Expanding the Concept & Character of Basic Banking


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As the big door swung behind me I caught the echo of a roar of laughter that went up to the ceiling of the bank. Since then I bank no more. I keep my money in cash in my trousers pocket and my savings in silver dollars in my sock.

- Stephen Leacock *My Financial Career*

People judge you on appearance and on where your cheque is from, when you are in a lower income bracket people tend to direct their hate and frustration at you.” [I] feel more judged at the bank than at [the cheque-casher], where they may be used to dealing more with low income folks.

- Participant in neighbourhood survey
Basic Banking

- To live in a money-based economy we all need banking. Moreover, banking has public good qualities to it, so that the more banked people the stronger the economy.

- The idea of basic banking & regulations around basic banking are found in several European countries, including France, Portugal & Sweden (Carbo et al. 2007).

- In Canada, the federal government’s Access to Basic Banking Regulations apply to federally regulated banks and deal with account opening and cashing of certain federal government cheques.
Expanded Basic Banking

- But the concept of basic banking access could be broadened:
  
  That people, regardless of gender, income-level, or location have an accessible, reasonably priced, uncomplicated, full set of financial services, provided in a helpful manner, that they need to meet their daily and longer-term needs

- This research project has identified 5 general factors that affect financial service choice among low-income, inner-city people: Access, Fees, Rules, Services, & the Shop

- More people become banked if (1) benefits of being banked increased, & (2) costs are reduced

Community Banking Project, Toronto, 2010
Access

- Accessibility is an important issue to promote financial inclusion. Bank services need to be physically accessible in terms of location and operating hours.

- There is evidence that in some inner-cities (e.g., in Winnipeg) mainstream bank branches have been closed and the number of fringe banks outlets has risen.

- A possible solution is to identify underserved regions through a mapping process. This was used extensively in the UK is its efforts to reduce financial exclusion.
Fees

- For reasonably comparable financial services, mainstream bank fees are lower than fringe bank fees. But a variety of economic (such as distance to bank) and social (sense of respect from bank staff) costs lead to a relative raising of the costs of mainstream banking as compared with fringe banking.

- The success of fringe banks demonstrates that some people are willing to pay more for services that are convenient and, in the case of cheque-cashing (not payday lending), with fees that come up-front. The lesson is to keep fees simple, low and, to the extent possible, up-front.
Rules

- By rules we refer to requirements and criteria for using the financial services.

- **Cheque-hold** policy acts as an obstacle for people to use mainstream banks leading some to use fringe banks or informal financial service providers.

- If the payment is from a government agency or a business with direct deposit access, then direct deposit is a good option. This assumes a person has a bank account and the likelihood of this will be higher if banks are more proactive about promoting financial inclusion.

Closed Community Banking Project, Vancouver, 2008
Rules (2)

- Another solution is for other levels of government to arrange indemnification arrangements with banks.

- Another way that this issue can be addressed is by looking for other services that can address the need for immediate cash (e.g., savings and small loans, see below).
**Rules (3)**

- **Personal ID** requirements at mainstream banks act as an obstacle for some low-income people who do not have adequate ID and/or cannot afford to get this ID.

- Mainstream banks could draw a lesson from fringe banks by providing a form of personal ID for interested patrons. Some fringe banks and community banking projects have implemented an ID system (PPS, Cash and Save, and CFSC).

Fringe bank, Vancouver, 2009
Services

- Basic banking needs include financial services to address both liquidity problems, and life cycle and developmental needs.

- International research has found that poor people do save and that one major limitation of saving is a lack of appropriate financial devices (Blank & Barr 2009; Murdoch et al. 2009).

Mainstream bank, Vancouver, 2009
Services: Savings

- Instead of large deposits amounting to larger sums, poor people save small amounts that amount to small total sums.

- But placing small savings like this at mainstream banks have few benefits to low-income savers (and without addressing the obstacles to getting a bank account, there are many obstacles).

- For low-income people to have incentives to save, savings services need to be designed that are useful for them. Two possibilities are:
  - Goal-oriented savings, and
  - Asset-building schemes
In addition to building savings, low-income people—like everyone else—require access to appropriate credit from time to time.

Appropriate credit here is defined as credit that assists people to meet life cycle and crisis needs without fostering unsustainable debt loads.

A small size loan is characteristically needed by low-income people as it fits within their general spending.
The Shop

- Neighbourhood surveys and mystery shopping have demonstrated that low-income clients may find banking at a mainstream bank challenging.

- Even advertising basic banking services would be a positive step to make people aware of the availability of these services.

- The development of a best practices guide might be a step in the right direction. The guide could assist interested FIs in better serving low-income clients (e.g., Carlson 2005). It might also provide examples of useful products.
Conclusion

- The concept of basic banking is a useful one given the nature of our economy.

- But our research has found that low-income people have financial needs beyond a basic account & cheque-cashing.

- Broadening the concept of basic banking to encompass access, fees, rules, services and the shop would be a means to deliver better financial services to low-income people.