted and not undermined by the processes or financialization and marketization of social welfare. As such it is relevant to policymakers, providers of products and services for individual citizen consumers and researchers alike.

Emeritus Professor, School of Geographical Sciences, University of Bristol, Bristol, UK
Elaine Kempson
December 2017

Additional References

Atkinson, A., S. McKay, E. Kempson, and S. Collard. 2006. *Levels of Financial Capability in the UK: Results of a Baseline Survey*. London: Financial Services Authority.

Epstein, G. 2005. *Financialization and the World Economy*. Cheltenham: Edward Elgar Publishing.

Finney, A. 2016. *Components of Financial Capability: Defining, Measuring and Predicting Scores in the UK Population*. London: Money Advice Service.

Garcia, M. 2013. Financial Education and Behavioural Finance: New Insights into the Role of Information in Financial Decisions. *Journal of Economic Surveys* 27 (2): 297–315.

Harvey, D. 2005. *A Brief History of Neoliberalism*. Oxford: Oxford University Press.

Kempson, E., A. Atkinson, and O. Pilley. 2004. *Policy Level Response to Financial Exclusion in Developed Economies: Lessons for Developing Countries: A Report Commissioned by the Department for International Development*. Bristol: The Personal Finance Research Centre University of Bristol.

Kempson, E., A. Finney, and C. Poppe. 2017. *Financial Well-Being: A Conceptual Model and Preliminary Analysis.* Oslo: SIFO (Forbruksforskningsinstituttet—Consumption Research Norway), Høgskolen I Oslo and Aherhus (Oslo and Akershus University College of Applied Sciences). SIFO Project Note No. 3-2017.

Kempson, E., C. Whyley, J. Caskey, and S. Collard. 2000. *In or Out? Financial Exclusion: A Literature and Research Review*. London: Financial Services Authority.

Martin, R. 2002. *Financialization of Daily Life*. Philadelphia: Temple University Press.

OECD. 2015. *National Strategies for Financial Education: OECD/INFE Policy Handbook*. Paris: OECD.

World Bank. 2015. Household Finance. Chap. 6 in *Mind, Society, and Behavior: World Development Report 2015*. Washington, DC: World Bank.

Acknowledgments

For five years of my early working life, in the late 1980s, I lived in Bangladesh and worked with and studied the efforts of non-government development organizations. This included watching with great interest the continued rise of microcredit of the Grameen Bank and BRAC variety. During that time I worked with Mennonite Central Committee (MCC), a United States and Canada faith-based organization that worked in the field of agricultural development. I am grateful to colleagues that I worked with at that time at MCC, BRAC, Grameen Bank, and ASA, to name just a few. Through observation, research, and conversations with colleagues, I learned much about microcredit in a Global South country. I think especially of Derek DaSilva, Matiur Rahman, Mark Nord, Farida Akter, and Rodney Reynar (a colleague of mine at Canadian Mennonite University) and I am grateful for what they shared with me.

Fast forward to the early 2000s, based at Menno Simons College—another Mennonite institution, this one based at a public university, the University of Winnipeg, Canada—I learned about a local network, the Alternative Financial Services Coalition (AFSC) that was looking for academics to investigate the rise of pawnshops and fringe banks in Winnipeg's impoverished North End. The AFSC was a group of able community workers who initiated the research. I am particularly grateful for the support from group members including Louise Simbandumwe, Blair Hamilton, Gary Loewen, Cindy Coker, Andrew Douglas, and from other community-oriented activists such as Judy Wasylycia-Leis (Member of Parliament at the time) and Gloria Desorcy. Dr. Thibault Martin and I guided the research project, and I am grateful to Dr. Martin, who has since passed away, for his enthusiasm, commitment, and deep insights.

I am grateful for a series of grants that I received from various sources including the Social Sciences and Humanities Research Council, the Manitoba Research Alliance, the Winnipeg Inner-city Research Alliance, the Wa Ni Ska Tan Hydro Alliance, and the Canadian Mennonite University. I am very appreciative of John Loxley, Jim Silver, and Lynne Fernandez at the Manitoba Research Alliance and to Stephane McLachlan and Kelly Jantz at the Wa Ni Ska Tan Hydro Alliance.

I am deeply grateful to many Indigenous Peoples who I have worked with and learned from, particularly given that some of my work has been completed on Treaty One territory which is also the homeland of the Métis people in Manitoba, Canada. I especially thank Leslie Dysart, Norman Moose, Dion McKay, David Claudie, and Wab Kinew.

Since my time in Bangladesh, based in an International Development Studies Department, I have been able to keep up-to-date about microcredit and other financial service programs in the Global South. I am grateful to my colleagues in my department and college, including Stephanie Stobbe, Jonathan Sears, Kirit Patel, Ruth Rempel, Ruth Taronno, and Neil Funk-Unrau, for helping me to maintain an awareness of important issues related to finance in the Global South. I am grateful to other colleagues at Canadian Mennonite University and the University of Winnipeg from whom I have learned a great deal, including Melanie O'Gorman, Alan Diduck, Craig Martin, George Fulford, and Mark Golden.

Since 2015 and with a year-long research leave, I was able to travel to a microcredit conference in France, visit a new and innovative finance-based NGO in South Africa, and talk with many people engaged in financial literacy and inclusion projects in Australia and New Zealand. I am most grateful to Georges Gloukoviezoff and Nicolas Rebière who organized the microcredit-focused conference at the University of Bordeaux, France. I am also grateful to the staff at the Centre for Financial Regulation and Inclusion, CENFRIs, i2i (Insight to Impact), Cape Town, for their work in this field. In Australia I am grateful to Vinita Godinho, Roslyn Russell, Bob Frazer, David Claudie, Carmen Daniels, and Aaron Davis for sharing their time and thoughts with me. I am also grateful to Miles Larbey at the Australian Securities and Investments Commission and to Melanie Turner at the New Zealand Commission for Financial Capability. I am very thankful to Elaine Kempson who has written the foreword for this book and shared with me many of her latest insights about financial well-being during a conference in Melbourne, Australia. A special thank-you to Tracey Seida who helped me craft an effective title for the book.

I am grateful to Maureen Epp who edited an early version of this manuscript and carefully constructed the index. I am indebted to the editorial staff at Palgrave Macmillan including Tula Weis, Allison Neuburger, and Sarah Lawrence. I am thankful for the ongoing assistance of Ms. Weis and particularly grateful for all the support that Allison Neuberger provided me: thank-you! I am very grateful to the careful editing support I recieved from the copy editors including Ms. Minu Mohanasundaram and Md Saif.

Contents

List of Figures

List of Tables